5 Things You Should know about Required Minimum Distributions (RMD) from Retirement Accounts

Required minimum distributions (RMDs) are amounts you are required to take from qualified retirement plans and IRAs in order to avoid a 50% penalty on insufficient annual distributions.

Here are 5 things to know:

1. If you turned 70 1/2 in 2015, for example, you must take your first RMDs before the end of this year unless you postpone it until April 1, 2016. However, postponement means taking two RMDs in 2016 and that can adversely impact taxation of Social Security benefits in 2016 and result in increased Medicare premiums for Parts B and D in 2018.

2. If you are still working, you can postpone your RMDs from company retirement plans until you retire; this rule does not apply to IRAs.

3. RMDs for IRAs can be taken from one or more accounts. Total up all IRAs and then decide from which one or more accounts to take the required distribution amount. This rule does not apply to qualified retirement plans; separate RMDs are required from each type of retirement plan.

4. No lifetime distributions are required from Roth IRAs for the owner, but beneficiaries usually must draw down the accounts over their lifetime (a special rule applies to spouses).

5. The penalty for insufficient withdrawals can be waived if you ask the IRS to do so. You must explain why you failed to take RMDs and show that you remedied the situation as soon as you discovered the insufficiency.

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