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Your Guide to Required Minimum Distributions (RMDs) Part 1: What You Need to Know

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In this two-part series, we'll provide a comprehensive overview of Required Minimum Distributions (RMDs, covered in this article) that will set the table for suggested strategies for withdrawing RMDs (part two, found [here](#)).

If you've spent your career diligently contributing to tax-advantaged retirement accounts, such as IRAs and 401(k)s, you've probably enjoyed years of tax-deferred growth. Eventually, however, Uncle Sam will want his share, and that's where Required Minimum Distributions (RMDs) come into the picture. An RMD is the minimum amount you must withdraw annually from some retirement accounts after you reach a certain age.

The RMD requirement is more than just a tax rule – it's a major component of your retirement income planning strategy. Understanding how RMDs work, and how to incorporate them into your cash flow plan, can help you avoid costly penalties, reduce unnecessary taxes, and protect your hard-earned savings.

WHY DO RMDs EXIST?

RMDs exist because tax-deferred accounts were never meant to be permanent tax shelters. Minimum annual distributions prevent retirement accounts from becoming legacy planning tools. Without RMDs, an investor could let their tax-deferred savings remain untouched, passing them along to heirs without ever using them for their intended

purpose – retirement Income.

RMD TIMING AND TAXATION

RMDs aren't new. The Tax Reform Act of 1986 introduced them to make sure retirement savings could not avoid taxes in perpetuity. However, there have been changes to the rules in recent years, most recently via the SECURE Act and SECURE 2.0, which: a) raised the starting age for RMDs, b) eliminated them for Roth 401(k)s (starting in 2024), and c) reduced the penalty for failing to make the minimum distribution.

As of now, an investor is required to take their first RMD by April 1 of the year after they reach their official RMD age (as seen in Chart 1). But here's the catch: If you wait until April 1, you'll have to take **two** RMDs in that same year – the first by April, and the second by Dec 31, which is the annual deadline for RMDs thereafter.

Date of Birth	RMD Start Age
Before July 1, 1949	Age 70½
July 1, 1949 – 1950	Age 72
1951 – 1959	Age 73
1960 or later	Age 75

Chart 1

In most cases, the full RMD amount is taxed as ordinary income. There is no early withdrawal penalty – even if under the age 59½, in the case of an inherited IRA. When processing distributions, investors can choose to have federal and state (where applicable) income tax withheld. There is one opportunity to avoid tax, and we'll cover that later.

WHAT ACCOUNTS ARE SUBJECT TO RMDs?

RMDs apply to most tax-deferred retirement accounts. If an investor received a tax break when making the contribution, they are likely accountable for taxes when the RMDs are distributed. This includes Traditional IRAs, SEP IRAs, SIMPLE IRAs, 401(k)s, 403(b)s, and Inherited IRAs (read our article on Inherited RMDs [here](#)).

A popular retirement account that is not subject to RMDs is the Roth IRA. Contributing to a Roth IRA does not trigger a tax deduction, and so these investment vehicles are not subject to RMDs during the original account owner's lifetime. Similarly, while Roth 401(k)s were previously subject to RMDs, they are exempt as of 2024 (via SECURE 2.0).

THE RMD CALCULATION

The IRS has created three different [life expectancy tables](#), the relevancy of each to a specific life stage we'll outline here:

1. **Uniform Lifetime Table:** An investor uses the Uniform Lifetime Table if they are single, married with a spouse less than 10 years younger, or if the spouse is not the sole beneficiary.

- Example: Elise will turn 75 years old in 2025, and her IRA was valued at \$500,000 on 12/31/2024. The IRS factor for age 75 on the Uniform Lifetime Table is 24.6, so Elise's 2025 RMD would be: $\$500,000 \div 24.6 = \$20,325$.
2. **Joint Life and Last Survivor Expectancy Table:** An investor uses the Joint Life and Last Survivor Expectancy Table if their spouse is more than 10 years younger **and** is the **only** beneficiary. The longer life expectancy factor means lower withdrawal amounts. However, the divisor gets increasingly smaller over time, causing the RMD to be a larger portion of the retirement account each year.
 - Example: Nolan will turn 75 in 2025, his spouse is 60, and his account value was \$500,000 on 12/31/2024. Nolan's IRS factor on the Joint Life and Last Survivor Expectancy Table is 28.3, so Nolan's 2025 RMD would be: $\$500,000 \div 28.5 = \$17,544$.
 3. **Single Life Expectancy Table:** The Single Life Expectancy Table is used for beneficiaries of inherited retirement accounts and calculates RMDs based solely on the inheritor's age in the year after the original account owner's death. Recent regulation muddled the waters a bit for these accounts with the introduction of the 10-year rule (read our article on inherited RMDs [here](#)). When using the Single Life Expectancy Table, the account owner would subtract 1 from the previous year's life expectancy factor (i.e., $24.6 - 23.6 = 22.6$, etc.) and recalculate the new RMD based on the prior year-end account value. Again, with an increasingly smaller divisor over time, the RMD becomes a larger portion of the retirement account each year.

RMD ACCOUNT AGGREGATION

The total amount of an investor's annual RMD can be aggregated across all IRAs (including Traditional, SEP, and SIMPLE IRAs), meaning the total distribution could come from just one, or any mix of accounts. However, it's important to note that each 401(k), 403(b), and similar workplace plan must have its respective RMD calculated and withdrawn separately.

What's the right RMD withdrawal strategy for you? Read the [second part of our RMD guide](#) to learn more.

IMPORTANT DISCLOSURES:

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