



THE IRS REQUIRED MINIMUM DISTRIBUTION RULES AND YOUR TRS TDA

Presented by:
David N. Levine
Groom Law Group, Chartered
Washington, DC

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Part I: Introduction and Background

Introduction

- TRS' TDA Program allows pre-tax contributions and tax deferred accumulations
- IRS rules limit the amount of time payments may be deferred to ensure use for retirement purposes

Required Distributions

- Required Minimum Distributions (“RMDs”) apply to TRS members with TDA Deferral status who have reached age 70½

Required Distributions

- RMDs apply to your entire TDA account – including the balance attributable to any outstanding loans
- RMDs do not affect your investment elections

Difference Between Pre-1987 and Post-1986 Funds

- Different rules apply to:
 - balance of your TDA account as of December 31, 1986, excluding future earnings (“Pre-1987 Funds”); and
 - TDA contributions and earnings accumulated after December 31, 1986 (“Post-1986 Funds”)

Difference Between Pre-1987 and Post-1986 Funds

- Example - Pre-1987 Funds:
 - If you had a TDA balance of \$31,250 as of December 31, 1986, this amount is your Pre-1987 Funds balance – regardless of any earnings after December 31, 1986

Difference Between Pre-1987 and Post-1986 Funds

- Example – Post-1986 Funds:
 - If you had a TDA balance of \$31,250 as of December 31, 1986, and then made TDA contributions of \$45,000 after December 31, 1986 and were credited with earnings of \$10,000 after December 31, 1986, your Post-1986 Funds balance would be \$55,000. Your Pre-1987 Funds balance would be \$31,250

Grandfathered Pre-1987 Funds

- Pre-1987 Funds may be “grandfathered” until age 75, whether or not you continue to work

Grandfathered Pre-1987 Funds

- Pre-1987 Funds Balance is reduced by any distributions in excess of RMD amount in year of distribution
 - Example: When you are 73, your RMD is \$5,000. You elect to withdraw \$7,000. The \$2,000 over your RMD amount for the year is withdrawn from your Pre-1987 Funds Balance

Grandfathered Pre-1987 Funds

- RMDs are made from entire TDA balance beginning in the year you reach age 75



Part II: General IRS RMD Rules

Required Beginning Date

- TRS members must begin receiving RMDs of Post-1986 Funds by their “Required Beginning Date” (“RBD”). The RBD is the April 1 following the later of:
 - the year in which a member reaches age 70½; or
 - the year in which a member “retires”

Required Beginning Date

- After the first RMD, RMDs must be made by December 31 of each year
- If RMD for the first year was made between January 1 and April 1 of the year after you reach age 70½ or retire, you must receive two RMDs in that year

Required Beginning Date (Cont' d)

- Example: If you turn age 70 on June 30, 2018, you would turn 70.5 on December 30, 2018 and would be required to commence RMDs of your Post-1986 Funds by April 1, 2019. A second RMD would need to be paid to you from your Post-1986 Funds by December 31, 2019

Required Beginning Date (Cont' d)

- Upon reaching age 75, TRS members must begin receiving RMDs from their total TDA balance by December 31 of each year

RMD Calculation Methods – 2 Basic Calculation Rules

- Two basic IRS rules govern the calculation of RMDs while you are alive

RMD Calculation Methods – 2 Basic Calculation Rules (Cont' d)

- General Rule

- the period over which your TDA balance is distributed is determined by using the distribution period listed in the IRS RMD regulations' uniform life expectancy table

RMD Calculation Methods – 2 Basic Calculation Rules (Cont' d)

- Uniform table based on joint life expectancy for you and an individual 10 years younger
- Life expectancies automatically “redetermined” each year
- You can change your beneficiary at any time without affecting the payment period

RMD Calculation Methods – 2 Basic Calculation Rules (Cont' d)

Uniform Table – Ages 70-79	
Age	Distribution Period
70	27.4
71	26.5
72	25.6
73	24.7
74	23.8
75	22.9
76	22.0
77	21.2
78	20.3
79	19.5

RMD Calculation Methods – 2 Basic Calculation Rules (Cont' d)

- Special Rule - Spouse is Sole Beneficiary and Is More than 10 Years Younger
 - Your RMD will be based on the joint life expectancy of you and your spouse
 - Separate IRS tables establish the distribution period

RMD Calculation Methods – 2 Basic Calculation Rules (Cont' d)

Special Rule – Member 70-79 / Spouse 50-59	
Age (Member / Spouse)	Distribution Period
70 / 50	35.1
71 / 51	34.2
72 / 52	33.2
73 / 53	32.3
74 / 54	31.4
75 / 55	30.4
76 / 56	29.5
77 / 57	28.6
78 / 58	27.7
79 / 59	26.8

Determination of RMD Beneficiary

- Except for when your sole beneficiary is your spouse, the identity of your beneficiary does not matter during your lifetime
 - If your spouse predeceases you, your future RMDs will be determined under the General Rule

Determination of RMD Beneficiary

- In the event of your death, your RMD beneficiary must be determined no later than September 30 of the year following your death
 - Example: If you die in 2020, your RMD beneficiary must be determined no later than September 30, 2021.

Distributions After Death

- RMD calculations depend on whether you die before or after your RBD

Distributions After Death – RBD After Death

- Spouse is Sole Beneficiary
 - Your spouse will receive RMDs over his or her single life expectancy, redetermined each year
 - After your spouse dies, your spouse's beneficiary will receive distributions over your spouse's remaining life expectancy in the year of death, reduced by one for each year thereafter

Distributions After Death – RBD After Death

- Spouse is Sole Beneficiary
 - Example: If you die at age 69.5 in November 2019, your spouse must usually commence benefit payments in 2020. If your spouse is 55 in 2020, remaining RMDs must be paid over a life expectancy of 29.6 years based on IRS tables. In 2021, your spouse's life expectancy used for RMDs calculations is 28.7 years.

Distributions After Death – RBD After Death (Cont' d)

- Non-Spouse Beneficiary
 - Your beneficiary will receive RMDs based on his or her life expectancy in the year following your death, reduced by one each year thereafter
 - If there are multiple beneficiaries of a single account (TRS defaults to split accounts), the life expectancy used will be the life expectancy of your oldest beneficiary

Distributions After Death – RBD After Death (Cont' d)

- Non-Spouse Beneficiary
 - Example: If you die at age 69.5 in November 2019, your beneficiary must commence benefit payments in 2020. If your beneficiary is 55 in 2020, remaining RMDs must be paid over a life expectancy of 29.6 years based on IRS tables. In 2021, your beneficiary's life expectancy for RMD calculations is 28.6 years ($29.6 - 1$).

Distributions After Death – RBD After Death (Cont' d)

- No Beneficiary
 - If you do not name any beneficiary, RMDs are paid to your estate
 - RMDs are paid over your life expectancy, determined in the year of your death, reduced by one for each year following your death

Distributions After Death – RBD After Death (Cont' d)

- Beneficiaries Other Than Individuals
 - If your beneficiary is not an individual (such as your estate or a charity), RMDs are paid to your non-individual beneficiary
 - RMDs are paid over your remaining life expectancy, determined in the year of your death, reduced by one for each year following your death

Distributions After Death – RBD Before Death

- Rules similar to the RBD after death rules apply except that a greater of rule applies to use your remaining life expectancy in the year of your death (reduced by one for each subsequent year) if your spouse or non-spouse beneficiary (but not your estate or a non-individual beneficiary) is receiving RMDs and it results in a longer distribution period

Distributions After Death – RBD Before Death

- Example: You die in 2019 at age 71 with a 54 year old beneficiary. In 2020, the beneficiary's life expectancy is 29.6; your life expectancy in 2019 was 16.3 years. Subtracting one from 16.3 results in a remaining life expectancy of 15.3. Because of the beneficiary's greater life expectancy, the RMD is calculated using this longer life expectancy.



Part III:

Applying the IRS Rules to Your Pre-Death TRS' TDA Distributions

Pre-Death Distributions - Calculation of RMD Amount

- Calculated by dividing TDA account balance as of December 31 of prior year by applicable life expectancy factor
- If you are in TDA Deferral status and between 70½ and 75, Pre-1987 Funds balance may be subtracted from December 31 balance

3 Alternatives to TRS' RMD Distribution Method

- Apply TDA direct withdrawals toward RMD amount on your own
- Annuitize entire TDA balance
- Receive payments from another Section 403(b) program

Note: TRS only calculates RMDs from your TRS TDA account

Annuitization Option

- You may satisfy the RMD rules by “annuitizing” your entire TDA balance and receiving payments over your life or the lives of you and your beneficiary
- You may do this either at your required beginning date or at any time thereafter

Tax Considerations

- If entire RMD amount is not distributed, 50% penalty tax applies
- RMD amounts fully taxable in year distributed
- Optional withholding applies to payment of RMD amount

Tax Considerations (Cont' d)

- Withholding on RMD Payments
 - Default is to withhold 10% for federal taxes
 - Members may elect any withholding percentage between 0% and 100%
- Mandatory 20% withholding and direct rollover rules apply to any payment over RMD amount

Example #1 - General Rule

○ Facts

- Member turns 70½ in December 2018
- Birthday in 2018: Member 70 (June)
- \$250,000 account balance on previous December 31
- Assume no investment earnings and no Pre-1987 Funds balance
- Examples show RMD calculation for year Member attains ages 70½, 75, and 80

Example #1 - General Rule (Cont' d)

<u>Year</u>	<u>Prior 12/31 TDA Balance</u>	<u>Applicable Factor</u>	<u>RMD Amount</u>
2018	\$250,000	27.4	\$9,124
2023	204,735	22.9	8,940
2028	160,624	18.7	8,590

Example #2 – Special Rule

○ Facts

- Member turns 70½ in December 2018
- Birthdays in 2018: Member 70 (June); Spouse 55 (October)
- \$250,000 account balance on previous December 31
- Assume no investment earnings and no Pre-1987 Funds balance
- Examples show RMD calculation for year Member attains ages 70½, 75, and 80

Example #2 – Special Rule (Cont' d)

<u>Year</u>	<u>Prior 12/31 TDA Balance</u>	<u>Applicable Factor</u>	<u>RMD Amount</u>
2018	\$250,000	31.1	\$8,039
2023	209,975	26.5	7,924
2028	170,677	22.1	7,723



Part IV: Applying the IRS Rules to Your Post-Death TRS' TDA Distributions

Distribution Options for Beneficiaries

- There is a default rule and six optional rules
- Default Rule: A lump sum distribution of your entire TDA balance

Distribution Options for Beneficiaries (Cont' d)

- Optional Rule #1: Distributions under the IRS' post-death lifetime distribution rules
 - Only available if you did not elect a post-death distribution form for your beneficiary before your death
 - Your beneficiary's TDA beneficiary account must be invested in a fund other than the Fixed Fund

Distribution Options for Beneficiaries (Cont' d)

- Optional Rule #1: Distributions under the IRS' post-death lifetime distribution rules (cont'd)
 - Your beneficiary must elect this option within 6 months of your death
 - Once elected, your beneficiary may not make a later distribution election (other than withdrawals) – such as making a later election to purchase an annuity with your remaining TDA balance

Example – Optional Rule #1

○ Facts

- Member turns 70½ in 2018
- Birthday in 2018: Member 70; Spouse Beneficiary 55
- \$250,000 account balance on previous December 31
- Assume no investment earnings and no Pre-1987 Funds balance
- Member dies in 2019 after receiving a RMD for the 2019 calendar year

Example – Optional Rule #1 (Cont' d)

- Member's sole beneficiary is his or her spouse
- Member's Beneficiary elects within 6 months of the Member's death to leave the Member's remaining account balance in TRS' TDA Program

Example – Optional Rule #1 (Cont' d)

In 2018 and 2019, the Member's RMD is determined as follows:

<u>Year</u>	<u>Prior 12/31 TDA Balance</u>	<u>Applicable Factor</u>	<u>RMD Amount</u>
2018	\$250,000	31.1	\$8,039
2019	241,961	30.1	8,039

Example – Optional Rule #1 (Cont' d)

In 2020, 2025, and 2030, the Beneficiary's RMD is determined as follows:

<u>Year</u>	<u>Prior 12/31 TDA Balance</u>	<u>Applicable Factor</u>	<u>RMD Amount</u>
2020	\$233,922	27.9	\$8,384
2025	192,355	23.5	8,185
2030	152,062	19.4	7,838

Distribution Options for Beneficiaries (Cont' d)

- Optional Rule #2: Distributions in five annual installments starting in the year following your death

Distribution Options for Beneficiaries (Cont' d)

- Optional Rule #3: Annuitization of the entire benefit payable to your beneficiary
- Optional Rule #4: A plan-to-plan transfer to another Section 403(b) program in which your beneficiary participates

Distribution Options for Beneficiaries (Cont' d)

- Optional Rule #5: Your surviving spouse beneficiary rolls over your remaining benefit to another retirement plan (including Section 401(a), 401(k), 403(b) and governmental 457(b) programs) or an IRA

Distribution Options for Beneficiaries (Cont' d)

- Optional Rule #6: Your non-spouse beneficiary directly rolls over your remaining benefit to an inherited IRA
 - Defining “Inherited IRA” – an IRA that is treated as if you owned it before you died and your beneficiary “inherited” it from you.
 - Inherited IRAs are designed to prevent your beneficiaries from further “stretching” your distributions.
 - Allows a non-spouse beneficiary to receive distributions of your remaining benefit over his or her life expectancy

Distribution Options for Beneficiaries (Cont' d)

- Optional Rule #6: Your non-spouse beneficiary directly rolls over your remaining benefit to an inherited IRA (cont'd)
 - Some of the distribution may have to be distributed as a RMD and may not be eligible for rollover
 - IRS rules may require more rapid distribution from the inherited IRA if your beneficiary does not receive RMDs in years following your death (including prior to the rollover)

Frequently Asked Questions

- **Question:** I have a TDA account and an IRA. Can I withdraw my TDA RMD from my IRA (or vice versa).
- **Answer:** No. TDA RMDs must be withdrawn from your TDA **and** IRA RMDs must be withdrawn from your IRA

Frequently Asked Questions

- **Question:** How can I get a copy of the life expectancy tables (single life, joint and survivor, uniform) used for RMD calculations?
- **Answer:** Online at <http://www.irs.gov/pub/irs-pdf/p590b.pdf> (Page 42-58) or by calling the IRS at 1-800-829-3676 and requesting a copy of Publication 590-B. More information can also be found online at <https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-required-minimum-distributions-rmds>.

Frequently Asked Questions

- **Question:** If I am in a same-sex marriage or a domestic partnership, am I treated as married for purposes of the RMD rules?
- **Answer:** Under the RMD rules, your same sex-marriage is recognized. Domestic partnerships are not generally recognized.