Required Minimum Distributions

Your Individual Retirement Account (IRA) or qualified employer-sponsored retirement plan grows tax-deferred until you begin making withdrawals.

Since the retirement account is not meant to be a tax shelter, the Internal Revenue Service (IRS) requires you to begin taking withdrawals from your retirement account once you have attained the age of 70-½. This amount is called a Required Minimum Distribution (RMD).

When You Must Begin

Your RMD is required to begin no later than April 1 of the calendar year following your 70- ½th birthday. This date is known as your required beginning date (RBD). All subsequent RMD payments are required to be taken by December 31, and a penalty tax of 50% is imposed on any portion of the RMD amount that is not withdrawn by its due date. Most individuals may opt to take their very first RMD by December 31 of the calendar year in which they turn 70-½. If you delay that first distribution until April 1 of the following year in which you have attained age 70-½, you'll have to take two taxable distributions in the same year (the second one by December 31).

Based on the amount you withdraw, you must pay ordinary income tax on all earnings and deductible contributions at your regular tax rate. If you made any non-deductible contributions to the IRA, you have a basis. These non-deductible contributions are not taxed when they are distributed to you but they are withdrawn on a pro-rata basis from the IRA.

An important exception to note is that the RMD rules do not apply during the lifetime of the Roth IRA owner. Upon the death of the Roth IRA holder, the Traditional IRA RMD rules apply. The RMD is computed based on the single-life expectancy of the designated beneficiary of the IRA.

Calculating Your Required Minimum Distribution

To calculate your annul RMD amount, simply divide your previous year's December 31 IRA balance by the applicable life expectancy factor that corresponds to your age, which can be found in the IRS Uniform Lifetime table below. Keep in mind though your RMD needs to be recalculated each year.

Your Age	Divisor	Your Age	Divisor	Your Age	Divisor	Your Age	Divisor	Your Age	Divisor	Your Age	Divisor
70	27.4	**78**	20.3	**86**	14.1	**94**	9.1	**102**	5.5	**110**	3.1
71	26.5	**79**	19.5	**87**	13.4	**95**	8.6	**103**	5.2	**111**	2.9
72	25.6	**80**	18.7	**88**	12.7	**96**	8.1	**104**	4.9	**112**	2.6
73	24.7	**81**	17.9	**89**	12.0	**97**	7.6	**105**	4.5	**113**	2.4
74	23.8	**82**	17.1	**90**	11.4	**98**	7.1	**106**	4.2	**114**	2.1
75	22.9	**83**	16.3	**91**	10.8	**99**	6.7	**107**	3.9	**115+**	1.9
76	22.0	**84**	15.5	**92**	10.2	**100**	6.3	**108**	3.7		
77	21.2	**85**	14.8	**93**	9.6	**101**	5.9	**109**	3.4		

Although you only use your age to find your life expectancy factor, the Uniform Lifetime table provides the joint life expectancy factor of you and a beneficiary who is exactly ten years younger than you, even if there is no beneficiary named. The only exception to using the Uniform Lifetime table is if an IRA owner has a spouse, who is the sole beneficiary and she/he is greater than ten years younger, then the Joint Life and Last Survivor table will be used. This will result in a lower RMD, which will allow more of your retirement assets to remain in the IRA growing tax-deferred.

If you have several different Traditional IRA accounts, although you are required to calculate the RMD amount separately for each IRA, you may aggregate those amounts together and take the total RMD from any one or more of your IRAs. If you maintain qualified retirement plans, such as a 401(k), Profit Sharing, Pension or 403(b), the RMD amount must be calculated separately for each account, and the RMD must be withdrawn from the respective retirement accounts. For those individuals, over age 70, who are still employed and participating in your employer-sponsored plan, you generally have until the later of April 1 of the year following the year you turn age 70-½, or the date in which you retire from the employer who maintains the plan to begin taking your RMD.

Extend a Legacy Through Your IRA

By naming a beneficiary to your IRA, you control who inherits your assets after your death. As an IRA owner, if you have a designated beneficiary, distributions after your death will be based on the life expectancy of such designated beneficiary. If you fail to name a beneficiary prior to your death, your IRA will generally pass to your estate and will be subject to the applicable state probate laws. Thus, it is important that you have qualified designated beneficiaries—primary and contingent—and to periodically review your IRA beneficiary(ies) designations. By doing so, this will ensure that your IRAs are aligned with your overall estate planning strategy, and your beneficiary can "stretch" his/her IRA withdrawals over the maximum deferral period, which is over their life expectancy.

Required Minimum Distributions After Death

According to the Final RMD Regulations, the IRA owner's designated beneficiary will be determined based on the beneficiary(ies) listed as of the date of death of the IRA owner, and who remain beneficiary(ies) as of September 30 of the calendar year following the year of the IRA holder's death. The beneficiary distribution options for receiving the IRA assets will depend on two things:

- Beneficiary relationship to the IRA owner – spouse or non-spouse (i.e. children)
- If the IRA owner passed away before, on or after his or her required beginning date (RBD)

If the IRA owner had begun taking RMDs before death, one last distribution will be required using the life expectancy of the IRA owner, before the IRA assets are passed on to the designated beneficiary. In the year following the IRA owner's death, the beneficiary distributions must commence. A spouse, who is sole beneficiary of the IRA, always has the option to either treat the decedent's IRA as own (as a transfer) or distribute and rollover to his or her own IRA. As a non-spouse beneficiary, the options generally are to take a lump sum distribution, or to receive annual distributions based on his or her own life expectancy.

Baird Can Help

Keep in mind that tax laws related to IRAs are complex, and each person's situation is unique. Supported by Baird's team of retirement planning specialists, your Baird Financial Advisor can help you calculate your annual RMD amounts as well as discuss the importance of naming an IRA beneficiary to ensure an appropriate distribution strategy that is in line with your overall estate and financial planning goals.

Robert W. Baird & Co. 777 East Wisconsin Avenue, Milwaukee, Wisconsin 53202. 1-800-RW-BAIRD. www.rwbaird.com
Updated 08/2012.