ED SLOTT'S
IRA ADVISOR
20th ANNIVERSARY
Tax & Estate Planning For Your Retirement Savings
June 2018

WHAT'S INSIDE?

Join the Retirement Planning Conversation

Company Plan Distribution Rules: *The End of the Line*

One of America's favorite summer activities is the epic road trip. It's a rite of passage to gather a group of friends, load up a car, and hit the nearest interstate for some far-off destination. The journey to retirement isn't that much different. Our career is the car and the savings and investments path we take is the highway. And just like our road trip, we eventually reach our destination and need to exit the highway.

When it comes to a company plan, our exits are defined in the plan document. It will tell us when we are eligible to request a distribution. And just like a highway has many exits, a company plan has numerous distribution options that it can adopt.

Here, we will focus on some of those distribution options that relate to pre-tax and employer contributions. After-tax dollars can be subject to the rules described below or can be distributed at any time, regardless of age or length of employment.

Plans and IRAs Share RMD Rules

As you can imagine, getting money out of a company plan is much different than requesting a distribution from an IRA. Unlike IRAs, distributions are only allowed when certain events occur. However, there are *some* similarities.

The most significant of the distribution rules that these two retirement accounts share are the required minimum distribution (RMD) rules. Generally, RMDs must begin for the year an individual reaches age 70½. The initial RMD can be delayed until April 1st of the year *after* the individual turns 70½. This is called the required beginning date (RBD). After that, all RMDs must be taken by December 31st of the year for which they are required.

RMDs from company retirement plans and IRAs are calculated in the same manner. The account balance on December 31st of the previous year is divided by the applicable life expectancy factor found in the IRS mortality tables: Uniform Lifetime Table, Joint Life Expectancy Table, and Single Life Expectancy Table (available at irahelp.com/2018).

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Death doesn't even get the account owner out of taking an RMD. If the RMD is not taken by the owner before his death, then his beneficiary(ies) must take any remaining year-of-death RMD. Beneficiaries must then continue taking RMDs in future years.