AIG

Plan for your Required Minimum Distributions.

Congratulations! After years of saving for your future, the time has come for you to enjoy the money you set aside in your employer's plan.

We've provided important points below to help you better understand Required Minimum Distributions (RMDs). You may want to consult a tax advisor or financial professional before you make a distribution decision.

When are you required to take your RMDs?

The IRS generally requires you to make taxable withdrawals from your employer plan beginning no later than April 1 of the year after you reach age 72 (age 70½ if born before July 1, 1949) or retire from the employer sponsoring the plan, whichever is later, unless your plan stipulates otherwise. These mandatory withdrawals are commonly referred to as Required Minimum Distributions. If you fail to take your RMD, you can incur a substantial federal tax penalty.

A closer look at RMDs

Federal tax law generally requires that you withdraw your RMD by December 31 each year.

However, for the first distribution, you can delay taking your RMD until April 1 of the year after you turn age 72 (age 70½ if born before July 1, 1949) or retire from the employer sponsoring the plan, whichever is later. If you decide to delay your first RMD payment, be aware that you must receive two distributions in that first year. This may affect your tax rate for that year and increase the taxes you owe.

Whether or not you can postpone distributions from your current plan, you must still take RMDs from all other employer plans and traditional IRAs. However, you are not required to take RMDs from Roth IRAs.

The penalty for not taking your RMD

Federal law imposes a penalty equal to 50% of the amount you should have withdrawn if you do not receive your entire RMD for any calendar year. This penalty is assessed on the difference between the amount distributed to you for the calendar year and the amount required to be distributed to you. You must also withdraw, and may owe income taxes on, the RMD shortfall.

Here's an example

John's RMD is calculated to be $2,000. By mistake, John withdraws only $1,000 and leaves the other $1,000 in his employer's plan. The IRS penalizes John $500, which is 50% of the amount he should have taken out but left in the plan. Federal law also requires John to withdraw the $1,000 he left in the plan.

In the end, John takes out the full $2,000, which is subject to ordinary income taxes, and pays the IRS a $500 penalty. This penalty is assessed on the difference between the amount distributed to you for the calendar year and the amount required to be distributed to you. You must also withdraw, and may owe income taxes on, the RMD shortfall.

Retirement plans subject to RMDs

Almost all tax-deferred retirement plans are subject to RMDs.

These include qualified pension and profit-sharing plans such as 401(k) and 401(a) plans, simplified employee pension (SEP) IRAs, 403(b) plans or programs, and governmental 457(b) deferred compensation plans.

Remember to update your beneficiary information

Your beneficiary is the individual person or entity you have designated, according to your retirement plan provisions, to inherit your retirement plan assets. Your beneficiary designation is important because it takes precedence over what's in your will. Make sure your beneficiary information is up to date because when you die, your plan assets will pass to the beneficiary you designate unless plan provisions provide otherwise.

After your death, your beneficiaries will be subject to RMD rules. Your beneficiaries' options will depend on the provisions of your employer's plan. Some plans require beneficiaries to withdraw all of their assets within a certain period after the participant's death. Other plans may require beneficiaries to receive distributions over a 10-year period following the participant's death.

Consider investing what you don't need

Federal law requires only that you take your RMD, not that you spend it. Although you cannot roll over your RMD into an IRA, you can put the money that you don't need back to work in a regular taxable investment account or a tax-deferred annuity.

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