

Older IRA Account Holders: Avoid Hefty Tax Penalties With RMDs

By [Kimberly Rotter](#)

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Are you 70 and a half or older? Don't ignore the nondescript broker's envelope in your mailbox at this time of year. It's probably not just another invitation to consider new investments. And it is unlikely to be a cheery seasonal greeting. Instead, for older investors, retired or still shouldering the wheel, the enclosure is probably a dry, but critical, notification to inform you about a significant event concerning your IRA. If you are currently over the age of 70 and a half, or you will be by Dec. 31, you will need to take a Required Minimum Distribution (RMD).

How much must I withdraw?

The amount that must be taken varies according to the age of the IRA holder and the total amount of the IRA. Generally, a RMD is calculated for each account by dividing the prior Dec. 31 balance of that IRA by a life expectancy factor published by the IRS. RMD may be calculated by your broker or retirement plan administrator, but as the account owner, you are ultimately responsible.

You can withdraw more than the minimum, but not less. And the IRS is thorny about attempts to dodge and weave with alternate strategies like trying to roll over the RMD into a tax-deferred account. If an account owner fails to withdraw the RMD, fails to withdraw the full amount of the RMD, or fails to withdraw the RMD by the applicable deadline, the amount not withdrawn is taxed at 50 percent. In other words, the penalty can

get very, very pricey.

What if I'm still working?

For those of you who are still employed, your employer must still make plan contributions for IRA owners even if you are in the age-related RMD category. An employee must also be given the option to continue making salary deferrals, plan permitting. Otherwise, the employer will fail to follow the plan's terms, causing the plan to lose its qualified status.

RMDs are only bad news if they are neglected. Once the money is in hand you have some pretty good options. For instance, the RMD can simply be spent. Or you can take the money and re-invest it. Or withdraw more than the minimum amount and reinvest it all elsewhere.

Personal needs drive the decision. And you are to be congratulated both for having the wisdom to start an IRA in the first place, and for passing the Biblical life span of three-score and 10 years.

How do I calculate my own RMD amount?

You can make calculations of your own. [Vanguard](#) offers help to its account holders. [Fidelity](#) offers an online calculator for anyone to use. Here's another [calculator](#) for comparison.

For the government's tables, rates and precise RMD details and calculations, visit [IRS.gov](#).

Kimberly Rotter is a writer and small business owner. She is a featured contributor on [Credit Sesame](#), and writes professionally in several industries, including finance, education, the environment, and health and wellness. Connect with Kimberly on [LinkedIn](#), [Google+](#) and [Facebook](#).