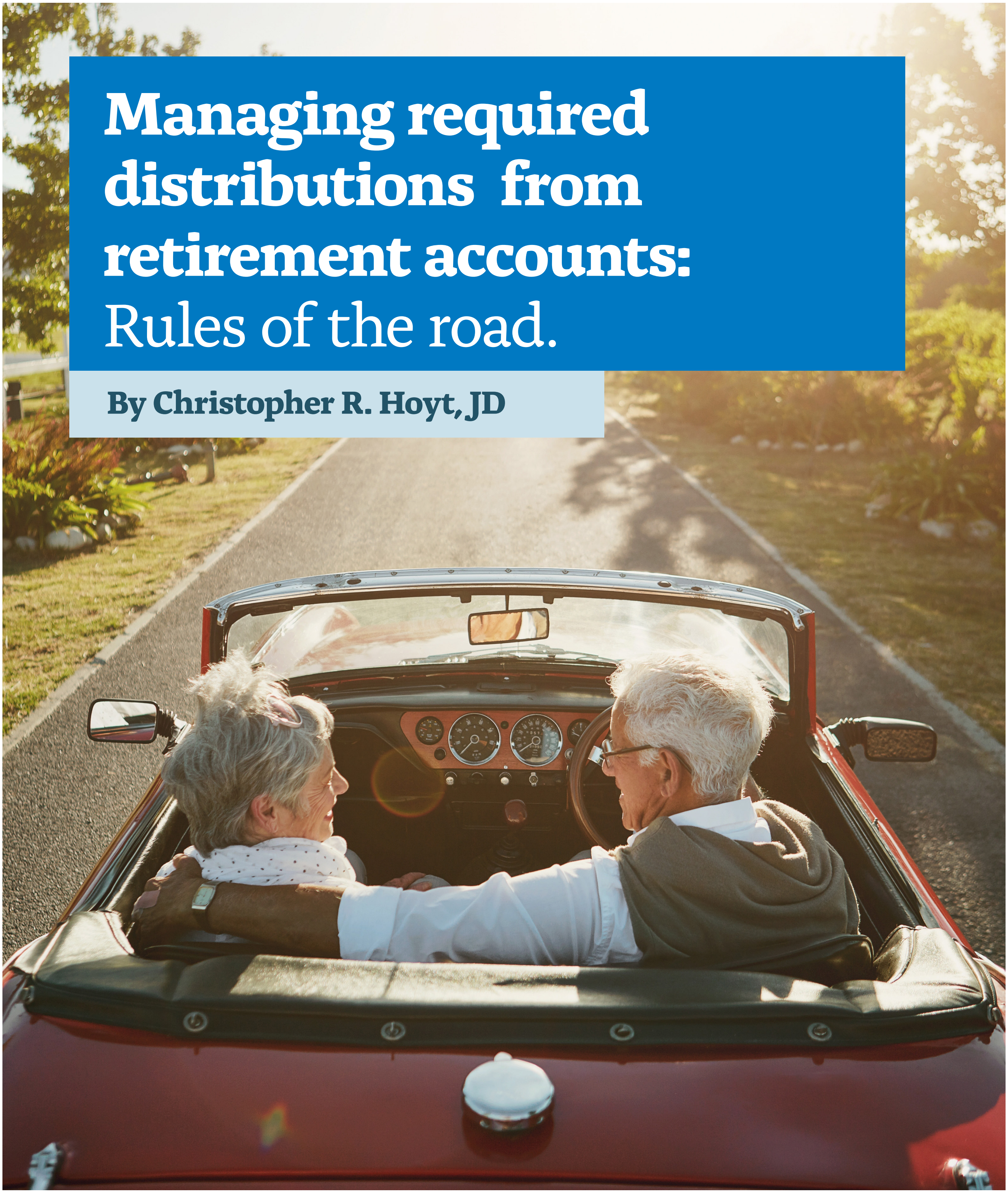
Managing required distributions from retirement accounts: Rules of the road.

By Christopher R. Hoyt, JD



Managing your retirement accounts effectively is crucial, especially when it comes to understanding required minimum distributions (RMDs). From avoiding penalties to exploring strategies to reducing tax burdens, this guide simplifies the rules of the road to help you navigate your own accounts and any you may inherit.

What are required minimum distributions?

Retirement accounts like IRAs and employer plans such as 401(k)s are designed to help you save for the future. However, once you reach a certain age, or if you inherit an account, the law requires you to start withdrawing a minimum amount each year.

These withdrawals are called required minimum distributions (RMDs). Failure to take RMDs can result in penalties—for most, this means a 25% penalty on the amount not distributed.

To ensure compliance, it's essential to understand the basic rules for RMDs for both your lifetime accounts and inherited accounts.

Key points to remember:

For traditional taxable accounts: RMDs begin when you turn 73.

For Roth accounts: There are no RMDs during your lifetime, but inherited Roth accounts must be liquidated within 10 years.

Penalties: Avoid the 25% penalty by withdrawing the right amount on time.

Workplace Plans: If you're still working at 73 and own less than 5% of the business, RMDs from that plan can be delayed until you leave the company.

RMDs for your own retirement accounts

Traditional taxable accounts

If you own accounts like a traditional IRA, your RMDs must start by age 73. Here's how it works:

1. **Calculate your RMD:** Use the account value as of December 31 of the previous year and a factor from the IRS Uniform Lifetime Table.
2. **Withdraw:** Ensure the minimum amount is distributed each year to avoid penalties.

For example, if your traditional IRA held $100,000 and you're 80 years old, you'd need to withdraw at least $4,950 that year (4.95% of $100,000).

If you have multiple IRAs, you can calculate RMDs for each but withdraw the total RMD from one account if it's more convenient. However, for workplace plans like 401(k)s, the RMD must be withdrawn individually from each account.

Roth accounts:

Roth accounts are more flexible. You won't need to take RMDs during your lifetime, allowing tax-free growth of your investments. However, if you pass away, the account must generally be emptied within 10 years.

RMDs from inherited retirement accounts

If you inherit a retirement account, the rules differ depending on the type of account and your relationship to the original owner.

- **For non-spouse beneficiaries:** Most inherited accounts must be fully withdrawn by the end of the 10th year after the original owner's death. If the deceased had already started RMDs, smaller distributions may also be required each year.
- **For surviving spouses:** You have the option to roll over the inherited account into your own IRA, which can provide tax advantages and stretch distributions over your lifetime.

Tips for managing an inherited account

If you inherit a Roth account, the best strategy is often to leave the funds untouched for up to 10 years so they can grow tax-free. With taxable accounts, spread withdrawals over the 10-year period to avoid pushing yourself into a higher tax bracket in the final year.

Strategies to minimize tax impact

Planning ahead can help you reduce the tax implications of RMDs, especially for larger retirement accounts.

Here are some strategies to explore.

Before age 73:

- **Roth conversions.** If you're in a lower tax bracket now, consider converting some of your Traditional IRA into a Roth IRA. You'll pay taxes on the conversion at today's rate, but future withdrawals will be tax-free, and the Roth avoids lifetime RMDs.

- **Add multiple beneficiaries.** Splitting the account among more beneficiaries spreads taxable income across multiple tax returns.

After age 73:

- **Strategic withdrawals.** Evaluate federal tax brackets. For example, in 2025, married couples can earn up to to $400,000 and remain at a 24% tax rate. Withdraw enough to maximize this low rate.
- **Qualified charitable distributions.** If you're over 70½, you can donate directly from your IRA to charity. These distributions count toward your RMDs but won't be included in your taxable income.

When managing an estate:

- **Name a charity as a beneficiary:** This can help reduce estate taxes while ensuring 100% of the funds are used for charitable purposes.

Work with professionals

Understanding the rules and strategies for RMDs can feel overwhelming, but you don't have to go it alone. A financial services professional can help you:

- **Calculate RMDs accurately.**
- **Explore tax-saving strategies like Roth conversions or charitable donations.**
- **Develop a customized plan for inherited accounts**.

Take control of your retirement distributions

Planning your RMDs isn't just about compliance; it's about maximizing the benefits of your savings and minimizing unnecessary taxes.

Whether you're managing your own accounts or dealing with an inherited account, reach out to your financial advisors to understand your options and make informed decisions. They can help you ensure your retirement accounts are working as hard as you are!

About the author.

Christopher R. Hoyt, JD, is a Professor of Law at the University of Missouri Kansas City School of Law where he teaches courses in the area of federal income taxation and business organizations. Professor Hoyt has served as the Chair of the American Bar Association's Committee on Charitable Organizations (Section of Trusts and Estates) and is on the editorial board of Trusts and Estates magazine. He is an ACTEC fellow, has been designated by his peers as a "Best Lawyer," and was elected to the Estate Planning Hall of Fame by the National Association of Estate Planners & Councils.

This material includes a discussion of one or more tax related topics. This tax related discussion was prepared to assist in the promotion or marketing of the transactions or matters addressed in this material. It is not intended (and cannot be used by any taxpayer) for the purposes of avoiding any IRS penalties that may be imposed upon the taxpayer. Neither New York Life Insurance Company nor its agents provides tax, legal, or accounting advice. Please consult your own tax, legal, or accounting professional before making any decisions. The University of Missouri Kansas City School of Law is not affiliated with New York Life or its subsidiaries. Christopher Hoyt is solely responsible for his content and opinions, which may not necessarily represent the opinions of New York Life.
SMRU 8009892 Exp. 4/1/2026