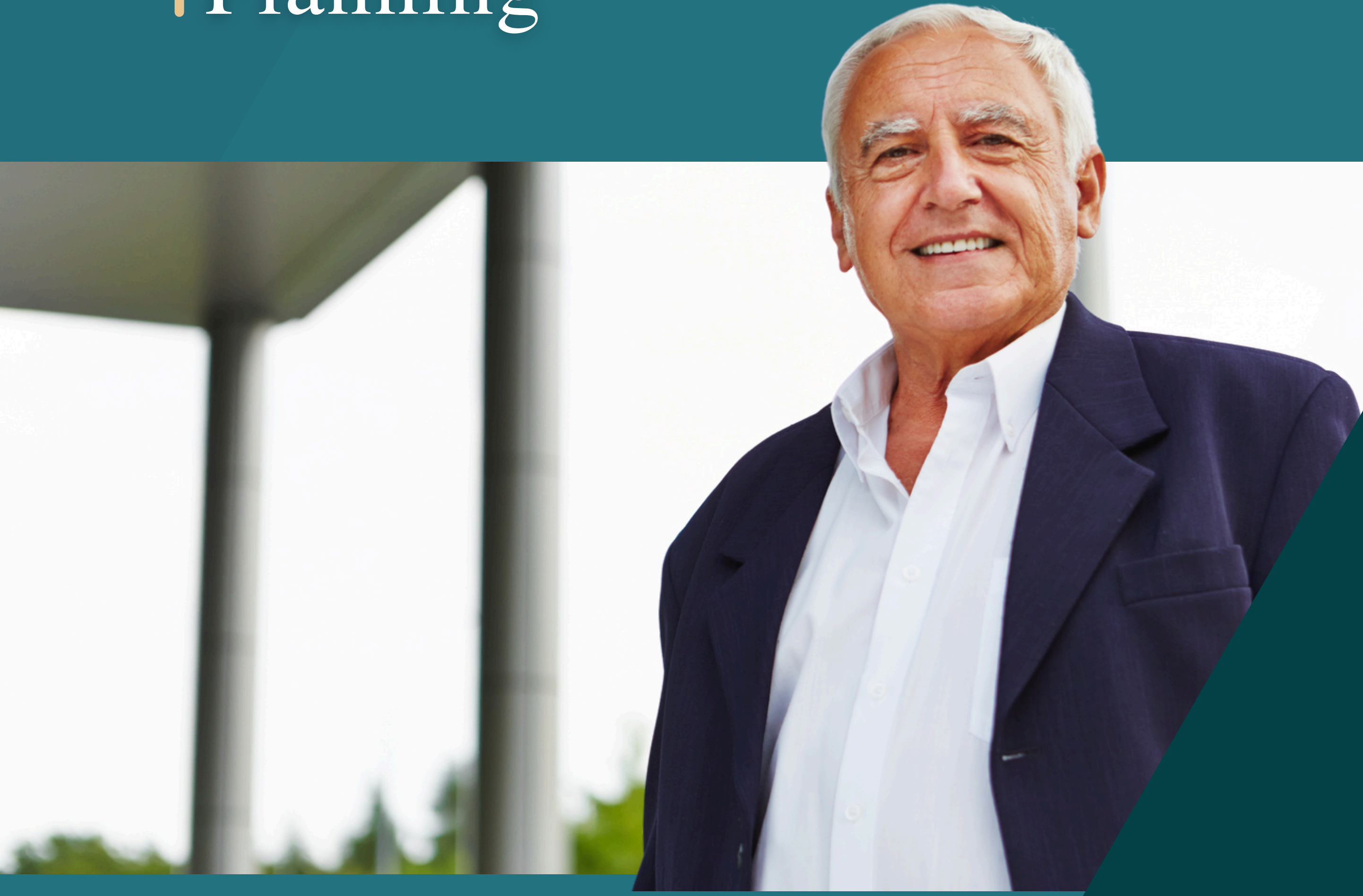
Protect Retirement Wealth

Through Better RMD Planning



A guide for pre-retirees and new retirees to understand RMD and the resulting tax bill.

MBE CPAs

1 Why This Stage of Life Deserves a Closer Look

Shifting into retirement is an anticipated life event, but pre-retirees don't foresee many aspects of it. One major adjustment is that the IRS begins requiring withdrawals from tax-deferred retirement accounts. **Required Minimum Distributions** are mandatory annual withdrawals from Traditional IRAs, 401(k)s, 403(b)s, and similar accounts that are taxed as ordinary income.

This guide aims to help you understand the importance of RMDs for tax planning and sheds light on where a CPA can add the most value.

REQUIRED MINIMUM DISTRIBUTION STARTING AGES:

The age at which RMDs begin depends on your birth year:

Birth Year	Age RMDs Begin
1950 or earlier	72 – RMDs should already be underway
1951-1959	73
1960 or later	75

Your first RMD can be delayed until April 1 of the year after you reach your RMD age. A second RMD is also due by December 31 of that same year. Two taxable distributions can push you into a higher bracket if it isn't planned for in advance.

RMD starting ages have been pushed back. *Recent legislation, including the SECURE Act, lowered some of the penalties for missed distributions. While favorable for retirees, it adds complexity. Correct withdrawal calculations and income coordination matter more than ever.*

How Your RMD is Calculated

RMD is a common point of confusion for new retirees, since the rule has frequently changed in recent years.

First RMD deadline

Delayed until **April 1** the year after you reach your RMD age.

The "two RMD" year

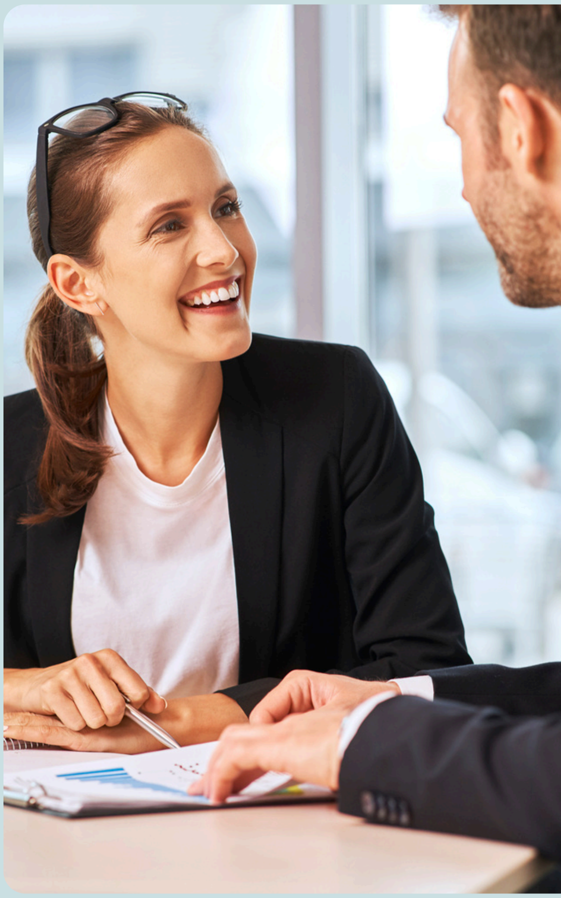
A second RMD is due by December 31 the same year.

Calculating Your RMD

Your retirement account's balance on December 31 of the previous year is divided by the applicable IRS life expectancy factor. This is determined based on your age and the specific lifetime table for your situation.

Here are some details to take note of:

- **IRAs can be aggregated:** Calculate the RMD for each IRA separately, and withdraw the total from any single IRA or combination.
- **401(k) and 403(b) plans generally cannot be aggregated with each other.**
- **RMDs can be delayed:** Some employer plans allow you to delay RMDs if you're still working and don't own more than 5% of the company.
- **RMDs must be taken before any conversion in the same year.**



Missing an RMD or withdrawing less than required can trigger an excise tax. The SECURE Act lowered this penalty, but an unplanned 10-25% tax is still a cost worth avoiding. Check that you're making accurate, timely calculations.

2 How Your RMD is Calculated

To calculate your RMD, first determine your retirement account balance as of December 31 of the previous year. This will be divided by your Life Expectancy Factor (distribution period), which you can find in the IRS tables for the age you turn in the current year.

REQUIRED MINIMUM DISTRIBUTION CALCULATION:

$$\text{RMD} = \frac{\text{Prior Year-End Account Balance}}{\text{Life Expectancy Factor}}$$

Identifying Your Applicable Table

Your 2026 IRA life expectancy table depends on your situation. When selected correctly, you can calculate the appropriat elife expectancy factor for your RMD.

- **Uniform Lifetime Table:** Used by most original IRA owners.
- **Joint Life Expectancy Table:** Used only if your sole beneficiary is your spouse and they are more than 10 years younger.
- **Single Life Expectancy Table:** Used if you are an inherited IRA beneficiary.

The first step to RMDs is getting your calculation right each year. Many retirees don't consider that the same tax rules will eventually apply to your heirs. Several choices you make now, such as whether to use a trust or how much you draw from Roth conversions, affect your tax bill size under current SECURE Act rules.

Remember that your life expectancy factor corresponds to your age on ***December 31st of the current distribution year, not the prior.*** *You have until April 1 of the year after you reach your RMD age to take the withdrawal.*

3 Estate Planning and Your RMDs

While RMD planning shapes your own lifetime withdrawals, it also extends to how your retirement accounts pass to the next generation. Coordinating your RMD strategy with your estate plan might lessen your heirs' potential tax burden.

The 10-Year Rule:

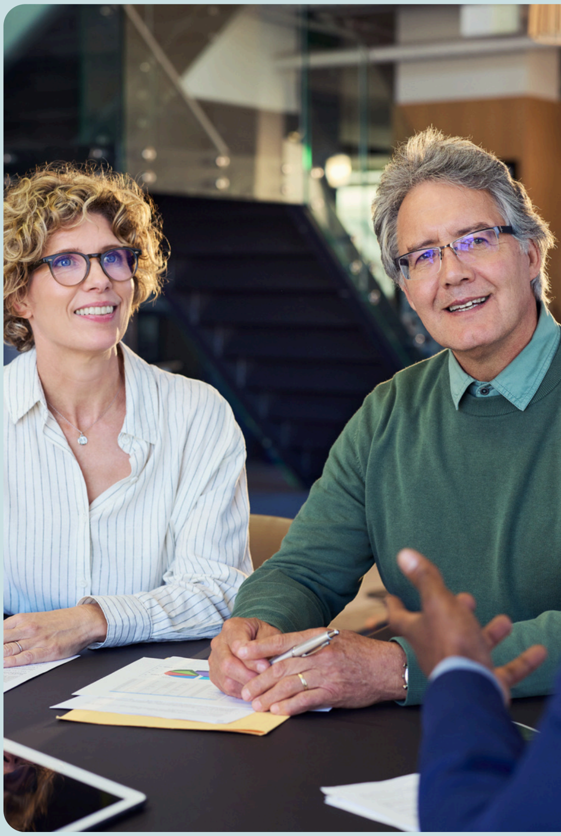
For most beneficiaries who inherit an IRA or 401(k), the full balance must be withdrawn within 10 years of the original owner's death. Without planning, heirs could be pushed into higher tax brackets.

Coordinating Your RMD

Moving into retirement, periodically review your RMD decisions, trust design, and benficiary designations to check that choices you made years ago still make sense now.

When planned for, RMD and Estate plans work together:

- **Trust structures:** In some cases, naming a trust as an IRA beneficiary can help control the pace of your fund distribution.
- **Reducing your account balance:** Reducing your tax bill can later impact the account balance that passes to heirs, potentially lowering their tax exposure in that 10-year window.
- **Beneficiary designations:** Outdated, missing, or incomplete beneficiary forms can trigger a less favorable distribution timeline.



Under SECURE Act rules, your heirs receive and pay taxes on the retirement accounts they inherit. Consider coordinating a plan that can help minimize the burden that exists after your lifetime.

4 The Five Approaches to Help Manage Your Tax Impact

A large distribution can affect Medicare premiums, the taxability of Social Security benefits, and eligibility for certain deductions. To manage that impact, broaden your understanding of a number of strategies.

1. Qualified Charitable Distributions

A QCD allows funds to move directly from an IRA to an eligible 501(c)(3) charity. The amount transferred is excluded from taxable income and can count toward all or part of that year's RMD.

Once you reach age 70.5, you can make a QCD. Make note of these important facts:

- **For 2026,** the QCD limit is **$111,000** per individual.
- A one-time QCD of **up to $55,000 (2026 limit)** can also be directed to fund a charitable remainder trust or gift annuity.
- Funds distributed to the account owner first and then donated **do not qualify as a QCD**.
- QCDs apply to IRAs, not to active employer-sponsored plans such as 401(k)s.

2. Roth Conversions Before RMD Age

Converting Traditional IRA funds to a Roth IRA in lower-income years before RMDs begin moves those dollars out of future RMD calculations. This also allows future growth to come out tax-free, but it depends on comparing today's tax rate to the rate at which income would be taxed in retirement.

This is an analysis worth running with a tax advisor before acting.

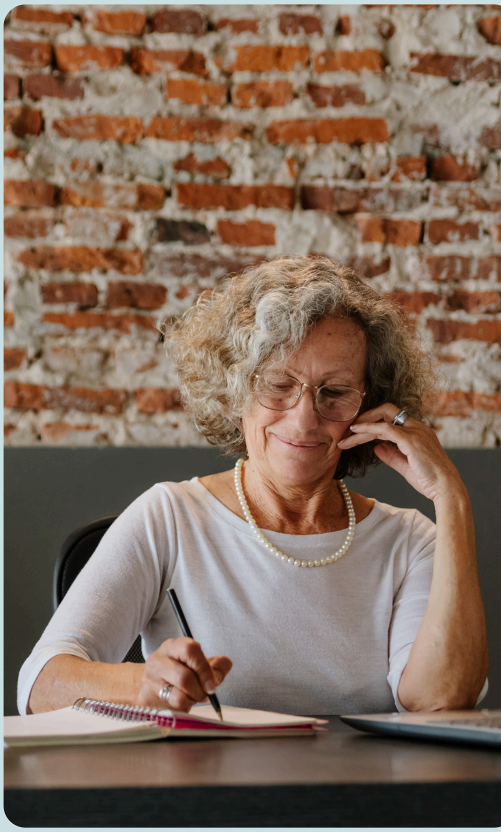
The Five Approaches to Help Manage Your Tax Impact

3. Timing and Brack Management

Opportunities to smooth out withdrawals, time large expenses, or coordinate RMDS with pensions and Social Security can be highlighted by reviewing multi-year income projections. It is beneficial to focus on staying within a target tax bracket or below an IRMAA threshold.

4. Qualified Longevity Annuity Contracts

A portion of an IRA or 401(k) balance can be used to purchase a QLAC. These are excluded from the RMD calculation until income payments begin at a later age, reducing the account balance subject to RMDs in the interim.



5. Aggregating and Coordinating Across Accounts

For those with multiple IRAs, choosing which account to draw the aggregated RMD from can be useful. For example, leave some accounts to continue growing while drawing down accounts with underperforming holidngs or higher fees first.

How you withdraw money significantly impacts your overall tax bill. To see which options make sense for you, it is helpful to review your overall financial picture.

5

RMD Mistakes You Can Avoid

Required Minimum Distributions can be a complex situation in retirement, but they are rather important. Knowing these common mistakes can help you wield a grasp on this portion of your retirement plan.

Common RMD Mistakes to Avoid

- **Waiting until December to calculate and take the year's RMD.** This leaves no time to correct an error, and doubling your RMDs means potentially doubling the income tax you'll owe on those distributions.
- **Forgetting accounts from previous employers.** Each 401(k) or 403(b) account subject to RMDs must have its own separate distribution.
- **Overlooking inherited accounts with separate rules.**
- **Assuming a QCD can be made from a 401(k) rather than an IRA.** If you have multiple IRA accounts, you have some flexibility in how you take your distributions, which is a valuable planning opportunity. For example:
  - If the market is down, you could choose to take your RMD from a more conservative account and allow investments to recover over time.
  - You might decide to take your RMD from an account that experienced a significant increase to rebalance and reduce your risk.
- **Taking a QCD but not obtaining the charity's written acknowledgment needed to substantiate it on the tax return.**
- **Overlooking how a large RMD can trigger a higher medicare premium.** IRMAA is based on income from two years prior.

As retirement is a crucial part of your future, remember to start your RMDs on time and be mindful of the taxed associated with not doing so.

6 How an Accountant can Help at This Stage

RMD planning combines tax laws, retirement account rules, and year-round income plans that can be difficult to coordinate alone.

Partnering with accountants can help with this level of coordination, offering more insights that surpass once a year return preparation.

1. Accurate calculations:

Help with determining your RMD beginning age, life expectancy factor, and account balances across all that you hold, including those from past employers.

2. Multi-year tax projections:

Your CPA can help model how RMDs might interact with your Social Security, pensions, and other income. These projections can anticipate potential bracket changes, IRMAA thresholds, and the taxability of benefits.

3. QCD strategy and documentation:

Here is where evaluating whether Qualified Charitable Distributions fit your charitable goals. Get help coordinating the timing and amount with your RMD.

4. Roth conversion analysis:

Compare your current and projected future tax rates to help decide whether converting funds before RMDS is the best fit for your situation.

5. Penalty deadline tracking:

Here is where a CPA can help with timely distributions and deadlines. If a shortfall does occur, determining eligibility for the reduced excise tax rate or a penalty waiver might be easier with a partner.

6**. Coordination with your broader plan:**

By working alongside your financial advisor and estate attorney, a CPA can help straighten the decisions that support your overall retirement and tax strategy.

7 Are You Feeling Confident About Retirement?

Retirement Readiness Checklist:

- [ ] Determined RMD beginning age, based on birth year
- [ ] Understand the deadline for first RMD and “two RMD” year
- [ ] Identify each account subject to RMDs, including old employer plans
- [ ] Know which accounts can be aggregated and which must be taken separately
- [ ] Can calculate RMD using
- [ ] Org chart, key employee roles, and tenure
- [ ] Recent comps, market reports, or relevant trade data
- [ ] Clear articulation of why you need the valuation and how you'll use it

Conclusion

Making RMDs Part of a Bigger Plan

Beginning your Required Minimum Distributions shifts retirement from being theoretical to real. Years of saving finally feel like they matter when your starting age draws nearer, and the penalties for missing it feel heavy. Handled well and with a plan, the transition into this life event can feel smoother. If you can plan around paying more in tax than necessary, it's a good idea to start putting those tips in place now.

MBE CPAs is here to help you understand those tips and how they might fit in your plan. Reviewing your accounts, calculating yoru RMDs, and building upon the goals you have already set for your future. Having someone by your side can help you answer the questions that arise as your situation changes from one year to the next.

Use this guide as a reference, share it with your advisors, and revisit it as your retirement goals adapt. Protect your retirement wealth, and grow it.

Contact an MBE CPAs Advisor

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