What you need to know about required IRA withdrawals

If you own a traditional IRA, age 72 is an important milestone. It means you will soon begin taking required minimum distributions (RMDs). This generally means that a certain minimum amount must be withdrawn every year from your account. Of course, you may always withdraw more, subject to taxes.* The IRS requires RMDs to ensure that you do not defer paying taxes on retirement savings indefinitely.

When to begin taking RMDs

The first RMD must be withdrawn by April 1 following the year you reach age 72.† This is referred to as the required beginning date (RBD). Note that if you delay your first RMD to April 1, you will need to take another RMD by the end of that calendar year. This may have negative tax implications. Subsequent RMDs are due every year by December 31 each year.

How are RMDs calculated?

RMDs are calculated by dividing your IRA balance by a life expectancy factor provided by the IRS:

$$\frac{\text{Balance of ALL IRAs on December 31 of previous year}}{\text{Life expectancy factor from IRS uniform table}}$$

As the IRA owner, you must calculate the RMD based on the aggregate balance of all your IRAs. You have the flexibility to withdraw the required amount from one or more of your IRAs.

Example of RMD calculation:

December 31 account value		**$100,000**
IRS distribution period	÷	**27.4**
Required minimum distribution	=	**$3,649**

What is the penalty for not taking an RMD?

The IRS imposes a 50% penalty of the amount that should have been withdrawn from the IRA.

* After-tax assets within an IRA are not subject to taxes.

† The SECURE Act signed into law in late 2019 changed the RMD age from 70½ to 72. Those who turned age 70½ in 2019 were required to take RMDs based on rules prior to the passage of the new law.

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Additional considerations

- RMDs also apply to defined contribution accounts, including 401(k)s. For these plans, the RMD must be calculated and withdrawn from each account separately. Note that there is a "still working" exception for participants in employer plans, which allows RMDs to be delayed beyond age 72. The participant may not own 5% or more of the company, the plan must allow delayed RMDs, and the participant must be employed throughout the year. In this case, RMDs can be delayed until April 1 of the year following the year that the employee stopped working.
- No RMDs apply to owners of Roth IRAs. However, RMDs are required from Roth 401(k) accounts.

Uniform lifetime table

Client age*	Distribution period	Client age	Distribution period
72	27.4	97	7.8
73	26.5	98	7.3
74	25.5	99	6.8
75	24.6	100	6.4
76	23.7	101	6.0
77	22.9	102	5.6
78	22.0	103	5.2
79	21.1	104	4.9
80	20.2	105	4.6
81	19.4	106	4.3
82	18.5	107	4.1
83	17.7	108	3.9
84	16.8	109	3.7
85	16.0	110	3.5
86	15.2	111	3.4
87	14.4	112	3.3
88	13.7	113	3.1
89	12.9	114	3.0
90	12.2	115	2.9
91	11.5	116	2.8
92	10.8	117	2.7
93	10.1	118	2.5
94	9.5	119	2.3
95	8.9	120+	2.0
96	8.4		

* As of 12/31 of the given year.
Source: Treasury Regs. Sec. 1.401(a)(9)–9.

If you do not need the income from your RMDs, consider these options:

- **Use RMDs to fund a 529 college savings program.** Grandparents and other family members who do not rely on RMDs to meet daily income needs may prefer to use these funds to help fund a college education. The RMDs will generally have to be reported on a tax filing as income. Once invested in a 529 savings plan, the funds can grow and be distributed free of taxes if used for qualified education expenses.
- **Donate IRA assets to a charity.** This IRA provision allows retirees age 70½ and older to donate up to $100,000 tax free from their IRA each year, including required distributions.

Understanding required distributions for beneficiaries

Flexibility for spouses

If you are a beneficiary of an IRA and inherit that IRA upon the owner's death, the RMD rules that apply will vary, depending on your relationship to the decedent. **Spouses are the only beneficiaries who can treat the inherited IRA as their own.** You may want to consider this option if:

- It is easier to consolidate all IRAs into one account for recordkeeping purposes.
- The deceased IRA owner already reached age 72 and had been taking RMDs. A rollover into your own account can allow you to postpone RMDs until reaching age 72.

A spouse may also choose to remain as a beneficiary on the decedent's IRA. You may want to consider this option if:

- You are younger than age 59½ and may need to access IRA funds to meet current expenses. Normally, distributions taken from IRA accounts before age 59½ are subject to a 10% penalty. Because of an exception that applies in the case of death, a penalty would not apply. However, distributions from the IRA would generally be reported as income for tax purposes.

- You are older than your spouse, who died before reaching age 72. Leaving the funds in the decedent's name as a beneficiary IRA would allow you to postpone taking RMDs until the decedent would have turned age 72.

New rules for non-spouse beneficiaries

Beneficiaries must begin taking required distributions from the inherited IRA by December 31 of the year following the year in which the IRA owner died (and each year thereafter). The passage of the SECURE Act in late 2019 made significant changes for non-spouse heirs of retirement accounts by eliminating the "stretch IRA" provision. This option generally allowed beneficiaries to calculate required distributions based on their remaining life expectancy. For younger beneficiaries with longer life expectancies, this meant a much lower RMD, resulting in more funds retaining tax-deferred status within the IRA. The SECURE Act imposes a new 10-year rule for most non-spouse beneficiaries. These beneficiaries are now required to fully distribute account balances by the end of the 10th year following the year the account owner dies. There is no requirement for annual distributions. This change applies to inherited accounts (both traditional and Roth) for deaths occurring after 2019. For deaths occurring prior to 2020, heirs can continue to base RMDs on their remaining life expectancy. However, the 10-year rule will apply to successor beneficiaries after the initial heir passes away.

Exceptions to the new 10-year rule:

- Spouses
- Beneficiary is disabled or chronically ill
- Beneficiary is not more than 10 years younger than the deceased account owner
- Beneficiary is a minor child (who has not reached the age of majority) of the deceased owner. Once the age of majority is reached, the 10-year clock begins.

The new 10-year rule poses challenges

A significant planning challenge for some IRA owners and their heirs will be the elimination of the "stretch" provision. This can result in accelerating taxable income and creating "bracket creep" for heirs, some of whom may be in their peak earning years. Also, in some cases, a trust may have been established to ensure that the IRA beneficiary does not withdraw funds too quickly from an inherited account. The repeal of the stretch provision will have a significant impact on this type of planning, as a full distribution of the account in many cases will be required within the 10-year time frame.

Planning considerations

- Heirs will want to plan distributions from inherited IRAs in conjunction with their income and other tax variables.
- Converting traditional retirement accounts to a Roth while the account owner is living may avoid potential income tax issues to eventual heirs, most of whom will be required to liquidate inherited IRAs within 10 years. However, the account owner must consider the income resulting from the Roth IRA conversion.
- Designate beneficiaries who may be in lower tax brackets and leave other assets (such as appreciated stock outside of retirement accounts that benefit from stepped-up cost basis at death) to higher-income heirs.
- IRA owners seeking to use retirement assets to provide a legacy for the next generation may want to consult with an estate planning attorney to determine if advanced planning may be appropriate. For example, investors may want to consider using a charitable trust or life insurance trust.

For more information on required minimum distributions from traditional IRAs and to obtain a prospectus for any Putnam fund, please call the IRA hotline at 1-888-661-7684.

Considerations for special circumstances Special rules apply in certain circumstances and to certain types of beneficiaries, so be sure to consult your tax or financial advisor to find out all the obligations and opportunities that apply to you. Certain limitations apply if a beneficiary is not a living person (for example, a trust or the estate). And still other rules can affect the calculation of RMDs if more than one beneficiary has been named for the IRA. In that case, certain opportunities can expire shortly after the death of the original IRA owner, so it is especially important to seek competent advice quickly. The same penalties that apply to account owners can apply to beneficiaries who fail to withdraw their RMDs.

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