

What to know about required minimum distributions (RMDs)

The Internal Revenue Code (IRC) requires that IRA owners and participants in qualified employer sponsored retirement plans (QRPs) such as 401(k)s, 403(b)s, and governmental 457(b)s must begin taking distributions annually from these accounts. These distributions are referred to as RMDs. Once you reach your required beginning date (RBD), you will begin taking RMDs from any Traditional, SEP, and SIMPLE IRAs that you have, as well as from any QRPs left at former employers. The RMD rules can be complex and excise taxes for not complying can be significant. The following helps explain the rules regarding RMDs.

On December 29, 2022, President Biden signed into law the Consolidated Appropriation Act of 2023. Included in this Act is SECURE Act 2.0 that is primarily aimed at helping boost retirement savings.

The required minimum distribution (RMD) age increases to age 73 in 2023 and to age 75 in 2033. If you turn age 72 in 2023, your RMD is not due until 2024.

- **What is the RBD?**

The RBD is when the IRC requires you to begin taking distributions from any Traditional, SEP, and SIMPLE IRAs as well as any QRPs. Your RBD is April 1 following the year you turn age 73.

- **Do I have to wait until the following April 1 to begin RMDs?**

No, you have the option to delay your first RMD but can take it sooner. Subsequent RMDs must be taken by December 31 of each year. You will owe ordinary income tax on the taxable portion of the distribution.

If you delay your first year's distribution until the following year, you should note that you will have two distributions taxable in the same year — your first RMD and your second RMD, which must be taken by December 31.

- **When must I begin taking distributions from assets left in QRPs at former employers?**

The rules for when you must take RMDs from QRPs are the same as for IRAs. The RBD is April 1 following the year you reach RBD age. Subsequent RMDs must be taken by December 31 of each year.

- **Since I am still working, can I delay my QRP RMD until I retire?**

Your RMD from the plan where you are employed can be delayed, if the plan allows and you are not a 5% or more owner of the company sponsoring the plan. However, the year you separate from service you will have an RMD due. Your RBD is April 1 the year following separation of service. Contact your plan administrator to see if you need to take an RMD.

If you delay your first year's distribution until the following year, you should note that you will have two distributions taxable in the same year — your first RMD and your second RMD, which must be taken by December 31. Keep in mind that the first money distributed from the plan is considered the RMD and not eligible to be moved to another retirement account.

- **What happens if I do not satisfy my RMD?**

You may be subject to an IRS 25% excise tax for every dollar under-distributed. This may be reduced to 10%, if you correct the shortfall during a two-year correction window.

- **Can I take more than my RMD?**

Yes. However, excess amounts taken will not offset the RMD amounts in future years.

- **What are the rules regarding aggregating RMDs?**

Your IRA RMDs will be calculated from the sum of all your Traditional, SEP, and SIMPLE IRAs, and you may take your distribution from whichever Traditional, SEP, and SIMPLE IRA(s) you choose.

Generally, you cannot aggregate RMDs from all of your QRPs. You have to take RMDs from each QRP. Although, RMDs must be calculated separately for each 403(b) you have, the total RMD amount can be taken from any one or more of your 403(b) accounts.

- You cannot satisfy your IRA RMD from your QRP or vice versa.
- **Did The Setting Every Community Up for Retirement Enhancement (SECURE) Act change the ability for a non-spouse beneficiary to take RMDs?**
Yes, most non-spouse beneficiaries cannot take RMDs over their life expectancy. Taking RMDs over their life expectancy is an option for inherited retirement accounts where the IRA owner or plan participant died on or before 12/31/2019.
- **What are the rules regarding aggregating RMDs for inherited accounts?**
You cannot aggregate RMDs you take as an IRA owner with any RMDs you take as an IRA beneficiary.
- You can aggregate RMDs from the same type of IRA you inherited, i.e., Traditional or Roth, as long as the deceased IRA owner is the same.
- You cannot aggregate RMDs if the deceased owner is the same but the IRA type is different.
- **If I purchase an immediate annuity with IRA funds, will this satisfy my RMD for all my IRAs?**
No. Once you buy an immediate annuity with IRA funds, the annuity is no longer part of the IRA held here, at Wells Fargo Advisors. That immediate annuity contract is held with the insurance carrier. All payments received under the annuity contract are considered RMDs, they are not eligible for rollover, and those distributions satisfy the RMD requirement for the annuity contract only. If you have other IRAs, the applicable RMDs for these accounts would need to be calculated separately from the immediate annuity payments. However, in the year that the annuity contract was purchased, the payments you receive in that year would count toward the applicable RMD amount for that specific year.
- **How do I determine the amount of my RMD each year?**
Your RMD is calculated by dividing your account balance at the end of the previous year by the appropriate life expectancy divisor from IRS Life Expectancy Tables.

Your Wells Fargo Advisors financial advisor can provide you with an estimate of your RMD. You should confirm any calculation with your tax advisor, since Wells Fargo Advisors does not provide tax or legal advice.

- **How do I obtain my year-end account balance to use in my calculation?**

The value of your account as reflected on your end-of-year statement(s) should be used for your calculation. It is your responsibility to verify that the value of all assets in the IRA is accurately reflected on the statement.

Your prior year-end balance may need to be adjusted for certain transactions, such as pending rollovers or transfers. If you own an annuity in your IRA, it may be subject to the Entire Interest Regulation. Consult your tax advisor to verify the values that should be used in your calculation.

- **How do I determine the life expectancy factor to use in the calculation?**

Most IRA owners and plan participants will use the *Uniform Lifetime Table*, except when a spouse is the sole primary beneficiary and is more than 10 years younger (11 or more) than the IRA owner or plan participant. In this case, the Joint Life Table is used. Those tables can be found in IRS Publication 590-B.

- **What special rules apply if my beneficiary is a non-living entity — for example, an estate, charity, or trust?**

You will use the *Uniform Lifetime Table* during your lifetime.

- **Am I required to distribute cash from my IRA to satisfy the RMD?**

No. Cash and/or securities can be distributed from your IRA to satisfy your RMD. Remember that these assets can be transferred to your Wells Fargo Advisors investment account(s).

- **Can I continue making contributions to my IRA if I am 70½ or older?**

Yes. Due to the SECURE Act, beginning in tax year 2020, there is no maximum age restriction for making a Traditional IRA contribution as long as the individual, or spouse if filing jointly, has earned income. Remember, Roth IRA contributions have always been allowed after the age of 70½ if you or your spouse, if filing jointly, have earned income and meet the modified adjusted gross income (MAGI) requirements.

- **Can I transfer or roll over my IRA or other QRPs, now that I have reached RMD age?**

Yes. However, you may be required to take your RMD before the transfer or rollover.

- **Can I convert to a Roth IRA once I am RMD age or older?**

Yes, but it will be necessary to take your RMD prior to the conversion. You are not able to convert your RMD. An IRA conversion or rollover conversion from a QRP to a Roth IRA cannot be recharacterized.

- **Can I give my RMD to a charity?**

Yes, a qualified charitable distribution (QCD) allows individuals who are at least age 70½ and have Traditional and/or Inherited IRAs to distribute up to \$100,000 per year directly from their IRA to a 501(c)(3) nonprofit with no federal income tax consequences. One change, as a result of the SECURE Act, is if you make a deductible Traditional IRA contribution, the amount of your eligible QCD is reduced by the amount of any deductible contribution. Beginning in 2023, a one-time \$50,000 QCD paid directly from your IRA to certain split-interest entities, including charitable remainder annuity trusts, charitable remainder unitrusts, and charitable gift annuity. The \$50,000 is part of the \$100,000 QCD annual limit. Beginning in 2024, the \$100,000 QCD annual limit will be indexed for inflation.

- **How do I request a distribution from my Wells Fargo Advisors IRA?**

Contact your financial advisor from Wells Fargo Advisors for the appropriate distribution form. Please request your distributions at least 30 days prior to your RMD deadline of December 31 or April 1.

Talk to Wells Fargo Advisors

Should you have additional questions, please feel free to contact your financial advisor. We appreciate the opportunity you have given us to assist you in pursuing your retirement goals.

With you every step of the way

Everyone has a different vision of retirement that requires a unique financial strategy. Wells Fargo Advisors can support you in your retirement planning process by providing the guidance needed to make informed choices. We will meet with you and help create a comprehensive plan that takes into account your complete financial picture. Your financial advisor will be with you every step of the way to meet to review your progress and adapt your plan as needed. Working together, we'll design and implement a retirement plan that can help you live out your unique vision of retirement.

Please Note: This material has been prepared for informational purposes only and is not a solicitation or an offer to buy any security or instrument or to participate in any planning, trading or distribution strategy. The accuracy and completeness of this information is not guaranteed and is subject to change. It is based on current tax information and legislation as of January 2023. Since each investor's situation is unique, you need to review your specific investment objectives, risk tolerance, and liquidity needs with your financial professional(s) before an appropriate planning, investment or distribution strategy can be selected. Also, since Wells Fargo Advisors does not provide tax or legal advice, investors need to consult with their own tax and legal advisors before taking any action that may have tax or legal consequences.