

## The Best Ways to Take Required Minimum Distributions

Written by Rob Copeland

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Tax-deferred retirement accounts like IRAs and 401(k)'s are a great way to help build a nest egg—but you can be sure that Uncle Sam will expect to get his cut eventually.

That's the idea behind required minimum distributions. RMDs from conventional retirement accounts are required after you turn 70 ½. The distributions, which you must determine based on your age, life expectancy and account balance, and are taxed at your ordinary income rate.

It can be painful to pay those taxes. But it's even more painful if you fail to take your RMDs, in the correct amounts, on time: In such cases, the amount you should have taken out is assessed a penalty of 50%—plus the original income tax you owe on it.

Here are a few ideas on how to avoid that stiff penalty and potentially minimize your tax liability when it comes to RMD.

- Combine your retirement accounts. Many of us have multiple IRAs by the time we're approaching retirement, and we still might even have a 401(k) or two. Overlooking one of those accounts as you take RMDs will be an expensive mistake. And it's a fact that the more we age, the more likely we are to forget. So roll those accounts into one, simplify your responsibilities and reduce the possibility of a nasty surprise from the IRS

- Delay 401(k) withdrawals. If you're still employed after age 70½, your plan may let you hold off on taking distributions until you retire. You must not own more than 4% of the company you're employed with. And remember, you'll still have to take distributions from your IRAs and other 401(k)s.

- Rolling IRA Assets into a 401(k). For a small group of savers, it may make sense to roll your IRA into your 401(k). If you're still working past RMD age, moving your IRA assets into your workplace plan (if allowed) will allow you to defer those distributions until you retire. Keep in mind that after you retire, you can roll your 401(k) funds back into an IRA.

- Consider a Roth IRA. Converting your tax-deferred IRA to a Roth can make sense in some cases. As you may know, Roth IRAs are funded with after-tax dollars, and no additional tax is due on distributions. But you must pay taxes on the entire balance of your conventional IRA at the time you convert—and that can amount to a huge bill. However, biting the bullet and doing the conversion can make sense as part of an estate-planning strategy. If the taxes you pay to convert are less than your beneficiary is likely to pay in RMDs, then a conversion is worth considering.

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These strategies are simplified for the sake of this blog. It's common for there to be many variables and possible consequences based on your personal situation and goals. Deciding on the best course of action should be done in consultation with an investment advisor. Please get in touch if we can be of help.