How the SECURE 2.0 Act Affects RMDs

A Q&A with Bryan Strike, Director, Financial Planning Research and Education, Mercer Advisors

Required Minimum Distributions (RMDs) — general

Can an RMD be taken in the form of stocks, real estate, or other assets in the IRA?

No, the RMD must be taken in cash.

Must the RMD from a 403b be taken only from that plan?

That is correct.

I am 76. Is there any kind of lookback for previous RMDs?

No.

If you turn 73 in December, when is the RMD due? Is the RMD indicated on annual taxes?

If you were born in 1951 or later, the RMD is calculated for the year you turn 73. You may take that RMD in the year you turn 73 or by April 1 of the following year.

If I understand you correctly, all retirement accounts must be aggregated. I have an IRA, TSP and 401(k). I have to take the calculated amount from each account, correct?

Most IRAs can be aggregated together (inherited IRAs are the exception). TSP, 401k, 403b, and 457 plans must satisfy their own RMDs.

When you start taking an RMD, do you pay for the full year, no matter when your birthday falls in that first year of the RMD requirement?

Yes. There is no pro rata calculation.

For married couples who file taxes jointly, do you have to separate the RMDs for each person?

Yes.

Can you take the RMD on any date in each year? Is there an advantage to taking it early in the year or later in the year?

You can take it at any time during the year. Based on market data from 1928 to the present, the market has tended to end the year higher more often than it ends lower, so waiting until late in the year will allow for a bit more tax-deferred growth potential.

If you have IRAs and a solo 401k, can you utilize the IRAs to pay all tax withholding and take a gross distribution from the 401k?

Yes.

Must the RMD be made on or before December 31 of the year in which it is required?

Yes, the RMD must be made on or before December 31, except for the first year in which an RMD is required. In that instance, you can delay the RMD until April 1 of the following year.

If you take the full IRA in one distribution, won't that affect your modified adjusted gross income (and cause a default) related to your Medicare Part B premium?

Yes, it will. If you take all of your IRA out, the distribution is treated as ordinary income and increases your adjusted gross income. This may impact your Medicare Part B and D premiums 2 years after the distribution. It is possible, assuming this is a one-time event, to request an exception from Medicare.

Inherited IRAs

If I've inherited an IRA, are the required minimum distributions (RMDs) based on only the inherited amount, vs. the original IRA? Will my custodian calculate the distribution requirements?

Inherited IRA RMDs are complicated. There are different rules for pre-2020 and after 2019. The custodian will not compute these RMDs. They are the responsibility of the beneficiary-owner.

For inherited IRAs, do you subtract 1 from the devisor each successive year in order to calculate the RMD?

Normally, inherited IRA RMDs utilize a single-life expectancy factor of the beneficiary-owner in the year after the year of death. Each year thereafter, the factor is reduced by 1.

Is a surviving spouse considered an inherited beneficiary of the decedent's IRA?

The surviving spouse can opt to roll their deceased spouse's retirement plan assets into their own account or be treated as an inherited beneficiary. Starting in 2024, the surviving spouse may also be treated as the decedent for purposes of RMDs.

Does the 10-year deadline for emptying an inherited IRA apply to Roth accounts inherited by a decedent's spouse?

The spouse can roll the Roth into their own Roth and avoid RMDs completely. If they fail to do so, they will have to withdraw all the money within 10 years.

My wife has an inherited IRA from her sister who died in 2007, so we've been getting a RMD for 15 years. Should the IRA have been emptied by now?

Not necessarily. It depends on your wife's age when she inherited the account. That would determine her RMD factor. The older the beneficiary is at receipt, the lower the RMD factor and the quicker the account will be liquidated.

If the original IRA account owner died in 2019 and had already started taking RMDs, does the beneficiary have to take the whole balance in 10 years?

No. The SECURE Act rules begin with deaths in 2020 or later. Therefore, the beneficiary-owner will just take RMDs based on their single life expectancy in 2020 and subtract 1 from the factor each year thereafter. Also, 2020 RMDs were waived as part of the pandemic, so the RMDs for this example would have started in 2021.

What IRA age distribution factor is used for an inherited IRA?

The age of the beneficiary in the year following the decedent's year of death.

Is the sister of a decedent in the "Other EDB inherits" category or the "Non-spouse" category?

Most often, the sibling would be an "Other EDB" since they were born within 10 years of the decedent. However, that's not always the case. If the two siblings' ages are more than 10 years apart, the surviving person would be considered a "Non-spouse EDB."

I inherited an IRA from my son, who died in 2015 at age 30; I was 63 at the time. I am now 71. When must I take some or all of the balance of the inherited IRA?

We recommend you consult with your financial advisor about your specific situation.

Roth accounts

Can you confirm that RMDs do not apply to Roth IRAs?

That is correct. RMDs do not apply to the original owner of a Roth IRA. Inheriting a Roth IRA will normally start RMDs for the new beneficiary-owner.

Don't you have to still be earning an income in order to put money into a Roth?

To make contributions, you must have some amount of earned income. To perform a Roth conversion, you are not required to have earned income.

Is there a difference between a 401(k) and a Roth 401(k)?

Yes. A 401(k) is funded by deductible contributions of the employee and tax-deferred contributions of the employer. When you take a distribution, you will have to recognize it as taxable income. A Roth 401(k) is funded by taxable contributions of the employee. Roth 401(k) contributions and the growth potential associated with them are generally tax-free when distributed. The employer contributions for a Roth 401(k) typically still go into the regular 401(k), so distributions of these amounts will be subject to tax.

Does a Roth conversion from a traditional IRA satisfy RMD requirement?

No. If you do a "conversion" of an RMD amount, then the IRS treats it as if you took the RMD, and then treats the money into the Roth as a contribution. A contribution is not the same as a conversion because there is the earned income test and contribution limits. Most people taking RMDs do not work and therefore do not have earned income. As such, they cannot contribute to a Roth IRA. Even if they could, the limit is $6,500 for the current year. For example, if your RMD was, say $20,000, then you would have "overcontributed" by $13,500.

Can you do a Roth conversion on an inherited IRA?

No.

Qualified Charitable Distributions (QCDs)

How old must you be in order to give a QCD?

Age 70 1/2.

Can you make a QCD from an inherited IRA?

Yes, assuming you are age 70 1/2 or older.

Can you also create a QCD from a brokerage account and still reduce taxable income?

No. QCDs can only be made from IRAs.

How does a QCD differ from a straight itemized deduction in terms of bottom-line tax savings?

QCDs, when they are used to offset an RMD, are effectively an above-the-line deduction. In other words, it reduces your adjusted gross income (AGI). Itemized deductions are taken after AGI and only to the extent your total itemized deductions exceed the standard deduction amount. The added tax benefits to reducing AGI include potentially lowering Medicare premium hikes, reducing phase-outs for credits, and qualifying for deductions.

Qualified Longevity Annuity Contracts (QLACs)

For a QLAC, how is the income guaranteed?

QLACs are deferred income annuities that offer a guaranteed payment of income based on the stated terms of the contract issued by the insurer. These are usually fixed-interest contracts that provide a higher internal rate of return the longer you live.

With a QLAC, can a married couple contribute the maximum of $200,000 per spouse for a total of $400,000?

That is correct.

How old do you have to be to invest into a QLAC?

The age requirements are set by each respective insurance company that offers QLACs.

Does a QLAC live in the IRA, and does it have a death benefit cash value?

A QLAC does live in an IRA as it is purchased with money from an IRA. You can opt for several payout options: (1) a single-life annuity, which means there are no payments after your death; (2) a joint and survivor annuity that pays out for the duration of your life or that of your survivor, whichever is longer; (3) a period-certain annuity that will pay out for the duration of your life or a specific number of years, whichever is longer; and (4) a refund-of-premium option that will pay out for your lifetime or to the extent of your paid premium.

Can you buy a QLAC with an inherited IRA?

No.

Other topics

To what extent should I factor the favorable tax rates established under the Tax Cuts & Jobs Act (TCJA) — which expire after 2025 — into the conversation about RMDs?

Post-TJCA tax rates will go up marginally and the standard deduction will fall, but personal exemptions will come back. It's hard to say whether this will be extended or if we will roll back to the old rates. It would be important to consider, especially if you are a higher-income individual, because the changes will likely be more impactful.

If you sell for capital gain harvesting and re-buy the security, do you have to worry about wash sale rules?

Wash sale rules only apply to losses, so there is no concern about that with capital gain harvesting.

Is the RMD taxed as ordinary income rather than as a capital gain?

That is correct.

Is Mercer Advisors required to withhold federal income tax and/or Medicare tax on an RMD? For example, RMD is 100,000 can distribution be made at $100,000 and let the recipient pay the tax?

We are not required to withhold taxes from the RMD, but our clients can direct us to do so if they choose.