gc_logo_small

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Planning for IRA Required**

**Minimum Distributions**

© 2016 Greene Consulting Associates, LLC INTENDED SOLELY FOR USE BY REGISTERED USERS NOT TO BE REPRODUCED OR CIRCULATED

## ABOUT GREENE CONSULTING ASSOCIATES, LLC

Greene Consulting Associates was founded in 1979 and provides consulting and training services solely to the financial services marketplace. Located in Atlanta, Georgia, Greene Consulting has worked with the top providers of investment management and wealth management in both the United States and abroad. Focused on helping firms generate incremental revenue growth through more effective sales and relationship management strategies, Greene Consulting offers customized training programs in Financial Services Sales, a Sales Management program, Presentation Training that integrates proprietary products, and a comprehensive suite of online learning courses related to investments and wealth management.

For more information about Greene Consulting or any of its products and services, write Greene Consulting at Waterstone Building, 4751 Best Road, Suite 450, Atlanta, Georgia 30337. Or, visit the company's website at [*www.greeneconsults.com*](http://www.greeneconsults.com).

## Table of Contents

1. Introduction
2. [Objectives](javascript:TCLinkForPage('','/topclass/TopClass.dll?Conn-IkL6zHFn2TurQ2og-CnTxT-1530210-Retrieve-Page-3292D0'))
3. The [Rules Provide Simplicity and Flexibility](javascript:TCLinkForPage('','/topclass/TopClass.dll?Conn-IkL6zHFn2TurQ2og-CnTxT-1530210-Retrieve-Page-3299D0'))
4. [What Plans Fall Under the Regulations?](javascript:TCLinkForPage('','/topclass/TopClass.dll?Conn-IkL6zHFn2TurQ2og-CnTxT-1530210-Retrieve-Page-3294D0'))
5. [Distributions from an IRA](javascript:TCLinkForPage('','/topclass/TopClass.dll?Conn-IkL6zHFn2TurQ2og-CnTxT-1530210-Retrieve-Page-3298D0'))
6. RMD Reporting Requirements
7. [Penalty for not Maintaining Compliance](javascript:TCLinkForPage('','/topclass/TopClass.dll?Conn-IkL6zHFn2TurQ2og-CnTxT-1530210-Retrieve-Page-3295D0'))
8. [When Must RMDs Begin?](javascript:TCLinkForPage('','/topclass/TopClass.dll?Conn-IkL6zHFn2TurQ2og-CnTxT-1530210-Retrieve-Page-3300D0'))
9. [What Happens as of the Required Beginning Date](javascript:TCLinkForPage('','/topclass/TopClass.dll?Conn-IkL6zHFn2TurQ2og-CnTxT-1530210-Retrieve-Page-3301D0'))**?**
10. [Calculating the RMD](javascript:TCLinkForPage('','/topclass/TopClass.dll?Conn-IkL6zHFn2TurQ2og-CnTxT-1530210-Retrieve-Page-3302D0'))
11. [Determining the Account Balance](javascript:TCLinkForPage('','/topclass/TopClass.dll?Conn-IkL6zHFn2TurQ2og-CnTxT-1530210-Retrieve-Page-3303D0'))
12. Review Exercise
13. [The Life Expectancy Tables](javascript:TCLinkForPage('','/topclass/TopClass.dll?Conn-IkL6zHFn2TurQ2og-CnTxT-1530210-Retrieve-Page-3304D0'))
14. [Option #1](javascript:TCLinkForPage('','/topclass/TopClass.dll?Conn-IkL6zHFn2TurQ2og-CnTxT-1530210-Retrieve-Page-3305D0')): Spouse is Sole Beneficiary and More Than 10 Years Younger than IRA Owner
15. [Option #2](javascript:TCLinkForPage('','/topclass/TopClass.dll?Conn-IkL6zHFn2TurQ2og-CnTxT-1530210-Retrieve-Page-3306D0'))**:** Calculation Rule for ALL Others
16. [Determining the Life Expectancy Factor](javascript:TCLinkForPage('','/topclass/TopClass.dll?Conn-IkL6zHFn2TurQ2og-CnTxT-1530210-Retrieve-Page-3307D0'))
17. Temporary Suspension of Required Minimum Distributions for 2009
18. [Review Exercise for RMD Calculation](javascript:TCLinkForPage('','/topclass/TopClass.dll?Conn-IkL6zHFn2TurQ2og-CnTxT-1530210-Retrieve-Page-3328D0'))
19. Exception to RMD Rules: The Qualified Longevity Annuity Contract (QLAC)
20. Summary [Review](javascript:TCLinkForPage('','/topclass/TopClass.dll?Conn-IkL6zHFn2TurQ2og-CnTxT-1530210-Retrieve-Page-3312D0'))
21. [Conclusion](javascript:TCLinkForPage('','/topclass/TopClass.dll?Conn-IkL6zHFn2TurQ2og-CnTxT-1530210-Retrieve-Page-3329D0'))

## Introduction

Why does this course matter to you and your clients? If you serve clients or advise family members who are nearing or in retirement, an understanding of Required Minimum Distributions (RMD) can:

1. Help avoid a combined 75% tax and penalty rate

|  |
| --- |
| 75% Tax and Penalty Rate  **Example**  Your cousin Marie, age 71, was not well-advised and failed to take her first required minimum distribution timely. She was supposed to take a $50,000 distribution no later than April 1, but mistakenly believed she had until the end of the year. She is in a combined state/federal income tax bracket of 25%. Here is how the penalty and income tax will impact her:  $50,000 = Required Distribution on April 1  -12,500 = **25%** combined state/federal income tax  -25,000 = **50%** penalty on required distribution not taken timely  $12,500 = Net cash received from a late $50,000 distribution |

1. Demonstrate the effective use of beneficiary designations
2. Show how to avoid certain 10% penalties from inherited IRAs

Competency in this area requires a strong knowledge of the basic regulations. At the core, the RMD regulations provide client and advisors alike with:

* **Simplicity** in the calculation of the Required Minimum Distribution (RMD)
* **Flexibility** for the IRA owner and the designated beneficiaries of the IRA

|  |
| --- |
| **Required Minimum Distribution (RMD)**  Upon reaching a specified age, minimum distributions are required each year. |

|  |
| --- |
| Objectives  This module is designed to provide you with a greater understanding of the rules governing Required Minimum Distributions (also called Minimum Required Distributions) from IRAs during the owner's lifetime. Having laid this foundation, you will then be better equipped to further your studies regarding beneficiary designations and what happens after the death of the IRA owner.  Completing this module will further your understanding of:   * The important terminology related to the Required Minimum Distribution (RMD) calculation. * The initial RMD and when it must be distributed. * The methodology for calculating lifetime RMDs for clients. |

## The Rules Provide Increased Simplicity and Flexibility

The current RMD regulations provide drastic simplification in the calculation of the Required Minimum Distribution (RMD). Under the previous rules, the calculation was based on the designated beneficiary as of a specific date and the calculation methodology that the IRA owner chose at that time. The critical changes leading to the current rules are mainly twofold. Click each rule to learn more.

|  |
| --- |
| **Calculation of RMD simplified** |
| While the previous rules provided for a total of 7 specific calculation choices - depending on beneficiaries and election methods - there are now only two methods that are used to calculate the RMD. Under the current rules, the IRS has combined the most advantageous aspects of the various old calculation methodologies within the new simplified calculation structure. |
| **Beneficiary designation rules eased** |
| The restrictive nature of certain designated beneficiary selections has also been lifted. Under the current rules, the designated beneficiary decision no longer irrevocably establishes the lifespan of the IRA; and the designated beneficiary, with its associated RMD calculation, can be changed to suit the desires of the IRA owner. |

In summary, relative to the calculation of the RMD, the current rules are very generous when compared to the previous regulations.

## What Plans Fall Under the Regulations?

The Required Minimum Distribution (RMD) rules in Code Section 401 contain provisions regarding the commencement, minimum amounts, and timing of distributions from retirement plans. While there are specific characteristics of different plans that require specific rules, the Section 401 provisions generally apply to all of the following retirement plans.

|  |
| --- |
| **Retirement Plans**   * Individual Retirement Arrangements (IRAs) * 403(b) Plans * Qualified retirement plans, such as profit sharing, 401(k), ESOP, and stock bonus plans * Simplified Employee Plans or SEP IRAs * Savings Incentive Match Plan for Employees or SIMPLEs |

In general, the regulations apply evenly to all the plans listed and may also apply to others not listed. However, there are some subtle variations and special rules that relate to each particular plan type. For the purposes of this module and simplicity's sake, we will focus our comments on the application for owners of ***individual retirement arrangements***.

## Distributions from an IRA

There are two specific occasions when distributions *must* occur from an IRA. Click each occasion to learn more.

|  |
| --- |
| **1. Required Minimum Distributions (RMD)** |
| In order to limit the time that an IRA can maintain tax-deferred status, the IRS has enacted rules that require the IRA owner to begin making distributions from an IRA upon attaining age 70½. These rules are tools of the IRS to ensure that the IRA is used for the primary purpose of retirement planning for the owner and his or her spouse. The rules force the IRA owner to take a minimum distribution, known as the Required Minimum Distribution (RMD), from the IRA on an annual basis, with the amount calculated on the basis of life expectancy.  Note that even if the owner withdraws significant amounts from his/her IRA prior to reaching age 70½, he/she must begin to withdraw certain minimum amounts each and every year thereafter.  This course focuses on understanding the rules that determine when these RMDs must begin and how they are calculated. Note that ROTH IRA accounts are not subject to Required Minimum Distributions (RMD), so the guidance in this area will not extend to ROTH IRAs. |
| **2. Death of the IRA owner** |
| The second instance when the IRA must distribute assets is upon the death of the IRA owner. Distributions to the designated beneficiary(ies) of the IRA must begin by the end of the year following the year of death of the IRA owner. The guidance in this area *does* extend to Roth IRAs. This is a complex subject of rules and calculations which we discuss in another course, “Planning for After-Death IRA Distributions.” |

## RMD Reporting Requirements

While making the complex RMD and distribution minefield far simpler, there is a "price." In exchange for simplified rules, the IRS requires IRA custodians/issuers to furnish an RMD notice to every IRA owner who must take a required minimum distribution for the year. This notice must be provided by January 31 of the year for which the distribution is required. Therefore, if an owner is required to take an RMD with respect to 2016, then the IRA custodian/issuer must furnish the notice by January 31, 2016.

In providing this notice, the IRA custodian/issuer has the option of calculating and providing the RMD amount or offering to calculate and provide it if requested. Many custodians/issuers are opting to provide a safe harbor calculation of the RMD amount and do not take into account any individual situations (e.g., a spouse who is ten years younger). Therefore, individuals should work with their tax advisors to determine if adjustments should be made. Additionally, IRA custodians/issuers must annually notify the IRS when an RMD is required for an IRA. This allows the IRS to accurately identify anyone not in compliance.

## Penalty for Not Maintaining Compliance

Failure to make the Required Minimum Distribution will result in a 50% penalty imposed on any amount that should have been distributed and was not. This is compounded by the income tax that will be due on the entire amount as well. As you can see, the net consequence is that a majority of the amount that was due to be distributed will be eroded by income taxes and the 50% penalty.

Since IRA custodians must notify the IRS when RMDs are required from IRAs, the IRS will have the ability to identify and assess these severe penalties to anyone who does not make the appropriate distributions. While it is the client's responsibility to make the appropriate distribution, the client certainly will want to plan for the event and minimize any required distribution, thereby maximizing the tax-deferred advantages of the account.

## When Must RMDs Begin?

The date by which Required Minimum Distributions (RMD) must begin is referred to as the ***Required Beginning Date*** (RBD). The RBD is defined as:

|  |
| --- |
| April 1 of the calendar year **following** the calendar year in which the IRA owner reaches the age of 70½. |

That is not to say that the initial RMD must be made on April 1. Rather, it is to say that sometime between the start of the year in which the owner turns 70½ and April 1 of the following year, the first RMD must be made.

The following examples can clarify this definition. **Click the icon to view Example #1.**

|  |
| --- |
| **Example #1:** Jim McCutcheon was born on May 6, 1942. When is his RBD?  rmdbegin1 |

**Click the icon to view Example #2.**

|  |
| --- |
| **Example #2:** Paul Denton celebrated his 70th birthday on July 1, 2012. When is his RBD?  rmdbegin2 |

## What Happens as of the Required Beginning Date?

With the exception of the initial Required Minimum Distribution (RMD), all ***subsequent*** RMDs must be distributed by December 31 each year. Hence, a tax planning decision must be made. Because of the rules regarding the determination of the Required Beginning Date (RBD), some flexibility exists regarding the year in which the initial RMD is taken. The following examples illustrate the two choices that are available.

|  |
| --- |
| **Meet Mr. Simpson**  Bill Simpson turns 70 on May 1, 2012, making him 70½ on November 1, 2012. This makes April 1, 2013 his Required Beginning Date, by which date he must make his initial RMD. |

Here are his choices:

**Click the icon to view Choice #1.**

|  |
| --- |
| **Choice #1:** Take the first distribution in 2012 and be taxed on those proceeds in the 2012 tax year, with the second distribution in 2013.  rbd1 |

**Click the icon to view Choice #2.**

|  |
| --- |
| **Choice #2:** Take the first required distribution *after* December 31, 2012, but before April 1, 2013, thereby meeting the distributions requirements but deferring the taxes on the first distribution for one more tax year. However, because the exemption from the 12/31 distribution date requirement is only applied to the first year's distribution, Bill must also take the RMD for 2013 by 12/31/13, thereby resulting in two distributions in a single tax year.  rbd2 |

Electing to take two distributions in one year could push the IRA owner into a higher tax bracket. In planning for RMDs, especially when the IRA is of significant size, the owner needs to calculate the impact of taking the first two distributions in one year, versus taking the first distribution in the calendar year in which the owner actually turns 70½ and the second distribution in the RBD calendar year. Note that the first RMD can be taken anytime from January 1 of the year preceding the RBD through April 1 of the following year (the actual RBD).

## Calculating the RMD

Under the rules, the RMD calculation is very simple. To determine the annual Required Minimum Distribution, the IRA account balance\* is divided by the appropriate life expectancy from one of two tables. The table that is used will depend on the designated beneficiary.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| |  |  |  | | --- | --- | --- | | **IRA Balance as of 12/31 of previous year\*** | **=** | **RMD for current year** | | **Appropriate Divisor from Life Expectancy Table** | |

The following pages will describe how to determine these factors appropriate for each client's situation. We will begin with determining the appropriate account balance to be used.

What happens to the RMD if the value of the IRA falls dramatically due to market fluctuations? Think of someone who had a majority of their IRA in tech stocks in 2002. Because the RMD for 2003 was calculated using the ending balances from 2002, the calculated RMD could well exceed the actual account balance after the stock decline. Instead of the IRA owner paying a penalty, IRS regulations specify that the owner would simply take the remainder of the balance as a final distribution and thereby avoid the penalty.

*\* Note the account balance used is the 12/31 balance for the previous year. This amount must be adjusted if there were any pending rollovers or transfers.*

## Determining the Account Balance

General Rule of Thumb: For the sake of simplicity, the account balance used for calculating the Required Minimum Distribution (RMD) is the balance in the IRA as of December 31 of the year preceding the year for which the required minimum distribution is being figured.

The only complication is the determination of the account balance to be used for the initial RMD, since the initial RMD may be withdrawn in either of two years. The year-end account balance used to calculate the initial RMD (no matter when it is distributed) is the 12/31 balance from the year just prior to the year in which the IRA owner turns 70½. Thus, the rules allow the owner to postpone the initial distribution of the RMD, but not the calculation of the amount.

Look at the following examples to further understand the methodology for determining the account balance and life expectancy factor for calculating RMDs.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **About Mr. Burkhart**  Tim Burkhart turns 70 on August 26, 2016, and 70½ on February 26, 2017, thereby making his Required Beginning Date April 1, 2018. The following details the effective dates for determining his RMD.   |  |  |  |  | | --- | --- | --- | --- | | **Distribution** | **Year for which RMD applies** | **Time Span for Taking the RMD** | **Valuation Date for RMD Calculation** | | 1 | 2017 | 1/1/2017 - 4/1/2018 | 12/31/2016 | | 2 | 2018 | 1/1/2018 – 12/31/2018 | 12/31/2017 | | 3 | 2019 | 1/1/2019 - 12/31/2019 | 12/31/2018 | |

## Review Exercise

Select the correct answer to each question.

Susan Reeves has a birthday on February 27, 2016, at which time she will be 70 years old. When must she begin taking RMDs and what is the account balance to be used for calculating the first RMD? **Select the correct answer for each question.**

1. **When is her Required Beginning Date?**

* April 1, 2016

**Incorrect**. Remember that the RBD is April 1 following the calendar year in which she attains age 70½.

* **April 1, 2017**

**Correct**! The RBD is April 1 following the calendar year in which she attains age 70½.

* December 31, 2016

**Incorrect**. Remember that the RBD is April 1 following the calendar year in which she attains age 70½.

* April 1, 2018

**Incorrect**. Remember that the RBD is April 1 following the calendar year in which she attains age 70½.

1. **What is the appropriate account balance date to be used in calculating the first RMD? Assume that the initial RMD is withdrawn in 2016 for 2016.**

* **12/31/2015**

**Correct**! The rule for the initial RMD is to use 12/31 of the year preceding the year in which the owner turns 70½.

* 12/31/2016

**Incorrect**. Remember the rule for the initial RMD is to use 12/31 of the year preceding the year in which the owner turns 70½.

* 12/31/2014

**Incorrect**. Remember the rule for the initial RMD is to use 12/31 of the year preceding the year in which the owner turns 70½.

1. **If the entire initial RMD is withdrawn in 2016 for 2016, what is the appropriate account balance date to be used in calculating the first RMD?**

* **12/31/2015**

**Correct**! The rule for the initial RMD is to use 12/31 of the year preceding the year in which the owner turns 70½, regardless of when the withdrawal is made.

* 12/31/2016

**Incorrect**. Remember the rule for the initial RMD is to use 12/31 of the year preceding the year in which the owner turns 70½, regardless of when the withdrawal is made.

* 12/31/2017

**Incorrect**. Remember the rule for the initial RMD is to use 12/31 of the year preceding the year in which the owner turns 70½, regardless of when the withdrawal is made.

## The Life Expectancy Tables

Generally, the RMD is based on the IRA balance as of December 31 of the previous calendar year, (unless adjustments are required for any pending rollovers or transfers, which we will not cover in this course). The selected 12/31 balance is divided by the appropriate divisor based on the appropriate life expectancy table. Under the current rules for lifetime RMDs, there are only two life expectancy tables that are used to determine the RMD.

**Option #1** - The spouse is the sole beneficiary and is more than 10 years younger than the IRA owner.

**Option #2** - Everyone else.

*(Note that there is a third table that is used in calculations of the RMDs for some IRA beneficiaries who inherit IRA balances. The above only refer to lifetime RMD calculations.)*

Keep in mind that these are Required MINIMUM Distribution calculations. An owner can always withdraw more than the minimum.

## Option #1: Spouse is Sole Beneficiary and More Than 10 Years Younger Than IRA Owner

If an IRA owner has a sole designated beneficiary that is his/her spouse and he/she is more than 10 years younger than the owner, they can use ***their actual ages*** under the **Joint and Last Survivor Life Expectancy Table** to calculate the divisor for determining RMDs.

|  |
| --- |
| **The Results**  The result is two-fold:   1. First, barring negative returns in the account, the IRA will never be depleted by RMDs as long as one spouse is alive. 2. Second, it provides for a lower RMD because the actual ages, and therefore a longer life expectancy, can be used rather than limiting it to 10 years. |

The factors in this table are based on ***annual recalculation***, which provides for an annual adjustment of the life expectancy factor based on attaining a new age each year. **Click the icon to view the Joint and Last Survivor Life Expectancy Table.**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **The "Joint Life and Last Survivor Expectancy Table"** **(Note: This table is for illustration purposes only. For actual use, consult the most recent schedule from the IRS)**   |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | Ages | 55 | 56 | 57 | 58 | 59 | 60 | 61 | 62 | 63 | 64 | 65 | 66 | 67 | 68 | 69 | 70 | 71 | 72 | 73 | 74 | | 55 | 35.6 | 35.1 | 34.7 | 34.3 | 33.9 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | 56 | 35.1 | 34.7 | 34.2 | 33.7 | 33.3 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | 57 | 34.7 | 34.2 | 33.7 | 33.2 | 32.8 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | 58 | 34.3 | 33.7 | 33.2 | 32.8 | 32.3 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | 59 | 33.9 | 33.3 | 32.8 | 32.3 | 31.8 |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | 60 | 33.5 | 32.9 | 32.4 | 31.9 | 31.3 | 30.9 | 30.4 | 30.0 | 29.6 | 29.2 | 28.8 | 28.5 | 28.2 | 27.9 | 27.6 |  |  |  |  |  | | 61 | 33.2 | 32.6 | 32.0 | 31.4 | 30.9 | 30.4 | 29.9 | 29.5 | 29.0 | 28.6 | 28.3 | 27.9 | 27.6 | 27.3 | 27.0 |  |  |  |  |  | | 62 | 32.9 | 32.2 | 31.6 | 31.1 | 30.5 | 30.0 | 29.5 | 29.0 | 28.5 | 28.1 | 27.7 | 27.3 | 27.0 | 26.7 | 26.4 |  |  |  |  |  | | 63 | 32.6 | 31.9 | 31.3 | 30.7 | 30.1 | 29.6 | 29.0 | 28.5 | 28.1 | 27.6 | 27.2 | 26.8 | 26.4 | 26.1 | 25.7 |  |  |  |  |  | | 64 | 32.3 | 31.6 | 31.0 | 30.4 | 29.8 | 29.2 | 28.6 | 28.1 | 27.6 | 27.1 | 26.7 | 26.3 | 25.9 | 25.5 | 25.2 |  |  |  |  |  | | 65 | 32.0 | 31.4 | 30.7 | 30.0 | 29.4 | 28.8 | 28.3 | 27.7 | 27.2 | 26.7 | 26.2 | 25.8 | 25.4 | 25.5 | 24.6 |  |  |  |  |  | | 66 | 31.8 | 31.1 | 30.4 | 29.8 | 29.1 | 28.5 | 27.9 | 27.3 | 26.8 | 26.3 | 25.8 | 25.3 | 24.9 | 24.5 | 24.1 |  |  |  |  |  | | 67 | 31.6 | 30.9 | 30.2 | 29.5 | 28.8 | 28.2 | 27.6 | 27.0 | 26.4 | 25.9 | 25.4 | 24.9 | 24.4 | 24.0 | 23.6 |  |  |  |  |  | | 68 | 31.4 | 30.7 | 29.9 | 29.2 | 28.6 | 27.9 | 27.3 | 26.7 | 26.1 | 25.5 | 25.0 | 24.5 | 24.0 | 23.5 | 23.1 |  |  |  |  |  | | 69 | 31.2 | 30.5 | 29.7 | 29.0 | 28.3 | 27.6 | 27.0 | 26.4 | 25.7 | 25.2 | 24.6 | 24.1 | 23.6 | 23.1 | 22.6 |  |  |  |  |  | | 70 | 31.1 | 30.3 | 29.5 | 28.8 | 28.1 | 27.4 | 26.7 | 26.1 | 25.4 | 24.8 | 24.3 | 23.7 | 23.2 | 22.7 | 22.2 | 21.8 | 21.3 | 20.9 | 20.6 | 20.2 | | 71 | 30.9 | 30.1 | 29.4 | 28.6 | 27.9 | 27.2 | 26.5 | 25.8 | 25.2 | 24.5 | 23.9 | 23.4 | 22.8 | 22.3 | 21.8 | 21.3 | 20.9 | 20.5 | 20.1 | 19.7 | | 72 | 30.8 | 30.0 | 29.2 | 28.4 | 27.7 | 27.0 | 26.3 | 25.6 | 24.9 | 24.3 | 23.7 | 23.1 | 22.5 | 22.0 | 21.4 | 20.9 | 20.5 | 20.0 | 19.6 | 19.3 | | 73 | 30.6 | 29.8 | 29.1 | 28.3 | 27.5 | 26.8 | 26.1 | 25.4 | 24.7 | 24.0 | 23.4 | 22.8 | 22.2 | 21.6 | 21.1 | 20.6 | 20.1 | 19.6 | 19.2 | 18.8 | | 74 | 30.5 | 29.7 | 28.9 | 28.1 | 27.4 | 26.6 | 25.9 | 25.2 | 24.5 | 23.8 | 23.1 | 22.5 | 21.9 | 21.3 | 20.8 | 20.2 | 19.7 | 19.3 | 18.8 | 18.4 | | 75 | 30.4 | 29.6 | 28.8 | 28.0 | 27.2 | 26.5 | 25.7 | 25.0 | 24.3 | 23.6 | 22.9 | 22.3 | 21.6 | 21.0 | 20.5 | 19.9 | 19.4 | 18.9 | 18.4 | 18.0 | | 76 | 30.3 | 29.5 | 28.7 | 27.9 | 27.1 | 26.3 | 25.6 | 24.8 | 24.1 | 23.4 | 22.7 | 22.0 | 21.4 | 20.8 | 20.2 | 19.6 | 19.1 | 18.6 | 18.1 | 17.6 | | 77 | 30.3 | 29.4 | 28.6 | 27.8 | 27.0 | 26.2 | 25.4 | 24.7 | 23.9 | 23.2 | 22.5 | 21.8 | 21.2 | 20.6 | 19.9 | 19.4 | 18.8 | 18.3 | 17.8 | 17.3 | | 78 | 30.2 | 29.3 | 28.5 | 27.7 | 26.9 | 26.1 | 25.3 | 24.6 | 23.8 | 23.1 | 22.4 | 21.7 | 21.0 | 20.3 | 19.7 | 19.1 | 18.5 | 18.0 | 17.5 | 17.0 | | 79 | 30.1 | 29.3 | 28.4 | 27.6 | 26.8 | 26.0 | 25.2 | 24.4 | 23.7 | 22.9 | 22.2 | 21.5 | 20.8 | 20.1 | 19.5 | 18.9 | 18.3 | 17.7 | 17.2 | 16.7 |   **Examples:**   1. IRA owner is age 70 and spouse/beneficiary is 59. The divisor will be 28.1. 2. IRA owner is 66 and spouse beneficiary if 55. The divisor will be 31.8. |

## Option #2: Calculation Rule for ALL Others

For any IRA owner whose spouse is not the sole beneficiary and/or not more than 10 years younger, this is the only calculation alternative. While this seems restrictive, the IRS has given clients the best of all worlds relative to the previous calculation options.

|  |
| --- |
| **Advantages**  The advantages of this table are primarily twofold:   1. First, the table used to determine the divisor in the calculation is called the **Uniform Table**. With this table, the IRS has given ***all*** IRA owners the benefit of a joint life expectancy table that automatically **assumes the "other" life is 10 years younger** - even though the "other" might be significantly older, or not exist, which would shorten the life expectancy and accelerate the RMD if it were taken into account. 2. The factors in this table are based on ***annual recalculation***, which provides for an annual adjustment of the life expectancy factor based on attaining a new age. That is, the RMD distribution is recalculated each year based on a new applicable divisor from the Uniform Table *AND* a new FMV of the IRA balance. |

**Click the icon to view the Uniform Table.**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **The "Uniform Table"** (Note: This table is for illustration purposes only. For actual use, consult the most recent schedule from the IRS)   |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | **Table for Determining Applicable Divisor** | | | | | | | **Age** | **Applicable**  **Divisor** | **Age** | **Applicable**  **Divisor** | **Age** | **Applicable**  **Divisor** | | 70 | 27.4 | 86 | 14.1 | 102 | 5.5 | | 71 | 26.5 | 87 | 13.4 | 103 | 5.2 | | 72 | 25.6 | 88 | 12.7 | 104 | 4.9 | | 73 | 24.7 | 89 | 12.0 | 105 | 4.5 | | 74 | 23.8 | 90 | 11.4 | 106 | 4.2 | | 75 | 22.9 | 91 | 10.8 | 107 | 3.9 | | 76 | 22.0 | 92 | 10.2 | 108 | 3.7 | | 77 | 21.2 | 93 | 9.6 | 109 | 3.4 | | 78 | 20.3 | 94 | 9.1 | 110 | 3.1 | | 79 | 19.5 | 95 | 8.6 | 111 | 2.9 | | 80 | 18.7 | 96 | 8.1 | 112 | 2.6 | | 81 | 17.9 | 97 | 7.6 | 113 | 2.4 | | 82 | 17.1 | 98 | 7.1 | 114 | 2.1 | | 83 | 16.3 | 99 | 6.7 | 115+ | 1.9 | | 84 | 15.5 | 100 | 6.3 |  |  | | 85 | 14.8 | 101 | 5.9 |  |  | |

## Determining the Life Expectancy Factor

There are three steps to determining the life expectancy factor for the initial RMD.

|  |
| --- |
| 1. Establish the calendar year in which the IRA owner attains 70½, 2. Regardless of the owner’s age, determine the IRA owner’s attained age as of the end of that calendar year for which the distribution will be made. 3. Refer to the appropriate life expectancy table. |

Factors for use in subsequent years are identified by determining the owner’s attained age as of the end of the calendar year in which the distribution is made. Since the RMD is recalculated every year and the life expectancy factor (the divisor) will always be greater than 1, the IRA will never be exhausted during the owner's lifetime if distributions are never greater than the RMD, barring negative performance of the owner's investments.

Look at the following example:

**Example:** Michelle Howard celebrates her 70th birthday on February 14, 2016. When is her Required Beginning Date?

* February 14, 2016
* April 1, 2016
* December 31, 2017
* April 1, 2017

Having established the RBD, what is her life expectancy factor using the Uniform Table for the initial RMD?

**Step 1** - She attains age 70½ in 2016

**Step 2** - Since she turned 70 in 2016, she will not have another birthday before the end of the year, so her attained age will be 70 at the first year for which she is taking a distribution (in 2016).

**Step 3** - From the Uniform Table, an example of which can be viewed by clicking here, select the life expectancy factor to be used for someone age 70.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **The "Uniform Table"**  (Note: This table is for illustration purposes only. For actual use, consult the most recent schedule from the IRS)   |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | **Table for Determining Applicable Divisor** | | | | | | | **Age** | **Applicable  Divisor** | **Age** | **Applicable Divisor** | **Age** | **Applicable Divisor** | | 70 | 27.4 | 86 | 14.1 | 102 | 5.5 | | 71 | 26.5 | 87 | 13.4 | 103 | 5.2 | | 72 | 25.6 | 88 | 12.7 | 104 | 4.9 | | 73 | 24.7 | 89 | 12.0 | 105 | 4.5 | | 74 | 23.8 | 90 | 11.4 | 106 | 4.2 | | 75 | 22.9 | 91 | 10.8 | 107 | 3.9 | | 76 | 22.0 | 92 | 10.2 | 108 | 3.7 | | 77 | 21.2 | 93 | 9.6 | 109 | 3.4 | | 78 | 20.3 | 94 | 9.1 | 110 | 3.1 | | 79 | 19.5 | 95 | 8.6 | 111 | 2.9 | | 80 | 18.7 | 96 | 8.1 | 112 | 2.6 | | 81 | 17.9 | 97 | 7.6 | 113 | 2.4 | | 82 | 17.1 | 98 | 7.1 | 114 | 2.1 | | 83 | 16.3 | 99 | 6.7 | 115+ | 1.9 | | 84 | 15.5 | 100 | 6.3 |  |  | | 85 | 14.8 | 101 | 5.9 |  |  | |

* 27.4
* 26.5
* 25.6
* 24.7
* 23.8

**Example**: George turns age 70 on November 15, 2016. His wife and beneficiary is Betty, age 68. What are his RMDs for 2016, 2017, 2018 and 2019? His account balances are as follows:

12/31/2016: $143,000

12/31/2017: $156,000

12/31/2018: $133,000

12/31/2019: $135,000

Step 1: The RBD is April 1 following the calendar year in which he attains age 70½. He is 70½ in 2018; thus, his RBD is in 2018.

Step 2: George can take his first distribution in 2017 or 2018. Let’s assume it is in his best interest to spread the first and second distributions over two years, thus he takes the first distribution in 2017.

Step 3: In this case, we use the Uniform table to find the correct divisor. He turns 70½ in 2017. At the end of 2017, he will be 71, thus the correct divisor for the 2017 distribution is 26.5.

Step 4: George turned 70½ in 2017, so we use the account balance at 12/31/2016 of $143,000 to calculate his first RMD.

Step 5: Calculation for 2017 is thus $143,000 divided by 26.5 = $5,396.23

Step 6: Calculation for 2018 based on the age 72 factor of 25.6 and account balance at 12/31/2017 of $156,000. $156,000 divided by 25.6 = $6,093.75

Step 7: Calculation for 2019 based on the age 73 factor of 24.7 and account balance at 12/31/2018 of $133,000. $133,000 divided by 24.7 = $5,384.62

## Determining the Life Expectancy Factor – Answer Key

Look at the following example:

**Example:** Michelle Howard celebrates her 70th birthday on February 14, 2016. When is her Required Beginning Date?

* February 14, 2016

**Incorrect**. Remember that the RBD is April 1 following the calendar year that she attains age 70½.

* April 1, 2016

**Incorrect**. Remember that the RBD is April 1 following the calendar year that she attains age 70½.

* December 31, 2017

**Incorrect**. Remember that the RBD is April 1 following the calendar year that she attains age 70½.

* April 1, 2017

**Correct**!

Having established the RBD, what is her life expectancy factor using the Uniform Table for the initial RMD?

**Step 1** - She attains age 70½ in 2016

**Step 2** - Since she turned 70 in 2016, she will not have another birthday before the end of the year, so her attained age will be 70 at the first year for which she is taking a distribution..

**Step 3** - From the Uniform Table, an example of which can be viewed by clicking here, select the life expectancy factor to be used for someone age 70.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **The "Uniform Table"**  (Note: This table is for illustration purposes only. For actual use, consult the most recent schedule from the IRS)   |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | **Table for Determining Applicable Divisor** | | | | | | | **Age** | **Applicable  Divisor** | **Age** | **Applicable Divisor** | **Age** | **Applicable Divisor** | | 70 | 27.4 | 86 | 14.1 | 102 | 5.5 | | 71 | 26.5 | 87 | 13.4 | 103 | 5.2 | | 72 | 25.6 | 88 | 12.7 | 104 | 4.9 | | 73 | 24.7 | 89 | 12.0 | 105 | 4.5 | | 74 | 23.8 | 90 | 11.4 | 106 | 4.2 | | 75 | 22.9 | 91 | 10.8 | 107 | 3.9 | | 76 | 22.0 | 92 | 10.2 | 108 | 3.7 | | 77 | 21.2 | 93 | 9.6 | 109 | 3.4 | | 78 | 20.3 | 94 | 9.1 | 110 | 3.1 | | 79 | 19.5 | 95 | 8.6 | 111 | 2.9 | | 80 | 18.7 | 96 | 8.1 | 112 | 2.6 | | 81 | 17.9 | 97 | 7.6 | 113 | 2.4 | | 82 | 17.1 | 98 | 7.1 | 114 | 2.1 | | 83 | 16.3 | 99 | 6.7 | 115+ | 1.9 | | 84 | 15.5 | 100 | 6.3 |  |  | | 85 | 14.8 | 101 | 5.9 |  |  | |

* 27.4

**Correct**!

* 26.5

**Incorrect**. Look up the divisor for someone age 70 and try again.

* 25.6

**Incorrect**. Look up the divisor for someone age 70 and try again.

* 24.7

**Incorrect**. Look up the divisor for someone age 70 and try again.

* 23.8

**Incorrect**. Look up the divisor for someone age 70 and try again.

**Example**: George turns age 70 on November 15, 2016. His wife and beneficiary is Betty, age 68. What are his RMDs for 2016, 2017, 2018 and 2019? His account balances are as follows:

12/31/2016: $143,000

12/31/2017: $156,000

12/31/2018: $133,000

12/31/2019: $135,000

Step 1: The RBD is April 1 following the calendar year in which he attains age 70½. He is 70½ in 2017; thus, his RBD is in 2018.

Step 2: George can take his first distribution in 2017 or 2018. Let’s assume it is in his best interest to spread the first and second distributions over two years, thus he takes the first distribution in 2017.

Step 3: In this case, we use the Uniform table to find the correct divisor. He turns 70½ in 2017. At the end of 2017, he will be 71, thus the correct divisor for the 2017 distribution is 26.5.

Step 4: George turned 70½ in 2016, so we use the account balance at 12/31/2016 of $143,000 to calculate his first RMD.

Step 5: Calculation for 2017 is thus $143,000 divided by 26.5 = $5,396.23

Step 6: Calculation for 2018 based on the age 72 factor of 25.6 and account balance at 12/31/2017 of $156,000. $156,000 divided by 25.6 = $6,093.75

Step 7: Calculation for 2019 based on the age 73 factor of 24.7 and account balance at 12/31/2018 of $133,000. $133,000 divided by 24.7 = $5,384.62

## Review Exercise for RMD Calculations

Select the correct answer to each question.

In order to complete the review exercise below, you will need to consult the Uniform Table. The samples are to be used for the purpose of these exercises only, not for use with actual clients. **Click the icon to view the Uniform Table**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **The "Uniform Table"**  (Note: This table is for illustration purposes only. For actual use, consult the most recent schedule from the IRS)   |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | | **Table for Determining Applicable Divisor** | | | | | | | **Age** | **Applicable**  **Divisor** | **Age** | **Applicable**  **Divisor** | **Age** | **Applicable**  **Divisor** | | 70 | 27.4 | 86 | 14.1 | 102 | 5.5 | | 71 | 26.5 | 87 | 13.4 | 103 | 5.2 | | 72 | 25.6 | 88 | 12.7 | 104 | 4.9 | | 73 | 24.7 | 89 | 12.0 | 105 | 4.5 | | 74 | 23.8 | 90 | 11.4 | 106 | 4.2 | | 75 | 22.9 | 91 | 10.8 | 107 | 3.9 | | 76 | 22.0 | 92 | 10.2 | 108 | 3.7 | | 77 | 21.2 | 93 | 9.6 | 109 | 3.4 | | 78 | 20.3 | 94 | 9.1 | 110 | 3.1 | | 79 | 19.5 | 95 | 8.6 | 111 | 2.9 | | 80 | 18.7 | 96 | 8.1 | 112 | 2.6 | | 81 | 17.9 | 97 | 7.6 | 113 | 2.4 | | 82 | 17.1 | 98 | 7.1 | 114 | 2.1 | | 83 | 16.3 | 99 | 6.7 | 115+ | 1.9 | | 84 | 15.5 | 100 | 6.3 |  |  | | 85 | 14.8 | 101 | 5.9 |  |  | |

1. **John Burkhart was born on December 31, 1947. Given that birthday, when is John's Required Beginning Date?**

* April 1, 2017

**Incorrect**. John turns 70½ in 2018. Try again.

* December 31, 2017

**Incorrect**. John turns 70½ in 2018. Try again.

* April 1, 2018

**Incorrect**. John turns 70½ in 2018. Try again.

* January 1, 2019

**Incorrect**. John turns 70½ in 2018, but this is not his RBD. Try again.

* **April 1, 2019**

**Correct**!

1. **John is not married and his designated beneficiary is his half-brother, Jim. Jim is age 54 when the initial RMD is calculated. Which table should be used to calculate his RMD divisor?**

* **Uniform Table**

**Correct**!

* Joint and Last Survivor Table

**Incorrect**.

1. **Given John's age is 71 at the end of the year in which he turned 70½, and his brother is 54 when the RMD calculation is made, what is the divisor to be used in the calculation of his first RMD? (Use the table above.)**

* 27.4

**Incorrect**.

* **26.5**

**Correct**!

* 25.6

**Incorrect**.

* 24.7

**Incorrect**.

* 23.8

**Incorrect**.

1. **Assuming John makes 100% of his initial RMD in January 2017, which balance will be used to determine the first RMD?**

**John’s account balances were as follows:   
December 31, 2014 - $1,894,412  
December 31, 2015 - $2,174,590  
December 31, 2016 - $2,289,417**

* December 31, 2014

**Incorrect**. Try again.

* **December 31, 2015**

**Correct**! The balance used for the first RMD calculation is the balance on December 31 of the year preceding the year in which the participant reaches 70½. John turned 70½ in 2014. Therefore, the December 31, 2013, balance is used. This is true regardless of when the initial distribution was actually made.

* December 31, 2016

**Incorrect**. Try again.

Exception to RMD Rules: The Qualified Longevity Annuity Contract (QLAC)

Now that you have competency in the basic RMD rules, we will present an exception!

A QLAC may appeal to clients wishing to defer taxes by delaying a portion of their RMD past the required beginning date (RBD) and/or those who fear outliving their money in retirement.

As much as 25% of a client’s balance in certain retirement plans may be used to purchase a QLAC. QLAC annuity payments may be deferred beyond the normal RBD, but must begin upon reaching age 85. **Click** here **for more information on QLACs.**

|  |
| --- |
| 25%  The lesser of ***25%*** of the account balance or $125,000 (2016, as indexed) may be used to purchase a QLAC. The limits are lifetime limits rather than annual limits. |

|  |
| --- |
| Certain Retirement Plans  Defined Contribution category qualified plans, 403(b) Plans, Traditional IRAs, SEP IRAs, SIMPLE IRAs, and 457(b) Plans generally qualify for QLAC treatment. |

|  |  |  |  |
| --- | --- | --- | --- |
| More Information on QLACs  A QLAC is a deferred, fixed, lifetime annuity purchased anytime before a client’s age 85. Annuity payments must begin no later than the first day of the first month following the annuitant’s 85th birthday.   |  | | --- | | Deferred  Annuities may be immediate, meaning they begin making annuity payments within one year after purchase, or deferred, meaning that annuity payments begin more than one year after the purchase date. |  |  | | --- | | Fixed  Annuities may provide a fixed payment, which generally does not change for the life of the annuity, or a variable payment, which changes based upon the investment performance of the annuity’s investments. The fixed payments of a QLAC may be adjusted for inflation but may not be structured as variable payments. |  |  | | --- | | Lifetime  ***Lifetime*** annuities are paid over the annuitant’s lifetime rather than a certain term of years. Lifetime annuities are also referred to as “pure annuities.” | |
| At the death of the annuitant, only two types of death benefit may be paid to the beneficiary, including: (1) a lump sum return of unrecovered premium, or (2) a life annuity. |

## Summary Review

This concludes the training on IRA Required Minimum Distributions. By way of review, it is important to make sure you clearly understand the important terms and rules that have been presented. It is also important to remember that, since RMDs can be quite complicated, every client situation should be reviewed on an individual basis and clients should consult a tax advisor for any detailed questions. **Click each term below for further understanding and clarification.**

|  |
| --- |
| **Required Beginning Date (RBD)** |
| **Definition**  It is April 1 of the calendar year following the calendar year in which the owner reaches 70½ years of age.  **Significance**  The owner must withdraw the initial RMD amount by this time. |
| **Required Minimum Distribution (RMD)** |
| **Definition**  It is the minimum amount that must be distributed each year once the owner reaches 70½ years of age. It is calculated by dividing the 12/31 account value from the previous calendar year by the appropriate divisor, as derived from the appropriate life expectancy table. If it is the initial RMD, then the 12/31 account value from the year prior to turning 70½ is used, independent of when the initial RMD is actually distributed.  **Significance**  It forces a graduated end to the tax deferral status of IRA assets and requires some planning so as to minimize its effect and provide the owner and beneficiaries with maximum flexibility as to when and how much to withdraw. |
| **Uniform Table** |
| **Definition**  It is the table used to determine the life expectancy factor for most IRA RMDs. This table assumes that the designated beneficiary is 10 years younger than the IRA owner and offers the automatic benefits of annual recalculation.  **Significance**  Provides simplicity in the calculation methodology, as there is one table that suffices for almost all IRA owners. |
| **Joint Life and Last Survivor Life Expectancy Table** |
| **Definition**  It is the table used to determine the life expectancy factor for IRA RMDs when the IRA owner has a spouse who is designated as sole beneficiary and that spouse is more than 10 years younger than the owner  **Significance**  Under the current rules, this table provides such IRA owners with extended life benefits for the IRA, since the life expectancy factor for computing RMDs is based on the actual ages of the owner and spouse beneficiary. |

## Conclusion

This concludes the material for this subject. At this time you may return to any sections in which you feel the need for further study.