A Closer Look at RMDs and the SECURE 2.0 Rules

Understanding the rules for required minimum distributions can help you plan ahead to manage taxes.

KEY INSIGHTS

- The SECURE 2.0 Act of 2022 changed the guidelines for required minimum distributions (RMDs).
- The new RMD rules offer more flexibility to help people plan for longer careers and longer retirements.
- In light of the new RMD rules, consider reviewing and updating your retirement plan on your own or with a financial advisor.

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Retirement savings accounts offer major tax advantages to help encourage people to save during their working years. Some of these accounts' rules include required minimum distributions (RMDs) to ensure that pretax savings are eventually withdrawn and taxed. The SECURE 2.0 Act of 2022 changed the guidelines for these RMDs, which now offer more flexibility to help people plan for longer careers and retirements.

RMDs are an important reality when it comes to planning your retirement income. Now is a good time to make sure you understand the rules and update your plan accordingly.

Increased starting age for RMDs

For retirement accounts that offer the benefit of tax deferral, the government requires investors to make minimum withdrawals each year. For many decades, the first of these RMDs was required by April 1 of the year after you turned 70½, known as the required beginning date. The SECURE 2.0 Act increased the age to 73 in 2023 and established an additional increase that will bring the starting age to 75 by 2033. RMDs continue for the retirement account owner's lifetime and generally affect the account's beneficiaries.

Some retirement accounts will no longer require RMDs

RMDs are required for all tax-deferred retirement accounts, including Traditional IRAs, SEP-IRAs, and SIMPLE IRAs. The same RMD rules apply to workplace accounts such as 401(k)s and 403(b)s, though these accounts generally allow you to defer distributions while you are still working. Meanwhile, Roth IRAs do not require RMDs for the original account owner.

Starting in 2024, investors with a Roth 401(k) or Roth 403(b) no longer need to take RMDs.

Reduced penalties for missed withdrawals

The law also changed the penalties for missed withdrawals. Previously, failure to take your RMD (or withdrawing too little or too late) meant you would face a penalty of 50% on the amount not distributed. The SECURE 2.0 Act reduced that penalty to 25%. If you correct the missed RMD in a timely manner, the penalty may be reduced to 10%.

How to calculate RMDs

Each investor's RMD amount varies annually—it depends on your current age, the relative age of your spouse,* and the balance in your account as of December 31 of the prior year. (See "How Much Is an RMD for $100,000 in Savings?" for a hypothetical example.) Many investment firms, including T. Rowe Price, will provide your calculated RMD amount for retirement assets held at T. Rowe Price as part of their services. (The IRS offers worksheets for investors who want to make these calculations themselves.)

If you have multiple retirement accounts that are subject to RMDs, you must calculate the RMD for each account. However, you can make the actual withdrawal from any of your individual IRAs that are subject to RMDs, as long as the total withdrawal satisfies the total RMD amount required for that year. (Note that qualified plans, such as a 401(k) plan, require you to take each plan's RMD from that plan; it's not possible to aggregate them.)

Is it better to take your RMD monthly or annually?

You can take your annual RMD as a lump sum or in any combination of payments, as long as you meet the minimum over the course of the year. For investors who plan to use their RMDs as a source of retirement income, a monthly payment may be a good choice. Keep in mind that while you'll pay the same amount of income tax no matter when you receive the money, delaying your RMD until year-end gives your money more time to grow tax-deferred.

On the other hand, you may prefer to take your RMD early in the year to simplify matters for your beneficiaries if you should die during the year. Whatever method you choose, money you don't need for spending can be invested in a regular taxable account.

Reducing your distribution amount and potential tax liability before RMDs begin

While everyone needs to take RMDs, they don't represent a major planning challenge for every investor. If you expect to need more than your RMD

RMD rules at a glance

- RMDs **must be taken each year** starting at age 73.
- RMDs are **required for all tax-deferred retirement accounts**, including Traditional IRAs, SEP-IRAs, and SIMPLE IRAs.
- RMDs are **required for workplace accounts**, such as 401(k)s and 403(b)s. However, these accounts generally allow you to defer distributions while you are still working.
- **Roth IRAs do not require RMDs** for the original account owner. Starting in 2024, investors with a Roth 401(k) or Roth 403(b) are also free from RMDs.
- Failure to take your RMD triggers a **25% penalty** on the amount not distributed.

*For a person whose spouse is more than 10 years younger, the calculation uses a different life expectancy table.

How Much Is an RMD for $100,000 in Savings?

This table shows what the RMD might be over time for a hypothetical account starting with $100,000 at age 73.

Age	RMD Percentage	Beginning Balance	RMD Amount
73	3.77%	$100,000	$3,774
74	3.92%	$102,000	$4,000
75	4.07%	$103,880	$4,223
76	4.22%	$105,637	$4,457
77	4.37%	$107,250	$4,683
78	4.55%	$108,721	$4,942
79	4.74%	$110,006	$5,214
80	4.95%	$111,080	$5,499
81	5.15%	$111,916	$5,769
82	5.41%	$112,515	$6,082
83	5.65%	$112,820	$6,374
84	5.95%	$112,832	$6,716
85	6.25%	$112,483	$7,030
86	6.58%	$111,780	$7,354
87	6.94%	$110,692	$7,687
88	7.30%	$109,185	$7,970
89	7.75%	$107,288	$8,317
90	8.20%	$104,910	$8,599
91	8.70%	$102,089	$8,877
92	9.26%	$98,804	$9,149
93	9.90%	$95,035	$9,409
94	10.53%	$90,763	$9,554
95	11.24%	$86,082	$9,672
96	11.90%	$80,994	$9,642
97	12.82%	$75,633	$9,697
98	13.70%	$69,893	$9,574
99	14.71%	$63,938	$9,403
100	15.63%	$57,807	$9,032

The illustration shows a hypothetical trajectory where the RMD is withdrawn at the beginning of the year. It assumes a 6% annualized return, and that the individual turns 73 on or after January 1, 2024, but does not qualify for the 75 RMD age that takes effect in 2033. Data are based on IRS Uniform Lifetime Table III, which generally applies unless the person's spouse is the sole beneficiary and is more than 10 years younger.

withdrawals to support you in retirement, you can simply take your RMDs as scheduled. However, some retirees may not need their full RMD amount to cover their spending in retirement. For example, they may have other significant income sources, such as Social Security, a pension, or part-time work, as well as assets set aside in accounts that are not subject to RMDs, such as Roth or taxable accounts. In such cases, it is important to consider the effect of your RMDs on your taxes. Because withdrawals will be taxed as income, you could pay a higher marginal tax rate than you anticipated.

There are three main ways to reduce the distributions and the potential tax liability before you reach the RMD starting age: asset location, Roth conversions, and accelerated withdrawals. The latter two options look to take advantage of low-income years as a way to minimize the potential income taxes over time. (For additional options for those already past their required beginning date, see "Planning Strategies After RMDs Begin.")

Asset location

As you plan for retirement, you can facilitate flexibility in your withdrawal plan by investing in accounts with different tax treatments, such as Roth accounts and taxable accounts, in addition to tax-deferred accounts. It's important to be deliberate about the types of investments you hold in each type of account. For example, you might consider holding slower-growing investments, such as bonds, in tax-deferred accounts that are subject to RMDs, while keeping investments with a higher growth potential, such as stocks, in Roth or taxable accounts that are not subject to RMDs. This asset location strategy generally puts tax-efficient investments in the taxable account while limiting increases in the RMD amount over time.

Roth conversions

If you don't expect to need a portion of your retirement savings, you might consider moving those assets into a Roth IRA through a Roth conversion. This technique is most useful during years when you have recorded lower taxable income, as the conversion amount is taxable income, which generally increases your income taxes and may also raise your Medicare premiums.

A Roth conversion not only reduces the balance of your savings that are subject to RMDs, but it also provides your heirs with the benefit of tax-free withdrawals should they eventually inherit those assets. What's more, the increase in the age at which RMDs start gives many investors more time to plan and execute a conversion strategy while their tax rates are favorable.

Accelerated withdrawals

You may also consider withdrawing funds from your tax-deferred accounts before your required beginning date (but after you turn 59½, to avoid early withdrawal penalties) during years with lower taxable income. This is similar in concept to the conversion strategy but may be easier to implement for people without other assets to cover the tax bill. By withdrawing funds from your retirement account up to the maximum income limit of your current tax bracket, you may reduce future RMDs and limit the impact of potentially higher tax rates in the future. This strategy may also allow you to delay claiming your Social Security benefits (to as late as age 70), which would result in higher annual benefits.

Your RMDs are an important component of your retirement income plan—after all, supporting yourself in retirement is the very purpose you set this money aside for in the first place. In light of the new RMD rules, consider reviewing and updating your retirement plan on your own or with a financial advisor. The recent rule changes may provide new opportunities to plan your RMDs to maximize your tax efficiency.

"Look ahead and see if your RMDs at age 73 might be more than you need. If so, consider adjusting your plan to lower RMDs down the road. The new rules offer additional flexibility that is worth considering.

— **Roger Young**
Thought Leadership Director

Planning Strategies After RMDs Begin

Once you reach your required beginning date, you still have options to manage the timing and potential tax consequences of RMDs.

The most straightforward planning regarding RMDs is done in the years leading up to your required beginning date. However, once RMDs begin, you still have options to manage those withdrawals, namely through charitable donations or the purchase of an annuity.

Qualified Charitable Distributions (QCDs)

The IRS allows investors to donate up to $100,000 per year from an IRA directly to charity—the donation counts toward satisfying the RMD without taxing the money as ordinary income. If making charitable gifts is one of your financial goals, this strategy can allow you to meet your RMDs while avoiding an increase in your tax liability. That said, QCDs make the most sense for individuals who don't plan to itemize their tax deductions. Learn more about making charitable gifts of appreciated securities.

Qualified Longevity Annuity Contracts (QLACs)

You can use up to $200,000 in an IRA to purchase a QLAC. A QLAC turns a portion of an IRA or employer-based retirement plan into a future stream of annual payments that continue until death. The upfront premium paid to purchase the annuity is excluded from the balance that is subject to RMDs. Payments must start by age 85 and are taxed as ordinary income. QLACs make the most sense for individuals who believe they are likely to live longer than the average life expectancy. This option, along with delaying Social Security benefits until age 70, may help manage the risk of outliving your savings while also providing a tool to be more tax-efficient with your RMDs.

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