RMDs – To Waive or Not to Waive in 2020… That is the Question

Required minimum distributions, often referred to as RMDs or minimum required distributions, are amounts that the federal government requires you to withdraw annually from traditional IRAs and employer-sponsored retirement plans.

Historically, your first required distribution from an IRA or retirement plan is in the calendar year in which reach the age of 70½. However, the Setting Every Community Up for Retirement Enhancement Act (SECURE Act) passed in December 2019 changed the age for required minimum distributions from 70½ to 72. If you reached age 70½ in 2019 however, the old rule would still have applied: You must begin taking RMDs by April 1, 2020. Even more change came to the RMD rule in the recent Coronavirus Aid, Relief, and Economic Security (CARES) Act signed on March 27, 2020 – you have the option to waive your RMD for the calendar 2020 year.

The decision to waive your RMD is dependent on a variety of financial circumstances, most of which are personal and unique to you. If you are grappling with whether to waive your RMD or not this calendar year, we have put together some scenarios to offer perspective to you, and your set of circumstances. There are options available to you - these examples are reflective of situations some of our clients are in and how we helped come to a conclusion on the best approach for them.

Scenario 1: Waived RMD for 2020

Status of client's financial accounts: our client has several investment accounts including an IRA, non-IRA assets, cash savings and retirement income (i.e. social security, investment income, pension, rental income, etc.). Our client chose to waive his RMD because upon assessing his cash reserves, he determined he has enough cash in addition to an income stream to cover living expenses. This approach will result in significant tax savings for our client during the tax year 2020.

ROCKLAND TRUST
Investment Management Group

Scenario 2: Collected RMD for 2020

Status of client's financial accounts: our client has an IRA, no non-IRA assets, limited cash savings, and other than social security, she has no other income stream. She chose to collect her RMD in order to supplement her retirement income for monthly living expenses, because an alternative influx of cash was not readily available.

Scenario 3: Partially Collected RMD for 2020

There is flexibility in the approach you take with your RMD this calendar year. This scenario is a prime example of such flexibility, exemplifying the importance of talking through your unique financial situation with your Relationship Manager and determining the best outcome specific to your needs.

Status of client's financial accounts: our client has an IRA, non-IRA assets, and some cash savings. Up until now he has been using RMDs for monthly living expenses. He decided to take his RMD for half of the 2020 year in order to reduce his taxable income, and will use the cash savings to supplement his retirement income for living expenses. He plans to revisit the Waiver in several months and assess whether to take the remaining half of his RMD.

As you can see there are several options available to you in light of the changes coming from the CARES Act. The good news is you can still plan or adjust your approach because you can waive your RMD at any time before year-end, even if you have already taken it! It's important to remember, like other distributions from traditional IRAs and retirement plans, RMDs are generally subject to federal (and possibly state) income tax for the year in which you receive the distribution. However, a portion of the funds distributed to you may not be subject to tax if you have ever made after-tax contributions to your IRA or plan. As stated, each person's situation is different but in all cases, we strongly suggest to clients that they meet with their Relationship Managers to identify planning opportunities and how it impacts them. Additionally, we suggest checking with your tax advisor for the most tax efficient use of your funds, (ex: collect your RMD or sell taxable assets to cover expenses).

Contributing insights from Rockland Trust Investment Management Group's First Vice President & Senior Fiduciary Officer and Relationship Manager, Kathleen Callahan, CTFA.

ROCKLAND TRUST
Investment Management Group