Abaris

Required Minimum Distributions: What You Need To Know

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In retirement, your possibilities are endless. Dealing with the Required Minimum Distribution (RMD) rules might never be anyone's idea of a good time.

So we've made it simple. Read on to learn more about which accounts are subject to the Required Minimum Distribution, how the RMD is calculated, and some strategies you can take to reduce your RMD.

Letter From The Abaris Team

Let's Get To The Bottom of the Required Minimum Distribution

When you pictured retirement, you probably had some key milestones in mind, like your retirement party or taking that cross-country road trip. Or maybe even when you first started collecting Social Security benefits.

One milestone you probably didn't think much about, but is an important part of your financial planning: age 70½, the age when the money in your retirement accounts is first subject to the Required Minimum Distribution (RMD). Understanding the Required Minimum Distribution is an important part of retirement planning and something retirees are often unaware of.

The RMD is an IRS-mandated minimum amount you must withdraw from your tax-deferred accounts every year starting at age 70½. If you don't take your RMD, you can be penalized by up to 50% of the amount you were supposed to have withdrawn. This is one of the reasons why knowing the ins and outs of RMDs is so important.

But it isn't just about understanding the RMD so you know how much you need to withdraw. It's also important to be cognizant of strategies you can use to defer a portion of your RMD or lower it entirely, while at the same time securing a guaranteed income stream for yourself. We'll cover the options for you in this eBook so you can figure out if they make sense for your particular situation.

I hope you enjoy this guide. And if you have any questions, feel free to contact our team at (888) 248-8995.

Regards,

Nimish

Nimish Shukla, CFA
COO and Co-Founder

Plans Subject to the Required Minimum Distribution

Required Minimum Distribution (RMD) = IRS-mandated minimum amount you must withdraw from your tax-deferred account every year starting at age 70½.

RMDs are necessary to be withdrawn from most IRA accounts and qualified retirement plans.

Individual Retirement Accounts (IRAs)

- Traditional
- Rollover
- Inherited
- Savings Incentive Match Plan for Employees (SIMPLE)
- Simplified Employee Pension (SEP)

Qualified Retirement Plans (QRPs)

- Individual 401(k)
- Profit Sharing
- Money Purchase Pension
- 403(b)

It's important to note that Roth IRAs (unless inherited) and Roth Rollover IRAs are not subject to the RMD, but Roth 401(k)s are subject to the rules. Because Roth IRAs are not tax-deferred accounts, withdrawals aren't required until after the death of the account owner.

There are some exceptions in cases when you may be able to delay your RMD if you are still working. We'll explore those on page 6.

Key Facts About Withdrawals

You may withdraw your RMD from one account or a combination of accounts as long as it totals the required amount mandated by the IRS (we'll cover how that's calculated in the next section).

You may take your distribution annually, semi-annually, quarterly or monthly. You just need to have the full amount withdrawn by the IRS deadline.

The IRS requires a minimum amount for your withdrawals, but you can of course withdraw more. Withdrawing more will impact how long your money lasts. Unfortunately, if you withdraw more than required, you can't apply it to next year's RMD.

Lastly, once you start receiving your RMD, it becomes part of your taxable income. Even if you don't want or need money from your account, you must withdraw it.

When Your RMDs Start

In general, Required Minimum Distributions must begin at 70½. You must take your first RMD for the year in which you turn 70½. However, the first payment can be delayed until April 1 of the year following the year in which you turn 70½. For example, if your 70th birthday is May 25, 2016 and you turn 70½ on November 25, 2016, you can defer your RMD until April 1, 2017.

If you choose to take advantage of this one-time later RMD deadline, keep in mind you'll have to take two Required Minimum Distributions during the same calendar year (since your next RMD will be due by December 31). This may put you in a higher tax bracket for that year, and increase the taxes you owe.

In very limited cases, individuals can receive exemptions. One exemption is if you are age 70 or older, are still working, and don't own more than 5% of the company you're working for. In that instance, you may be able to delay your RMD from a Qualified Retirement Plan/Keogh until you retire.

If you don't take Required Minimum Distributions (or they are not of a large enough amount), you'll be subject to a 50% excise tax on the difference that you were supposed to pay and what you did pay.

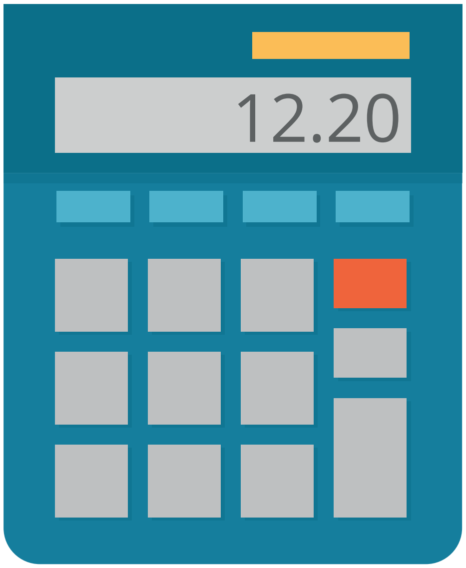
How RMDs Are Calculated

RMDs change from year to year based on your year-end account balance, age and life expectancy charts created by the IRS (more on that in the next section).

Your RMD must be calculated for each of your qualified accounts. You can choose to take the amount for each plan type from each account or the total amount simply from one.

For example, if Maggie has three IRAs, one SEP and one 403(b), she'd calculate the RMD for each account. For the IRAs, she can withdraw the total amount from one account or take it out of each of the three accounts. For the SEP, she'd have to take the withdrawal amount from the SEP and the same for the 403(b).

Federal and state taxes must be paid on your RMDs once they are withdrawn.



Know The RMD Table

The IRS issues the two tables you'll find on the next two pages. To determine your Required Minimum Distribution, begin with your applicable account balance as of December 31 of the prior year (the "Balance"). Then look up the Distribution Period that corresponds to the age that you were on December 31 of the prior year (the "Age"). Finally, divide your Balance by the Distribution Period. This is your RMD.

The Uniform Lifetime

Age	Distribution Period	Age	Distribution Period	Age	Distribution Period	Age	Distribution Period
70	27.4	**82**	17.1	**94**	9.1	**106**	4.2
71	26.5	**83**	16.3	**95**	8.6	**107**	3.9
72	25.6	**84**	15.5	**96**	8.1	**108**	3.7
73	24.7	**85**	14.8	**97**	7.6	**109**	3.4
74	23.8	**86**	14.1	**98**	7.1	**110**	3.1
75	22.9	**87**	13.4	**99**	6.7	**111**	2.9
76	22.0	**88**	12.7	**100**	6.3	**112**	2.6
77	21.2	**89**	12.0	**101**	5.9	**113**	2.4
78	20.3	**90**	11.4	**102**	5.5	**114**	2.1
79	19.5	**91**	10.8	**103**	5.2	**115 and over**	1.9
80	18.7	**92**	10.2	**104**	4.9		
81	17.9	**93**	9.6	**105**	4.5		

For example, if Jack has an account balance of $100,000 at age 70, his life expectancy is 27.4 years. He divides $100,000 by 27.4. He must withdraw $3,650.

There is one exception and this requires a different chart with different formulas. If your spouse is the sole beneficiary of your IRA and he or she is more than 10 years younger than you are, your RMD will be lower. Take a look at this chart.

Joint Life and Last Survivor Expectancy

		Your age										
		70	71	72	73	74	75	76	77	78	79	80
Your Spouse beneficiary's age	69	22.2	21.8	21.4	21.1	20.8	20.5	20.2	19.9	19.7	19.5	19.3
	68	22.7	22.3	22.0	21.6	21.3	20.8	20.8	20.6	20.3	20.1	20.0
	67	23.2	22.8	22.5	22.2	21.9	21.4	21.4	21.2	21.0	20.8	20.6
	66	23.7	23.4	23.1	22.8	22.5	22.0	22.0	21.8	21.7	21.5	21.3
	65	24.3	23.9	23.7	23.4	23.1	22.7	22.7	22.5	22.4	22.2	22.1
	64	24.8	24.5	24.3	24.0	23.8	23.4	23.4	23.2	23.1	22.9	22.8
	63	25.4	25.2	24.9	24.7	24.5	24.1	24.1	23.9	23.8	23.7	23.6
	62	26.1	25.8	25.6	25.4	25.2	24.8	24.8	24.7	24.6	24.4	24.3
	61	26.7	26.5	26.3	26.1	25.9	25.6	25.6	25.4	25.3	25.2	25.1
	60	27.4	27.2	27.0	26.8	26.6	26.3	26.3	26.2	26.1	26.0	25.9
	59	28.1	27.9	27.7	27.5	27.4	27.1	27.1	27.0	26.9	26.8	26.7
	58	28.8	28.6	28.4	28.3	28.1	27.9	27.9	27.8	27.7	27.6	27.5
	57	29.5	29.4	29.2	29.1	28.9	28.7	28.7	28.6	28.5	28.4	28.4
	56	30.3	30.1	30.0	29.8	29.7	29.5	29.5	29.4	29.3	29.3	29.2
	55	31.1	30.9	30.8	30.6	30.5	30.3	30.3	30.3	30.2	30.1	30.1
	54	31.8	31.7	31.6	31.5	31.4	31.2	31.2	31.1	31.0	31.0	30.9
	53	32.6	32.5	32.4	32.3	32.2	32.0	32.0	32.0	31.9	31.8	31.8
	52	33.4	33.3	33.2	33.1	33.0	32.9	32.9	32.8	32.8	32.7	32.7
	51	34.3	34.2	34.1	34.0	33.9	33.8	33.8	33.7	33.6	33.6	33.6

If you need help determining your RMD, we've created a calculator that can help.

The QLAC: A Way To Defer Some Of Your RMD

As we've discussed, you have to take your RMD or suffer a stiff penalty. But there is an option for deferring a portion of your Required Minimum Distribution until as late as age 85. The product is called a Qualified Longevity Annuity Contract (QLAC).

QLACs are a specific type of deferred income annuity that receives unique treatment in the tax code. They were created in July 2014 by the Treasury Department to help retirees make their income last longer in retirement. The money used to purchase a QLAC is not subject to the Required Minimum Distribution, meaning that it could lower your RMD by as much as 25% from ages 70 to when the income from the QLAC starts (which can be as late as age 85). It's kind of like rolling over a portion of your IRA or 401(k) to another account until you need and/or are in a lower tax bracket.

The QLAC is an income annuity, meaning that the amount you receive from the product is predetermined and not subject to market fluctuations. The product has no cash value and returns are similar to a corporate bond.

Just what would purchasing a QLAC look like from a tax perspective? We built a tool for you to get a sense of the total impact. The tax deferral is influenced by your tax bracket, when you purchase a QLAC and when you want to start receiving income.

Here are some other key facts to know about QLACs:

QLACs are similar to a pension or Social Security in that you receive guaranteed, predetermined or inflation-adjusted payment from the insurance company on a monthly basis. This makes it simpler to manage your retirement spending.

QLAC purchases are restricted to the lesser of 25% of your IRA assets or $125,000.

QLACs are best for those in at least average health and it's important to note that a QLAC does not have cash value. If you think you'll need to access the QLAC before you're scheduled to receive a distribution, you should not use money from your assets to purchase a QLAC because it does not have a cash value.

To see quotes from carriers across the market, visit our quoting tool here or to learn more about the product, download our guide.

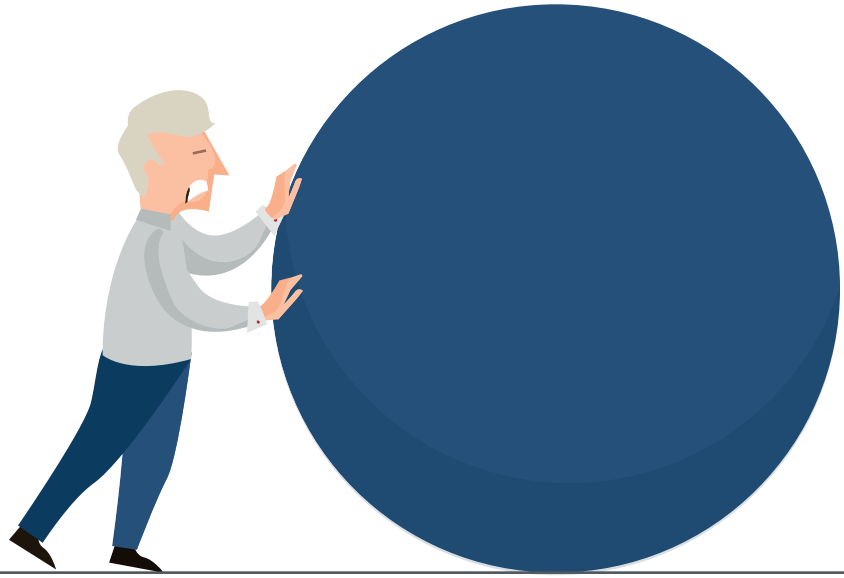
Know How Social Security and a Pension Claiming Strategy Can Lower Your RMD

There's another strategy that can help you lower your RMD: delaying receiving benefits from Social Security and your pension as long as possible and using some of your IRA and other savings to cover your living expenses. While this may seem to buck convention and what your Financial Advisor may say, here's why it may be a smart strategy.

The larger the amount you have in your IRAs and 401(k) means the higher the amount subject to the RMD calculation. By spending it in advance of age 70½, there will be less that you're mandated to receive.

By delaying receiving Social Security benefits until age 70, you'll receive Delayed Retirement Credits, which are an increase to Social Security income for each month a retiree postpones a benefit claim. The Delayed Retirement Credit can boost income by 8% for each year that an individual waits to claim Social Security after Full Retirement Age until age 70. You'll also get a higher payout from delaying receipt of your pension.

It's important to note that your Financial Advisor may not jump on board with this strategy because it would mean lower fees for him or her. They are paid by the amount of assets under management. If you have less assets subject to the RMD, there's also less assets from which they can derive their fee.



How to Report Your RMDs To The IRS

Once you take your RMD, a form 1099-R will be generated. A code of 7 will be featured in box 7 of the form. The amount distributed will be in box 1 and the taxable amount in box 2.

A form 5498 will also be generated. You'll receive it by January 31 of the following year and it will be based on your account as of December 31. The form will list the amount of the RMD.

Both of these forms will be sent to the IRS with your tax return. The amount of the distribution needs to correspond to the RMD required according to the RMD chart or you will be subject to a 50% excise tax on the amount you should have withdrawn or on the partial amount if it wasn't withdrawn in full.

Where You Can Go To Get More Information

RETIREMENT PLANNING BASICS

INVESTOPEDIA
Retirement Planning: Introduction
http://www.investopedia.com/university/retirement/

360 FINANCIAL LITERACY
Retirement Planning Basics
http://www.360financialliteracy.org/Topics/Retirement-Planning/Retirement-Planning-Basics

RMD BASICS

T. ROWE PRICE
http://individual.troweprice.com/public/Retail/Retirement/Required-Minimum-Distributions/RMD-Basics

BANKRATE
http://www.bankrate.com/finance/retirement/know-your-required-minimum-distribution-1.aspx

RMD TABLE

INTERNAL REVENUE SERVICE
UNIFORM LIFETIME TABLE
https://www.irs.gov/pub/irs-tege/uniform_rmd_wksht.pdf

AMERICAN FUNDS
Joint Life and Last Survivor Expectancy table
https://www.americanfunds.com/individual/irs-joint-life-table.htm

QLACs

ABARIS
QLAC Basics
https://www.myabaris.com/learn/topics/qualified-longevity-annuity-contract-qlac/

ABARIS
QLAC eBook
https://www.myabaris.com/learn/ebook/qualified-longevity-annuity-contract-qlac/

ABARIS
QLAC Tool
https://www.myabaris.com/tools/online-annuity-quotes/step-2-QLAC/?moneySource=ira&pane=1&maxPaneVisited=1

SOCIAL SECURITY AND PENSION CLAIMING STRATEGY

RETIREMENT PLANNER: DELAYED RETIREMENT CREDITS
https://www.ssa.gov/planners/retire/delayret.html

RMD REPORTING

GETTING YOUR FINANCIAL DUCKS IN A ROW
Independent financial advice: IRA, Social Security, income tax, and all things financial
http://financialducksinarow.com/1049/ira-rmd-reporting/

INTERNAL REVENUE SERVICE
https://www.irs.gov/instructions/i1099r/ar02.html

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