

Calculating 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. If you turned age 70½ on or before December 31, 2019, your RBD is April 1 following the year you reach age 70½. If you turned age 70½ on or after January 1, 2020 your RBD is April 1 following the year you turn age 72. 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.

Calculating the RMD

Most IRA owners and QRP participants use the Uniform Life Expectancy Table (Uniform Table, shown on page 2) to calculate their RMDs. However, when your spouse is the sole primary beneficiary for the entire year and is more than 10 years younger (11 or more) than you are, the Joint Life Expectancy Table is used instead. This results in a larger life expectancy divisor and smaller RMDs.

IRA Owner RMD Formula

| | | | |
|-----------------------------|---|--|--------------|
| <u>Prior Year-End Value</u> | | | Required |
| Uniform or Joint Life | = | | Minimum |
| Table Divisor | | | Distribution |

The Year-End Value is the value of the account as of December 31 of the prior year. The Uniform Table Divisor is based on the age the IRA owner will attain by December 31 of the current year. The Joint Life Table Divisor is based on the ages that the IRA owner and spouse beneficiary will attain by December 31 of the current year. The Joint Life Table can be found in IRS Publication 590b.

Keep in mind

- Failure to take your RMDs on time or in the right amount may subject you to an IRS 50% excise tax for every dollar under-distributed. You can always take more than the minimum without penalty
- The RMD due in any given year is calculated by dividing the previous year's December 31 IRA value(s) by the applicable Uniform or Joint Life Table divisor.
- The year-end value may need to be adjusted in certain situations, such as for outstanding rollovers and transfers, and annuities held in your IRA that may be subject to the Entire Interest Regulation. Consult your tax advisor to verify the values that should be used in your calculation.
- If you have more than one IRA, you must calculate the RMD for each IRA separately. However, you may take your distribution from whichever Traditional, SEP, and SIMPLE IRA(s) you choose.
- You cannot aggregate RMDs from all of your QRPs. You have to take RMDs from each QRP.
- You cannot satisfy your IRA RMD from your QRP or vice versa.

- You cannot aggregate RMDs you take as an IRA owner with any RMDs you take as an IRA beneficiary. Please note the SECURE Act changed distribution options for non-spouse beneficiaries. Taking RMDs is an option for a non-spouse or qualified trust beneficiary who inherited retirement accounts where the IRA owner or plan participant died on or before December 31, 2019. Eligible designated beneficiaries (EDB) who inherited an IRA or QRP in 2020 or later can also take RMDs. EDBs are:
 - A spouse
 - Disabled or chronically ill individuals
 - Individuals not more than 10 years younger, the same age, or older than IRA owner
 - Child of the account owner who has not reached age of majority (yet to be defined)
- You can distribute up to \$100,000 per year, beginning when you are age 70½, directly from your IRA to a 501(c)(3) nonprofit as a qualified charitable distribution (QCD) that can satisfy all or portion of your RMD or exceed it. 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.

Uniform Table¹

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

¹IRS Publication 590b

Uniform Table example:

Bob will be 75 in November of this year. His December 31 IRA value for last year was \$200,000. The Uniform Table shows a life expectancy of 22.9 years, for someone age 75, and is the divisor to be used to calculate Bob's RMD. Bob's RMD for this year is \$8,734 ($\$200,000 \div 22.9$).

Joint Life Table example:

Sue will be 75 in April of this year. Her spouse, Lenny, will be 60 this year and is the sole primary beneficiary of her IRA. Her December 31 IRA value is \$200,000. The Joint Life Table shows a life expectancy of 26.5 to be used when a spouse is age 60 and the IRA owner is age 75. Sue's RMD for this year is \$7,547 ($\$200,000 \div 26.5$).

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

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