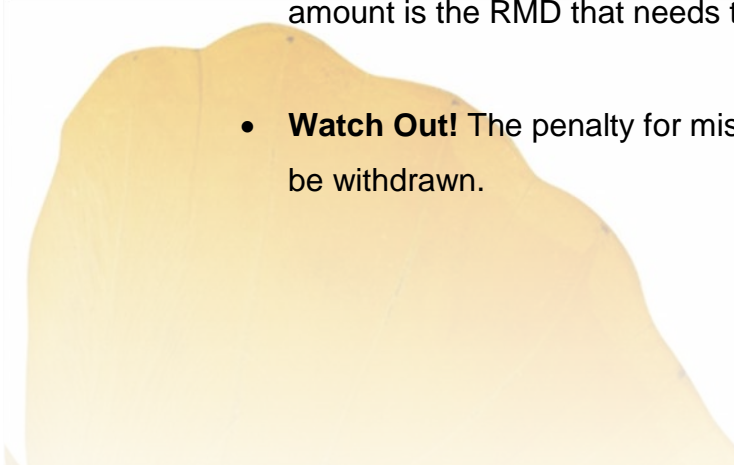




# RMD's and Their Function

- **What is an RMD?** A Required Minimum Distribution is the annual amount that all Traditional, SEP, and SIMPLE IRA's, as well as any qualified tax-deferred plan (401k/403b). This must be distributed by April 1 the year after the participant reaches 70 ½. Note that this does not apply to a Roth IRA/401(k).
  - **How is it calculated?** The RMD is calculated based off of the ending value of all tax-deferred accounts on December 31 of the year you turn 70 ½. Next, divide the balance by the life expectancy factor provided by the IRS. This amount is the RMD that needs to be withdrawn (see example on next page).
  - **Watch Out!** The penalty for missing an RMD is 50% of the amount needed to be withdrawn.
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**EXAMPLE:**

John Smith just celebrated his 70<sup>th</sup> birthday in June of 2018. Since he will be 70 ½ in December of 2018, his RMD will be calculated based on the ending balance of all his tax deferred accounts as of December 31, 2018.

For this example, assume his balance of all tax deferred accounts is \$500,000 on December 31<sup>st</sup>, 2018. According to the life expectancy table, the factor used will be for the age of 70, which is 27.4.

**IRS UNIFORM LIFETIME TABLE**

AGE	LIFE EXPECTANCY FACTOR	AGE	LIFE EXPECTANCY FACTOR	AGE	LIFE EXPECTANCY FACTOR	AGE	LIFE EXPECTANCY FACTOR
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 & older	1.9
80	18.7	92	10.2	104	4.9		
81	17.9	93	9.6	105	4.5		

SOURCE: IRS Publication 590-B, Table III

**Calculation:** John

must divide \$500,000 by 27.4, which equals

\$18,248.16. This amount MUST be taken out by April 1<sup>st</sup>, of 2019.

To calculate Required Minimum Distribution, use this formula:  
$$\text{Account Balance (as of Dec. 31 last year)} \div \text{Life Expectancy Factor (using the age you turn this year)} = \text{Your RMD}$$

**Withholding for taxes:** It is recommended to have at least 10% withheld for Federal tax and consider if state taxes need to be withheld.

**Penalty:** The penalty for not meeting the RMD requirement is 50%. In this example John would forfeit \$9,124.08 (this is in addition to the taxes that are due).

Note: There is a different life expectancy table for married couples with a 10 year age gap.