Required Minimum Distribution FAQs

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Tax qualified plans can be valuable assets in retirement planning, but they do come with rules. Among the most important is Required Minimum Distributions (RMDs).

Treasury Regulation §1.401(a)(9)-6 provides rules for calculating RMDs when a qualified plan, IRA (traditional, SEP or SIMPLE), or 403(b) holds an annuity as an investment.

Here are a few questions and answers to help shed some light on the subject. For questions regarding your client's specific circumstances, please consult a tax or legal advisor.

When are RMDs required to begin?

RMDs from qualified plans and 403(b)s are generally required to begin by April 1 of the year following the year in which the individual reaches age 73 (or age 72 if born July 1, 1949 to December 31, 1950, or age 70 1/2 if born prior to July 1, 1949)[1], or separates from service, whichever is later.

RMDs from IRAs, and qualified plans if the individual has an ownership interest of 5% or greater in the company sponsoring the plan, are required to begin by April 1 of the calendar year following the calendar year in which the individual reaches age 73. Distributions are required even if the individual continues to work. In subsequent years, RMDs are required to be distributed no later than December 31 of each year.

The first year following the year an individual reaches age 73, they may have two required distribution dates: an April 1 withdrawal (for the year they turn 73), and an additional withdrawal by December 31 (for the year following the year they turn 73).

In the event that insufficient distributions are taken to satisfy the RMD requirement for a given calendar year, a 25% (10% under certain circumstances) federal penalty tax is imposed on the difference between the RMD and the amount distributed during the calendar year.

How are RMDs calculated?

Each year the RMD must be recalculated and withdrawn by the account owner/participant.[2]
RMDs are calculated using the following formula:

Account value + Actuarial present value / Life expectancy factor

Account Value = The value of the owner's account as of December 31 of the preceding calendar year.

Actuarial Present Value ("APV") = The present value of additional benefits, such as death benefits and living benefits, provided under the annuity contract. APV is expressed as an amount equal to or greater than zero.[3]

Life Expectancy Factor = A factor based on the age the participant/owner will attain on his/her birthday in the year for which the RMD is being calculated.

Most people will reference the Uniform Lifetime Table to determine the factor. If the account owner's spouse is the sole primary beneficiary and is more than 10 years younger than the owner, the factor may be determined by referencing the Joint Life Table. Both tables are described in Treasury Regulations §1.401(a)(9)-9 and may be found within IRS Publication 590-B.

How do different types of additional benefits provided under an annuity contract affect the APV?

Generally speaking, death benefits are more likely to generate an APV than living benefits.

When a guaranteed death benefit is larger than an account's value, the present value of the difference will typically generate an APV with a value greater than zero. For purposes of determining the APV, the present value of the difference between the guaranteed death benefit and the account value will typically be less than the numeric difference.

Living benefits typically do not generate an APV with a value greater than zero until/unless the account value is close to or less than the next contract year's guaranteed income amount, as provided for under the benefit.

Who provides clients with their APV and RMD amounts each year?

The issuing company, or plan administrator, calculates the APV based on proprietary formulas.

These formulas are based on Treasury regulations and reasonable actuarial assumptions to reflect the unique nature of the insurer's products or your plan. While the APV formula is not available, the results are.

For details, please refer to your statement, online account, or reach out to the appropriate service center. For RMDs, some companies and plan administrators also provide you with your RMD amount each year.

[1] All reference to age 73 includes the following: (or age 72 if born July 1, 1949 to December 31, 1950, or age 70.5 if born prior to July 1, 1949)
[2] Your insurance company or plan administrator will provide the IRA owner/plan participant his/her RMD upon request annually. Please consult your tax advisor for any questions.
[3] APV may be disregarded if either of the following circumstances apply: a) The only additional benefit provided under the contract is a return of premium death benefit, or b) The sum of the contract value plus APV does not exceed 120% of contract value and the contract only provides additional benefits that are reduced on a pro-rata basis as the result of distributions from the contract. For non-annuity assets APV is always equal to zero.

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M5876SL1.2 (02/2024)

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