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Understanding RMDs (Video)

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Understanding how Required Minimum Distributions (RMDs) work is a key part of a well-built retirement plan. In this video, Janelle Coulman, Financial Advisor at Grimes & Company, explains what RMDs are, when they start, and—most importantly—how smart strategies like early withdrawals, Roth conversions, and Qualified Charitable Distributions can help you make the most of your retirement savings.

Watch the video below:

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VIDEO TRANSCRIPTION:

My name is Janelle Coulman and I'm a financial advisor at Grimes & Company, and I'd like to share some ideas about

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strategies for RMDs.
So you might be asking, what's an RMD? RMD stands for Required Minimum Distribution. It's the amount that the IRS says you must take out of your retirement accounts once you reach a certain age. For a long time, that starting age was 70 and a half. Now it's age 73. And for anyone born in 1960 or beyond, it will be age 75.

The RMD calculation is based on the retirement account value and your life expectancy. It's simply the IRS's way to make sure you start paying taxes on your tax-deferred savings.

Following the IRS rules is easy enough. The real challenge is making sure RMDs work for you.

When and how you take money out of your IRAs will have a big impact on your taxes, your cash flow, and also how long your money lasts.

One strategy to consider is taking money out of your IRAs before your RMDs begin. This can help smooth out your cash flow and reduce your future tax bill. For example, if you've already retired and haven't yet started collecting Social Security, it could be a great opportunity to take money out of your IRAs at a lower tax rate and reduce your future RMD amounts.

Another strategy to consider is moving money directly from a traditional IRA to a Roth IRA. This is known as a Roth conversion. You would have to pay tax now on the amount you convert, but then that money will grow tax-free in the Roth IRA and will not be subject to future RMDs.

If you're charitably inclined, a terrific tool to consider using is a Qualified Charitable Distribution, or QCD. With a QCD, you can donate all or a portion of your RMD directly to a qualified charity. This meets the IRS requirements for the RMD, gets cash to an organization you care about, and allows you to avoid the tax.

So yes, RMDs are unavoidable, but they don't have to be a burden. Don't wait around for the IRS to tell you what to do with your money. Instead, start building a plan to make RMDs work for you.

Again, my name is Janelle Coulman I'm a financial advisor at Grimes and Company. I invite you to visit our website at grimesco.com for more information. And please reach out to an advisor if you'd like to discuss creating a strategy for your RMDs.

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