

## Required Minimum Distributions 101

Understanding mandatory retirement account withdrawals.

If you are approaching your seventies, get ready for required minimum distributions. You may soon have to take RMDs, as they are called, from one or more of your retirement accounts.

You can now take some RMDs a bit later in life, which is good. Recent rule changes give your invested savings a little more time to potentially grow in your retirement savings vehicles before that first required drawdown.

What account types require RMDs? Any retirement plan sponsored by an employer, plus traditional Individual Retirement Arrangements (IRAs) and IRA-based retirement plans, such as SIMPLE IRAs and Simplified Employee Pension plans (SEPs). Original owners of Roth IRAs do not have to take RMDs.<sup>1</sup>

You can take your initial RMD from a retirement plan by December 31 of the the calendar year in which you turn 72. You actually have the choice of taking that first annual RMD as late as April 1 of the following year, i.e., the year in which you will turn 73, but you'll have to take your second RMD by December 31 of that same year. So if you wait 16 months to take your first RMD, you will end up taking both your first and second RMDs from that account in the same year – and since each RMD represents taxable income, that could lead to higher-than-anticipated tax bill for that year.<sup>1</sup>

How are RMDs calculated? The Internal Revenue Service provides calculation formulas in Publication 590-B. Commonly, you calculate your yearly RMD by dividing the balance of your retirement account on December 31 of the previous year by a life expectancy factor, a number you take from tables published within Publication 590-B.<sup>1</sup> (continue on page 2)

## Managing Probate When Setting Up Your Estate

What can you do to help your heirs?

The probate process can be expensive for some estates. Settling an estate through probate can cost you both time and money. It could take up to a year for the estate to be settled, plus attorney's fees, appraiser's fees, and court costs may eat up as much as 5% of a decedent's assets. Probating an estate valued at \$400,000 could cost as much as \$20,000.<sup>1</sup>

What can you do to help your heirs have as smooth of a transition process as possible? There are a few steps that may help you along the way:

1. Joint accounts. Married couples may hold property as a joint tenancy. Jointly titled property includes a right of survivorship and is not subject to probate. It simply goes to the surviving spouse when one spouse dies. Some states allow a variation called tenancy by the entirety, in which married spouses each own an undivided interest in property with the right of survivorship (they need consent from the other spouse to transfer their ownership interest in the property). A few states allow community property with right of survivorship; assets titled in this way also skip the pro-

bate process.<sup>2</sup>

However, joint accounts can still face legal challenges. A potential heir to assets in a jointly held bank account may claim that it is not a "true" joint account but a "convenience account" where a second account holder was added just for financial expediency. Also, a joint account arrangement with right of survivorship may not match what's detailed in an estate strategy.<sup>2</sup>

- 2) POD & TOD accounts. Payable-on-death and transfer-on-death forms permit easy transfer of bank accounts and securities. If the original owner lives, the named beneficiary has no right to claim the account funds or the security. When the original owner passes away, all the named beneficiary needs to do is bring their ID and valid proof of the original owner's death to claim the assets or securities.<sup>2</sup>

3. Gifts. For 2022 the IRS allows you to give up to \$16,000 each to as many different people as you like before owing taxes. By doing so, you reduce the size of your taxable estate. Gifts over \$16,000 may be subject to federal gift tax (which tops out at 40%) and count against the lifetime gift tax exclusion. (continue on page 2)

# Required Minimum Distributions 101 (continued from page 1)

If you have multiple retirement accounts (as many of us do), each one will require an annual RMD calculation. If you own multiple traditional IRAs, you have the choice to calculate RMDs for each of those IRAs and take the combined RMD amounts for all three IRAs from just one of those IRAs. You have the same choice if you have multiple 403(b) plan accounts.<sup>1</sup>

What do you need to do to avoid penalties with RMDs? The most important thing to do is to take them by the annual December 31 deadline. The second most important thing to do is to withdraw the right amount.

If you take an RMD after the December 31 deadline or withdraw less than you should, a penalty may apply. The IRS may levy as much as a 50% tax on the amount not withdrawn.<sup>1</sup>

The good news is some investment firms will update you on your upcoming RMDs well in advance of annual deadlines, and

your RMDs may even be calculated for you. This is not a given, however, and even when you receive such information, you must act on it, because it takes time to authorize and execute the RMD.

Lastly, take a look at how the RMD income may affect your taxes. There are ways to manage the tax impact of RMDs, and you can explore those choices with a financial or tax professional.

#### Citations

1. Internal Revenue Service, March 16, 2022



## Managing Probate When Setting Up Your Estate

*(continued from page 1)*

The lifetime individual gift tax exemption is currently set at \$12.04 million. For a married couple, the lifetime exemption is now \$24.12 million.<sup>3</sup>

4. Revocable living trusts. In a sense, these estate vehicles allow people to do much of their probate while alive. The grantor—the person who establishes the trust—funds it while they're alive with up to 100% of their assets and designating beneficiaries. A “pour-over will” may be used to add subsequently accumulated assets to the trust at your death, yet those assets “poured into” the trust at that time will still be probated.<sup>4</sup>

The trust owns assets that the grantor once did, yet the grantor can invest, spend, and manage these assets while they're alive. When the grantor dies, the trust lives on, becoming an irrevocable trust, and its assets should be able to be distributed by a successor trustee without having to be probated. The distribution is private, as opposed to the completely public process of probate, and it can save

heirs court costs and time.<sup>4</sup>

Using a trust involves a complex set of tax rules and regulations. Before moving forward with a trust, consider working with a professional familiar with the rules and regulations.

Are there assets probate doesn't touch? Yes, there are all kinds of non-probate assets. The common denominator of a non-probate asset is a beneficiary designation, which allows these assets to pass either to a designated beneficiary or a joint tenant, regardless of what a will states. Common assets that won't involve probate include jointly owned assets with the right of survivorship.<sup>2</sup>

Make sure to designate/update retirement account beneficiaries. When you open a retirement savings account, you are asked to designate eventual beneficiaries. This stipulates where these assets will go when you die. A beneficiary designation commonly takes precedence over a will.<sup>2</sup>

Consider reviewing your beneficiary designations regularly to see if they need to be updated.

If you are married and have a workplace retirement plan account, your spouse is the default beneficiary of the account under federal law unless they decline in writing. Your spouse is automatically entitled to receive 50% of the account assets should you die, even if you designate another person as the account's primary beneficiary.<sup>2</sup>

To learn more about strategies to avoid probate, consult an attorney or a financial professional with solid knowledge of the estate process.

#### Citations

1. NOLO.com, 2022
2. Forbes.com, March 28, 2022
3. IRS.gov, February 4, 2022
4. SmartAsset.com, August 4, 2022

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