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IRA Focus

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ANALYSIS

EDUCATION THAT PROMOTES ACTION

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RMD Planning – The Aggregation Rules

Let's start with a question. Melissa has two IRA accounts, one Roth IRA, two 401(k) accounts, two old 403(b) accounts, an IRA inherited from her Dad, and a Roth IRA inherited from her Aunt Pam. Melissa, 72 years old, has been retired for several years. What is the smallest number of distributions Melissa can take to fully satisfy her required minimum distributions (RMDs) for the year?

If you are like most advisors, your answer is incorrect. If you said one, eight or nine distributions, you have the wrong answer. The right answer is six. Here is how it all works out.

Type of Account	Number of Distributions
IRA – two accounts	one distribution – IRAs can be aggregated
Roth IRA	no required distributions
401(k) – 2 plans	two distributions – one from each plan
403(b) – 2 plans	one distribution – 403(b)s can be aggregated
IRA – inherited	one distribution
Roth IRA – inherited	one distribution

IRA Accounts

Melissa owns two IRA accounts. RMDs from IRA accounts, including SEP and SIMPLE IRAs, can be aggregated, so Melissa only has to take one distribution to cover her full IRA RMD. The RMD should be calculated on each IRA separately and then added together. Those are the IRS rules. Once you have the total amount of the RMD, it can be taken from any one or a combination of IRA accounts.

IRA Example: Betty does not believe in putting too much of her retirement savings in any one financial institution. Betty has three IRA accounts, one SEP IRA, and one SIMPLE IRA. She calculates her RMD on each account.

	RMD	Account Balance
Account #1	$12,000	$480,000
Account #2	$1,500	$60,000
Account #3	$8,000	$320,000
Account #4	$3,000	$120,000
Account #5	$6,500	$260,000

Her total RMD from all of her IRAs, including her SEP and SIMPLE IRAs, is $31,000. She could take the entire RMD from her smallest account in order to empty it out so that she eventually has fewer accounts to manage. She could take the RMD from the account with the worst investment performance for the year. She could take it equally from all five accounts or she could take the necessary RMD from each one of her accounts.

Note: Even if Betty is still working for either the SEP employer or the SIMPLE employer, she must still take RMDs from those plans.

Employer Plan Accounts

Usually, a plan participant must take an RMD from each employer plan account that they have. RMDs for employer plan accounts cannot be aggregated. Melissa has two 401(k) plans, so she must take two RMD distributions, one RMD from each plan.

We are now up to three distributions for Melissa, one from her IRAs and two from her 401(k) accounts.

Designated beneficiaries of retirement plans can stretch distributions over their own life expectancies.

Melissa also *cannot* aggregate her employer plan accounts with any other type of retirement plan. 401(k) RMDs cannot be combined with IRA RMDs, and IRA RMDs cannot be combined with 403(b) RMDs. For RMD purposes, each plan type stands alone.

Employer Plan Example: Gary has a SEP IRA, a 401(k) plan, and a 403(b) plan. He must take three RMD distributions, one from the IRA, one from the 401(k), and one from the 403(b). He cannot aggregate any of these distributions. The IRA distribution must come from an IRA account, the 401(k) distribution must come from that 401(k) plan, and the 403(b) distribution must come from a 403(b) account.

403(b) Plans

403(b) plans are the exception to the employer plan rule. They follow the IRA aggregation rules and can be aggregated, but only with other 403(b) plans. The 403(b) RMD cannot come out of an IRA or any other type of retirement account.

We are now up to four distributions for Melissa, one from her IRAs, two from her 401(k) accounts, and one from her 403(b) accounts.

403(b) Plan Example: Duane has three 403(b) accounts. He must calculate his RMD for each one of his accounts separately. His RMD amounts are $21,000, $4,400, and $11,800 for a total of $37,200. He can take that amount from any one of his 403(b) accounts or any combination of accounts as long as he takes the full amount out for the year. He cannot take any part of that distribution from any type of account other than a 403(b) account.

Inherited Retirement Plans

Generally, designated beneficiaries of retirement plans can stretch distributions over their own life expectancies. A designated beneficiary is one that is named on the beneficiary form or becomes a beneficiary through the default options in the plan or IRA. They are *not* beneficiaries who inherit through a will or an estate.

Beneficiaries follow the same aggregation rules as account owners. They can aggregate IRAs inherited from the same person or 403(b) accounts inherited from the same person. They cannot aggregate different types of inherited retirement accounts such as IRAs and 401(k)s.

Melissa is now up to five distributions, one from her IRAs, two from her 401(k) accounts, one from her 403(b) accounts, and one from her inherited IRA.

Inherited Retirement Plan Example: Ivor has inherited an IRA from his mother, a 401(k) from his father and a 403(b) from his Aunt. He must take three separate RMDs, one from each account since they are all inherited from different people.

Inherited IRAs Example: Brock has inherited Betty's five IRA accounts. Brock must calculate the RMD separately on each IRA. He can then add the RMD amounts together and take the total amount from any one or combination of his inherited IRAs.

Roth IRAs

Roth IRAs have no required distributions during the account owner's lifetime. Therefore, Melissa does not have an RMD from her Roth IRA account.

However, inherited Roth IRAs are another matter. Beneficiaries do have RMDs from inherited Roth IRAs. They follow the same distribution rules as inherited IRAs. RMDs from inherited Roth IRAs can be aggregated when the Roth IRAs are inherited from the same person.

Melissa is now up to her six distributions, one from her IRAs, two from her 401(k) accounts, one from her 403(b) accounts, one from her inherited IRA and the last one from her *inherited* Roth IRA.

He must calculate the RMD for each inherited account separately.

Inherited Roth IRA Example: Michael inherited two Roth IRAs from his cousin. He also has his own Roth IRA that he has been funding since he started working in college. He has RMDs from his two inherited Roth IRAs. He will never have an RMD from his own Roth IRA. He must calculate the RMD for each inherited account separately. He can then add them together and take the total amount from any inherited Roth IRA account. He cannot take the inherited Roth IRA RMD from his own Roth IRA.

The most important thing to remember is that you *CANNOT* take an RMD for one type of account from any other type of account. The result is that you have taken too much from the account that made the distribution, and there's a shortfall in the account that did not make the distribution. Missed RMDs are subject to a penalty of 50%, that is not a typo, 50% of the amount not taken.