

# 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The penalty for failing to take an RMD is equal to 50% of the amount that should have been withdrawn (or the difference between the required amount and any smaller amount you did withdraw).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 ( $28\% \times \$30,000 + \$10,000 \times 33\%$ ).

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