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What Is a Required Minimum Distribution?

A required minimum distribution (RMD) is the annual amount that generally must be withdrawn from a traditional IRA or a qualified retirement plan (such as a 401(k), 403(b), and self-employed plans) starting no later than April 1 of the year after the year the account owner reaches the age of 73 (for individuals who reach age 72 after December 31, 2022). If you attained age 72 in 2022 or earlier, you are already required to take RMDs. The RMD age will rise to 75 in 2033. Some employer plans may allow still-employed account owners to delay distributions until they stop working, even if they are older than 73.

RMDs are designed to ensure that owners of tax-deferred retirement accounts do not defer taxes on their retirement accounts indefinitely. You are allowed to begin taking penalty-free distributions from tax-deferred retirement accounts after age 59½, but you must begin taking them after reaching age 73. If you delay your first distribution to April 1 following the year in which you turn 73, you must take another distribution for that year. Annual RMDs must be taken each subsequent year no later than December 31.

The RMD amount depends on your age, the value of the account(s), and your life expectancy. You can use the IRS Uniform Lifetime Table (or the Joint and Last Survivor Table, in certain circumstances) to determine your life expectancy. To calculate your RMD, divide the value of your account balance at the end of the previous year by the number of years you're expected to live, based on the numbers in the IRS table. You must calculate RMDs for each account that you own. If you do not take the required minimum distribution, a penalty of 25% will be assessed on the RMD amount that should have been taken, dropping to 10% if timely corrected by making up the missed RMD. "Timely" means corrected generally in 2 years (unless the penalty is assessed earlier). Of

course, you can always withdraw more than the required minimum amount or even withdraw the entire balance as a lump sum.

Remember that distributions from tax-deferred retirement plans are subject to ordinary income tax. Waiting until the April 1 deadline in the year after reaching age 73 is a one-time option and requires that you take two RMDs in the same tax year. If these distributions are large, this method could push you into a higher tax bracket. It may be wise to plan ahead for RMDs to determine the best time to begin taking them.

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1070 E. Indiantown Road, Suite 208 Jupiter, FL 33477 561-641-5050

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