

Help your client navigate the changes in RMD requirements

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(Editor's Note: Part 1 of a 3-part series on required minimum distributions.)

By Lloyd Lofton and Gene Bond

One of the most headline-grabbing changes ushered in by the SECURE Act is extending the age at which individual retirement account owners can begin to take required minimum distributions —from age 70 1/2 to age 72.

Included in the bill was the acknowledgement that more Americans are living longer and working later in life. Raising the RMD age will offset additional tax collections that stem from other provisions in the SECURE Act.

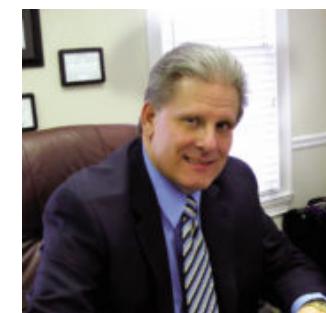
This also means savings will last longer through retirement and retirees will have more control over their income.

RMD age change impact

The RMD age change does not apply to those who already reached age 70 1/2 by Dec. 31, 2019.

There is an exception for those who have an employer-sponsored retirement account such as a 401(k), are still working, are age 72 or older, and who still work for the company where they have their employer-sponsored retirement account.

Potentially complicating RMD calculations for the next wave of retirement for Americans is the IRS's proposal to update life expectancy tables.



Lloyd Lofton

Calculation

To calculate the RMD for a given year, you first must know the account balance as of Dec. 31 of the prior year. For example, to calculate the RMD for 2022, you must know the account balance as of Dec. 31, 2021.

The next thing you must factor in is the correct table to use.

If your client's sole beneficiary is their spouse and the spouse is less than 10 years younger than your client or if they are not married, you should use the updated Uniform Lifetime Table that can be found in "Section T.D. 9930 Updated Life Expectancy and Distribution Period Tables Used for Purposes of Determining Minimum Required Distributions" that can be found by going to https://www.irs.gov/irb/2020-49_IRB#TD-9930."

There are other tables for people who don't fit this description and for people who have inherited a traditional retirement account.



Gene Bond

Once you know the account balance, you either divide that number by the divisor for your client's age or you can multiply that number times the percentage for that age.

For example, if the account balance is \$1 million and your client is 72 years old, you can either divide the account balance by 27.4 or you can multiply it by 0.0365. In this example, if you multiply \$1 million by 0.0365, you get \$36,500, which is 3.65% of \$1 million. If you divide \$1 million by 27.4, you get \$36,496.35.

RMD numbers change

The RMD numbers changed effective Jan. 1, 2022, and are based on new longevity tables.

The U.S. Census Bureau released estimates on June 25, 2020, showing the nation's 65-and-older population has grown rapidly since 2010, driven by the aging of baby boomers born between 1946 and 1964.

The 65-and-older population grew by more than one-third (34.2% or 13.78 million) between 2010 and 2020. In 2019, there were 54.1 million people aged 65 and older (up from 39.6 million in 2009). This population segment is projected to reach 80.8 million by 2040 and 94.7 million by 2060.

According to the Boston University School of Medicine, centenarians are the fastest growing segment of our population. The second fastest is the age group between 85 and 99.

RMD strategies

There is a way your client can take their RMD and not have to include the RMD amount on their federal income tax return if they are 70 1/2 years old or older.

Your client might be able to withdraw up to \$100,000 per year from their traditional retirement account without having to include the withdrawal on their federal income tax return.

Many times, people must sell some of their stock, mutual funds or exchange-traded funds in order to satisfy their RMD requirement.

If your client doesn't have enough cash in their traditional retirement account that they can withdraw to satisfy their RMD withdrawal requirement, there are some strategies you can implement instead of selling any of their stock, and still satisfy their RMD withdrawal requirement.

We'll look at these, the "trimesters" of retirement, along with other strategies to address RMDs, in part 2 of our series.

Lloyd Lofton is the founder of Power Behind the Sales. He is the author of The Saleshero's Guide To Handling Objections, voted 1 of the 11 Best New Presentation Books To Read in 2020 by BookAuthority. Lloyd may be contacted at lloyd.lofton@innfeedback.com.

*Gene Bond, a Certified Financial Fiduciary, is founder of Bond Financial Group and is one of the producers of "**The Baby Boomer Dilemma**" a documentary that explores the science of retiring successfully. Gene may be contacted at gene.bond@innfeedback.com.*

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