



Understanding Required Minimum Distributions (RMDs)

mfs.com

When you reach age 73,¹ you must begin to draw funds from your traditional individual retirement accounts (IRAs) and qualified plans such as 401(k)s.²

If you have other sources of income to support you in retirement, it may make sense to take just the minimum required amount from your IRAs so more of your retirement money continues to be invested tax deferred on your behalf. Taking an amount in excess of what is required or needed may waste a valuable tax-deferral opportunity. For those entering the distribution phase of retirement investing, it is important to have a solid distribution strategy in place.

How do you calculate RMDs?

Generally, to calculate your RMD for the current year, divide your year-end retirement account value for the previous year by the appropriate factor from the IRS Uniform Lifetime Table (on the left).

The Uniform Lifetime Table assumes a life expectancy based on the owner's age and an assumed beneficiary who is 10 years younger. The Joint Life and Last Survivor Expectancy table is used if your spouse is your sole beneficiary and is more than 10 years younger than you. You can find the Joint Life Table in IRS publication 590.

If you made a rollover out of an IRA at year-end, you should consult your tax advisor about whether you need to include the amount rolled out of the IRA in that IRA's year-end value.

The calculation formula

The formula for calculating your RMD is as follows:

$$\frac{\text{End-of-year account value}}{\text{Uniform Lifetime Table factor}} = \text{RMD}$$

Use the IRS Uniform Lifetime Table to calculate your RMD

AGE OF RETIREE	DISTRIBUTION FACTOR
72	27.4
73	26.5
74	25.5
75	24.6
76	23.7
77	22.9
78	22.0
79	21.1
80	20.2
81	19.4
82	18.5
83	17.7
84	16.8
85	16.0
86	15.2
87	14.4
88	13.7
89	12.9
90	12.2
91	11.5
92	10.8
93	10.1
94	9.5
95	8.9
96	8.4
97	7.8
98	7.3
99	6.8
100	6.4

Source: irs.gov.

KEY POINTS

- The designated beneficiary may be changed even after distributions to the owner have begun.
- The beneficiary has no impact on the RMD for the owner, unless the beneficiary is the spouse and is more than 10 years younger than the owner.

¹ Under the "Setting Every Community Up for Retirement Enhancement Act" of 2019, as revised in 2022 ("the SECURE Act 2.0"), the required beginning date of RMDs was raised from age 72 to 73 for any person who attained age 72 after December 31, 2022. There is no change to RMDs for people who turned age 72 prior to January 1, 2023.

² Participants in "qualified" employer-sponsored plans, such as 401(k) plans, who work past age 73 may generally defer distributions from those plans until April 1 of the year following the one in which they retire, as long as they are not owners of 5% of the sponsoring company.

This material should be used as helpful hints only. Each person's situation is different. You should consult your investment professional or other relevant professional before making any decisions.



Understanding Required Minimum Distributions (RMDs)

Multiple IRAs

If you have more than one traditional IRA, you must determine a separate required distribution for each IRA because different distribution factors may apply in some cases. However, you can total these minimum amounts and take the total from any one or more of the IRAs.

Employer plans

The RMD rules for employer plans are different from the rules for IRAs. One significant difference is that you cannot aggregate your RMDs from multiple employer plans. Your RMD from each plan must be separately calculated and withdrawn. The second significant difference is that you do not have to take an RMD from your current employer's plan until you actually retire as long as you do not own 5% or more of the company.

Additional RMD start date information

If you choose to wait until April 1 of the year following the year you turn 73* to receive your first distribution, you will need to take a second distribution by December 31 of the same year. All subsequent distributions must be taken by December 31 each year.

If an IRA owner dies after turning 73* but before the IRA owner's distribution for the year of death has been made, the distribution must be made to the beneficiary in the year of death.

RMDs at a glance

Plan type	RMD factor	RMD start date	Aggregation allowed
IRA	Uniform Lifetime or Joint Life and Last Survivor Expectancy table	Age 73*	Yes — with other IRAs only
Roth IRA	No RMD required	None	N/A
403(b)	Uniform Lifetime or Joint Life and Last Survivor Expectancy table	Age 73* or year of retirement, if later**	Yes — with other 403(b) accounts
401(k) or other qualified plans	Uniform Lifetime or Joint Life and Last Survivor Expectancy table	Age 73* or year of retirement, if later**	No
Roth 401(k), 457b, 403(b)	Uniform Lifetime or Joint Life and Last Survivor Expectancy table	Effective 2024, RMDs are not required during the owner's life for Designated Roth accounts	No — 401(k), 457b Yes — 403(b)

*Under the "Setting Every Community Up for Retirement Enhancement Act" of 2019, as revised in 2022 ("the SECURE Act 2.0"), the required beginning date of RMDs is raised from age 72 to 73 for any person who attains age 72 after December 31, 2022. There is no change to RMDs for people who turned age 72 prior to January 1, 2023.

**Special rules apply to amounts accrued in a 403(b) plan prior to 1987.

Beneficiary RMDs

Spouse beneficiaries have a choice of whether to roll the assets into their own IRA immediately, to roll later or to leave the assets in a beneficiary IRA and take RMDs from the account when required. The decision may take into account the beneficiary's age and need for access to the assets. Before making a decision, the beneficiary should consult with his or her investment professional and tax advisors. Keep in mind that there are advantages and disadvantages to an IRA rollover depending on the investment options, services, fees and expenses, withdrawal options, required minimum distributions, tax treatment and your unique financial needs and retirement goals.

Understanding Required Minimum Distributions (RMDs)

Spouse beneficiaries younger than age 59½ who need or want access to IRA assets may avoid early distribution tax penalties by maintaining the IRA as a beneficiary IRA, from which early withdrawals are not subject to penalty.

Non-spouse beneficiaries are not permitted to roll inherited IRA assets to their own IRA, but can roll the assets into an inherited IRA held in the name of the decedent. Non-spouse beneficiaries who do not meet an exception must fully deplete the inherited IRA by the end of the 10th year after the IRA owner passes. Some of these beneficiaries will be required to take a minimum distribution in each of the ten years while others are not required to. You may want to consult your tax advisor about your specific situation.

Disabled beneficiaries, chronically ill beneficiaries, people who are not more than 10 years younger than the decedent and the IRA owner's minor children are considered eligible designated beneficiaries. Eligible designated beneficiaries can use their own single life expectancy to calculate their annual required minimum distributions.

When the IRA holders minor children reach the age of majority they will switch to the ten year rule.

The five-year rule (that all assets must be distributed within five years) generally applies if there is no designated beneficiary or if the beneficiary is a charity or estate (entities with no life expectancy) and the owner dies before the required beginning date. Some trusts are considered designated beneficiaries and some are not.*

*Some trusts may be paid out within 10 years or over the life expectancy of a beneficiary. Consult your attorney or tax advisor.

**In 2023, the SECURE Act 2.0. reduced the IRS penalty for taking out less than your full RMD from 50% of the underpayment to 25% (10% if corrected in a timely manner). You should consult your investment professional or tax advisor about your specific situation.

Consolidating IRAs

Why consolidate to a single IRA? Many retirees have assets in a variety of accounts. Consolidating assets in a single IRA may reduce the chance of a calculation error. In 2023, the penalty for taking out less than your full RMD is 25% of the amount that was required but not taken.** In addition, consolidating to a single IRA may

- simplify asset allocation and rebalancing
- simplify tax reporting
- simplify beneficiary review and management
- reduce fees

RMD planning opportunities

RMDs can present planning opportunities for individuals who do not need all the assets. For example,

- 529 savings plan accounts for younger family members
- Charitable-giving options

Resources

IRS Publication 590-B, Distributions from *Individual Retirement Arrangements*
irs.gov

Ask your investment professional for the following MFS® publications:

- “Top IRA Planning Mistakes” infosheet

This material is provided for general and educational purposes only and is not investment advice. The investments you choose should correspond to your financial needs, goals and risk tolerance. Please consult an investment professional before making any investment or financial decisions or purchasing any financial, securities or investment-related service or product, including any investment product or service described in these materials.

Contact your financial advisor or investment professional for more information or visit mfs.com.