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RMDs – Why, When and to Whom

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As the Education Director of NIPA, Kim Martin is responsible for the leadership and strategic management of the association's educational programs. Kim is also an account executive at Bates & Company, Inc., providing administration and consulting services to clients.

What We'll Cover

- Administrative Issues
  - Determining 5% Owner for RBD
  - Amount used to calculate RMDs
  - Lifetime RMDs and beneficiary changes
  - RMDs after death
- RMD Failures
  - 50% excise tax
  - Corrections under EPCRS

Required Beginning Date (RBD)

- 5% Owners
  - RBD = April 1st following the calendar year the participant attains age 70½
- Non-5% Owners
  - RBD = April 1st following the *later of*:
    - The calendar year the participant attains age 70½, *or*
    - The calendar year the participant retires
- Regulations vs document
  - Regulations define the minimum standards
  - Plan terms may be more restrictive
    - **Example**: Non-5% owner RBD = 5% owner RBD

Required Beginning Date (RBD)

- Determining 5% Owners
  - Who – key employee definition of IRC § 416
    - Owns *more than* 5% of the business
    - Includes ownership in related employers
    - Attribution rules under IRC § 318 apply
  - When – at *any time* during the plan year ending in the calendar year in which the employee attains age 70½
- Changes in ownership after age 70½ year are irrelevant
  - 5% owner status is "locked in" based on ownership during the plan year ending in the age 70½ calendar year
  - Ownership changes after this "snapshot" period do not affect the RBD

Required Beginning Date (RBD) – Ownership Change Example

- Facts:
  - ABC Co. sponsors a calendar year 401(k) plan
  - RBD for non-5% owners is the later of retirement or age 70½
  - Ann owns 75% of ABC Co. and is a participant in the plan
  - Ann attains age 70½ on 9/13/2015
  - Ann sells her 75% ownership interest on 6/1/2016
  - Ann retires in 2019
- Conclusions:
  - Ann *is* a 5% owner for 2015
  - Ann's RBD is 4/1/2016
  - After the sale, Ann's minimum distributions must continue

Required Beginning Date (RBD) – Ownership Change Example

- Facts:
  - ABC Co. sponsors a calendar year 401(k) plan
  - RBD for non-5% owners is the later of retirement or age 70½
  - Bob owns 4% of ABC Co. and is a participant in the plan
  - Bob attains age 70½ on 3/26/2015
  - Bob purchases Ann's 75% ownership interest on 6/1/2016
  - Bob retires in 2020
- Conclusions:
  - Bob *is not* a 5% owner for 2015
  - Bob's RBD is 4/1/2021
  - The purchase does not trigger the minimum distribution rules
- What if the purchase occurred in 2015?

Calculating the RMD Amount

- RMD = *Account Balance* ÷ Distribution Period
  - Calculated for each calendar year for which an RMD is required ("distribution calendar year")
    - First distribution calendar year – RMD due by RBD
    - Subsequent distribution calendar years – RMD due by 12/31
- Account Balance
  - As of the *latest valuation date* in the calendar year that precedes the distribution calendar year ("valuation calendar year")
    - **Example**: 5% owner attains age 70½ in 2015

Distribution Calendar Year	Valuation Calendar Year	Due Date of RMD
2015	2014	04/01/2016
2016	2015	12/31/2016
2017	2016	12/31/2017

Calculating the RMD Amount

Account Balance Adjustments

Include	Exclude
Contributions made after valuation date and by 12/31	Distributions made after valuation date and by 12/31
Designated Roth accounts	Deemed IRA accounts
Vested and non-vested	QLACs
Rollover contributions distributed in valuation year but received after valuation year	TEFRA § 242(b)(2) elections
Contributions made after 12/31 but allocated as prior year (optional)	Separate accounts (post-death)

Calculating the RMD Amount

- Account Balance Adjustments
  - *Optional inclusion* of prior year contributions
    - Applies to contributions allocated as of a valuation date but deposited after the valuation year
    - **Example**: M&M Profit Sharing Plan is a calendar year plan. Mary is a plan participant and is required to take an RMD in 2016. Her account balance as of 12/31/2015 is valued at $275,000. In addition, for the 2015 plan year, a $25,000 profit sharing contribution is allocated to Mary on 3/14/2016.

	Option #1 (Include)	Option #2 (Exclude)
12/31/2015 balance	$275,000	$275,000
2015 contribution	$ 25,000	$ 0
Balance used to determine RMD	$300,000	$275,000

Calculating the RMD Amount

- Account Balance Adjustments
  - *Include* designated Roth accounts
    - Subject to the minimum distribution rules, even though the plan must separately account for Roth contributions and earnings
    - Compare with Roth IRAs, which are not subject to lifetime RMDs
  - *Include* rollover contributions
    - Regardless of source
    - Rollovers are generally included in RMDs for the *next* valuation year
      - For example, rollover contributions received in 2016 are part of the 2016 account balance, used to determine 2017 RMDs.
    - Exception: Rollover contributions that are received after the valuation year in which they were distributed are included in the account balance.
      - **Example:** Rollover contributions received in January 2016 that were distributed in December 2015 are included in the recipient plan's 2015 account balance used to determine 2016 RMDs.

Calculating the RMD Amount

- Account Balance Adjustments
  - If *"latest valuation date"* is not December 31 (fiscal year plans)
    - Adjust for transactions occurring after valuation date through 12/31
      - *Add* contributions and forfeitures (but not earnings) to account value
      - *Subtract* distributions from account value
    - **Example**: DEF Co. 401(k) Plan has a March 31 plan year end and valuation date. Jake is a plan participant and is required to take an RMD in 2016. His RMD is calculated using the value of his account balance as of the latest 2015 valuation, adjusted for transactions after 3/31/2015 through 12/31/2015:

Steps	Amount
1. Obtain 3/31/15 valuation account balance	$200,000
2. Add deferrals made from 4/1/15 to 12/31/15	$ 13,500
3. Add match made from 4/1/15 to 12/31/15	$ 3,875
4. Subtract distributions made from 4/1/15 to 12/31/15	($ 12,375)
5. Calculate adjusted value of 2015 account balance	$205,000

Calculating the RMD Amount

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- Account Balance Adjustments
  - *Include* non-vested portion of account balance
    - Only vested portion is required to be paid
    - Subsequent year's RMD is increased by prior year's RMD not paid
    - Rare since most participants subject to RMDs are fully vested
  - *Exclude* Deemed IRAs
    - If plan accepts IRA contributions, must separately account for contributions and earnings.
    - Treated as IRAs for all tax purposes
    - Minimum distribution rules apply separately to plan accounts and deemed IRA accounts.
      - Roth IRA – no minimums due until after death
      - Traditional IRA – may have different RBD than plan account

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Calculating the RMD Amount

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- Account Balance Adjustments
  - *Exclude* Qualifying Longevity Annuity Contracts (QLACs)
    - Must be purchased on or after July 2, 2014
    - Excluding a portion of the account balance from the RMD calculation reserves that portion for later distribution
  - *Exclude* TEFRA § 242(b)(2) elections
    - A valid TEFRA election delays RMDs until a later time
    - Account balance subject to election is excluded
  - *Exclude* separate accounts (post-death RMDs)
    - Account balance may be divided into separate accounts
      - Different beneficiaries for the separate accounts
      - RMDs are calculated separately for each account
    - Exclusion *applies to post-death distributions*

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Calculating the RMD Amount

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- RMD = Account Balance ÷ *Distribution Period*
- Distribution Period
  - Distribution period factors found in Reg. § 1.401(a)(9)-9 tables
  - Lifetime RMDs
    - Uniform Lifetime Table
      - Factor based on participant's attained age in distribution calendar year
      - Table applies to RMD calculations through year of death
      - Generally use to calculate most RMDs
    - Joint and Last Survivor Table
      - Factor based on attained ages of the participant and spouse
      - Only used if for the entire year:
        - the spouse is the *sole* designated beneficiary, *and*
        - the spouse is *more than* 10 years younger than the participant

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Calculating the RMD Amount – Lifetime RMD Example (Year 1)

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- Facts:
  - Calendar year plan has age 70½ RBD for all participants
  - Paul's DOB = 10/5/1944
  - Paul's only designated beneficiary is his wife (DOB 3/15/1946)
- Conclusions:
  - Paul is age 70½ on 4/5/2015

Distribution Calendar Year	Valuation Calendar Year	Due Date of RMD
2015	2014	04/01/2016
2016	2015	12/31/2016
2017	2016	12/31/2017
2018	2017	12/31/2018

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Calculating the RMD Amount – Lifetime RMD Example (Year 1)

- 2015 RMD Distribution Period
  - Paul is 71 and his wife is 69 (2 years younger) in the 2015 distribution calendar year → use the distribution period factor under the Uniform Lifetime Table based on Paul's attained age

UNIFORM LIFETIME TABLE

Age of Employee	Distribution Period
70	27.4
71	26.5
72	25.6
73	24.7

Calculating the RMD Amount – Lifetime RMD Example (Year 1)

- 2015 RMD Account Balance
  - As of the latest valuation date in the calendar year that precedes the 2015 distribution calendar year → 12/31/2014 account balance value:

Valuation As Of	Account Balance
12/31/2013	$100,000
12/31/2014	$150,000
12/31/2015	$175,000
12/31/2016	$200,000

- 2015 RMD Calculation
  - $150,000 ÷ 26.5 = $5,660.38 must be distributed by 4/1/2016

Calculating the RMD Amount – Lifetime RMD Example (Year 2)

- Second Distribution Calendar Year (2016)

Distribution Calendar Year	Valuation Calendar Year	Due Date of RMD
2015	2014	04/01/2016
2016	2015	12/31/2016
2017	2016	12/31/2017
2018	2017	12/31/2018

- Paul changes his beneficiary designation to:
  - Wife 50% (DOB 3/15/1946)
  - Son 25% (DOB 6/22/1966)
  - Daughter 25% (DOB 9/4/1970)

Calculating the RMD Amount – Lifetime RMD Example (Year 2)

- 2016 RMD Distribution Period
  - Paul is 72 during the 2016 distribution calendar year → use the distribution period factor under the Uniform Lifetime Table based on Paul's attained age

UNIFORM LIFETIME TABLE

Age of Employee	Distribution Period
70	27.4
71	26.5
72	25.6
73	24.7

Calculating the RMD Amount – Lifetime RMD Example (Year 2)

- 2016 RMD Account Balance

Valuation As Of	Account Balance
12/31/2013	$100,000
12/31/2014	$150,000
12/31/2015	$175,000
12/31/2016	$200,000

- 2016 RMD Calculation
  - $175,000 ÷ 25.6 = $6,835.94 must be distributed by 12/31/2016
  - Change in beneficiaries had no impact on the RMD calculation

Calculating the RMD Amount – Beneficiary Changes

- Changes in the designated beneficiary are usually irrelevant since the Uniform Lifetime Table is used in most beneficiary situations:
  - The sole designated beneficiary is a spouse ≤ 10 years younger
  - The sole designated beneficiary is a spouse older than participant
  - The spouse isn't the sole designated beneficiary
  - The designated beneficiary is not the spouse
  - There isn't a designated beneficiary
- *Exception*: If the *sole* designated beneficiary is a spouse *more than* 10 years younger than the participant → use the Joint and Last Survivor Table

Calculating the RMD Amount – Beneficiary Change Example

- Facts:
  - Calendar year plan has age 70½ RBD for all participants
  - Paul's DOB = 10/5/1944
  - Paul's only designated beneficiary is his wife (DOB 3/15/1956)
- Conclusions:
  - Paul is age 70½ on 4/5/2015

Distribution Calendar Year	Valuation Calendar Year	Due Date of RMD
2015	2014	04/01/2016
2016	2015	12/31/2016
2017	2016	12/31/2017
2018	2017	12/31/2018

Calculating the RMD Amount – Beneficiary Change Example

- 2015 RMD Distribution Period
  - Paul is 71 and his wife is 59 (12 years younger) in the 2015 distribution calendar year → use the joint life expectancy factor under the Joint and Last Survivor Table based on the attained ages of Paul and his wife

JOINT AND LAST SURVIVOR TABLE

Ages	57	58	59
69	29.7	29.0	28.3
70	29.5	28.8	28.1
71	29.4	28.6	27.9
72	29.2	28.4	27.7

Calculating the RMD Amount – Beneficiary Change Example

- 2015 RMD Account Balance
  - As of the latest valuation date in the calendar year that precedes the 2015 distribution calendar year → 12/31/2014 account balance value:

Valuation As Of	Account Balance
12/31/2013	$100,000
12/31/2014	$150,000
12/31/2015	$175,000
12/31/2016	$200,000

- 2015 RMD Calculation
  - $150,000 ÷ 27.9 = $5,376.34 must be distributed by 4/1/2016
  - Compare: $5,660.38 RMD for *all* other beneficiary situations

Calculating the RMD Amount – Beneficiary Change Example

- Second Distribution Calendar Year (2016)

Distribution Calendar Year	Valuation Calendar Year	Due Date of RMD
2015	2014	04/01/2016
2016	2015	12/31/2016
2017	2016	12/31/2017
2018	2017	12/31/2018

  - Paul changes his beneficiary designation to:
    - Wife 50% (DOB 3/15/1956)
    - Son 25% (DOB 6/22/1966)
    - Daughter 25% (DOB 9/4/1970)

Calculating the RMD Amount – Beneficiary Change Example

- 2016 RMD Distribution Period
  - In this situation, the beneficiary change affects the RMD calculation: switch from Joint and Last Survivor Table used for 2015 to Uniform Lifetime Table for 2016 calculation
  - Paul is 72 during the 2016 distribution calendar year → use the distribution period factor under the Uniform Lifetime Table based on Paul's age

UNIFORM LIFETIME TABLE

Age of Employee	Distribution Period
70	27.4
71	26.5
72	25.6
73	24.7

Calculating the RMD Amount – Beneficiary Change Example

- 2016 RMD Account Balance

Valuation As Of	Account Balance
12/31/2013	$100,000
12/31/2014	$150,000
12/31/2015	$175,000
12/31/2016	$200,000

- 2016 RMD Calculation
  - $175,000 ÷ 25.6 = $6,835.94 must be distributed by 12/31/2016

Calculating the RMD Amount – Designated Beneficiary

Who can be…	Who is not…
Only an individual – designated by the participant or the plan document	Beneficiaries who disclaim their benefits
Multiple beneficiaries if *all* are designated beneficiaries	No beneficiary if at least 1 isn't a designated beneficiary
Underlying beneficiaries of a trust if: 1) Trust is must be irrevocable, 2) Trust is valid under state law, 3) beneficiaries are identifiable, *and* 4) the plan administrator receives a copy of the trust or a list of the beneficiaries	Trust*
	Estate*
	Organization (charity or church)*
	Beneficiaries fully paid out
	Contingent beneficiaries upon death

* Although not treated as a designated beneficiary for RMD purposes, participant may name these as his/her beneficiary

Calculating the RMD Amount – Designated Beneficiary

- Date designated beneficiary status is determined
  - Lifetime RMDs
    - As of January 1 of the distribution calendar year
    - Designated beneficiary status will only impact the distribution period when a spouse > 10 years younger is the sole beneficiary
  - Post-death RMDs
    - As of September 30 of the calendar year following the calendar year of the participant's death, *and*
    - Individual must be named as a beneficiary as of the participant's death
    - Example: If a participant dies on 6/4/2015, designated beneficiary status is determined as of 9/30/2016. However, the named beneficiary must have also been a designated beneficiary on 6/4/2015.

Calculating the RMD Amount – Post-Death Distributions

- Death on or after RBD
  - RBD determined based on document provisions
  - Remaining interest must be distributed "at least as rapidly"
  - RMD = Account Balance ÷ Distribution Period
    - Year of participant's death
      - RMD calculated as if participant is alive
      - Paid to participant or beneficiary
    - Beginning in calendar year after participant's death
      - Distribution period is determined differently
      - Single Life Table used to determine remaining distribution period
      - Life expectancy factor depends on identify of designated beneficiary
  - **Example**: Participant's RBD is 4/1/2014. Participant dies in 2016. RMD calculated for 2016 is based on Uniform Lifetime Table. RMD calculated for 2017 and after is based on Single Life Table.

Calculating the RMD Amount – Post-Death Distributions

- Death on or after RBD
  - Life expectancy factor depends on identity of designated beneficiary
    - Spouse is sole designated beneficiary
    - Nonspouse is designated beneficiary
      - Or, spouse isn't sole designated beneficiary
    - No designated beneficiary
  - May make payments more rapidly than required
    - Depends on document provisions

Calculating the RMD Amount – Post-Death Distributions

- Death on or after RBD
  - Spouse is sole designated beneficiary
    - Life expectancy factor is the *greater* of:
      - Spouse's remaining single life expectancy, *or*
      - Participant's remaining single life expectancy
    - Life expectancy based on:
      - Spouse – attained age; re-determined each year
      - Participant – age in year of death; factor reduced by 1 for each elapsed year
    - Ensures payments through spouse's lifetime

Calculating the RMD Amount – Post-Death Distributions Example

- Death *after* RBD – spouse is sole designated beneficiary
  - Facts:
    - Participant's RBD is 4/1/2013
    - Participant dies in 2016 at age 74
    - Sole beneficiary spouse is age 76 in 2016
  - Conclusions:
    - 2016 Distribution Calendar Year (year of participant's death)

UNIFORM LIFETIME TABLE

Age of Employee	Distribution Period
73	24.7
74	23.8
75	22.9

Calculating the RMD Amount – Post-Death Distributions Example

- Death *after* RBD – spouse is sole designated beneficiary
  - Conclusions:
    - 2017 Distribution Calendar Year (1 year after participant's death)

SINGLE LIFE TABLE

Age	Life Expectancy	
74	14.1 - 1 yr	(Participant)
75	13.4	
76	12.7	
77	12.1	(Spouse)
78	11.4	

- Life expectancy factor is the *greater* of:
  - Spouse's single life expectancy at age 77 (12.1), *or*
  - Participant's single life expectancy at age of death reduced by 1 for each elapsed year (14.1 at age 74 - 1 year = 13.1)

Calculating the RMD Amount – Post-Death Distributions Example

- Death *after* RBD – spouse is sole designated beneficiary
  - Conclusions:
    - 2018 Distribution Calendar Year (2 years after participant's death)

SINGLE LIFE TABLE

Age	Life Expectancy	
74	14.1 - 2 yrs	(Participant)
75	13.4	
76	12.7	
77	12.1	
78	11.4	(Spouse)

- Life expectancy factor is the *greater* of:
  - Spouse's single life expectancy at age 78 (11.4), *or*
  - Participant's single life expectancy at age of death reduced by 1 for each elapsed year (14.1 at age 74 - 2 years = 12.1)

Calculating the RMD Amount – Post-Death Distributions Example

- Death *after* RBD – spouse is sole designated beneficiary
  - Facts: Same, except spouse is age 70 in 2016
  - Conclusions:
    - 2016 Distribution Calendar Year (year of participant's death)
      - Same as previously determined
    - 2017 Distribution Calendar Year (1 year after participant's death)

SINGLE LIFE TABLE

Age	Life Expectancy	
71	16.3	(Spouse)
72	15.5	
73	14.8	
74	14.1 - 1 yr	(Participant)

Calculating the RMD Amount – Post-Death Distributions

- Death on or after RBD
  - Nonspouse is designated beneficiary
    - Rule also apply when spouse isn't sole designated beneficiary
    - Life expectancy factor is the *greater* of:
      - Beneficiary's remaining single life expectancy, *or*
      - Participant's remaining single life expectancy
    - Life expectancy based on:
      - Beneficiary – age in year *after* death; factor reduced in subsequent years by 1 for each year elapsed since factor determined
        - Use age of oldest beneficiary if there are multiple designated beneficiaries
      - Participant – age in year of death; factor reduced by 1 for each year elapsed since death

Calculating the RMD Amount – Post-Death Distributions Example

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- Death *after* RBD – spouse isn't sole designated beneficiary
  - Facts:
    - Participant's RBD is 4/1/2013
    - Participant dies in 2016 at age 74
    - Named beneficiaries are the participant's spouse (age 70) and daughter (age 49)
  - Conclusions:
    - 2016 Distribution Calendar Year (year of participant's death)

UNIFORM LIFETIME TABLE

Age of Employee	Distribution Period
73	24.7
74	23.8
75	22.9

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Calculating the RMD Amount – Post-Death Distributions Example

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- Death *after* RBD – spouse isn't sole designated beneficiary
  - Conclusions:
    - 2017 Distribution Calendar Year (1 year after participant's death)
      - The spouse is the oldest beneficiary (age 71 compared with the daughter who is age 50). However, the spouse isn't the sole beneficiary, so the life expectancy is determined under the nonspouse beneficiary rules.

SINGLE LIFE TABLE

Age	Life Expectancy	
71	16.3	(Beneficiary)
72	15.5	
73	14.8	
74	14.1 - 1 yr	(Participant)

- Life expectancy factor is the *greater* of:
  - Beneficiary's single life expectancy (16.3), *or*
  - Participant's single life expectancy (13.1)

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Calculating the RMD Amount – Post-Death Distributions Example

- Death *after* RBD – spouse isn't sole designated beneficiary
  - Conclusions:
    - 2018 Distribution Calendar Year (2 years after participant's death)

SINGLE LIFE TABLE

Age	Life Expectancy	
71	16.3 - 1 yr	(Beneficiary)
72	15.5	
73	14.8	
74	14.1 - 2 yrs	(Participant)

- Life expectancy factor is the *greater* of:
  - Beneficiary's single life expectancy (15.3), *or*
  - Participant's single life expectancy (12.1)

Calculating the RMD Amount – Post-Death Distributions

- Death on or after RBD
  - No designated beneficiary
    - Rule also applies when there are multiple beneficiaries, and one beneficiary isn't a designated beneficiary
      - **Example**: A participant's beneficiaries are his spouse (75%) and a charitable organization (25%). Since the organization isn't a designated beneficiary, the participant is treated as not having a designated beneficiary for RMD purposes.
    - Life expectancy factor
      - Use the participant's remaining single life expectancy
      - Based on the participant's age in year of death; factor reduced by 1 for each year elapsed since death

Calculating the RMD Amount – Post-Death Distributions Example

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- Death *after* RBD – no designated beneficiary
  - Facts:
    - Participant's RBD is 4/1/2013
    - Participant dies in 2016 at age 74
    - The participant's estate is the beneficiary
  - Conclusions:
    - 2016 Distribution Calendar Year (year of participant's death)

UNIFORM LIFETIME TABLE

Age of Employee	Distribution Period
73	24.7
74	23.8
75	22.9

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Calculating the RMD Amount – Post-Death Distributions Example

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- Death *after* RBD – no designated beneficiary
  - Conclusions:
    - 2017 Distribution Calendar Year (1 year after participant's death)
      - Since the participant's estate can't be a designated beneficiary, the participant is treated as not having a designated beneficiary for RMD purposes. The life expectancy factor is based on the participant's age in the year of death, reduced by one for each year that has elapsed.

SINGLE LIFE TABLE

Age	Life Expectancy
71	16.3
72	15.5
73	14.8
74	14.1 - 1 yr

(Participant)

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Calculating the RMD Amount – Post-Death Distributions

- Death before RBD
  - RMDs were not required before the participant's death, so there is no RMD in the year of the participant's death
  - **Example**: Carl, a 5% owner participant, is 70½ in 2015, and his RBD is 4/1/2016. Carl dies on 3/1/2016. Since he dies before his RBD, there is no RMD for the 2015 or 2016 distribution calendar year. This is the case even if Carl had received RMD payments before his death.
  - Death benefit payment options
    - 5-Year Rule
    - Life Expectancy Rule

Calculating the RMD Amount – Post-Death Distributions

- Death before RBD
  - 5-Year Rule
    - Requires death benefit to be completely paid by December 31 of the 5th calendar year following the participant's death
      - Allows for flexibility in payments
      - May be a single payment or multiple payments of any amount at any time by the 5-year deadline
    - Designated beneficiary status is irrelevant since there are no life expectancy calculations
    - **Example**: Dan dies in 2016 at age 67 before his RBD. Under the 5-year rule, Dan's entire benefit must be distributed by 12/31/2021. Dan's beneficiary withdraws $50,000 in 2018, $75,000 in 2020, and the remaining balance of $10,000 in 2021. Alternatively, the beneficiary could have received a lump sum distribution of $135,000 on or before 12/31/2021. Either way, the 5-year rule is met since Dan's entire benefit is distributed by the 5-year deadline.

Calculating the RMD Amount – Post-Death Distributions

- Death before RBD
  - Life Expectancy Rule
    - Death benefits are paid over the life or life expectancy of the designated beneficiary
    - Payments must begin by December 31 of the calendar year following the calendar year the participant died
      - **Example**: Dan dies in 2016 at age 67 before his RBD. Under the life expectancy rule, death benefit payments must begin by 12/31/2017.
    - Spousal exception: If the spouse is the <u>sole</u> designated beneficiary, payments must begin by the *later* of:
      - December 31 of the calendar year following the calendar year the participant died, *or*
      - December 31 of the calendar year in which the participant would have attained age 70½
      - **Example**: Dan would have been 70½ in 2020. As of his death, Dan's sole beneficiary is his wife. Therefore, death benefit payments must begin by 12/31/2020 under the life expectancy rule.

Calculating the RMD Amount – Post-Death Distributions

- Death before RBD
  - Life Expectancy Rule
    - RMD = Account Balance ÷ *Distribution Period*
      - Distribution period is determined differently than lifetime RMD
      - Single Life Table used to determine remaining distribution period
      - Life expectancy factor depends on identify of designated beneficiary
    - No designated beneficiary
      - The 5-year rule applies
      - **Example**: Dan dies in 2016 at age 67 before his RBD. Dan's beneficiary is his estate, which cannot be treated as a designated beneficiary, so his entire benefit must be distributed under the 5-year rule by 12/31/2021
    - Spouse is sole designated beneficiary
      - Life expectancy factor is the spouse's remaining single life expectancy
      - Factor based on spouse's attained age, re-determined each year
      - Ensures payments through spouse's lifetime

Calculating the RMD Amount – Post-Death Distributions Example

- Death *before* RBD – spouse is sole designated beneficiary
  - Facts:
    - Dan dies in 2016 at age 67; he would have been 70½ in 2020
    - Dan's wife, his sole beneficiary, is age 64 in 2020
    - The life expectancy rule applies
  - Conclusions:
    - Death benefit payments must begin by 12/31/2020
    - The wife's life expectancy factors used to calculate RMDs are:

SINGLE LIFE TABLE

Age	Life Expectancy	
64	21.8	(2020)
65	21.0	(2021)
66	20.2	(2022)

Calculating the RMD Amount – Post-Death Distributions

- Death before RBD
  - Life Expectancy Rule
    - Nonspouse is sole designated beneficiary
      - Rule also apply when spouse isn't sole designated beneficiary
      - Life expectancy factor is the beneficiary's remaining single life expectancy
      - Factor based on beneficiary's age in year *after* death
        - Use age of oldest beneficiary if there are multiple designated beneficiaries
      - Factor is reduced in subsequent years by 1 for each year elapsed since factor determined

Calculating the RMD Amount – Post-Death Distributions Example

- Death *before* RBD – nonspouse designated beneficiary
  - Facts:
    - Dan dies in 2016 at age 67
    - Dan's son, his sole beneficiary, is age 39 in 2016
    - The life expectancy rule applies
  - Conclusions:
    - Death benefit payments must begin by 12/31/2017
    - The son's life expectancy factors used to calculate RMDs are:

Distribution Year	Life Expectancy	
2017	43.6	(Factor from Single Life Table at age 40)
2018	43.6 - 1 = 42.6	(Factor minus 1 year)
2019	43.6 - 2 = 41.6	(Factor minus 2 years)

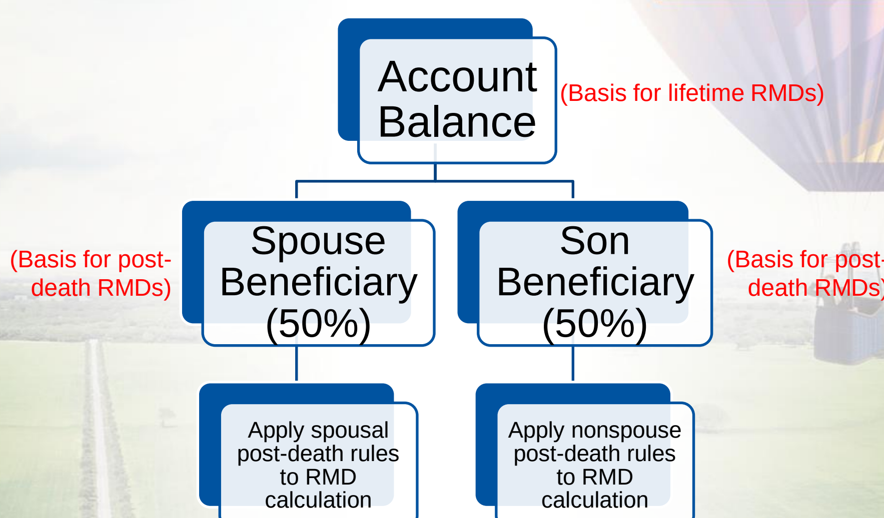
Calculating the RMD Amount – Post-Death Distributions

- Death before RBD
  - 5-year rule vs life expectancy payment method
    - Regulations define the minimum standards
    - Plan terms may be more restrictive
      - **Example**: Plan may require lump sum distributions for nonspouse beneficiaries, so the life expectancy rule wouldn't be available to them.
    - No designated beneficiary → 5-year rule must apply
    - Designated beneficiary → document provisions indicate method
    - Plan may permit election by participant or beneficiary
      - Election must be made by 12/31 deadline
      - If no election or governing plan provision → life expectancy rule applies

Calculating the RMD Amount – Post-Death Distributions

- Separate Accounts
  - A participant's benefit may be divided into separate accounts for RMD purposes
    - Represents separate interests of beneficiaries
    - RMDs are calculated separately for each account
  - Affects post-death distributions only
    - Separate accounts must be established by December 31 following calendar year of the participant's death
    - No impact on lifetime RMDs
  - Requires separate accounting of post-death transactions
    - Allocate contributions and earnings on a pro rata basis
    - Allocated post-death distributions to beneficiary's account
    - Separate investments permitted

Calculating the RMD Amount – Separate Accounts Example



Rollovers and RMDs

- RMDs are not eligible rollover distributions
  - Distributions are applied *first* to satisfy RMD for year
  - Distributions *above* the RMD amount are eligible for rollover
  - If RMDs are rolled over…
    - Distributing plan – RMD rules treated as satisfied
    - Recipient plan – RMD treated as an improper rollover
    - **Example**: A non-5% owner retires in 2016. His 2016 RMD is $10,000 and his RBD is 4/1/2017. The participant elects a direct rollover to his IRA. On 6/16/2016, the participant's entire account balance of $274,000 is rolled over without distributing the RMD. The distributing plan is treated as satisfying the RMD rules. Since only $264,000 was eligible for rollover, the recipient plan has a $10,000 invalid rollover.

Rollovers and RMDs

- Strategies to delay RMDs
  - Rollover takes character of recipient plan for RMD purposes
  - Rollover from IRA to qualified plan
    - IRA has age 70½ RBD, so rollover delays RMD if plan has non-5% owner RBD of retirement
    - If RMDs already apply in IRA, rollover must be net of RMD
    - Qualified plan must allow direct rollover from IRAs
    - **Example**: A non-5% owner participant is age 71 and still employed. To avoid *future* RMDs, she rolls her IRA, *less the RMD for the year*, to her employer's plan. RMDs from the plan are not required until she retires.

Rollovers and RMDs

- Strategies to delay RMDs
  - Rollover of designated Roth account to Roth IRA
    - Roth IRAs are not subject to lifetime RMDs
    - If RMDs already apply in qualified plan, RMD can't be rolled over
    - **Example**: A 5% owner participant is age 69. To delay RMDs from her designated Roth account, she rolls over her Roth account to her Roth IRA. RMDs from her Roth IRA are not required until the participant's death.

Rollovers and RMDs

- Strategies to delay RMDs
  - Death Benefits – Spouse Beneficiary
    - May roll over death benefit to IRA or qualified plan
      - RMDs based on spouse's RBD
      - Death on or after RBD
        - RMD in year of participant's death may not be rolled over, although distributions in excess of RMD can be rolled over
        - Distributions after year of death are eligible for rollover
      - Death before RBD – entire benefit may be rolled over
    - May roll designated Roth account to Roth IRA
      - If treat Roth IRA as own, RMDs not required until spouse's death

Rollovers and RMDs

- Strategies to delay RMDs
  - Death Benefits – Nonspouse Beneficiary
    - May roll over death benefit to an inherited IRA
      - Nonspouse beneficiary must be a designated beneficiary
      - Death on or after RBD
        - RMD may not be rolled over
      - Death before RBD
        - Entire benefit may be rolled over in year of participant's death
        - 5-year rule: amounts are eligible for rollover for first 4 years after death
        - Life expectancy rule: no rollovers of RMDs for years after death
      - Inherited IRA satisfies the plan's RMD requirements
        - Post-death RMD rules for nonspouse beneficiary apply in the IRA
        - If 5-year rule applies in plan → applies to Inherited IRA
        - If life expectancy rule applies in plan → applies to Inherited IRA
        - Special rule: If the 5-year rule applies and benefits are paid by the 12/31 following the year of death, the inherited IRA may use the life expectancy rule to calculate RMDs.

RMD Failures

- Failure occurs when RMD isn't made timely
  - Aggregation rule doesn't apply to qualified plans.
  - Amount in excess of RMD doesn't reduce subsequent years' RMDs
- Excise Tax under IRC § 4974
  - 50% excise tax applies to underpayment
  - Tax paid by participant/beneficiary – not plan
  - Reported on Form 5329
    - Filed with Federal income tax return for the tax year that the RMD was due
  - **Example**: 2016 RMD of $5,000 is due by 12/31/2016. If only $1,000 is distributed, there is an underpayment of $4,000 ($5,000 - $1,000). The $2,000 excise tax ($4,000 x 50%) is reported on Form 5329 and paid with the 2016 tax return.

RMD Failures

- Excise Tax under IRC § 4974
  - Participant/beneficiary may apply for a waiver of the excise tax
  - Form 5329 instructions
  - Form 5329, Part IX

Part IX Additional Tax on Excess Accumulation

52	Minimum required distribution......................	5,000
53	Amount actually distributed............................	1,000
54	Subtract line 53 from line 52...RC (4,000).........	0
55	Additional tax. Enter 50% of line 54..............	0

Waiver of tax. The IRS can waive part or all of this tax if you can show that any shortfall in the amount of distributions was due to reasonable error and you are taking reasonable steps to remedy the shortfall. If you believe you qualify for this relief, attach a statement of explanation and file Form 5329 as follows.

1. Complete lines 52 and 53 as instructed.
2. Enter "RC" and the amount you want waived in parentheses on the dotted line next to line 54. Subtract this amount from the total shortfall you figured without regard to the waiver, and enter the result on line 54.
3. Complete line 55 as instructed. You must pay any tax due that is reported on line 55.

The IRS will review the information you provide and decide whether to grant your request for a waiver.

RMD Failures

- Correction under EPCRS
  - RMD failures are a disqualifying defect
    - Operational failure – plan document hasn't been followed
  - SCP correction
    - No submission to IRS
    - No waiver of § 4974 excise tax
    - Appendix A, Section .06

"Failure to timely pay the minimum distribution required under § 401(a)(9). In a defined contribution plan, the permitted correction method is to distribute the required minimum distributions (with Earnings from the date of the failure to the date of the distribution). The amount required to be distributed for each year in which the initial failure occurred should be determined by dividing the adjusted account balance on the applicable valuation date by the applicable distribution period. For this purpose, adjusted account balance means the actual account balance, determined in accordance with § 1.401(a)(9)-5, Q&A-3, reduced by the amount of the total missed minimum distributions for prior years."

RMD Failures

- Correction under EPCRS
  - VCP correction
    - Sponsor may apply for a waiver of the § 4974 excise tax
      - Eliminates need for individual participants to request waiver
      - Explanation supporting the VCP waiver request
        - Required if at least one affected participant is an owner-employee (under IRC § 401(c)(3)) or a 10% owner of a corporation
      - Approved waivers are included in the VCP compliance statement
    - Requires submission to IRS
      - Model submission – use Form 14568-H (Appendix C Part II Schedule 8)
        - I. Identify number of participants affected each year and missed RMD amount
        - II. Description of proposed correction method
        - III. Request for relief for excise taxes under § 4974
        - IV. Explanation of how failures arose and measure to prevent new failures

RMD Failures

- Correction under EPCRS
  - VCP correction
    - May qualify for reduced fee submission
      - Rev Proc 2015-27
        - Up to 150 participants affected = $500
        - 151-300 participants affected = $1,500
      - Reduced fee available if
        - RMD failure is the only failure of the submission, *and*
        - Failure would result in § 4974 excise tax
    - Otherwise, regular VCP submission fee applies
      - Fee depends on number of affected participants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