

Here's to Your Wealth

Discussions for financial health and well-being



A topic that always comes up this time of year is the required minimum distribution or RMD. Below are 5 things you should know about RMDs.

1. **What is an RMD?** Congress created tax-deferred plans to help people save for their retirement. This means that you can contribute to the plan using pre-tax money. When you take money out, it is considered income, and taxes will be owed. To keep people from avoiding taxes by never taking money out, the IRS imposes a required minimum distribution (RMD). "Your required minimum distribution is the minimum amount you must withdraw from your account each year" (IRS, 2022). The RMD is a way to ensure that some of the deferred taxes are paid during your lifetime.
2. **When do you have to start taking withdrawals?**
 - a) "If you turned 70 ½ in 2019, then you should have taken your first RMD by April 1, 2020.
 - b) If you turned 70 ½ in 2020 or later, you should take your first RMD by April 1 of the year *after* you turn 72.
 - c) All subsequent ones must be taken by December 31 of each year," (Kiplinger 2021).
3. **What types of accounts are subject to RMDs?** According to the IRS, RMDs are required from the following accounts: traditional IRAs, SEP IRAs, SIMPLE IRAs, 401(k) plans, 403(b) plans, 457(b) plans, profit sharing plans and other defined contribution plans. (Roth IRAs do not require RMDs until after the death of the owner). Keep in mind, if you own any of the above accounts at multiple financial institutions, they will all be subject to the RMD rule. You have the option of taking each account's RMD separately or adding all of the RMDs together and taking the total from whatever account(s) you wish.

Once you take your RMD, what you do with it is up to you. We can help you decide your best options.



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4. How is your RMD calculated? To calculate your RMD, you need two pieces of information. First, you need to know the market value of your retirement account at the close of the last business day of the year. Second, you need to know your distribution period. You will find your year-end market value on the last statement of the year. Your distribution period, at least for most people, will be found on the IRS Uniform Lifetime Table. (There are some other tables that deal with inherited IRAs and spouses that are more than 10 years younger than you, but we won't address those here). Your RMD is simply the year-end market value divided by the appropriate distribution period, as shown in the example below.

- 1) Market value Dec. 31, 2021: \$1,000,000
- 2) Age in 2022: 75
- 3) IRS Distribution Period: 24.6
- 4) RMD for 2022: $\$1,000,000 / 24.6 = \$40,650.41$

The table below shows the IRS's 2022 Uniform Lifetime Table.

Appendix B. Uniform Lifetime Table

<p style="text-align: center;">Table III (Uniform Lifetime)</p> <p>(For Use by: <ul style="list-style-type: none"> • Unmarried Owners, • Married Owners Whose Spouses Aren't More Than 10 Years Younger, and • Married Owners Whose Spouses Aren't the Sole Beneficiaries of Their IRAs) </p>			
Age	Distribution Period	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 and over	2.0
96	8.4		

Source: <https://www.irs.gov/pub/irs-pdf/p590b.pdf>

5. **How can you take your RMD?** The only rule is that your RMD amount must come out of your account by the end of the calendar year (except for your first one). Aside from that, how and when you take your distribution is up to you.
- 1) If you don't need the RMD for living expenses, have it deposited into a non-qualified account to keep it growing.
 - 2) If you need the money for expenses, have a portion deposited into your checking account every month or quarter.
 - 3) If you're so inclined, make a Qualified Charitable Deduction. This will not impact your adjusted gross income so it is a tax efficient way to donate. (Make sure you know the rules and limits surrounding QCDs).
 - 4) Take it all at once and spend it on something fun!

These are just a few examples of how you can satisfy the RMD requirement from your retirement account. The best thing to do is go into the next year with a plan so that you are not pressed into making last minute decisions at year end. And remember, we are always here to help you make the best financial decisions based on your needs.

Wishing you good health and good wealth.

References

The basics of required minimum distributions: 12 things you must know about RMDs | Kiplinger. (2021, November 22). Kiplinger.com. <https://www.kiplinger.com/retirement/retirement-plans/required-minimum-distributions-rmds>

IRS. (2022, September 23). *Retirement topics — Required minimum distributions (RMDs)*. Internal Revenue Service | An official website of the United States government. <https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-required-minimum-distributions-rmds>



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