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RMDs Explained: 5 Common Questions

After years of building your retirement accounts, it's time to enjoy your hard work. But don't forget that the IRS requires you to take required minimum distributions (RMDs) from some of those accounts.

Here's what you need to know.

5 Common Questions About RMDs

Q: Which of my retirement accounts require RMDs?

A: You will need to take RMDs from any employer-sponsored retirement plans, such as a 401(k). Traditional IRAs, SEP IRAs and SIMPLE IRAs also require RMDs.

Q: When do I have to start taking RMDs?

A: Once you turn 73, you will need to begin thinking about RMDs. At 73, you have until April 1 of the following year to make your first RMD. If you decide to wait until the following year, you will need to take a second by the end of that same year.

Q: How do I calculate my RMDs?

A: RMDs are determined by an IRS formula: the amount in the retirement account as of the prior Dec. 31 balance divided by your life expectancy factor. That factor will change over time, which means your RMD will also change.

Q: What happens if I miss an RMD?

A: Missing an RMD can come with significant IRS penalties. If you do not withdraw the full required amount by the deadline, the IRS will charge a 25% excise tax. You can reduce that penalty to 10% if you take the RMD in question within two years. You can also attempt to waive the penalty by filing Form 5329.

Q: How should I use my RMDs?

A: RMDs are a form of income in your retirement. You can opt to take multiple withdrawals throughout the year or a single big withdrawal to hit the minimum amount. You can use that money for your day-to-day expenses, invest it in a different account or strengthen your savings account. Keep in mind RMDs count as taxable income.

If you have any questions about your financial planning, get in touch anytime.

Financial Planning may help your dreams come true!

Simple, Smart, and Effective financial planning may help you build wealth. Our strategies and hands-on approach may help you increase savings, lower taxes, provide customized investment advice, help you secure your retirement and more. Together, we will help you build a plan toward making your dreams come true.



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