



UNDERSTANDING RMD OPTIONS:

# THE KEY TO MORE MONEY, LESS STRESS IN RETIREMENT

# Understanding Your RMD Options

## **What is a required minimum distribution (RMD)?**

An RMD is the minimum amount the IRS requires an individual withdraw from a tax-deferred retirement account (traditional IRA, 401(k), 403(b), etc.) after reaching a certain age. Retirement account holders must typically begin taking RMDs during the year in which they reach age 73.

## **Why does the IRS mandate RMDs?**

The IRS allows taxpayers to make pre-tax contributions to certain types of retirement accounts. Those contributions can then grow tax-deferred within the accounts, which, thanks to the power of compounding, can lead to a significant increase in value over time. That money is then taxed as ordinary income when it is withdrawn from the account.

Even though the IRS is willing to support your retirement savings goals by allowing tax deferred growth within qualified retirement accounts, it eventually wants its cut. Since the money in these accounts is only taxed when it's withdrawn, the IRS requires you to take distributions and pay taxes on the money withdrawn.

# How much will I need to withdraw as an RMD?

## Your RMD amount depends on several factors:

- Your age.
- The amount you hold in qualified retirement plan assets as of December 31.
- Your distribution period (see table below).

| Age | # Years Distribution Period <sup>1</sup> |
|-----|--|
| 72  | 27.4                                     |
| 73  | 26.5                                     |
| 74  | 25.5                                     |
| 75  | 24.6                                     |
| 76  | 23.7                                     |
| 77  | 22.9                                     |
| 78  | 22.0                                     |
| 79  | 21.1                                     |
| 80  | 20.2                                     |
| 81  | 19.4                                     |
| 82  | 18.5                                     |
| 83  | 17.7                                     |
| 84  | 16.8                                     |
| 85  | 16.0                                     |
| 86  | 15.2                                     |
| 87  | 14.4                                     |
| 88  | 13.7                                     |
| 89  | 12.9                                     |
| 90  | 12.2                                     |
| 91  | 11.5                                     |
| 92  | 10.8                                     |
| 93  | 10.1                                     |
| 94  | 9.5                                      |
| 95  | 8.9                                      |
| 96  | 8.4                                      |

| Age | # Years Distribution Period <sup>1</sup> |
|-----|--|
| 97  | 7.8                                      |
| 98  | 7.3                                      |
| 99  | 6.8                                      |
| 100 | 6.4                                      |
| 101 | 6.0                                      |
| 102 | 5.6                                      |
| 103 | 5.2                                      |
| 104 | 4.9                                      |
| 105 | 4.6                                      |
| 106 | 4.3                                      |
| 107 | 4.1                                      |
| 108 | 3.9                                      |
| 109 | 3.7                                      |
| 110 | 3.5                                      |
| 111 | 3.4                                      |
| 112 | 3.3                                      |
| 113 | 3.1                                      |
| 114 | 3.0                                      |
| 115 | 2.9                                      |
| 116 | 2.8                                      |
| 117 | 2.7                                      |
| 118 | 2.5                                      |
| 119 | 2.3                                      |
| 120 | 2.0                                      |

<sup>1</sup> <https://smartasset.com/retirement/rmd-table>

### You can determine your RMD amount in two simple steps.

1. Find your distribution period based on your current age, using the table above.
2. Divide your December 31 tax-deferred retirement account balance (across all accounts) by the distribution period. The result is your RMD for the upcoming year.

**As you age, the required minimum distribution (RMD) from your account generally increases as a percentage of your account balance.**

#### EXAMPLE:

**Joe and Judy both have a traditional (pre-tax) IRA with a \$100,000 year-end balance.<sup>2</sup>**

#### JOE TAXPAYER

**Age:** 73

**Distribution period:** 26.5

**Upcoming year's RMD:** \$3,773.58

**RMD percent of account balance:** 3.7%

#### JUDY TAXPAYER

**Age:** 95

**Distribution period:** 8.9

**Upcoming year's RMD:** \$11,235.96

**RMD percent of account balance:** 11.23%

A financial professional can help you estimate your RMD amount and develop a custom withdrawal strategy to meet your goals.

## HYPOTHETICAL\* EXAMPLE

# Consider the following

Jane turns 73 on July 1, 2024, and has \$100,000 of retirement assets in a traditional IRA. She must take her first RMD by April 1, 2025. Based on her account balance and age, Jane's initial RMD is \$4,000.

Jane would like to see an estimate of her annual RMD amount throughout her lifetime. The following table assumes a 6% rate of return, with Jane's husband as her primary beneficiary.<sup>3</sup>

| Age | Account balance | RMD amount  |
|-----|-----------------|-------------|
| 72  | \$100,000       | N/A         |
| 73  | \$108,360       | \$4,000     |
| 74  | \$110,612.19    | \$4,249.41  |
| 75  | \$112,752.49    | \$4,496.43  |
| 76  | \$114,760.15    | \$4,757.49  |
| 77  | \$116,634.40    | \$5,011.36  |
| 78  | \$118,330.90    | \$5,301.56  |
| 79  | \$119,822.66    | \$5,608.10  |
| 80  | \$121,080.21    | \$5,931.81  |
| 81  | \$122,103.77    | \$6,241.25  |
| 82  | \$122,829.80    | \$6,600.20  |
| 83  | \$123,260.04    | \$6,939.54  |
| 84  | \$123,318.74    | \$7,336.91  |
| 85  | \$123,010.44    | \$7,707.42  |
| 86  | \$122,298.28    | \$8,092.79  |
| 87  | \$121,143.23    | \$8,492.94  |
| 88  | \$119,569.26    | \$8,842.57  |
| 89  | \$117,474.48    | \$9,268.93  |
| 90  | \$114,893.89    | \$9,629.06  |
| 91  | \$111,796.76    | \$9,990.77  |
| 92  | \$108,159.01    | \$10,351.55 |
| 93  | \$103,933.94    | \$10,708.22 |

| Age | Account balance | RMD amount  |
|-----|-----------------|-------------|
| 94  | \$99,229.59     | \$10,940.42 |
| 95  | \$94,033.98     | \$11,149.39 |
| 96  | \$88,481.49     | \$11,194.52 |
| 97  | \$82,446.60     | \$11,343.78 |
| 98  | \$76,099.34     | \$11,294.06 |
| 99  | \$69,474.22     | \$11,191.08 |
| 100 | \$62,787.32     | \$10,855.35 |
| 101 | \$56,090.01     | \$10,464.55 |
| 102 | \$49,439.34     | \$10,016.07 |
| 103 | \$42,898.14     | \$9,057.57  |
| 104 | \$36,717.30     | \$8,754.72  |
| 105 | \$30,938.32     | \$7,982.02  |
| 106 | \$25,599.66     | \$7,194.96  |
| 107 | \$20,891.82     | \$6,243.82  |
| 108 | \$16,788.45     | \$5,356.88  |
| 109 | \$13,258.34     | \$4,537.42  |
| 110 | \$10,265.74     | \$3,788.10  |

\* This hypothetical example is for informational purposes only; the use of alternate assumptions could produce significantly different results.

## RMD timing

Typically, you must take your first RMD during the year in which you reach age 73; however, that doesn't mean you should take it on your 73rd birthday. You have some flexibility on when you begin receiving distributions.

Your deadline for taking your first RMD is April 1 of the year following the year in which you reach age 73. All subsequent RMDs must be taken by December 31 of their respective years.

### **EXAMPLE: JOE TURNS 73 IN JULY 2024.**

- Joe must take his first RMD by April 1, 2025. This amount counts as his 2024 RMD.
- Because his first RMD counted toward 2024, Joe must take his second RMD by December 31, 2025.
- Joe is required to take all subsequent RMDs by December 31 of each year.

### **MISSED RMD PENALTIES**

If you fail to take your full RMD in a given year, you will be subject to a 25% penalty on any amount not withdrawn. However, if you make a correction within two years after the end of the taxable year in which the distribution was missed, your penalty can be reduced to 10% of the missed RMD amount.

### **EXAMPLE: JOE DID NOT WITHDRAW ENOUGH TO MEET LAST YEAR'S RMD.**

- Joe will be assessed a 25% penalty on any amount missed.
- Joe has two years to correct his mistake. If he does so, his penalty will be reduced to 10%.

If you fail to take your full RMD in a given year, it's important to work with an experienced financial professional who can help correct your error and recoup any unnecessary penalties.<sup>4</sup>

## What if you don't need the RMD income?

You're required to begin taking distributions from your qualified retirement accounts at age 73, whether or not you need the income. So, what should you do with those distributions? Or, better yet, how can you avoid them altogether?

### YOU HAVE A FEW OPTIONS.

1. **Invest it** – You can take your RMD and invest it in either a non-qualified brokerage account or a Roth IRA (assuming you meet Roth eligibility requirements). You will still need to pay taxes on the RMD amount, but you can allow the assets to continue growing for future use. Contributions to a Roth IRA can be passed along to your beneficiaries tax free following your death.
2. **Convert it** – Want to avoid RMDs altogether? Consider converting your traditional IRA to a Roth IRA. During the year in which you complete the conversion, you will need to pay ordinary income tax on the converted amount. However, the remainder can be transferred to a Roth IRA, which is not subject to RMDs.
3. **Donate it** – You can elect to donate your RMD directly from your retirement account to a charitable organization using a strategy called a qualified charitable distribution (QCD). Because assets from a QCD are transferred directly to the charity, they aren't counted as taxable income. This strategy provides a great opportunity to maximize your charitable donation while lowering your tax exposure.

# Are you approaching RMD age?

## COULD YOU USE SOME HELP PLANNING YOUR RMD STRATEGY?

An experienced financial professional can help optimize your required minimum distributions and minimize your tax exposure. To get started, schedule a call with a member of our team.

### **CODY AND ASSOCIATES, INC.**

719 S MAIN ST., STE. 111, SPRINGFIELD, TN 37172

615.258.6029 | [JCODY@CODYANDASSOCIATES.COM](mailto:JCODY@CODYANDASSOCIATES.COM)

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