

A Refresher Course: The Rules and Planning Strategies for Taking Required Minimum Distributions

If you have substantial savings in a traditional IRA or employer-sponsored retirement plan, you likely know that required minimum distributions (RMDs) must begin at a certain age. RMDs are taxable and, depending on your balances in these accounts, can even push you into a higher tax bracket.

Beyond the immediate tax impact, these withdrawals also reduce the amount of wealth that can continue growing on a tax-deferred basis. For these reasons, it's important to consider strategies to delay or minimize RMDs.

When must you begin taking RMDs?

Generally, you must take RMDs from tax-deferred retirement accounts, such as traditional IRAs and 401(k) plans, SEP IRAs, SIMPLE IRAs, 457 plans and 403(b) plans. If you were born between 1951 to 1959, your first RMD is due by April 1 of the calendar year following the year in which you turn 73.

If you were born in 1960 or later, your first RMD is due by April 1 of the calendar year following the year in which you turn 75. Subsequent withdrawals are due by December 31 of each year. Missing a deadline or taking a smaller distribution than required can be costly. The penalty is 25% of the amount you were required to withdraw, reduced to 10% if you complete the withdrawal within two years.

How do you calculate RMDs?

Start by taking the balance in each of your tax-deferred retirement accounts as of December 31 of the previous year. Divide that amount by your life expectancy factor, found in IRS actuarial tables, to arrive at your RMD for the year for each account.

For example, say that Gladys, age 73, is taking her first RMD. She has a balance of \$800,000 in a 401(k) plan and \$200,000 in an IRA at the end of the previous year. She's unmarried, so her IRS-prescribed life expectancy factor is 26.5. Her RMD for the 401(k) plan is $\$800,000/26.5 = \$30,188.68$ and her RMD for the IRA is $\$200,000/26.5 = \$7,547.17$.

Generally, RMDs must be calculated separately for each account and withdrawn separately from each account. However, if you have multiple IRAs or multiple 403(b) accounts, you can aggregate your RMDs for accounts of the same type and withdraw the total from one or any combination of those accounts.

Strategies to consider

Generally, to maximize the benefits of tax-deferred earnings, it's best to keep funds in your IRAs or other retirement accounts as long as possible. There are several potential strategies for delaying or minimizing RMDs, including:

Continue working. If your current employer's plan allows it, and you don't own more than 5% of the company, you can defer RMDs from that plan until you stop working.

Start withdrawing funds earlier. Consider beginning withdrawals once you reach age 59½ and won't be subject to penalties. Although doing so accelerates some of your tax liability, it enables you to spread distributions over a longer period, minimizing the tax impact. Plus, it reduces your account balance, lowering your RMDs once you reach age 73 or 75.

Make a qualified charitable distribution (QCD). If you're 70½ or older and plan to donate to charity, consider doing so through a QCD. This is a direct transfer of up to \$100,000 per year from a traditional IRA to a qualified charity. The charitable gift isn't deductible, but the tax benefits are better than a deduction because the amount is excluded from your income regardless of whether you itemize and isn't subject to charitable deduction limits. Plus, it applies toward your RMDs for the year without increasing your taxable income.

Do a Roth IRA conversion. It may be advantageous to convert some or all of a traditional IRA to a Roth IRA, which isn't subject to RMDs. You'll have to pay taxes on the amount converted (but no penalties so long as you're 59½ or older), but you'll avoid taxes on all future withdrawals. To determine the effectiveness of this strategy, weigh the immediate tax impact against the potential tax savings down the road. It can be a good choice if you do the conversion in a year when you're in a lower tax bracket, for example, during the "gap years" after you retire but before you start Social Security.

Make informed decisions

RMD rules are complex and the tax implications are significant. So, it's a good idea to work with a knowledgeable advisor to evaluate strategies, minimize tax liabilities and make informed decisions aligned with your financial and estate planning goals.

SIDEBAR: Should you take your first RMD early?

As a general rule, it's preferable to defer required minimum distributions (RMDs), with one exception: It may be advantageous to take your first RMD early. As noted in the main article, when you reach the RMD starting age (73 or 75) you have until April 1 of the following year to take your first RMD.

For example, if you turn 73 in 2026, you'll have until April 1, 2027, to make your first withdrawal. But evaluate how that will affect your 2027 tax bill. Because your second RMD will be due by the end of the year, taking the first one in April means doubling up on RMDs in 2027, potentially pushing you into a higher tax bracket. If that's the case, you may be able to reduce the tax bite by taking your first RMD in 2026.