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IN FOCUS

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Required Minimum Distribution (RMD) Rules for Original Owners of Retirement Accounts

Introduction

Required minimum distributions, or *RMDs*, are annual withdrawals that individuals with certain retirement accounts are required to make after (1) reaching a specified age (or retiring) or (2) inheriting retirement accounts. RMDs are intended to prevent tax-advantaged retirement accounts—established to provide income during retirement—from being used as permanent tax shelters or as vehicles for transmitting wealth to beneficiaries.

The RMD rules discussed in this In Focus apply to defined contribution (DC) accounts (such as 401(k) accounts) and traditional individual retirement accounts (IRAs). RMDs do not apply to original owners of Roth IRAs (as contributions to Roth IRAs are made with after-tax income).

In recent years, several laws have made changes to RMDs. For example, the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act, enacted as Division O of the Further Consolidated Appropriations Act of 2020 [P.L. 116-94]) and the SECURE 2.0 Act of 2022 (SECURE 2.0, enacted as Division T of the Consolidated Appropriations Act, 2023 [P.L. 117-328]) both increased the age after which RMDs must begin. The Coronavirus Aid, Relief, and Economic Security Act (CARES Act; P.L. 116-136) suspended RMDs for calendar year 2020. This In Focus summarizes RMD rules and related recent legislation that affect original account owners of DC accounts and IRAs. This In Focus does not describe distribution rules for individuals who inherit DC accounts or IRAs.

Required Minimum Distributions

Individuals with savings in the following types of plans must take RMDs:

- traditional IRAs;
- Simplified Employee Pension (SEP) IRAs and Savings Incentive Match Plan for Employees (SIMPLE) IRAs; and
- DC plans—401(k) plans, 403(b) plans, 457(b) plans, the federal government's Thrift Savings Plan [TSP], and others.

These withdrawals must begin after the individual reaches a specified age or, in the case of an individual with a DC plan, retires—if (1) retirement occurs after reaching the specified age and (2) the plan permits this delay. A DC account owner who is a 5% owner of the business sponsoring the DC plan must begin taking RMDs after reaching the specified age even if not yet retired.

DC plans may include a feature known as a Designated Roth Account, which allows an individual to contribute post-tax dollars to an account. A provision in SECURE 2.0 (P.L. 117-328) removed the RMD requirement for Designated Roth Accounts, effective as of 2024. Prior to 2024, RMDs were required from these accounts.

RMDs must begin by the *required beginning date*, or *RBD*, which is April 1 of the year following the year in which the individual reaches the later of his or her (1) applicable RMD age or (2) retirement year (in the case of DC plan participants whose plans allow for this delay). The second RMD must be made by December 31 of the year that includes the RBD. Subsequent RMDs must be made by December 31 of subsequent years.

Unlike original owners of Roth IRAs (who do not have to take RMDs), individuals who inherit DC accounts or IRAs may also be subject to RMDs, depending on their beneficiary statuses. An exploration of the distribution rules for inherited accounts is beyond the scope of this In Focus.

Another type of pension plan is a defined benefit (DB) plan, in which participants typically receive monthly payments in retirement based on a formula. Individuals in DB plans are also subject to RMDs. However, DB plan RMD rules are generally satisfied through periodic payments made to participants. DB plan RMDs are not discussed further in this In Focus.

Calculating the RMD Amount

The RMD amount for a year is calculated by dividing (1) the account balance as of December 31 of the previous calendar year by (2) a distribution period outlined by the Internal Revenue Service (IRS) based on life expectancies. IRS publishes tables for account owners, spouses, and beneficiaries. These tables and worksheets for calculating RMDs can be found in IRS Publication 590-B. The tables do not vary based on an account owner's sex despite differences in life expectancy.

For example, an unmarried IRA owner who was born on July 1, 1950 (i.e., reaching age 74 in 2024), with an account balance of $100,000 as of December 31, 2023, would use IRS's Uniform Lifetime Table to determine a distribution period of 25.5. A $100,000 balance divided by a distribution period of 25.5 equals $3,922. In this case, the account owner would have to take a minimum withdrawal of $3,922 from his or her IRA in 2024 to satisfy the RMD rules.

An individual with multiple IRAs must calculate the RMD for each account but can take the total RMD amount from any of the accounts. A similar rule applies to individuals with multiple 403(b) tax-sheltered annuities. An individual with multiple 401(k) or 457(b) plans must take an RMD from each account.

Failure to take all or a portion of the RMD results in a federal income tax penalty equal to a statutory percentage of the amount that should have been distributed. Effective starting in 2023, SECURE 2.0:

- reduced the tax penalty from 50% to 25%, and
- further reduced the penalty from 25% to 10% for failure to take the RMD from an IRA if the individual corrects the error in a timely manner (see Section 4974 of Title 26 of the *U.S. Code*).

RMD Ages

Prior to the SECURE Act, account owners were required to take RMDs by April 1 of the year following the year in which they reached 70½ years of age (with the previously noted exception for individuals with DC plans who were not yet retired). The SECURE Act increased this age from 70½ to 72 for individuals who reached age 70½ after December 31, 2019. SECURE 2.0 increased this age twice more as follows:

- to 73 for individuals who turn age 72 after December 31, 2022, and turn age 73 before January 1, 2033; and
- to 75 for individuals who turn age 73 after December 31, 2032.

Table 1 provides the corresponding RMD age for account owners based on their dates of birth. Under SECURE 2.0, individuals born in 1959 appear to be subject to both the 73 and 75 ages. Final IRS regulations (89 *Federal Register* 58886) reserved a paragraph for proposed IRS regulations (89 *Federal Register* 58644) to clarify that those born in 1959 must begin taking RMDs after reaching age 73. The proposed regulation's comment period ends September 17, 2024. Both the final and proposed IRS regulations have an effective date of January 1, 2025.

Table 1. Required Minimum Distribution Ages

(For Original Account Owners)

Date of Birth	RMD Age
Before July 1, 1949	70½
July 1, 1949, through December 31, 1950	72
January 1, 1951, through December 31, 1958	73
January 1, 1959, through December 31, 1959	See notes
On or after January 1, 1960	75

Source: CRS.

Notes: The first RMD is due by April 1 of the calendar year following the year in which an individual reaches the applicable RMD age. The second RMD is due by December 31 following the April 1 date. Final IRS regulations (89 *Federal Register* 58886) reserved a paragraph for proposed IRS regulations (89 *Federal Register* 58644) to clarify that those born in 1959 must begin taking RMDs after reaching age 73.

A House report from the 116th Congress cites improved longevity and longer working lives as reasons for the RMD age increase, noting that mandatory distributions based on age were added to the *U.S. Code* in the 1960s.

RMD Suspensions

Congress suspended RMDs in calendar years 2009 (P.L. 110-458) and 2020 (P.L. 116-136). In both years, the stock market had declined. Because the RMD taken in any year is a percentage of the account balance at the end of the previous calendar year, in many cases an RMD taken in 2020 was a larger effective percentage of the account balance on the date of the withdrawal than on December 31, 2019. For more information about the 2020 suspension, see CRS Insight IN11349, *The CARES Act and Required Minimum Distributions (RMDs): Options for Certain Individuals*, and CRS Insight IN11441, *Internal Revenue Service (IRS) Guidance for Coronavirus-Related Distributions, Plan Loans, and Required Minimum Distribution (RMD) Rollovers*.

Policy Considerations

Though the RMD is in place to prevent retirement accounts from being used as permanent tax shelters or as vehicles for transmitting wealth to beneficiaries, there is no requirement to spend RMD funds on retirement expenses. Once distributed, the amount of the RMD can be used for nearly any purpose (except for contributions to a retirement account). For example, someone could reinvest the amount of the RMD into a taxable account.

In addition to reducing federal revenues over the budget period, delaying or suspending the RMD might primarily benefit higher-income taxpayers who have other financial resources and can forgo distributions from their retirement accounts until they are required to do so.

For Further Information

IRS, "Required Minimum Distributions," 89 *Federal Register* 58886, July 19, 2024, https://www.federalregister.gov/documents/2024/07/19/2024-14542/required-minimum-distributions.

IRS, "Required Minimum Distributions+," 89 *Federal Register* 58644, July 19, 2024, https://www.federalregister.gov/documents/2024/07/19/2024-14543/required-minimum-distributions.

IRS, "Retirement Topics—Required Minimum Distributions (RMDs)," https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-required-minimum-distributions-rmds.

CRS Report R47152, *Private-Sector Defined Contribution Pension Plans: An Introduction*

CRS Report R47119, *Pensions and Individual Retirement Accounts (IRAs): An Overview*

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