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PERSONAL FINANCE

# Required minimum distributions on retirement plans are back — and different

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## KEY POINTS

- The one-year suspension of required minimum distributions from certain retirement plans authorized under the CARES Act is over.
- Unless the market craters, it's likely those age 72 and older will be required to resume taking RMDs this year.
- While the calculation of the RMD is straightforward, there are a number of quirks and rule changes to keep in mind.

The one-year hiatus on required withdrawals from most 401(k) plans or individual retirement accounts is over.

Barring another unlikely reprieve from Congress, taxpayers with these retirement plans must resume those withdrawals this year.

Last year, the federal CARES Act suspended the requirement to withdraw a minimum taxable amount from so-called qualified retirement plans like a

401(k) or IRA. The amount is based on the age of the account holder. For example, a 72-year-old with a \$100,000 IRA would normally have been required to withdraw \$3,906 last year. The RMD for a 75-year-old this year is \$4,367.

Roth 401(k) plans, which are funded with after-tax dollars, are subject to the same RMD rules that traditional 401(k) and IRA plans are, but the distributions are not taxed. Account holders must begin taking them after they turn 72 and the amounts are calculated using the same IRS life expectancy tables.

One exception is if you continue working after age 72 for the company that sponsors the plan and you don't own more than 5% of the company.

You can avoid taking the minimum distributions entirely by rolling a Roth 401(k) into a personal Roth IRA, which is not subject to RMD rules.

For people relying on funds from their plans for living expenses, the rule change probably went unnoticed. It's a different story for retirees who didn't need the funds.

"It allowed the money to stay there and continue growing tax-free for a longer period," said Ed Zollars, a CPA with accounting firm Thomas Zollars & Lynch. "I think most people who could afford to skipped [the distribution] last year."

That's probably not an option this year, unless financial markets take another major dive, as they did early last year. The suspension of the RMD requirement was intended to provide retired taxpayers relief from the more than 30% drop in the stock market early last year.

The RMD is calculated based on the closing balance of the account at the end of the previous year. When the markets drop significantly, the RMD represents a much higher percentage of a diminished portfolio and that reduces the ability to recover from big losses.

Michael D'Addio, a principal at Marcum LLP, doesn't think the Biden administration will extend a policy that largely favors high-net-worth individuals rather than the middle class unless markets become volatile again.

"This market is doing very well, but we don't know what could happen," he said. "If there is another big drop, we could be in the same circumstance as last year, and Congress might delay or waive the RMD again."

# There will be more legislation this year and RMDs could be affected.

Michael D'Addio

PRINCIPAL AT MARCUM LLP

For the time being, assume that won't happen and make plans to take your RMD. The tax penalty if you don't is a whopping 50% of the required distribution. While the calculation of the RMD is straightforward, there are a number of quirks and rule changes to keep in mind.

- **Who has to take RMDs?** The SECURE Act of 2019 raised the age when RMDs must begin to 72, from 70½, and there is discussion in Congress about extending it still further. If you turned 70½ in 2019, however, you were required to take the first RMD by April 1, 2020.

With the waiving of the RMD last year, the deadline is now April 1 this year for those individuals. Retirees who turn 72 this year can take the distribution at any point in the year or even delay it until April 1, 2022. If you do wait until next year, you will have to withdraw two RMDs, which could push you into a higher tax bracket.

"I would probably advise people to delay the distribution unless it pushes you into a higher tax bracket for 2022," said Zollars.

- **Changing custodians.** Retirement account holders who change custodians mid-year need to make sure they get their RMD. If the distribution was not made by the first custodian, the second may not automatically do it.

"Some people may not notice they didn't get the RMD from the first custodian and the second may not ask," said Zollars. "I've never seen the [IRS] apply the 50% penalty unless someone is flaunting the law, but you need to be careful."

- **Undoing 2020 RMDs.** Along with the CARES Act suspension of RMDs last year, the IRS also extended the 60-day rollover period for people who took an RMD prior to the passage of the legislation to Aug. 31. If you missed that deadline, you may still be able to deem the withdrawal a Covid 19-related distribution.

Under those rules, if a taxpayer or someone in their household was financially impacted by the pandemic, they could take up to \$100,000 from their retirement plans last year without penalty. They can also recognize the income over three years for tax purposes and have three years to pay it back.

“As long as it’s Covid-related, it applies to distributions up to \$100,000 and if you pay it back to your plan, you can amend tax returns to get the taxes back, too,” said D’Addio.

As for when to take your RMD this year, there is no tax-related reason to take it earlier or later. The amount of the distribution is determined by the value of your account at the beginning of the year, your age and the IRS life expectancy tables. It doesn’t change based on what happens in the financial markets. For people who think the stock market is overvalued, selling securities now and taking the distribution might make sense.

D’Addio, however, suggests that people may want to defer their RMD until the end of the year because of possible additional rule changes. “There will be more legislation this year and RMDs could be affected,” he said.

Rather than trying to time the market with your RMD, you’re better off making some asset allocation changes within the account. “If you think the market will drop precipitously, you can sell investments in the account and distribute the cash later, D’Addio said.