What Determines Your IRA's Required Minimum Distribution Amount?

If you have savings in a traditional Individual Retirement Account (IRA), you must begin making withdrawals at age 70½. To calculate the amount of a required minimum distribution (RMD), you divide the IRA balance (as of December 31st of the previous year) by the applicable distribution period, or the estimated length of time during which you will take withdrawals from the IRA.

The Internal Revenue Service (IRS) uses life expectancy tables to approximate the distribution period. Generally, RMDs are calculated according to one table based on the joint life expectancy of the taxpayer and a hypothetical beneficiary who is 10 years younger, even if no beneficiary is named. If the designated beneficiary is a spouse who is more than 10 years younger than the owner, a separate, usually more favorable table (joint life and last survivor expectancy) is used.

If you have more than one IRA, the RMD must be calculated separately for each IRA because different multiples (i.e., life expectancies) may apply to each IRA. The sum of the separate RMDs is the total IRA amount that you must withdraw for the year. However, this amount can be taken out of any one or more IRA accounts.

Under IRS rules, you may postpone your first RMD until April 1st of the year after reaching age 70½. If the RMD is postponed, the second distribution would still be due by December 31st of that year. For each subsequent year, the RMD must be recalculated. It is important to note that you may withdraw more than the minimum, but failure to take the required amount results in a 50% tax penalty on the shortfall.

Be sure to consult qualified financial and tax professionals for specific guidance on your unique circumstances.

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