What you need to know about required IRA withdrawals

When you reach age 70½, you must shortly begin to take required minimum distributions (RMDs) from your Traditional IRA. The same may be true if you have recently inherited a Traditional IRA. The following information is designed to help you understand what RMDs are and what options you may have so you can determine the appropriate steps to take.

What are required minimum distributions?

The tax laws contain a rule that affects everyone who has attained age 70½ and who owns various types of retirement plans, including Traditional IRAs, and everyone who has inherited a retirement plan account as a beneficiary. This rule generally requires that at least a certain minimum amount be withdrawn every year from the retirement account. Of course, you may always withdraw more, subject to taxes.*

It is extremely important to set up and maintain a payment schedule that complies with this minimum annual distribution requirement. Failure to take RMDs may result in an IRS-imposed penalty equal to 50% of the amount that should have been withdrawn. The good news is that the IRS regulations on RMDs make it simple to calculate your distributions.

When do IRA owners need to withdraw RMDs?

If you own a Traditional IRA, you must begin taking your minimum distribution by December 31 of each calendar year, beginning with the year you reach age 70½. However, for the first year, you have until April 1 of the year after you turn age 70½ to take your distribution.

It is important to remember that if you take advantage of this extension, you will need to take two RMDs in the calendar year after the calendar year in which you reach age 70½: one for the year in which you turned age 70½ and one for the next calendar year.

Why does the IRS require IRA owners to begin taking RMDs?

When you established your Traditional IRA, your contributions may have been tax deductible for the year in which the contribution was made. In addition, earnings have accumulated tax deferred, that is, free from income taxes.

To make sure you do not defer paying taxes on retirement savings indefinitely, the IRS mandates that you begin receiving money from your Traditional IRA once you reach age 70½. These distributions, or RMDs, are subject to ordinary income taxes. Beneficiaries receiving distributions will also owe ordinary income tax on their distributions.

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

Calculating your RMD

Calculating RMDs is relatively easy for IRA owners. Based on your age, you simply divide your IRA balance (as of December 31 of the previous year) by the appropriate divisor found on the IRS's Uniform Lifetime Table (to the right). The same table applies to everyone, regardless of who they have named as beneficiaries, with a single exception. If your sole designated beneficiary is your spouse and is more than 10 years younger than you, you may use a joint life expectancy divisor to achieve a smaller RMD amount if you choose. Ask your tax or financial advisor for details.

An IRA owner must calculate the RMD separately for each IRA that he or she owns, but can withdraw the total amount from one or more of the IRAs.

In this example, an investor is turning age 71 this year and has a $100,000 IRA account balance as of December 31 of last year.

December 31 account value		$100,000.00
IRS distribution period	÷	26.50
Required minimum distribution	**=**	**$3,773.58**

Uniform lifetime table

Client age*	Distribution period	Client age	Distribution period
70	27.4	93	9.6
71	26.5	94	9.1
72	25.6	95	8.6
73	24.7	96	8.1
74	23.8	97	7.6
75	22.9	98	7.1
76	22.0	99	6.7
77	21.2	100	6.3
78	20.3	101	5.9
79	19.5	102	5.5
80	18.7	103	5.2
81	17.9	104	4.9
82	17.1	105	4.5
83	16.3	106	4.2
84	15.5	107	3.9
85	14.8	108	3.7
86	14.1	109	3.4
87	13.4	110	3.1
88	12.7	111	2.9
89	12.0	112	2.6
90	11.4	113	2.4
91	10.8	114	2.1
92	10.2	115+	1.9

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

Don't need the income from your RMDs? Consider these options:

Convert to a Roth IRA. Since there are no required minimum distributions with a Roth IRA for the account owner or beneficiary spouse,* more of your IRA assets can benefit from tax-free growth.

Use RMDs to fund a 529 college savings program. Grandparents and other family members not relying on required distributions to meet daily income needs may prefer to use these funds to help fund college education for loved ones. Although the RMDs will generally have to be reported on the tax form as income, once those funds are invested in a 529 program, they can grow and be distributed free of taxes.†

Donate IRA assets to a charity. The provision allows retirees age 70½ and older to donate up to $100,000 tax free from their IRA each year, including required distributions.

* Spousal beneficiaries have the option of electing to treat an inherited Roth IRA as their own and avoiding required minimum distributions.

† Withdrawals from 529 accounts are tax-free when used for qualified education expenses.

What are the rules for people who inherit IRAs?

If you are the beneficiary of an IRA and inherit that IRA upon the owner's death, the RMD rules that apply to you will vary, depending upon your relationship to the decedent when the IRA owner died.

If you are a spouse

If you inherit your IRA from a deceased spouse and you are the sole beneficiary, you have additional options:

You can treat the IRA as your own (provided certain conditions are met) and begin taking RMDs when you reach age 70½. You may want to consider this option if:

- It is easier to consolidate IRAs into one account for recordkeeping purposes, or
- The deceased IRA account owner had already reached age 70½ and had been taking RMDs. A rollover into your own account can allow you to postpone RMDs until you reach age 70½.

You can remain as the beneficiary on the decedent's IRA* (otherwise known as an "inherited" or a "beneficiary" 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 still have to be reported as income for tax purposes.
- You are older than your spouse, who died before reaching age 70½. 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 70½.

If you are not a spouse

Options for persons other than a spouse are limited. Specifically, you cannot treat the IRA account of the deceased as your own. In general, **if the IRA owner died after he or she began withdrawing his or her own RMDs,** you must begin withdrawing your own RMDs from the inherited IRA by December 31 of the year following the year in which the IRA owner died (and each year thereafter). However, there is some flexibility regarding how much must be withdrawn from the account. Your RMD amount can be calculated by dividing the balance of the account as of the preceding December 31 by your own life expectancy (determined under IRS mortality tables). For beneficiaries who are younger than the deceased IRA account owner (children, for example), this will result in a smaller RMD, which can help preserve the tax benefits of the IRA. The less you are required to withdraw from the account, the more you have remaining to grow in a tax-deferred fashion. For each subsequent year, you repeat the same calculation, except you subtract one from the original life expectancy divisor for each year that passes.

If the IRA owner died before he or she began withdrawing his or her own RMDs, you generally have at least two options:

- You may use the method above, in which your RMDs are based on your own life expectancy and begin on or before December 31 of the year following the year in which the IRA owner died.
- You can elect to withdraw the entire account on or before the end of the calendar year containing the fifth anniversary of the IRA owner's death. For example, if you choose this alternative method, you would not be required to withdraw any amount from the account until the fifth year.

* If you remain a beneficiary on your spouse's account, you will need to begin taking required minimum distributions at some point. Generally, the amount of the RMD is calculated by dividing the balance as of December 31 of the previous year by the appropriate divisor found on the IRS's Single Life Expectancy Table. This table can be found in IRS Publication 590.

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.

This information is not meant as tax or legal advice. Tax laws are complex and subject to change. Please consult the appropriate professional representative to see how these laws apply to your situation.

Investors should carefully consider the investment objectives, risks, charges, and expenses of a fund before investing. For a prospectus, or a summary prospectus if available, containing this and other information for any Putnam fund or product, call your financial advisor or call Putnam at 1-800-225-1581. Please read the prospectus carefully before investing.

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