

Required Minimum Distributions (RMDs)

You've been saving for years in retirement accounts like a Traditional IRA or 401(k), letting your money grow tax-deferred. That's great for building wealth, but eventually, the IRS requires you to start withdrawing and paying taxes. Enter **Required Minimum Distributions (RMDs)**—the mandatory withdrawals from certain retirement accounts once you reach a specific age.

Think of RMDs as the IRS's way of saying, *"It's time to tap into those savings and settle up."* They prevent taxes from being deferred forever and, if not managed, can create hefty tax bills. Below, we'll walk through the basics in plain language: when RMDs begin, how they're calculated, what happens if you miss one, and strategies to lessen the impact.

When Do RMDs Start?

RMDs apply to:

- Traditional IRAs, SEP IRAs, SIMPLE IRAs
- 401(k)s, 403(b)s, and similar employer plans

They **do not** apply to Roth IRAs during your lifetime.

- **Starting Age:** As of 2025, RMDs begin at age **73** (thanks to the SECURE 2.0 Act).
- **First RMD Deadline:** If you turn 73 in 2025, your first withdrawal must happen by **April 1, 2026**. But you'll still need another RMD by **December 31, 2026**—two in the same year, which can raise your taxes. Some people choose to take their first RMD earlier to avoid that "double dip."
- **Ongoing Rule:** Every year after, your RMD must be taken by December 31.

If you have multiple accounts, you must calculate each RMD separately. For IRAs, you can withdraw the total from one account. Employer plans (like 401(k)s) require separate withdrawals.

How Are RMDs Calculated?

It's simpler than it sounds. The IRS formula is:

RMD = Account Balance (as of Dec. 31 of last year) ÷ Life Expectancy Factor

- For most people, use the **Uniform Lifetime Table**.
- If your spouse is your only beneficiary and more than 10 years younger, use the **Joint Life Table**, which can lower your RMD.
- Inherited IRAs follow a different table.

Example:

If you're 74 in 2025 and had \$200,000 in your IRA on Dec. 31, 2024, the factor is 25.5.
 $\$200,000 \div 25.5 = \$7,843$

You can always withdraw more than the minimum, but not less.

(Tip: IRS Publication 590-B lists the full tables, and online calculators can do the math for you.)

What If You Miss an RMD?

Missing your RMD comes with penalties:

- **25% penalty** on the amount not withdrawn
- Reduced to **10%** if corrected within two years and properly reported

Example: If your RMD is \$10,000 and you only take \$8,000, the \$2,000 shortfall could mean a \$500 penalty. Correcting it promptly may reduce that to \$200.

Avoid mistakes by setting reminders or automating withdrawals. Use IRS Form 5329 to report and request penalty relief for reasonable errors.

Special Rules and Exceptions

- **Roth IRAs:** No RMDs during your lifetime. Inherited Roth IRAs, however, usually must be emptied within 10 years.
 - **Inherited Accounts:** Under SECURE Act rules, most non-spouse beneficiaries must fully withdraw within 10 years. In some cases, annual RMDs are required during that period. Spouses and certain beneficiaries get more flexibility.
 - **Still Working at 73+:** If you're still employed and own less than 5% of the company, you may delay RMDs from your current employer's 401(k) until retirement.
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Why Planning Ahead Matters

RMDs are more than a rule—they're a tax event. Withdrawals add to your taxable income, which can:

- Push you into a higher bracket
- Increase taxes on Social Security benefits
- Raise Medicare premiums

Smart planning can help:

- **Roth Conversions:** Pay taxes earlier for tax-free withdrawals later.
- **Qualified Charitable Distributions (QCDs):** Donate up to \$105,000 (2025 limit) directly from your IRA at age 70½+ to satisfy RMDs while avoiding taxes.
- **Withdrawal Strategies:** Time withdrawals to smooth out taxable income.

Annual reviews of your accounts can help you manage the impact and avoid surprises.

Key Takeaway

RMDs start at age 73, are based on your balance and life expectancy, and come with firm deadlines and steep penalties if missed. While they may feel like a tax hurdle, planning ahead—through Roth strategies, charitable giving, and withdrawal timing—can turn them into a manageable part of your retirement strategy.

For a deeper conversation about how RMDs might fit into your plan, connect with us at **Landis Wealth Management**.

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