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## RETIREMENT



**Use the IRS Uniform Lifetime Table to calculate your RMD**

Age of retiree	Distribution factor
70	27.4
71	26.5
72	25.6
73	24.7
74	23.8
75	22.9
76	22.0
77	21.2
78	20.3
79	19.5
80	18.7
81	17.9
82	17.1
83	16.3
84	15.5
85	14.8
86	14.1
87	13.4
88	12.7
89	12.0
90	11.4
91	10.8
92	10.2
93	9.6
94	9.1
95	8.6
96	8.1
97	7.6
98	7.1
99	6.7
100	6.3

This material should be used as helpful hints only. Each person's situation is different. You should consult your investment professional or other relevant professional before making any decisions.

# UNDERSTANDING REQUIRED MINIMUM DISTRIBUTIONS (RMDs)

When you reach age 70½, you must begin to draw funds from your traditional Individual Retirement Accounts (IRAs) and qualified plans such as 401(k)s.<sup>1</sup>

If you have other sources of income to support you in retirement, it may make sense to take just the minimum required amount from your IRAs so more of your retirement money continues to be invested tax deferred on your behalf. Taking an amount in excess of what is required or needed may waste a valuable tax-deferral opportunity. For those entering the distribution phase of retirement investing, it is important to have a solid distribution strategy in place.

## How do you calculate RMDs?

To calculate your RMD for the current year, divide your year-end retirement account value for the previous year by the appropriate factor from the IRS Uniform Lifetime Table (on the left). If you made a rollover out of an IRA at year-end, you should consult your tax

advisor about whether you need to include the amount rolled out of the IRA in that IRA's year-end value.

The Uniform Lifetime Table assumes a life expectancy based on the owner's age and an assumed beneficiary who is 10 years younger. The Joint Life Table is used if your spouse is your sole beneficiary and is more than 10 years younger than you. You can find the Joint Life Table in IRS publication 590.

## The calculation formula

The formula for calculating your RMD is as follows:

$$\frac{\text{End-of-year account value}}{\text{Uniform Lifetime Table factor}} = \text{RMD}$$

If the only beneficiary on the IRA is a spouse more than 10 years younger than the IRA owner, the IRA owner would instead use the IRS-provided joint life expectancy tables to determine the appropriate distribution factor.

<sup>1</sup> Participants in "qualified" employer-sponsored plans (such as 401(k) plans) may generally defer distributions from those plans until April 1 of the year following the one in which they retire, as long as they are not owners of 5% of the sponsoring company.

## Key points

- The designated beneficiary may be changed even after distributions to the owner have begun.
- The beneficiary has no impact on the RMD for the owner, unless the beneficiary is the spouse and is more than 10 years younger than the owner.
- In most cases, RMDs for individual beneficiaries are now governed by each beneficiary's own single life expectancy.



continued from page 1

#### Example: Using the RMD factor

Charles had an account value of \$300,000 in the year he reached age 70½. His first-year RMD would be calculated:

$$\frac{\$300,000}{27.4} = \$10,949 \text{ (RMD)}$$

If the only beneficiary on the IRA is a spouse more than 10 years younger than the IRA owner, the IRA owner would instead use the IRS-provided joint life expectancy tables to determine the appropriate distribution factor.

#### Multiple IRAs

If you have more than one traditional IRA, you must determine a separate required distribution for each IRA because different distribution factors may apply in some cases. However, you can total these minimum amounts and take the total from any one or more of the IRAs.

#### Example

Susan turned age 70½ on June 1 of this year, so her first distribution is due for this year, based on last year's year-end values (although she may defer the distribution as late as April 1 of next year, as discussed earlier).

She has two traditional IRAs:

- On December 31 of last year, her account balance from IRA-1 was \$10,000.
- Susan's brother is the beneficiary of this IRA, so her RMD is determined by dividing the previous year-end balance by the appropriate distribution factor from the Uniform Table (27.4).
- Her RMD from IRA-1 is \$365 (\$10,000/27.4).
- On December 31 of last year her account balance from IRA-2 was \$20,000.
- Susan's husband, age 50, is the only beneficiary of IRA-2, so her RMD is determined by dividing the previous year-end balance by the joint life expectancy of Susan and her husband obtained from the tables in IRS Publication 590 (35.1).
- Her RMD from IRA-2 is \$570 (\$20,000/35.1).

The combined RMD for this year of \$935 can all be taken from either IRA or part from each IRA.

#### Additional RMD start date information

- If you choose to wait until April 1 of the year following the year you turn 70½ to receive your first distribution, you will need to take a second distribution by December 31 of the same year. All subsequent distributions must be taken by December 31 each year.
- If an IRA owner dies after turning 70½ but before the distribution for the year of death has been made, the distribution must be made to the beneficiary in the year of death.

#### How to determine a beneficiary's RMD – general rules

Beneficiary	Owner dies BEFORE required beginning date	Owner dies AFTER required beginning date
Spouse (holds as beneficial IRA)	Single life expectancy	Single life expectancy
Spouse (transfer to own IRA)	N/A	N/A
Child	Single life expectancy*	Single life expectancy*
Child by disclaimer	Single life expectancy*	Single life expectancy*
Grandchild	Single life expectancy*	Single life expectancy*
Grandchild by disclaimer	Single life expectancy*	Single life expectancy*
Two children	Single life expectancy of each if the account is segregated*	Single life expectancy if the account is segregated*
Designated Beneficiary Trust	Life expectancy of oldest beneficiary*	Life expectancy of oldest beneficiary*
Nondesignated Beneficiary Trust	Five-year rule	Remaining life expectancy of owner*
Charity	Five-year rule	Remaining life expectancy of owner*
Estate	Five-year rule	Remaining life expectancy of owner*

\*Factor will be reduced by one each year.

continued from page 2

### Beneficiary RMDs

- Spouse beneficiaries have a choice of whether to roll the assets into their own IRA immediately, to roll later, or to leave the assets in a Beneficiary IRA. The outcome of their decision should depend on the beneficiary's age and need for access to the assets. Before making a decision, the beneficiary should consult with his or her financial advisor and tax advisor.
- Spouse beneficiaries younger than age 59½ who need access to IRA assets may avoid tax penalties by maintaining the IRA as a Beneficiary IRA from which withdrawals are not subject to penalty.
- Nonspousal beneficiaries are not permitted to roll inherited IRA assets to their own IRA but can leave inherited IRA assets in a Beneficiary IRA. While they are required to take annual RMDs from a Beneficiary IRA, the remaining assets can continue to potentially grow tax deferred.
- Unless otherwise provided in the IRA document, the five-year rule (that all assets must be distributed within five years) applies only if there is no designated beneficiary or if the beneficiary is a trust, charity, or estate (shelters with no life expectancy) and the owner dies before the required beginning date.

### Consolidating IRAs

Why consolidate to a single IRA?

Many retirees have assets in a variety of accounts. Consolidating assets in a single IRA may reduce the chance of a calculation error. The penalty for missing an RMD is 50% of the amount that was required to have been taken in any given year. For example, a missed \$1,000 distribution could result in a \$500 penalty. In addition, consolidating to a single IRA may

- simplify asset allocation and rebalancing
- simplify tax reporting
- simplify beneficiary review and management
- reduce fees

### RMD planning opportunities

RMDs can present planning opportunities for individuals who do not have need for all of the assets.

- Increased 529 (college saving account) limits can make an attractive opportunity. Consider using the accelerated gifting feature of a 529 to make a one-time gift of up to \$65,000 (\$130,000 per married couple) to each beneficiary. You will not incur federal gift tax ramifications as long as no additional gifts are made to the 529 beneficiary for four years after the year during which you make the one-time gift. A pro rata amount of the gift will be added back to your taxable estate if you do not live until the end of the five-year period. (The MFS Heritage Planning® infosheet *529 college planning* offers additional details on how to invest in 529 plans.)

Additional RMD planning opportunities may include

- Stretch IRAs, which can create a three-generation legacy
- charitable-giving options

### Resources

*Top IRA planning mistakes* infosheet  
[mfs.com](https://mfs.com)

IRS Publication 590,  
*Individual Retirement Arrangements*  
[www.irs.gov](https://www.irs.gov)

*Ready, set, retire brochure*  
[mfs.com](https://mfs.com)

**The investments you choose should correspond to your financial needs, goals, and risk tolerance. For assistance in determining your financial situation, please consult a financial advisor.**

**Contact your financial advisor or visit [mfs.com](https://mfs.com) for more information.**

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