

The Basics of Required Minimum Distributions

The benefits of retirement accounts such as a traditional IRA or a 401(k) are two-fold:

- Tax-deductible contributions allow individuals to reduce the size of their current tax burden while they are saving for retirement – which effectively lets them save more.
- Tax-deferred growth inside these accounts allows funds to accumulate without concern for an annual tax bill on that growth.

When It's Time to Pay Taxes

Eventually, however, the government must be paid. The tax benefits of these accounts are provided for one purpose: to help individuals save for retirement. Once an individual reaches retirement age, these same rules now dictate that the funds must be used for retirement purposes and the taxes that have been deferred must be paid.

Federal income tax law requires that a minimum amount of money must be withdrawn (distributed) from these accounts each year, starting at a specific age, known as the "required beginning date" (generally age 72).¹ The amount to be distributed is determined by a special calculation that, in essence, take the total amount in the account and divides it by the number of years the individual is expected to live. When the required minimum distribution amount is received, it is included as taxable income to the individual and Uncle Sam will, finally, get paid. If an account owner does not make distributions that are large enough, or if distributions are not made at all, a penalty tax of 50% of the amount that should have been distributed is generally due. The amount remaining in the account continues to grow tax deferred.

Everyone's personal and financial situation is different. If you receive an early retirement offer, let your Jacobi Capital team help you review the options and see what would be best for your goals.

¹ The age 72 "trigger" date applies to distributions required to be made after December 31, 2019 to individuals who reach age 70 ½ after that date. Under prior law, age 70 ½ was the mandated age for beginning distributions.

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