# What's an RMD & how does it affect retirement savings?

March 25, 2022

Many people spend their entire working lives building up retirement savings. But while the focus on retirement planning often centers around saving, there's less conversation around withdrawal strategies and how they relate to your taxes.

Most retirement plans have **required minimum distributions,** or RMDs. But what's an RMD, and how can it affect your retirement withdrawals? Here's what you need to know.

What's an RMD?

An RMD is the minimum amount of money you must withdraw from a tax-deferred retirement plan after you reach a certain age. You can **use this distribution in many ways** — like living expenses, charitable donations and life insurance—but you do have to pay income taxes on it.

RMD rules changed in 2019. Previously, you had to start taking your RMD at age 70 and a half, but with the passage of the Setting Every Community Up for Retirement Enhancement (SECURE) Act, this age requirement increased to 72.

The IRS **made this change** because people are living longer and, therefore, are drawing on retirement money for a longer time. The change also permits retirees to take a smaller RMD, allowing for money to stay and grow in their accounts for longer.

If you have a birthday after June 30, 1949, you must take your first RMD by April 1 of the year following the year you turn 72. For example, if you turned 72 in 2021, you must take an RMD by April of 2022. After that first withdrawal, you must take an RMD every year before December 31.

Which retirement accounts require RMDs?

Most—but not all—retirement accounts have RMDs, from **individual retirement accounts** (IRAs) to employer-sponsored plans. Those that do include:

- SEP, SIMPLE and traditional IRAs
- 401(k) plans, including Roth 401(k) plans
- 403(b) plans
- 457(b) plans
- Profit-sharing plans
- Other defined-contribution plans, such as employee stock purchasing

RMD rules do not apply to **Roth IRAs,** which are funded with after-tax dollars. However, there's one exception: Upon the account owner's death, beneficiaries may be required to take an RMD from that account every year or face a penalty.

How do you calculate RMDs?

The amount of your annual RMD withdrawal is based on a formula created by the IRS.

To calculate your RMD, you'll need to divide your retirement account balance(s) as of December 31—adjusted for any outstanding transfers, rollovers and recharacterizations—by your life expectancy factor. **Life expectancy tables** developed by the IRS can help you find your individual life expectancy factor (as new tables anticipated on irs.gov soon). You'll find that this factor is based on a hypothetical joint life expectancy using the account owner's age and a beneficiary age 10 years younger.

The IRS also offers worksheets for calculating your RMD depending on your unique circumstances. And if you have multiple traditional IRAs, an RMD must be calculated for each one. It's also important to note that whatever figure you calculate is the minimum amount you'd be required to withdraw—you can withdraw more.

The IRS allows account holders to withdraw the total RMD amount from one account or spread it across multiple qualifying retirement accounts. You can aggregate multiple IRAs and multiple 403(b)s but all other retirement account types must be satisfied separately.

Are there any tax considerations with RMDs?

Though IRAs and 401(k)s are pre-tax retirement accounts, it's possible to make nondeductible IRA contributions and after-tax 401(k) contributions. The rules around this can get complicated, so it's best to consult a financial advisor if you've made these contributions and need to calculate your RMDs.

You could also donate your RMD to a qualified charity to reduce potential taxes on the withdrawn figure. Though you still have to make the annual withdrawal, you'll be supporting an organization that does meaningful work.

Can you delay RMDs?

Yes, there are a few instances where you may be able to delay RMDs.

- If you're still working at age 72, you don't have to take an RMD from your current employer-sponsored retirement plan until you fully retire. The employer's retirement plan document must also allow for this delay.

- If you are the business owner and don't own more than 5% of your company, RMDs are not required unless your ownership increases to 5% or more, or until you retire. The employer's retirement plan document must also allow for this delay.
- If your savings are in a Roth IRA, RMDs are not required. However, if you are a beneficiary of a Roth IRA, have other retirement plan accounts, such as a previous employer plan, SEP, SIMPLE or traditional IRA, RMDs are required.

Penalties are a consideration if you forget to take out your RMD. You'll face a 50% penalty on the amount you didn't withdraw if you miss the RMD withdrawal deadline. For example, if you were supposed to withdraw $4,000 from your 401(k) by December 31 but only withdrew $3,000, you'll pay a 50% tax penalty on the $1,000 you didn't take out.
This penalty might be waived if you can show the IRS you made a reasonable mistake.

## Managing retirement withdrawals

Managing RMDs should be part of your retirement planning. If you're nearing age 72, make your calculations using the IRS resources or work with a **Thrivent financial advisor** to calculate your RMDs.

You've worked hard to save for retirement, and you likely don't want to give up some of your savings to unnecessary penalties. Make sure you understand the RMD rules and deadlines and factor them into your retirement withdrawal strategy.

Taking these steps now could ensure you can truly enjoy every dollar you've saved for retirement.