Plan Sponsor FAQs
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Required Minimum Distributions FAQs

What are Required Minimum Distributions?

Required Minimum Distributions (RMDs) are minimum payments that must be made to participants in qualified plans and to owners of IRAs on an annual basis after an individual has attained a certain age.

When must RMDs begin in a qualified retirement plan?

The In general, RMDs must begin no later than April 1st following the later of the calendar in which the participant attains age 70 ½ or retires.

RMDs must commence, however, for "5-percent" owners no later than April 1st following the calendar year in which the participant attains age 70 ½ even if the owner is still actively employed.

A plan may, but is not required to, require RMDs begin for all participants (owners and non-owners) no later than April 1st following the calendar year in which the participant attains age 70 ½ (but most plans don't).

For example, a non-owner participant turns 70 ½ on July 1, 2015 and retires on July 31, 2015. His first RMD is due for 2015, but may be made as late as April 1, 2016. If he elects to take his first RMD in 2016, then he will be required to receive two RMDs in 2016 (one for the 2015 calendar year and one for 2016).

What is a "5-percent" owner?

Generally, a "5-percent owner" is any individual who owns more than a 5% interest in the company, and certain family members of 5-percent owners.

Do the same rules apply to IRAs?

Not exactly; the exception discussed above for non-owners does not apply to traditional IRAs. RMDs must commence no later than April 1st following the calendar year in which the IRA owner attains age 70 ½.

Note: *Roth IRAs are not subject to the RMD rules until after the death of the IRA owner.*

What is the due date for RMDs?

After the first year (when the distribution must be made by the following April 1st), RMDs must be made each year by December 31st.

Note: *It is important to remember that most plan recordkeepers and IRA custodians need time to process distributions. A good third party administrator will make sure the plan sponsor is aware of any RMDs that must be made so that they can be issued in a timely manner.*

For IRAs, the owner should make sure he or she communicates with his or her IRA custodian so that there is ample time to process the necessary distribution.

How are RMDs calculated?

In general, there is a uniform table that is used to calculate the amount that must be distributed each year. The RMD is a product of the participant's account balance as of the last day of the previous plan year (with certain adjustments) divided by the factor provided in the uniform table.

Can a participant who is due an RMD from a qualified plan and IRA combine the amounts and just take the required distribution from his or her IRA?

No; these rules are separately applied to IRAs and qualified plans. Qualified plans must issue RMDs without consideration of other plans or IRAs owned by the participant.

An owner of multiple IRAs, however, may generally combine the accounts for this purpose and take the RMD from a single IRA, provided it is based on the assets held in all such IRAs.

Can a participant "avoid" taking an RMD if he "retires" from one company and rolls his balance to his new employer's plan?

No; if an RMD is due for a calendar year, it must be made prior to (or coincident with) the rollover to another qualified plan or IRA as the amount is not eligible for rollover.

For example, if a non-owner participant turns 70 ½ on July 1, 2015 and retires on July 31, 2015, he is due an RMD for 2015. If he elects to receive a rollover distribution prior to December 31, 2015, the plan must issue his RMD separately from his rollover distribution. If he defers the rollover until 2016, then both his 2015 and 2016 RMDs must be processed separately from the rollover.

What happens if an RMD isn't processed by the due date?

A 50% excise tax is imposed on the taxpayer (i.e. the participant or IRA owner) if the RMD is not issued in a timely manner.

Is there a way to correct a late RMD?

In a qualified plan, the plan must issue the late RMD, adjusted for earnings. As far as the applicable excise tax, the plan sponsor can submit an application to the IRS to request a waiver of the tax, or the participant may request of waiver of the tax when they file their individual income tax return.

In an IRA, the owner must request the waiver when they file their individual income tax return.

How can I learn more about these requirements?

The rules regarding RMDs are fairly complex, and the consequences of failing to issue RMDs in a timely manner are severe. Please contact us to learn more about how these rules impact your plan and participants!

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