Why Would You Take Your RMDs Sooner?

Is it time for you to begin taking required minimum distributions (RMDs) from your retirement plans? The rules for 401(k)s, other employer-sponsored plans, and traditional IRAs generally call for these payments to start after you reach age 70½ and to continue each year. But you don't actually have to begin RMDs until the "required beginning date" (RBD) of April 1 of the year *after* you turn 70½.

Nevertheless, you might bypass this respite. Why would you do that? Because you still must take another RMD later that year. Thus, you would be doubling up on payouts and have to pay more tax.

Although your savings in 401(k)s and traditional IRAs grow without being taxed along the way, you eventually must start receiving RMDs, taking one each year by December 31. These RMDs generally are taxed at ordinary income tax rates.

If you're still working and don't own the company you work for, you may be able to postpone withdrawals from an employer-sponsored plan with that company until you retire. But this exception doesn't apply to traditional IRAs.

The amount of the RMD is based on IRS life expectancy tables and the value of your accounts on the final day of the previous tax year. Your financial advisers or the financial company holding your account can provide assistance in computing the amount.

The penalty for failing to take an RMD is equal to 50% of the amount that should have been withdrawn (or the difference between the required amount and any smaller amount you did withdraw). For example, if you're required to take $20,000 and you're in the 28% tax bracket, the penalty for failing to withdraw is $10,000, plus you'll owe $5,600 in federal income tax on the distribution.

If you postpone your first RMD until the following year, you'll have to take two RMDs in that year. If you remain in the same tax bracket, that will double the tax you owe, or the extra payment may push you into a higher tax bracket. Going back to our example of an annual $20,000 RMD, you'll have to take two RMDs for a total of $40,000 in the following year. Suppose that $10,000 of the extra amount is taxed at the 33% rate. Your total tax bill on RMDs for that year comes to a whopping $11,700 (28% x $30,000 + $10,000 x 33%).

Furthermore, doubling up on RMDs increases the possibility you'll have to pay the federal surtax on "net investment income," and it could hike your state income tax liability as well.

As you approach your RBD, consider your options. In many cases, you'll be better off taking your first RMD in the year in which you turn age 70½, rather than the following year. ●

Views On Retirement Communities

How do you feel about retirement communities? Such places, often reserved for those who are age 55, or older, have many supporters and detractors, and opinions may vary widely even from one spouse to another. In the end, this is a personal decision that you have to make for yourself or as a couple. Consider these key considerations:

Common Advantages

- There's generally plenty to do in a retirement community. Depending on the location, you may be able to use your newfound leisure time for golfing, tennis, swimming, gardening, theatre, clubs of all sorts, and numerous other activities.
- Security is another reason why many senior citizens are flocking to these developments. Many communities are gated and have a visible security presence. Plus, with so many neighbors around all the time—rather than being away at work—suspicious activities tend to be reported quickly.
- The homes usually are located close to a reputable medical facility, shopping, and other conveniences. Some even have retail stores.
- A retirement community may offer peace and quiet, with no teenagers revving up their car engines or having all-night parties.
- Homes are built with retirees in mind. They generally provide easy access for disabled individuals and the elderly.
- You can meet and socialize with people in your own age group.

Common Disadvantages

- You may have strong ties to your current community. Many people feel most comfortable staying in the home where they raised their kids and living close to long-standing friends and neighbors.
- Do you have adult children or grandchildren living with you? If that's the case, you may not want to

Seeking Financial Aid: Don't Fear The FAFSA

Saving money to pay for college is a daunting proposition even if you're reasonably well off financially. With tuition increases continuing to outpace the overall inflation rate year after year, parents may be hard pressed to come up with all of the funds needed to finance a child's higher education. But financial aid could help fill the gap.

Each year, more than 13 million undergraduate and graduate students get some form of financial assistance. But the federal government and universities won't simply hand you the money. To determine whether you qualify for financial aid, you must complete and file the Free Application for Federal Student Aid (FAFSA).

Who should fill out a FAFSA? Practically everyone. Even if you don't think you'll qualify for financial aid, there's no harm in trying because the filing is free. And even students from the wealthiest families may need to submit a FAFSA if they're going to be in a work-study program.

But just because you should file a FAFSA doesn't mean you won't be intimidated by the process itself. Although the form has been simplified somewhat in recent years, it still can be challenging. Don't hesitate to seek our assistance.

Starting the Process

Virtually every college admission program requires a FAFSA for financial aid purposes. While a school may ask for other financial information in addition to that sought in the FAFSA, the basis form is pretty much mandatory.

And so you'll have to come up with answers to about 130 questions about your family assets and income. Based on the information you provide, the FAFSA administrators will calculate the "expected family contribution" (EFC) for your family. How many people are in your household, your family income, the number of students in college, and most assets (but not retirement funds) will be factored in.

Where can you find the FAFSA? It's available online all year long at www.fafsa.ed.gov. But you can't file it until January 1 of the year in which a student plans to start college (for example, January 1, 2016, for someone starting school on September 1, 2016). But be sure to file the form as early as possible because financial aid often is awarded on a first-come, first-served basis. Late filers may miss the bus and receive nothing.

To fill out the form, you'll need income and expense data from the prior year, including:

- Taxable income for both the parents and the student, including wages, pensions, capital gains, interest, dividends, annuities, unemployment compensation, alimony, rents, and business income
- Non-taxable income for both the parents and the student, including workers' compensation, welfare benefits (but not food stamps), housing and food allowances, child support, untaxed Social Security benefits, untaxed income from pensions and annuities, veterans' benefits, tax-exempt interest income, deductible payments made to a retirement plan, and earned income tax credit
- Expenses such as income taxes and child support
- The value of cash, savings, and checking accounts of the parents and the student
- The net worth of all investments of parents and student (except for retirement plans), including stocks, bonds, CDs, money market funds, mutual funds, commodities, trust funds, education IRAs, and state-based college savings plans (excluding pre-paid tuition plans)
- The value of estate holdings (e.g., rental property and second homes), but you don't have to count the equity in your principal residence
- The net worth of a family business or farm (excluding farms that are principal residences)

The Expected Family Contribution (EFC)

The EFC is the amount your family is expected to contribute to your student's college education for one year. The lower the EFC, the larger the financial aid award that your student may receive.

Sometimes the EFC rules can work in your favor. If your student is admitted to a school that agrees to meet students' full financial needs, the EFC lets you know the most you'll have to pay regardless of how much that college costs.

Suppose that a family's EFC is $25,000 and the student is applying to a school with a total cost of $35,000 a year. That family might expect to receive up to $10,000 in financial aid. What if the college costs $50,000? The financial aid award could be as high as $25,000. The basic equation to remember is: Cost - EFC = Need.

Filing a FAFSA is a necessary evil for those seeking financial aid for college. We can help you position your family for the best possible result. ●

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uproot them. In addition, they may not be allowed to live full time in an age-restricted community.

- Even if you don't have youngsters living with you, you may enjoy being around younger people. The age mix in your neighborhood may suit you just fine.
- One frequent complaint of young retirees is that they don't want to live with "old" people. They see themselves as being young or at least acting as if they were. And some people view living in a retirement community as a stigma to be avoided at all costs.

- The association fees for maintaining the community grounds—often including swank clubhouses, golf courses, and other amenities—can be pricey. If you're not a golfer, or shun the swimming pool, the extra costs might not be worth it to you.

In any event, get all the information you need to make the best choice for your situation. Your advisers can help. ●