Retiring

Required Minimum Distributions

It's probably been a while since you were in school. However, if you're approaching retirement, it's a good time for a few lessons on taking r**equired minimum distributions (RMDs)** from an employer-sponsored retirement plan like a 401(k), or a traditional individual retirement account (IRA).

The basics

Generally, the contributions you make to a traditional IRA or 401(k) plan, along with any investment earnings your accounts generate, are tax-deferred.[1] But the IRS isn't going to let you postpone paying tax on that money forever. **When you take a distribution from your IRA or 401(k) plan, the previously tax-deferred amounts become taxable to you as ordinary income.**

age 73

The IRS generally requires that you start taking annual RMDs – and pay the associated taxes – when you reach age 73.

Take by the deadline

Your first RMD generally will be due by April 1 of the year following the year in which you turn 73. Another RMD will be due by December 31 of that same year and each subsequent year. Proposed RMD regulations, released in July 2024, confirm that an individual born in 1959 has an RMD age of 73, and an individual born in 1960 has an RMD age of 75.

Calculate the amount

Generally, an RMD is calculated for each account by dividing the prior December 31 balance of that IRA or 401(k) account by a life expectancy factor from an IRS table. For multiple traditional IRAs, you must calculate the RMD separately for each IRA you own, but you can take the total RMD amount from one or more of them. (The RMD rules do not pertain to Roth IRAs, Roth 401(k) plans or Roth 403(b) plans while the owner is alive. However, post-death minimum distribution rules still apply.)

Since you are ultimately responsible for calculating the RMD amount (although the IRA custodian or retirement plan administrator may do it), review your calculation with your financial professional to ensure you are withdrawing the correct amount.

Avoid the penalty

Failure to take an RMD can trigger an additional 25% excise tax on the amount you should have withdrawn but didn't. If the RMD is corrected within two years, the tax is reduced to 10%. For example, if If you contribute to an employer-sponsored retirement plan, or a traditional individual retirement account (IRA), remember that the IRS isn't going to let your money stay tax deferred forever. So generally, you'll have to begin taking RMDs by April 1 of the year after you turn age 73.[2] The rules are complex, but here are some general guidelines.

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If you have questions about your workplace retirement plan, please contact your Human Resources department or your retirement plan provider's customer service center.

[1] Some retirement plans also offer a Roth contribution option. Unlike pretax contributions, Roth contributions do not offer immediate tax savings. However, qualified Roth distributions are not subject to federal income taxes when all tax law requirements are met. Unlike Roth IRAs, these designated Roth accounts are subject to the RMD rules.

[2] If you are still working for the employer that sponsors your retirement plan when you reach age 73 and you are not a 5% owner of the company, the plan may allow you to wait until you retire to begin taking RMDs. Check with the plan administrator for details.

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