



RMDs: What You Need to Know NOW

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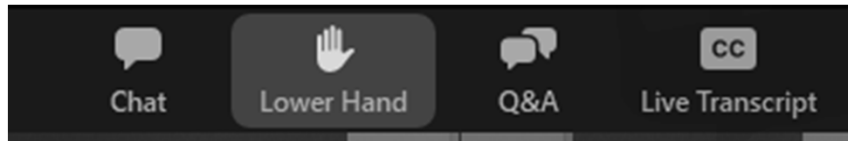
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Your Presenter Today



- S. Derrin Watson, J.D., APM



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A lot going on!



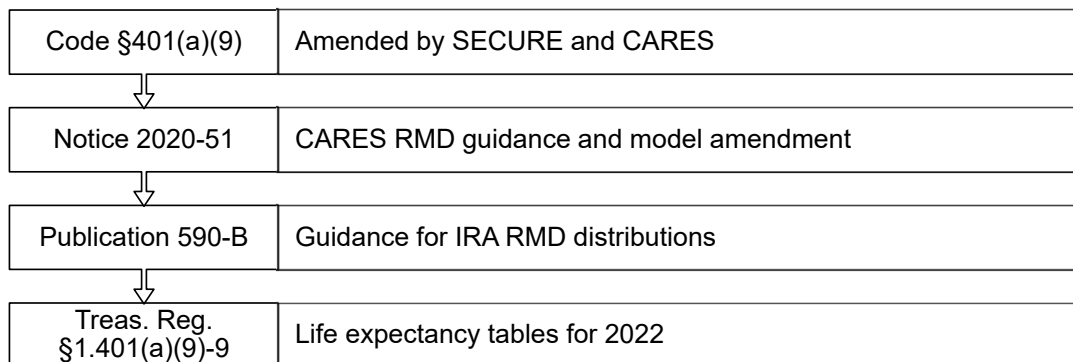
What's happening

- ▶ 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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LIMITED IRS GUIDANCE

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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:

Birthdate	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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<p>Born between July 1, 1949 to December 31, 1949</p>	<ul style="list-style-type: none"> • Turned 70½ after December 31, 2019 • Turned 72 before January 1, 2022 • Exception: <ul style="list-style-type: none"> • Still working for employer sponsoring the plan • Not 5% owner
<p>Born before July 1, 1949</p>	<ul style="list-style-type: none"> • 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

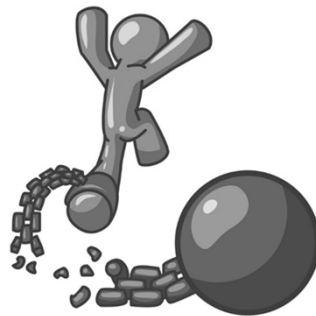


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What's Being Waived



- ▶ 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 5th 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

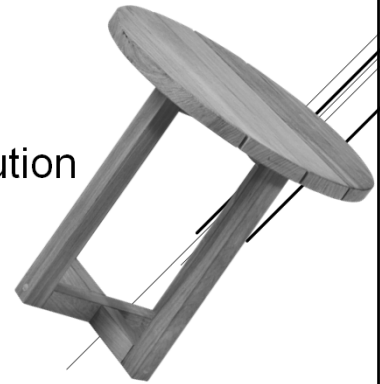


- ▶ Must follow plan terms
 - ▶ Some plans incorporated RMD by reference
 - ▶ Waiver is automatic
 - ▶ Some plans spell out RMD rules
 - ▶ Plan doesn't allow waiver
- ▶ If you don't like that result plan amendment needed
 - ▶ The amendment must give participant or beneficiary choice between waiver/extension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

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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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	<p>FOUR CATEGORIES OF RECIPIENTS</p>	<ul style="list-style-type: none"> ▶ Surviving spouse ▶ Eligible designated beneficiary ▶ Other designated beneficiary <ul style="list-style-type: none"> ▶ Individual or certain trusts ▶ Not charity or estate ▶ Other recipients
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<p>Eligible designated beneficiary</p> <ol style="list-style-type: none"> 1. Participant's surviving spouse 2. Participant's child who has not reached the age of majority 3. An individual not more than 10 years younger than the Participant 4. A disabled individual 5. An individual who has been certified to be chronically ill for a reasonably lengthy period, or indefinitely 	
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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 5th anniversary of death
- ▶ 10-year rule: Distribute by December 31 of year with 10th 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 10th 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 10th 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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For Further Study



- ▶ Joanne Pecina will demonstrate how to find more information on today's topic from the ERISApedia.com resources.

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