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Wealth Management & Financial Planning Services

What are required minimum distributions and how are they calculated?

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Answer:

Required minimum distributions are the amounts that you must withdraw each year from your traditional IRA, employer-sponsored retirement plan, or tax-sheltered annuity. (Lifetime minimum distributions are not required from Roth IRAs, but your beneficiaries generally must begin taking distributions following your death.) You must begin to take the annual distributions by April 1 of the year following the year in which you reach age 70½. This is known as your required beginning date. If you work for your employer past age 70½ and are still participating in the employer's retirement plan, you may postpone your first distribution from that plan until April 1 of the year following the year of your retirement (as long as you are not more than a 5% owner of the employer).

Regardless of your required beginning date, you must take subsequent distributions by December 31 of each calendar year. You'll continue to take the annual distributions each year until your death or until your account balance is reduced to zero. You can always withdraw more than the required minimum amount in any given year. However, if you withdraw less, you will be subject to a 50% federal penalty on the difference between the amount you should have taken and what you actually took.

The basic calculation for individual accounts provides that the required minimum distribution is determined by dividing the account balance by the distribution period. For lifetime required minimum distributions, there is a uniform distribution period for almost all individuals of the same age. The uniform lifetime distribution period table is based on the joint life and last survivor life expectancy of you and a hypothetical beneficiary 10 years younger. However, if your sole beneficiary is your spouse and he or she is more than 10 years younger than you, a longer distribution period measured by the joint life and last survivor life expectancy of you and your spouse is permitted to be used.

However, the specific rules on required minimum distribution calculations are complicated, and you should consult a tax professional regarding your situation.

Generally, annuity contracts have fees and expenses, limitations, exclusions, holding periods, termination provisions, and terms for keeping the annuity in force. Most annuities have surrender charges that are assessed if the contract owner surrenders the annuity. Withdrawals of annuity earnings are taxed as ordinary income. Withdrawals prior to age 59½ may be subject to a 10% federal income tax penalty. Any guarantees are contingent on the claims-paying ability and financial strength of the issuing insurance company.

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