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What You Must Know About Required Minimum Distribution Rules

The 7 Biggest Financial Challenges Senior Citizens Are Facing in Retirement

The IRS requires that you start taking withdrawals from your qualified retirement accounts (IRA accounts, 401(k)s, 457 plans and other tax-deferred retirement savings plans like a TSP, 403(b), TSA, SEP, or SIMPLE) once you reach age 70 ½. This requirement is called a required minimum distribution, or RMD.

When must I start taking required minimum distributions? Your first RMD must occur by April 1st of the year after you reach age 70 ½, but most people will find it most tax-efficient to take their first distribution in the year they reach age 70 ½.

Do I have to take RMDs from a Roth? You are NOT required to take minimum distributions from your own Roth IRA. However, you are required to take RMDs from other types of Roth accounts. For example, IRS rules require you take RMDs from Roth 401(k)s. However, at retirement, you can roll your Roth 401(k) into your Roth IRA and thus avoid this requirement. You also must take RMDs from inherited Roth IRAs so when your children inherit your Roth IRA they can't let the funds grow tax-free forever - they have to start taking a specified amount out each year.

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Retirement is supposed to be a period of joy for senior citizens where they're able to travel, reflect, and sometimes just put their feet up if they choose to do so. Unfortunately, far too many senior citizens are finding themselves denied of the American dream of retiring comfortably and on their own terms.

1. Historically low interest rates: One of the more visible problems for senior citizens has been the Federal Reserve's more than six-year run of keeping the federal funds target at a record low. While low lending rates tend to boost hiring and allow businesses and homeowners to refinance debt at attractive levels, it's effectively wiped out the opportunity to net substantial income from fixed-income investment such as CDs, money market accounts, savings accounts, and bonds. Chances are a majority of these investment tools aren't outpacing inflation, thus costing seniors real money.

2. Distrust of the stock market: The Great Recession wound up being a great opportunity for long-term investors to load up on attractively priced stocks. However, for senior citizens it's a reminder of the volatile nature of the stock market, which works contrary to their general risk-averse nature.

3. Social Security problems: Based on the 2015 Social Security Fact Sheet from the Social Security Administration, around half (52%) of all aged couples

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What if I am still working at age 70 1/2? If you are still working and contributing to your employer-sponsored retirement plan, some plans will allow you to delay your RMD. Each qualified plan has its own set of rules. You have to check with your plan to see if you will be required to take distributions at age 70 1/2 if you are still working.

How much do I have to take out? The amount of your required distribution is based on two things: your prior year's December 31st account balance, and an IRS table based on your age. You use your age as of your birthday in the year of your distribution. So if you are taking a distribution in 2017, use the age that you attain on your birthday that occurs in 2017.

Can I rollover my RMD to a Roth? No, you cannot roll your required minimum distribution to a Roth IRA. However, you can distribute funds from your IRA in-kind, meaning you distribute shares of an investment instead of cash. Then those funds remain invested in a brokerage account.

Can I direct my RMD to a charity? You can direct your RMD to a charity, and it will not be reported as taxable income on your tax return. This provision was a temporary provision in the tax code but was made permanent starting in 2016. It is called a "qualified charitable distribution."

What? A penalty for not taking a required minimum distribution! The penalty for not taking a required minimum distribution is a tax of 50% on any amounts that were not withdrawn in time.

Source: thebalance.com/required-minimum-distributions

Note: You can direct your RMD to a charity and it will be treated as a Qualified Charitable Contribution. If you are over 70 1/2, you can make cash donations from your IRA up to \$100,000 per individual IRA owner.

Our website at www.mccampbellcpa.com has an RMD calculator. Click on Info Center; Financial Tools; Scroll down and click on Retirement then click on the Required Minimum Distribution for Current Year.

Please contact our office for more information.†

What Our Clients Say About Us

"Marcia and her staff were very helpful" - VR

The 7 Biggest Financial Challenges Facing Seniors in Retirement...Continued From Pg 1

count on Social Security for at least 50% of their income in retirement, while 47% of unmarried seniors count on Social Security income for at least 90% of their income in retirement. This is a potentially big problem considering that the Old-Age, Survivors, and Disability Insurance Trust, or OASDI, will burn through its remaining cash reserves by 2033. If nothing is done by Congress, seniors could be facing a 23% benefits cut by 2033.

4. An unfavorable jobs market: For seniors with little-to-no retirement savings, or those who are overly reliant on Social Security income, going back to work is a viable option. Unfortunately, the job environment for senior citizens isn't all that welcoming. Although older workers are more likely to be retained by businesses in general, businesses are opting for younger employees that are willing to accept lower wages.

5. Rising healthcare costs: Heading into retirement there's the misconception that Medicare is a fix-all program for the elderly. Unfortunately, it doesn't cover all medical costs, and the out-of-pocket expenses for their medical care can be quite extensive.

6. Debt: Instead of entering their golden years debt free, more and more senior citizens are finding themselves buried up to their necks in debt.

7. Feeling obligated to assist their adult kids: Lastly, a report last year from the Pew Research Center showed that of seniors aged 60 and up that are no longer working, 43% admitted to helping their adult children pay their bills.

Source: fool.com/retirement/general

Please contact our office for more information.†



You can e-mail us at

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