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BUSINESS

Critical date approaching for retirement plans

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By: Pamela Yip

A critical date is approaching for those 701/2 and older. Dec. 31 is the deadline for those with retirement plans to take their annual required minimum distribution, or RMD, from their accounts.

Also known as minimum required distribution, or MRD, this is the mandatory minimum yearly withdrawal that you must make from your traditional IRA and defined-contribution plans, such as 401(k)s or 403(b)s, starting in the year you turn 701/2.

The IRS requires this because it wants its money after years of deferred taxes on the funds.

“In exchange for this tax deferral, you are required to take the money out and pay tax on it during your retirement years,” said Tom Murphy, certified financial planner at Murphy & Sylvest in Dallas.

If you don’t take the money out by the deadline, you’ll suffer dearly for it. The IRS penalty is 50 percent of the amount that you should have withdrawn.

“If you had a $10,000 MRD and you failed to take that $10,000, the IRS would be looking for a $5,000 penalty,” said Maura Cassidy, director of retirement at Fidelity Investments.

Simply put, the RMD requirement applies to any retirement account in which you’ve contributed tax-deferred money or had tax-deferred earnings.

It does not apply to Roth IRAs during the owner’s lifetime but does after the account owner’s death.

Beyond that, the rules regarding RMDs are complicated, so it’s a good idea to consult a financial adviser.

How it’s calculated

Generally, an RMD is calculated for each retirement account by dividing the account’s balance on the previous Dec. 31 by a life expectancy factor that the IRS publishes in various tables.

“For example, if you are 71 years old and your IRA balance was $100,000 on Dec. 31, 2013, you divide that amount by 26.5, making your 2014 RMD $3,773.58, which must be taken out of the account by Dec. 31, 2014,” Murphy said. “The IRS tables are designed to force all the money out of the retirement plans over your life expectancy.”

Your spouse’s age also is important when calculating your RMD, and it affects which IRS table you need to use.

If your spouse is the sole beneficiary of your retirement plan and he or she is more than 10 years younger than you, you use the Joint and Last Survivor Table to calculate your RMD.

“If your spouse is more than 10 years younger than you, then the amount that you have to take out is less,” Cassidy said. “The idea is that IRA is covering for two lives and it’s a longer life expectancy. They allow you to stretch it out longer because of the younger spouse.”

If your spouse isn’t the only beneficiary or isn’t more than 10 years younger than you, you use the Uniform Lifetime Table.

Know the rules

If this is your first time taking an RMD, you don’t have to worry about the Dec. 31 deadline because you have until April 1 to withdraw the money.

But don’t dilly-dally.

“We caution people: If they do delay it, they’ll have to take two next year,” Cassidy said. “They’ll have to take the 2014 MRD by April 1, and then they’d have to take their 2015 MRD by Dec. 31.”

And that could spell trouble come tax time because “you would have to pay taxes on both distributions in one year,” Murphy said.

Also, taking two RMDs in the same year could push you into a higher tax bracket.

“Therefore, most people take their first distribution in the year they turn 701/2 and do not postpone it to the next year,” Murphy said.

Have the cash ready

“If you have any holdings in the account that you need to liquidate in order to have the MRD distributed, I would definitely recommend taking that action now because it can take several days to have the holdings settle and be able to come out of the account,” Cassidy said. “You don’t want to come up on the last few days of the year without having the right amount ready to distribute.”

Multiple accounts

So what if you have more than one type of retirement plan?

This is common. You may have several IRAs and 401(k)s, and the rules for each are different.

“If all your plans are IRAs, you may take your RMD out of one plan, out of all of them or any combination,” Murphy said.

In other words, the RMDs for your IRAs must be calculated separately, but the total can be taken out of one of the IRAs or any combination of the accounts.

For example, let’s say you have two IRAs and the RMD for each is $5,000. You can take it all from one account, or take a portion from each IRA as long as the total adds up to $10,000.

The rules are different for 401(k)s: An RMD must be taken separately from each of them.

So in the previous example, you would have to take the entire $5,000 from the 401(k) for which the RMD is calculated.

“For a 401(k), it’s more plan-specific,” said Cassidy. “We always recommend people talk to the plan provider if they have any questions.”

Still working?

“If you are over 701/2 and still working, you are not required to take distributions from an employer-sponsored plan unless you own 5 percent or more of the company,” Murphy said. “You are, however, required to take RMDs from any IRAs.”

There are benefits to delaying withdrawal of the money.

“If you are working and are younger than 701/2, then most of the time you will want to defer taking Social Security and should not take retirement plan distributions, allowing the money to compound,” Murphy said.

Follow Pamela Yip on Twitter at @pamelayip.

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The RMD requirement applies to:

Traditional IRAs

Rollover IRAs

SIMPLE [Savings Incentive Match Plan for Employees] IRAs

SEP [Simplified Employee Pension Plan] IRAs

Most 401(k) and 403(b) plans

Most Keogh plans

For more information:

Get help from IRS Publication 590: Individual Retirement Arrangements. irs.gov/pub/irs-pdf/p590.pdf

http://www.dallasnews.com/business/personal-finance/headlines/20141205-critical-date-approaching-for-retirement-plans.ece