ascend 2019

IRA and QRP Required Minimum Distributions

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Learning Objectives

At the completion of this course you will be able to

- explain the delayed required beginning date option,
- identify the issues that may affect the required minimum distribution (RMD) calculation, and
- identify the aggregation rules for RMD purposes

Icon Legend

Individual Exercise	Group Exercise	Group Discussion
Example	Job Aid	Additional Information

The material in this session applies only to Traditional IRAs, SIMPLE IRAs, and employer-sponsored retirement plans. Roth IRA owners are not subject to the RMD rules.

Review of RMDs

Traditional and SIMPLE IRA owners and employer-sponsored retirement plan participants generally must begin receiving an annual, mandatory distribution (i.e., RMD) beginning in the year they turn age 70½. Internal Revenue Code section (IRC Sec.) 401(a)(9) contains guidance on RMDs.

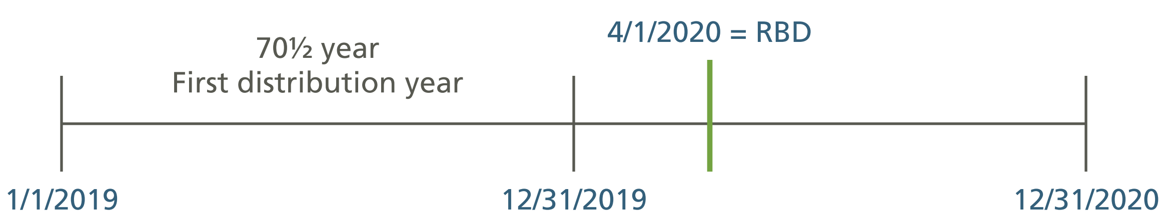
An RMD is the minimum amount that an account owner must receive from an IRA or retirement plan each year.

IRS regulations provide guidance on calculating RMDs. The IRS requires RMDs to be calculated separately for each IRA and retirement plan.

The following graphic explains how to determine an account owner's 70½ year.

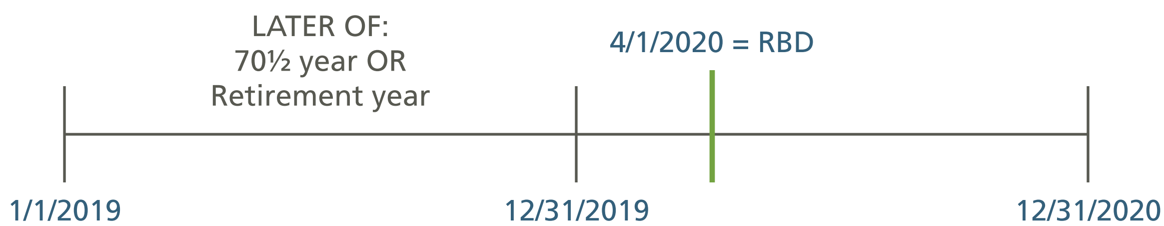
Required Beginning Date

An IRA owner must take his first RMD by April 1 following the year he attains age 70½. This date is called the required beginning date (RBD).



For an employer-sponsored retirement plan participant, the RBD is April 1 of the calendar year following the *later of*

- the calendar year in which the participant attains age 70½, or
- the calendar year in which the participant retires from employment with the employer maintaining the plan (Treas. Reg. 1.401(a)(9)-2, Q&A 2(a)).



All RMDs in subsequent years must be taken by December 31.

The option to delay the RBD until actual retirement is not available to plan participants who own five percent or more of the business for which the plan is established. A delayed RBD is allowed only if the plan document allows for this provision.

Required Beginning Date

Jon and Cindy are ready to move into retirement. Jon, born August 8, 1938, retired from his job earlier this year. His 401(k) plan allows him to delay taking his RMD until he retires. His wife, Cindy, was born June 19, 1949, and has a Traditional IRA.

What is Jon's RBD? ________________________________

What is Cindy's RBD? ______________________________

RMD – The amount an account owner *must* receive each year (IRS calculation method).

Scheduled payment – the amount an account owner *elects* to receive, which must be at least equal to the RMD.

Account Owner Responsibility

Account owners are ultimately responsible for taking their RMDs timely. An IRA owner or retirement plan participant who fails to timely distribute an RMD is subject to an excess accumulation penalty tax equal to 50 percent of the amount that should have been taken but was not.

An IRA plan agreement (shown below) and a retirement plan basic plan document outline the requirements, including the RMD deadline and calculation method.

Traditional IRA Plan Agreement, sections 2, 5, and 6

ARTICLE IV

1. Notwithstanding any provision of this agreement to the contrary, the distribution of the grantor's interest in the trust account shall be made in accordance with the following requirements and shall otherwise comply with section 408(a)(6) and the regulations thereunder, the provisions of which are herein incorporated by reference.
2. The grantor's entire interest in the trust account must be, or begin to be, distributed not later than the grantor's required beginning date, April 1 following the calendar year in which the grantor reaches age 70½. By that date, the grantor may elect, in a manner acceptable to the trustee, to have the balance in the trust account distributed in: (a) A single sum or (b) Payments over a period not longer than the life of the grantor or the joint lives of the grantor and his or her designated beneficiary.
3. If the grantor dies before his or her entire interest is distributed to him or her, the remaining interest will be distributed as follows:

   (a) If the grantor dies on or after the required beginning date and:

   (i) the designated beneficiary is the grantor's surviving spouse, the remaining interest will be distributed over the surviving spouse's life expectancy as determined each year until such spouse's death, or over the period in paragraph (a)(iii) below if longer. Any interest remaining after the spouse's death will be distributed over such spouse's remaining life expectancy as determined in the year of the spouse's death and reduced by

calendar year containing the fifth anniversary of the grantor's death.

4. If the grantor dies before his or her entire interest has been distributed and if the designated beneficiary is not the grantor's surviving spouse, no additional contributions may be accepted in the account.
5. The minimum amount that must be distributed each year, beginning with the year containing the grantor's required beginning date, is known as the "required minimum distribution" and is determined as follows.

   (a) The required minimum distribution under paragraph 2(b) for any year, beginning with the year the grantor reaches age 70½, is the grantor's account value at the close of business on December 31 of the preceding year divided by the distribution period in the uniform lifetime table in Regulations section 1.401(a)(9)-9. However, if the grantor's designated beneficiary is his or her surviving spouse, the required minimum distribution for a year shall not be more than the grantor's account value at the close of business on December 31 of the preceding year divided by the number in the joint and last survivor table in Regulations section 1.401(a)(9)-9. The required minimum distribution for a year under this paragraph (a) is determined using the grantor's (or, if applicable, the grantor and spouse's) attained age (or ages) in the year.

   (b) The required minimum distribution under paragraphs 3(a) and 3(b)(i) for a year, beginning with the year following the year of the grantor's death (or the year the grantor would have reached age 70½, if applicable under paragraph 3(b)(i)) is the account value at the close of business on December 31 of the preceding year divided by the life expectancy (in the single life table in Regulations section 1.401(a)(9)-9) of the individual specified in such paragraphs 3(a) and 3(b)(i).

   (c) The required minimum distribution for the year the grantor reaches age 70½ can be made as late as April 1 of the following year. The required minimum distribution for any other year must be made by the end of such year.

6. The owner of two or more Traditional IRAs may satisfy the minimum distribution requirements described above by taking from one Traditional IRA the amount required to satisfy the requirement for another in accordance with the regulations under section 408(a)(6).

with your IRA. We have no duty to determine whether your contributions or distributions comply with the Code, regulations, rulings, or this agreement.

We may permit you to appoint, through written notice acceptable to us, an authorized agent to act on your behalf with respect to this agreement (e.g., attorney-in-fact, executor, administrator, investment manager), but we have no duty to determine the validity of such appointment or any instrument appointing such authorized agent. We will not be responsible for losses of any kind that may result from directions, actions, or failures to act by your authorized agent, and you agree to reimburse us for any loss we may incur as a result of such directions, actions, or failures to act by your authorized agent.

You will have 60 days after you receive any documents, statements, or other information from us to notify us in writing of any errors or inaccuracies reflected in these documents, statements, or other information. If you do not notify us within 60 days, the documents,

Calculating an RMD

Financial organizations or their data processors must calculate RMDs for IRA owners to

- meet the IRS reporting requirement, and
- make automatic payments for IRA owners who elect to meet the RMD rules with an automatic payment option or, if applicable, with calculations based on a default election.

Plan administrators must determine the RMD amount each year according to provisions in the plan document.

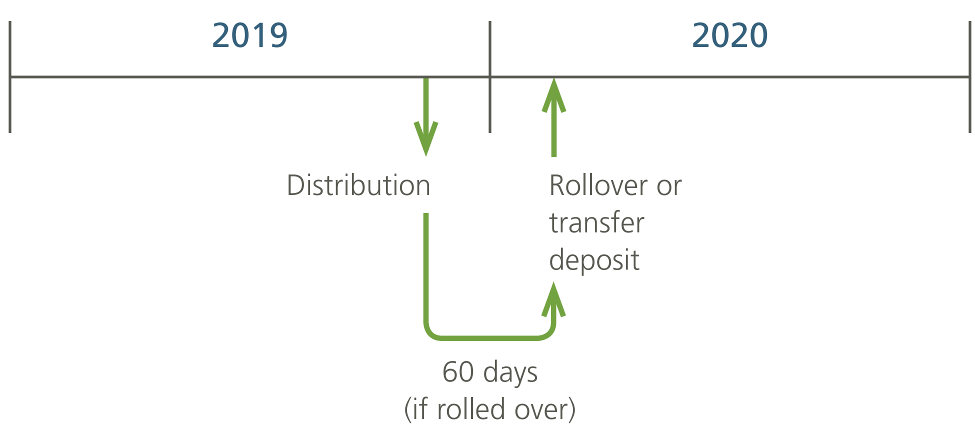
The RMD is calculated by dividing the previous year's December 31 account balance by the applicable distribution period divisor.

RMD = Account Balance ÷ Distribution Period

Account Balance

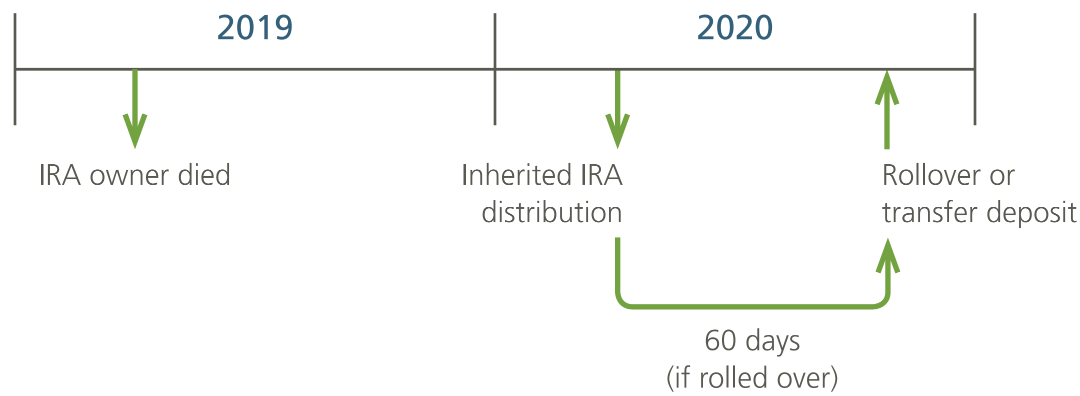
The previous year's December 31 balance is used as the account balance, and is adjusted by the following.

- Add any outstanding rollovers, which are distributions taken within the last 60 days of a year and rolled over after January 1 of the following year.
- Add any outstanding transfers, which are transfers not received in the same calendar year as they were sent from the transferor IRA or retirement plan.



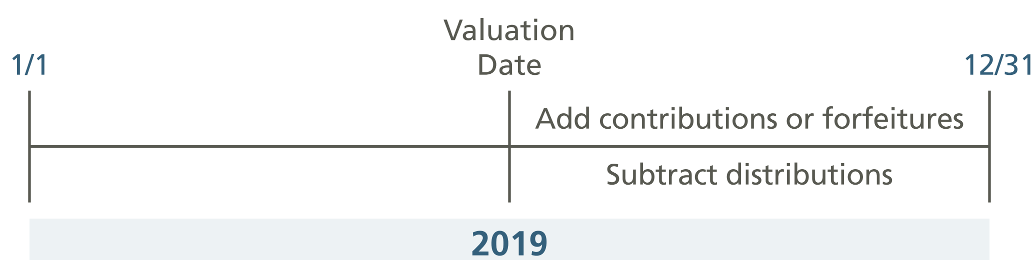
- Add to the receiving IRA the December 31 balance of the surviving spouse's inherited IRA if the assets were transferred or rolled over in the year after the deceased IRA owner's death, and the surviving spouse is age 70½ or older.

NOTE: *IRA balances used to determine RMDs will be reduced by the Qualifying Longevity Annuity Contracts (QLAC) premium cost which, subsequently, will reduce the taxpayer's RMD.*



For retirement plans that are not valued on the last day of the year, the account balance is the balance as of the last valuation date in the calendar year immediately preceding a year for which an RMD is due (the valuation year). Such amount is adjusted as follows.

- Add any contributions or forfeitures allocated to the account balance after the valuation date, but during the valuation year.
- Subtract any distributions made in the valuation year that may have occurred after the valuation date.



Calculating an RMD

The December 31, 2018, balance of Cindy's IRA at Valley Financial was $93,218.43. On January 12, 2019, Cindy rolled over $16,000 from her Traditional IRA at Central City Financial to her IRA at Valley Financial. The distribution from Central City Financial occurred on December 12, 2018. What balance should Valley Financial use to calculate Cindy's 2019 RMD?

Wilcox Productions operates Jon's 401(k) plan on a fiscal year, which runs from November 1 to October 31 and is valued quarterly. Wilcox Productions valued Jon's October 31, 2018, account balance at $164,734. The total of Jon's deferrals and employer matching contributions from October 31 through December 31 was $12,000. What balance should Wilcox Productions use to calculate Jon's 2019 RMD?

Calculating RMDs After an Account Balance Adjustment

A financial organization's data processing system will determine what additional steps must be completed to ensure that the RMD is calculated properly.

To ensure proper calculations, IRA administrators may need to answer the following questions.

Calculating RMDs After an Account Balance Adjustment

1. Does our system calculate the RMD based on an adjusted account balance or from the actual December 31 balance?

2. If our system uses an adjusted account balance, how are the adjustments coded and entered into the system?

3. If our system uses the actual December 31 balance, what process is in place to ensure that adjustments are made and that the RMD is calculated properly?

Applicable Distribution Period

The applicable distribution period is a divisor that is used to calculate the RMD each year. This divisor is based on either the Uniform Lifetime Table or the Joint Life Expectancy Table.

The account owner does not choose the divisor used to calculate the RMD; the divisor is based on the account owner's age and the beneficiary designation for each IRA or retirement plan.

To find the applicable distribution divisor, financial organizations must determine the account owner's attained age in the distribution year.

Attained Age = Current Year – Birth Year

Most account owners will use the Uniform Lifetime Table (ULT) to calculate their RMDs.

Uniform Lifetime Table					
Attained Age	Distribution Period	Attained Age	Distribution Period	Attained Age	Distribution Period
70	27.4	85	14.8	100	6.3
71	26.5	86	14.1	101	5.9
72	25.6	87	13.4	102	5.5
73	24.7	88	12.7	103	5.2
74	23.8	89	12.0	104	4.9
75	22.9	90	11.4	105	4.5
76	22.0	91	10.8	106	4.2
77	21.2	92	10.2	107	3.9
78	20.3	93	9.6	108	3.7
79	19.5	94	9.1	109	3.4
80	18.7	95	8.6	110	3.1
81	17.9	96	8.1	111	2.9
82	17.1	97	7.6	112	2.6
83	16.3	98	7.1	113	2.4
84	15.5	99	6.7	114	2.1
				115+	1.9

Some account owners may use the Joint Life Expectancy (JLE) Table to calculate their RMDs. This method is used only if both of the following requirements are met.

- The account owner's spouse is the only primary beneficiary during the entire year for which the RMD is calculated.
- The account owner's spouse is *more than* 10 years younger than the account owner.

Joint Life Expectancy Table

Ages	69	70	71	72	73	74	75	76	77	78	79
69	22.6	22.2	21.8	21.4	21.1	20.8	20.5	20.2	19.9	19.7	19.5
70	22.2	21.8	21.3	20.9	20.6	20.2	19.9	19.6	19.4	19.1	18.9
71	21.8	21.3	20.9	20.5	20.1	19.7	19.4	19.1	18.8	18.5	18.3
72	21.4	20.9	20.5	20.0	19.6	19.3	18.9	18.6	18.3	18.0	17.7
73	21.1	20.6	20.1	19.6	19.2	18.8	18.4	18.1	17.8	17.5	17.2
74	20.8	20.2	19.7	19.3	18.8	18.4	18.0	17.6	17.3	17.0	16.7
75	20.5	19.9	19.4	18.9	18.4	18.0	17.6	17.2	16.8	16.5	16.2
76	20.2	19.6	19.1	18.6	18.1	17.6	17.2	16.8	16.4	16.0	15.7
77	19.9	19.4	18.8	18.3	17.8	17.3	16.8	16.4	16.0	15.6	15.3
78	19.7	19.1	18.5	18.0	17.5	17.0	16.5	16.0	15.6	15.2	14.9
79	19.5	18.9	18.3	17.7	17.2	16.7	16.2	15.7	15.3	14.9	14.5
80	19.3	18.7	18.1	17.5	16.9	16.4	15.9	15.4	15.0	14.5	14.1
81	19.1	18.5	17.9	17.3	16.7	16.2	15.6	15.1	14.7	14.2	13.8
82	19.0	18.3	17.7	17.1	16.5	15.9	15.4	14.9	14.4	13.9	13.5
83	18.8	18.2	17.5	16.9	16.3	15.7	15.2	14.7	14.2	13.7	13.2
84	18.7	18.0	17.4	16.7	16.1	15.5	15.0	14.4	13.9	13.4	13.0
85	18.6	17.9	17.3	16.6	16.0	15.4	14.8	14.3	13.7	13.2	12.8

Applicable Distribution Period

Jon, born August 8, 1938, named his wife Cindy as the beneficiary of his 401(k) plan. Cindy, born June 19, 1949, named her husband Jon as the beneficiary of her Traditional IRA.

What is Jon's attained age in 2019?

What is Cindy's attained age in 2019?

Do you need Cindy's attained age to calculate Jon's RMD? Why or why not?

Do you need Jon's attained age to calculate Cindy's RMD? Why or why not?

What is Jon's distribution period?

What is Cindy's distribution period?

How Naming a Trust Affects the Account Owner's RMD

In most cases, the account owner's RMD is based on the ULT divisor when a trust is a beneficiary.

If the trust is a *qualified trust*, an account owner may be able to "look through" the trust and use the oldest trust beneficiary's age for calculating the RMD. If all of the following are true, the account owner and spouse may use the JLE Table when calculating the RMD.

- The trust is the only primary beneficiary of the IRA or retirement plan.
- The account owner's spouse is the sole beneficiary of the trust for the entire year.
- The spouse is more than 10 years younger than the account owner.

A trust will be treated as a qualified trust for purposes of computing the RMD if the trust meets all of the requirements to be a qualified trust for the full year for which the RMD is calculated.

Qualified Trust Requirements

For a trust to be considered a qualified trust, all of the following conditions must be true.

- The trust must be valid under state law.
- The trust must be irrevocable or become irrevocable upon the death of the account owner.
- The trust beneficiaries must be identifiable from the trust document.

The financial organization must receive the necessary paperwork from the account owner, which may be

- a copy of the trust document, or
- a list of all the trust beneficiaries and certification that the trust meets the qualified trust requirements.

If account owners use a certification, they must provide the financial organization with a copy of the trust document upon request.

NOTE: *For Ascensus'* Fully-Administered Program *clients, Ascensus does not review trust instruments to determine if a trust meets the qualified trust rules.*

With either approach, the account owner must agree to provide the financial organization with a copy of the new trust document or a new certification should the trust be amended in the future.

Effect of Beneficiary Change on RMD

The applicable distribution period is based on the IRA owner or plan participant's beneficiary designation on January 1 of each year.

- Beneficiary changes during the year may affect the RMD calculation.
- The applicable distribution period typically is calculated using the Uniform Lifetime Table (ULT).

There are two situations when a change in beneficiary designation will affect the RMD calculation.

Effect of Beneficiary Change on RMD				
	Table Before Change	Table After Change	Year Table Changes	Effect on RMD in Year Table Changes
Change From a Younger Spouse Beneficiary* to Any Other Beneficiary				
Not due to death or divorce	**JLE**	**ULT**	**Same Year**	⬆
Due to death	**JLE**	**ULT**	**Year After**	⬆
Due to divorce (beneficiary change made in the same year)	**JLE**	**ULT**	**Same Year**	⬆
Due to divorce (beneficiary not changed in divorce year)	**JLE**	**ULT**	**Year After**	⬆
Change from Any Beneficiary to a Younger Spouse Beneficiary*				
Any reason	**ULT**	**JLE**	**Year After**	⬇

*A younger spouse beneficiary is a spouse beneficiary that has an attained age more than 10 years younger than the IRA owner's attained age.

Reporting RMDs

If an RMD is required for the year, and the IRA owner is alive at the beginning of such year, the financial organization holding the IRA as of December 31 of the previous year must provide a statement to the IRA owner (IRS Notices 2002-27 and 2003-3).

Financial organizations or their data processors will need a system that reminds them to make these notifications and computes the estimated RMDs.

NOTE: *This requirement does not apply to employer-sponsored retirement plans. But plan administrators generally notify participants of their RMD amount and the deadline to remove it during the year.*

To the IRA Owner

An RMD statement must be sent by January 31 of each year to each Traditional or SIMPLE IRA owner who has an RMD due for the current year.

- This mailing may include IRA owners who have not made payment elections but will reach age 70½ in the current year.
- The RMD statement must include the following information.
  - A statement that an RMD is required.
  - The deadline to take the RMD.
  - A statement that the IRS will be notified.
  - The estimated RMD amount or a statement that the RMD amount will be calculated upon request.

NOTE: *The estimated RMD is based on the Uniform Lifetime Table divisor and the prior year's December 31 FMV (without adjustments).*

Although the IRS does not require a special form to report estimated RMDs to IRA owners, the following boxes have been added to IRS Form 5498, *IRA Contribution Information*, which may be used to report the RMD to the IRA owner.

Box 12a – The deadline by which the IRA owner must receive the RMD to avoid an excess accumulation penalty tax.

Box 12b – The estimated RMD amount that must be distributed to the IRA owner by the deadline.

To the IRS

Financial organizations must identify to the IRS on Form 5498 each IRA for which an RMD is due for the current tax year. Financial organizations do not have to report the RMD amount. Forms 5498 must be sent to the IRS by May 31 of each year.

Box 11 – Notifies the IRS and IRA owner if an RMD is due for the year in which the statement is delivered.

IRS Form 5498

2828 ☐ VOID ☐ CORRECTED

TRUSTEE'S or ISSUER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code

1 IRA contributions (other than amounts in boxes 2–4, 8–10, 13a, and 14a) $

OMB No. 1545-0747

2019

Form 5498

IRA Contribution Information

2 Rollover contributions $

3 Roth IRA conversion amount $

4 Recharacterized contributions $

Copy A

For Internal Revenue Service Center

File with Form 1096.

TRUSTEE'S or ISSUER'S TIN

PARTICIPANT'S TIN

5 FMV of account $

6 Life insurance cost included in box 1 $

PARTICIPANT'S name

7 IRA ☐ SEP ☐ SIMPLE ☐ Roth IRA ☐

8 SEP contributions $

9 SIMPLE contributions $

Street address (including apt. no.)

10 Roth IRA contributions $

11 Check if RMD for 2020 ☐

12a RMD date

12b RMD amount $

City or town, state or province, country, and ZIP or foreign postal code

13a Postponed/late contrib. $

13b Year

13c Code

14a Repayments $

14b Code

Account number (see instructions)

15a FMV of certain specified assets $

15b Code(s)

For Privacy Act and Paperwork Reduction Act Notice, see the **2019 General Instructions for Certain Information Returns.**

Form **5498** Cat. No. 50010C www.irs.gov/Form5498 Department of the Treasury - Internal Revenue Service

Do Not Cut or Separate Forms on This Page — Do Not Cut or Separate Forms on This Page

Handling Rollovers and Transfers After Age 70½

Many questions arise when applying the RMD rules to real-life situations.

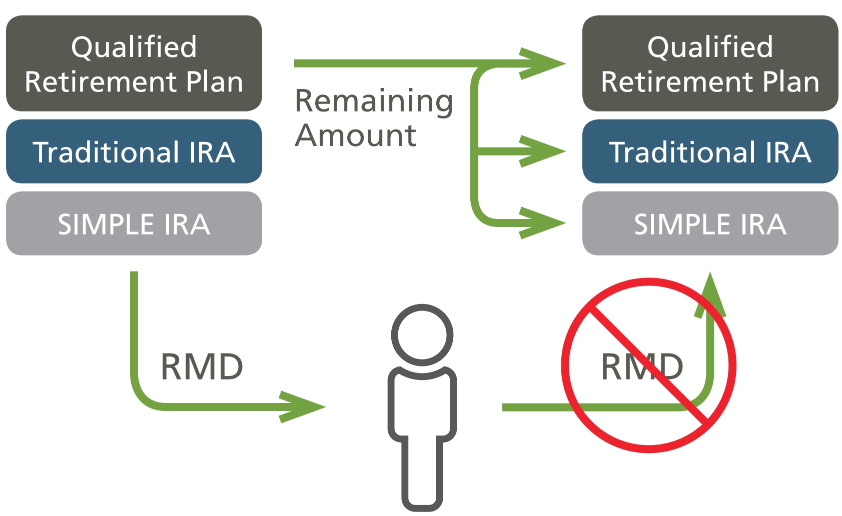
Transferring RMDs

The preamble to the RMD regulations specifically allow for IRA-to-IRA transfers that include RMD amounts. In addition, Treasury Regulation 1.408-8, Q&A 8, further specifies that a transfer is not treated as a distribution by the transferor (sending) IRA. Accordingly, any RMD that applies to the transferor IRA still must be satisfied.

IRA owners are not required to distribute their RMDs before transferring IRA balances to another IRA. A financial organization, however, may have a policy that requires IRA owners to remove their RMDs before transferring assets into that organization.

Rollover in 70½ Year or Later

If an account owner requests a distribution in a year in which an RMD is required, the first dollars distributed count toward satisfying the account owner's RMD for the year. RMDs are not eligible to be rolled over to another retirement plan or IRA. If the distribution is coming from a retirement plan, a participant should receive one check for the RMD amount and another check for the eligible rollover amount. If the distribution is taken from an IRA, it is the IRA owner's responsibility to determine the eligible rollover amount. Some financial organizations may assist in determining this amount.



Handling Rollovers and Transfers After Age 70½

Jon's best friend, Frank, age 75, is moving next door to Jon. Jon recommended that Frank move his IRA to Valley Financial. Frank has not taken his 2019 RMD ($4,028.16). Frank is in Jewel Financial Organization today, August 5, 2019, to withdraw his IRA balance ($38,670.31) and roll it over to Valley Financial. How should you handle the distribution to Frank?

Taking the RMD From Another IRA

If an IRA owner has more than one Traditional IRA, the IRA owner may elect to receive the RMD for one Traditional IRA from any other Traditional IRA that she owns.

An IRA owner cannot take a Traditional IRA RMD from an inherited IRA or from a Roth IRA.

The IRA owner should inform the financial organization of plans to take the RMD from an IRA at another financial organization.

To protect the financial organization, Ascensus recommends having the IRA owner complete a form indicating that the IRA owner is responsible for removing their RMD from another IRA.

Although an IRA owner may aggregate the RMDs of IRAs that she holds as the original owner, an RMD required for an IRA may not be aggregated with an RMD required for an employer-sponsored retirement plan. An employer-sponsored retirement plan RMD must be taken from the respective plan.

Missed RMDs

The IRS imposes a 50 percent excess accumulation penalty tax on the IRA owner or plan participant for the portion of an RMD not taken by the deadline.

A retirement plan that assumes responsibility for missed RMDs may use the IRS' Voluntary Correction Program (VCP) to correct the missed RMD, and when corrected, the participant will not be subject to the excess accumulation penalty tax. The retirement plan must make sure the RMD is distributed to the participant when submitting through VCP.

The excess accumulation penalty tax is calculated using the following equation.

$$\begin{array}{r} \text{RMD amount} \\ -\ \text{All taxable IRA distributions} \\ \hline \text{Excess accumulation} \end{array}$$

- All of an IRA owner's Traditional and SIMPLE IRAs are treated as one for this purpose. Traditional and SIMPLE IRAs for which the IRA owner is a beneficiary are not included in this calculation. The IRA owner may have satisfied the RMD requirement by receiving money from another Traditional or SIMPLE IRA that he owns.
- All distributed Traditional or SIMPLE IRA assets are used to satisfy an RMD, even the portion of a distribution that is a return of Traditional IRA basis.
- A plan participant must distribute a retirement plan RMD separately from an IRA RMD.
- An account owner may apply for a waiver if she can prove that the excess accumulation was because of reasonable error and that reasonable steps are being taken to remedy the excess. Account owners wishing to apply for the waiver should complete IRS Form 5329, *Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts*, and attach a letter of explanation.
  - For example, the account owner may explain that the excess accumulation was distributed as soon as the missed RMD payment was discovered.

The IRS will determine whether to waive the excess accumulation penalty tax.

The IRS will not penalize the financial organization for missed IRA RMD payments.

- IRA owners rely on the financial organization to be the financial expert. Plan participants rely on the direction provided by the plan administrator.
- An account owner may seek damages from the financial organization if the excess accumulation is the result of the financial organization not distributing the RMD as requested by the account owner or as required under the default payment arrangement.

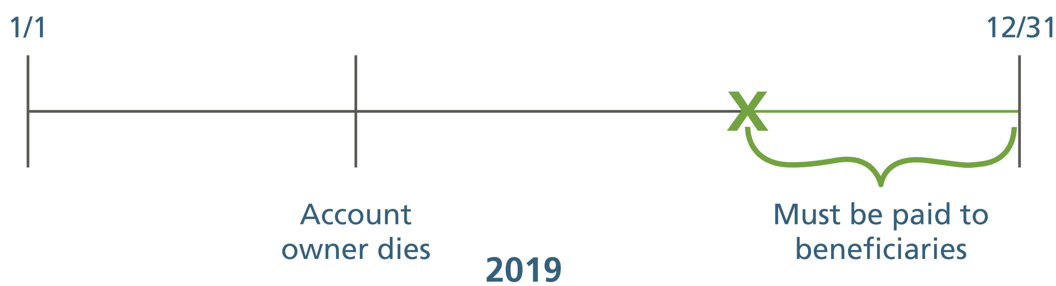
Missed RMDs

Bonnie, age 80, was not set up to automatically take her RMD each year. Today is January 5, 2020, and she realized that she failed to take her 2019 RMD. What option is available to Bonnie to avoid the 50 percent penalty tax for failing to take her RMD?

Satisfying the Year-of-Death RMD

If an account owner dies before satisfying the RMD for the year, the beneficiaries must distribute the remaining RMD amount by December 31 in the year of death. If there are multiple beneficiaries, each beneficiary is responsible for removing the beneficiary's portion of the RMD amount in the year of death; one beneficiary cannot satisfy the entire RMD amount. For example, if there are three beneficiaries sharing equally in an IRA and the RMD amount is $600, each beneficiary must take $200.

Financial organizations must report the RMD as a death distribution under each beneficiary's name and Social Security number. If a beneficiary fails to receive the RMD by December 31 in the year of death, a 50 percent excess accumulation penalty tax applies to the amount that should have been taken but was not.



Satisfying the Year-of-Death RMD

Frank, age 75, passed away on March 15, 2019. He did not take his 2019 RMD. His brother, Arthur is the beneficiary and wants to leave it as a beneficiary IRA and take life expectancy payments.

What needs to happen with the RMD for the year of death?