

## RMDs: What You Need to Know NOW

S. Derrin Watson, JD, APM

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### Your Co-Hosts

- ▶ Joanne Pecina 
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- ▶ Tim McCutcheon 

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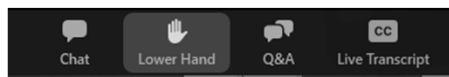
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### Your Presenter Today



- ▶ S. Derrin Watson, J.D., APM



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## A lot going on!

**What's happening**

## ► SECURE

- Changed RBD to 72
- 10-year limit on many distributions

## ► CARES

- Allowed waiver of 2020 RMDs

## ► IRS

- Updated RMD tables

**Deadlines ahead**

- 12/31/2021 RMD deadline

- 4/1/2022 RBD

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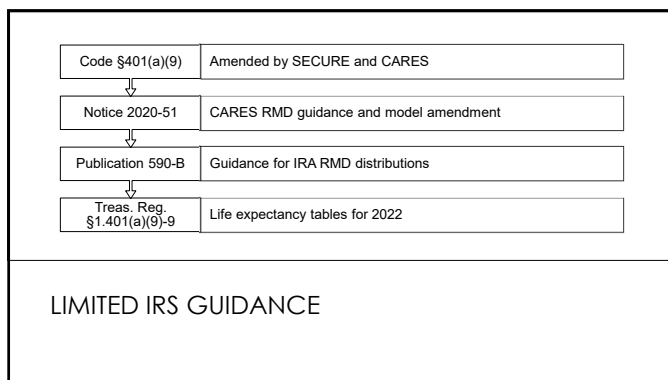
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**Required Beginning Date Changed**

- Required beginning date (RBD) now based on age 72, instead of 70½

- Effective for distributions after 2019 for persons turning 70½ after 12/31/19
  - Effective for persons born after 6/30/1949
  - Applies to all plan types and IRAs

- Examples of IRA or 5% owners:

Birth day	70½ Year	72 Year	Required Beginning Date
6/30/1949	2019	2021	4/1/2020
7/1/1949	2020	2021	4/1/2022

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### After SECURE Who Has April 1, 2021, RBD?

► People who don't have 4/1/21 RBD

- IRA owner
- 5% owner

► Only people with 4/1/21 RBD

- Participant in employer plan
- Not 5% owner
- Born before July 1, 1949
  - Turned 70½ before January 1, 2020
- Retired in 2020



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Born between  
July 1, 1949 to  
December 31,  
1949

- Turned 70½ after December 31, 2019
- Turned 72 before January 1, 2022
- Exception:
  - Still working for employer sponsoring the plan
  - Not 5% owner

Born before July  
1, 1949

- Not 5% owner
- Retired in 2021

### AFTER SECURE WHO HAS APRIL 1, 2022, RBD?

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### RMDs Under CARES Act

► CARES Act allows participants and beneficiaries to forego taking 2020 RMDs

- Limited to defined contribution plans
- Doesn't apply to 457(b) plans of tax-exempt organizations

► Plan doesn't treat payments that would otherwise be RMDs in 2020 as eligible rollover distributions

- 20% mandatory withholding doesn't apply
- Voluntary withholding does apply



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### What's Being Waived

- ▶ RMDs to be paid in 2020
  - ▶ Includes 2019 RMDs with April 1, 2020, RBD that weren't paid in 2019
- ▶ 2020 RMDs for participants with April 1, 2021, RBD
  - ▶ After SECURE Act, this is limited to non-owners born before July 1, 1949, who retired in 2020



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### CARES doesn't change RBD

#### Jill

- ▶ Jill was born 2/1/1949
- ▶ RBD: 4/1/2020
- ▶ Thanks to CARES 2019/2020 RMDs were waived
- ▶ Next RMD is 12/31/2021

#### Jack

- ▶ Jill's twin brother
- ▶ Retired from employer in 2020
- ▶ RBD: 4/1/2021
- ▶ Thanks to CARES 2020 RMD was waived
- ▶ Next RMD is 12/31/2021

12/31/2020 balance / 2021 ULT life expectancy



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### 5-Year Rule

- ▶ Rule: Must distribute entire balance by 12/31 of year with 5<sup>th</sup> anniversary of participant's death
- ▶ Applies to participant who dies before RBD, where either:
  - ▶ Recipient is not designated beneficiary
  - ▶ Recipient is designated beneficiary (pre-SECURE) but plan:
    - ▶ Imposes 5-year rule; or
    - ▶ Allows election of 5-year rule
- ▶ Effect of CARES Waiver: 2020 doesn't count

Year of death	Distribute Deadline
2013	12/31/2018
2014	12/31/2019
2015	12/31/2021
2016	12/31/2022
2017	12/31/2023
2018	12/31/2024
2019	12/31/2025
2020	12/31/2025
2021	12/31/2026



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### Note on waiver



- ▶ Must follow plan terms
  - ▶ Some plans incorporated RMD by reference
    - ▶ Waiver is automatic
  - ▶ Some plans spell out RMD rules
    - ▶ Plan doesn't allow waiver
- ▶ If you don't like that result plan amendment needed
  - ▶ The amendment must give participant or beneficiary choice between waiver/extension or not
- ▶ Amendment deadline 12/31/2022 (gov't 12/31/2024)

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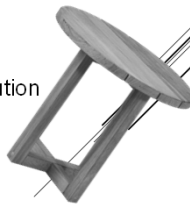
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### RMD tables change



- ▶ ULT, SLT, JS
- ▶ Generally allow longer distribution
- ▶ Effective for distributions due 12/31/2022
  - ▶ Do not impact 4/1/2022 distributions
- ▶ Transition rule applies for 12/31/2022 distribution



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### DISTRIBUTIONS AFTER DEATH

After SECURE



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	FOUR CATEGORIES OF RECIPIENTS	<ul style="list-style-type: none"> <li>▶ Surviving spouse</li> <li>▶ Eligible designated beneficiary</li> <li>▶ Other designated beneficiary               <ul style="list-style-type: none"> <li>▶ Individual or certain trusts</li> <li>▶ Not charity or estate</li> </ul> </li> <li>▶ Other recipients</li> </ul>
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<b>Eligible designated beneficiary</b>  <ol style="list-style-type: none"> <li>1. Participant's surviving spouse</li> <li>2. Participant's child who has not reached the age of majority</li> <li>3. An individual not more than 10 years younger than the Participant</li> <li>4. A disabled individual</li> <li>5. An individual who has been certified to be chronically ill for a reasonably lengthy period, or indefinitely</li> </ol>
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## Distribution table; based on Pub 590-B



Recipient	P died before RBD	P died after RBD
Spouse (S)	Life expectancy (recalculate)	Life expectancy (longer of P or S)
Other Eligible Designated Beneficiary (EDB)	Life expectancy (subtract 1)	Life expectancy (longer of P or EDB)
Other Designated Beneficiary (DB)	10-year rule	Life expectancy (longer of P or DB); complete in 10 years
Other recipient	5-year rule	Life expectancy (based on P); complete in 10 years

- ▶ 5-year rule: Distribute by December 31 of year with 5<sup>th</sup> anniversary of death
- ▶ 10-year rule: Distribute by December 31 of year with 10<sup>th</sup> anniversary of death
- ▶ Plan option if P dies before RBD:
  - ▶ Use 10-year rule for all designated beneficiaries
  - ▶ Let EDB choose between life expectancy rule and 10-year rule

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### When do these rules apply?



- ▶ Participant died after December 31, 2019
- ▶ If Participant died before January 1, 2020 and beneficiary dies after December 31, 2019, must complete distribution by December 31 of year of 10<sup>th</sup> anniversary of beneficiary's death
  - ▶ Other Participants who died before January 1, 2020: Continue distributions under pre-SECURE rules
- ▶ Note: If left to child, complete distributions by 10<sup>th</sup> year after child reaches majority.

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### Notes on distributions to beneficiaries



- ▶ Beneficiary's first RMD under life expectancy rules due December 31 of year following year of participant's death
  - ▶ December 31, 2021 for 2020 participant deaths
- ▶ Use single life table (SLT)
  - ▶ Spouse recalculates every year
  - ▶ Everyone else (including participant) subtract 1 every year
- ▶ If Participant died after RBD:
  - ▶ RMD for year of death must be paid to P or B by 12/31
  - ▶ Amount is same as if P had lived

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### Unique powers of spouse



- ▶ If P died before RBD
  - ▶ Can delay life expectancy distributions to 12/31 of year P would have turned 72
    - ▶ For 2021, that's P who was born in 1949
- ▶ Spouse can roll to:
  - ▶ Inherited IRA (same as other Designated Beneficiaries)
  - ▶ Spouse's own IRA (uses ULT; spouse's RBD)
  - ▶ Spouse's plan (uses ULT; spouse's RBD)

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### Planning notes



- ▶ Must take current year RMD before you can roll
  - ▶ Current year RMD is not eligible rollover distribution
- ▶ Deadline for EDB to elect between 10-year rule and life expectancy rule is later of when distribution would first begin under the two rules
  - ▶ Except for spouse, that's December 31 of year following year of death

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### Example 1; Death before RBD; leave to spouse



- ▶ Dan born in 1954
  - ▶ Married to Jill, born in 1956
- ▶ Dan died 2020
- ▶ Jill can roll to her own IRA (RBD 4/1/2028) or inherited IRA
- ▶ Suppose Jill leaves money in plan and plan gives her all options
  - ▶ 10-year rule: Take 100% in 2030
  - ▶ Life expectancy rule: start taking distributions
    - ▶ 12/31/2021 or
    - ▶ 12/31/2026 (year Dan would have turned 72) [Deadline to elect]

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### Example 2; Death before RBD; leave to EDB



- ▶ Dan born in 1954
  - ▶ Joyce is Dan's fiancée, born in 1956 (EDB)
- ▶ Dan died 2020
- ▶ Jill can roll to inherited IRA
- ▶ Suppose Jill leaves money in plan and plan gives her all options
  - ▶ 10-year rule: Take 100% in 2030
  - ▶ Life expectancy rule: start taking distributions based on her life expectancy 12/31/2021 [Deadline to elect]

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**Example 3; Death before RBD; leave to other DB**

- ▶ Dan born in 1954
  - ▶ Doris is Dan's daughter
- ▶ Dan died 2020
- ▶ Doris can roll to inherited IRA (up to 12/31/2029)
- ▶ Suppose Doris leaves money in plan
  - ▶ 10-year rule: Take 100% in 2030

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**Example 4; Death before RBD; leave to estate**

- ▶ Dan born in 1954
  - ▶ Plan goes to Dan's estate
- ▶ Dan died 2020
- ▶ 5-year rule: Distribute by 12/31/2025



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**Example 5 Death after RBD; leave to spouse**

- ▶ Dan born in 1949; RBD 4/1/2020
  - ▶ Married to Jill, born in 1956
- ▶ Dan died 2021; didn't take 2021 RMD
- ▶ Jill must take 2021 RMD before 12/31/2021
- ▶ Jill can roll balance to her own IRA (RBD 4/1/2028)
- ▶ Suppose Jill leaves money in plan
  - ▶ Life expectancy rule: start taking distributions based on Jill's life expectancy 12/31/2022

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### Example 6 Death after RBD; leave to fiancée



- ▶ Dan born in 1949; RBD 4/1/2020
  - ▶ Joyce is Dan's fiancée, born in 1956
- ▶ Dan died 2021; didn't take 2021 RMD
- ▶ Joyce must take 2021 RMD before 12/31/2021
- ▶ Jill can roll balance to inherited IRA
- ▶ Suppose Jill leaves money in plan
  - ▶ Life expectancy rule: start taking distributions based on Jill's life expectancy 12/31/2022

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### Example 7 Death after RBD; leave to other DB



- ▶ Dan born in 1949; RBD 4/1/2020
  - ▶ Mary is Dan's Mom, born in 1929
- ▶ Dan died 2021; didn't take 2021 RMD
- ▶ Mary must take 2021 RMD before 12/31/2021
- ▶ Mary can roll balance to inherited IRA
- ▶ Suppose Mary leaves money in plan
  - ▶ Life expectancy rule: start taking distributions based on Dan's life expectancy 12/31/2022 (SLT)
  - ▶ Complete distributions 12/31/2031
  - ▶ Note: life expectancy table doesn't change if Mary dies and leaves balance to Dan's nephew

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### Planning notes: Roth



- ▶ RMD from plan based on all plan accounts (Roth and non-Roth)
- ▶ Can take RMD from Roth or non-Roth account
  - ▶ If Roth distribution is not a qualified distribution, it is pro rata basis and taxable
- ▶ Want to avoid RMDs on Roth money (if Participant alive)?
  - ▶ Roll to Roth IRA
  - ▶ Can't roll current year RMD

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Thank you!

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- ▶ Derrin's books are available at [ERISApedia.com](http://ERISApedia.com)
    - ▶ Who's the Employer (8<sup>th</sup> ed)
    - ▶ 403(b) Plan eSource
    - ▶ 457 Plan eSource
    - ▶ Plan Correction eSource (with Ilene Ferenczy and Alison Cohen)



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### For Further Study

- ▶ Joanne Pecina will demonstrate how to find more information on today's topic from the [ERISApedia.com](http://ERISApedia.com) resources.



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