



RMD's:

**As Easy as
ABC—and D**

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The ABC's (and D's) of RMD's



Q – I'm turning 70 ½ this year. A friend told me that I must take all of my money out of my IRA. YIKES! When do I have to take the money out?

A – In *Through the Looking Glass*, Alice is exactly 7 ½ years old when she stumbles through the mirror. That crazy world that Lewis Carroll created is nothing compared to what happens when you add another zero to age 7 ½ and Alice is now a 70 ½ year old retiree.

So when do you take your first RMD (Required Minimum Distribution)? On your 70 ½ birthday? The day after your

birthday? What kind of ½ birthday party is it?

You are obligated to take your first distribution in the year that you turn 70 ½. That distribution can be taken ANY time during that year, as long as it is before December 31st. For instance, assume your birthday is June 25th of 2013. Your ½ birthday is on Christmas day – December 25th. If you waited till after your birthday to request the distribution - it may be an administrative impossibility to get your distribution paid to you before the end of the year. Don't wait till the last minute. Take your distribution early.

Q – I've heard that I can wait a year to take my first RMD.

B - This is absolutely true. You may take your first distribution anytime up until April 1st of the next year. However, this is the IRS we're talking about – there's a catch to this reprieve from the government. If you choose to wait, you must take TWO distributions in that year. So in the example above, if you turned 70 ½ in 2013, you could take that first distribution anytime up until April 1st of 2014, but you must also take a second distribution by December 31, 2014.

Q – Do I have to take it all out?

C – Relax. Breathe easy. You don't have to take all the money out of your IRA in the year you turn 70 ½.

The rules for RMD's were designed so that you would be forced to withdraw all the money from your IRA's during your lifetime. To accomplish this, the IRS has printed life expectancy tables to assist in this calculation. I am a life insurance agent as well as a CPA, so I use the life insurance standard mortality tables on the insurance side of my practice. The IRS tables are MUCH more generous than the insurance tables are. For instance, the insurance tables predict that a woman age 70 ½ will be walking around this planet another 15.35 years. The IRS, on the other hand believes that you will live another 27.4 years.

The really awesome thing about the life expectancy tables – ok, I'm a nerd – is that you might assume that when you turn 71 that your life expectancy will drop one year – from 27.4 years to 26.4 years. The beautiful thing about the IRS



tables is that the life expectancy of a 71 year old is 26.5 years. In fact, the IRS assumes that when you are 115 years old (and above), you will live another 1.9 years. There's an old saying that the only sure thing about life is death and taxes. According to the IRS life expectancy tables – there's no death – only taxes.

Q – How do I calculate my distribution?

D - To calculate the Required Minimum Distribution for a retiree who just turned 70 ½ this year, we need to determine the first part of the formula – the base. The base is determined by the balance in your IRA on December 31st of the previous year. IRA providers are required to send out statements in January listing the value of your IRA account at year end. Beware. This reporting is not just for your benefit. The amounts that are reported to you are also transmitted to the **IRS**. *Big brother is watching.*

Let's assume that the balance of your IRA was \$100,000. The life expectancy of a 70 year old (per the IRS) is 27.4 years. To calculate the RMD for the current year, divide \$100,000 by 27.4 years. Your RMD of 3,649.64 – or a bit over 3.6%. This is the minimum that you must withdraw from your IRA account before the end of the year you turn 70 ½ – or by April 1st of the next year.¹

These are just the basic rules about RMD's. Special situations apply to certain taxpayers. Additional information is available in IRS publication 590 at www.irs.gov.



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¹ This example is for illustrative purposes only. Please seek personalized advice from a qualified professional.