

RMD strategies: Funding the ‘third trimester’ of life

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(Editor's Note: Part 2 of a 3-part series on required minimum distributions.)

By Lloyd Lofton and Gene Bond

Many Nobel Prize winning economists and health care professionals refer to the retirement years as the third phase or “third trimester” of life.

It is likely that if you are in good health, you will live 30 years or longer in retirement, and this is especially true if you are married.

As you can see from Part 1 in our series about Required Minimum Distributions, RMDs can be complex and complicated. If your client fails to withdraw enough from their traditional retirement account in a given year, the tax penalty is pretty stiff – equal to 50% of the amount your client failed to withdraw.

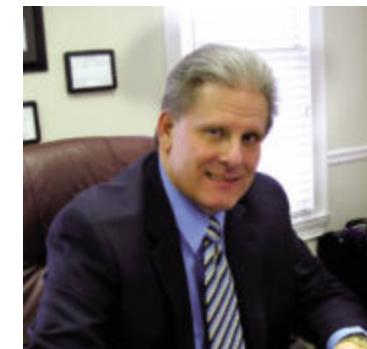
When to take RMD

At the same time, the rule about when your client must take their first RMD can be confusing.

You must take your first RMD no later than April 1 of the year after you turn 72.

So, if your client turns 72 this year (2022), they must take their first RMD no later than April 1, 2023.

All RMD withdrawals after the first one must be taken no later than Dec. 31 of the year the withdrawal is due.



Lloyd Lofton

I know what you are thinking: I don't have to withdraw my first RMD until April 1 of the year after I turn 72. If you do that, then you will postpone taking your first RMD in the year you turn 73.

See, Lloyd, I get the strategy!

There could be a problem with that.

You will also have to take the RMD for the year you turn 73 in the same year you took your first RMD. So you will be taking two RMDs in the year you turn 73.

Is that what your clients want to do? Are they prepared for the impact on their tax filing?

This could cause your clients to pay more federal income tax the year they turn 73. Your clients may have to pay federal income tax on an increased amount of their Social Security the year they turn 73. They may have to pay a higher premium for their Medicare Part B and Medicare Part D Prescription Drug Plan. They also may have to pay an additional Medicare tax

Is that anything else for your client to be concerned about? Things also can get more complicated for people who are not 72 yet.



Gene Bond

There are several bills currently floating around in Congress that may change the age someone must begin taking RMDs. One of those bills establishes a sliding scale for RMDs.

Instead of 72 serving as the default age when minimum distributions start, RMDs would begin according to the following schedule:

- Age 73 in 2023 for people who turn 72 after Dec. 31, 2022, and for people who turn 73 before Jan. 1, 2030.
- Age 74 in 2030 for people who turn 73 after Dec. 31, 2029, and for people who turn 74 before Jan. 1, 2033.
- Age 75 in 2033 for people who turn 74 after Dec. 31, 2032.

In other words, using the new rules, a 75-year-old must take about the same amount as someone who is 73 years old under the old rules; a 76-year-old must withdraw about the same amount as a person who is 74 years old under the old rules.

The old and the new and 2 strategies to reduce federal income taxes

	2022 Percentages	2022 Divisor	Pre-2022 Percentages	Pre-2022 Divisor
Age	RMD % (1/Distribution Period)	Distribution Period	RMD % (1/Distribution Period)	Distribution Period
72	3.6500%	27.4	3.9063%	25.6
73	3.7740%	26.5	4.0486%	24.7
74	3.9220%	25.5	4.2017%	23.8
75	4.0650%	24.6	4.3668%	22.9
76	4.2190%	23.7	4.5455%	22.0
77	4.3670%	22.9	4.7170%	21.2
78	4.5450%	22.0	4.9261%	20.3
79	4.7390%	21.1	5.1282%	19.5
80	4.9500%	20.2	5.3476%	18.7
81	5.1550%	19.4	5.5866%	17.9
82	5.4050%	18.5	5.8480%	17.1
83	5.6500%	17.7	6.1350%	16.3
84	5.9520%	16.8	6.4516%	15.5
85	6.2500%	16.0	6.7568%	14.8
86	6.5790%	15.2	7.0922%	14.1
87	6.9440%	14.4	7.4627%	13.4
88	7.2990%	13.7	7.8740%	12.7
89	7.7520%	12.9	8.3333%	12.0
90	8.1970%	12.2	8.7719%	11.4
91	8.6960%	11.5	9.2593%	10.8
92	9.2590%	10.8	9.8039%	10.2
93	9.9010%	10.1	10.4167%	9.6
94	10.5260%	9.5	10.9890%	9.1
95	11.2360%	8.9	11.6279%	8.6
96	11.9050%	8.4	12.3457%	8.1
97	12.8210%	7.8	13.1579%	7.6
98	13.6990%	7.3	14.0845%	7.1
99	14.7060%	6.8	14.9254%	6.7
100	15.6250%	6.4	15.8730%	6.3

2 strategies

Once you know the account balance, you either divide that number by the divisor for that 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 that number by 27.4 or you can multiply the number by 0.0365.

If you multiply \$1 million times 0.0365, you get \$36,500. If you divide \$1 million by 27.4, you get \$36,496.35.

Warning: Before you read part 3 of our series, take some Tylenol because your head may explode. You could become dizzy after reading some of the abbreviations and names on the bills currently in Congress, as we take a look at how these proposed bills can impact our clients and your practice.

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