Avoid These
4 Costly RMD Mistakes

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Avoid These 4 Costly RMD **Mistakes**

Veterans and military families face unique challenges when planning for retirement, but accumulating wealth is only half the picture. As a Veteran, it is important to plan for the distribution of the funds you accumulate. This applies whether you are nearing the end of your military career, have already retired from the service, or are on the cusp of retirement from the civilian sector.

The government provides powerful incentives for retirement savings, including tax deferral until retirement. While in the military, you had the ability to put off withdrawing money from your Thrift Savings Plan (TSP), as well as any traditional IRAs, SEP IRAs, SIMPLE IRAs, 401(k), 403(b) and 457 plans you or your spouse may have had. However, in exchange for tax-deferred growth, savers are required to pay taxes on the money they withdraw in retirement – that is where Required Minimum Distributions (RMDs) come in.

What is an RMD?

As the name implies, an RMD is the amount you are required to withdraw from your qualified retirement plans. With the passing of the SECURE 2.0 Act in December 2022, the RMD requirement now kicks in when you turn 73, and if you fail to take the funds, you could be subject to a whopping 25% tax penalty. Given the severity of the tax penalties involved and the complexity of the rules governing RMDs, it is important to approach this subject with care. Making a mistake could have dire consequences for your wealth and your dreams of a happy retirement.

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A traditional IRA may be suitable for someone who believes that their tax bracket will be lower in the future and anticipates needing income in retirement. IRA contributions are tax-deductible, therefore the IRS created the Required Minimum Distributions in order to collect their taxes. RMDs begin at age 73 and are taxed at ordinary income rates.

A Roth IRA may be suitable for someone who believes they will be in a higher tax bracket later in life. The advantage is you pay taxes on the contributions now, but are not subject to the RMD later in life. You still can't withdraw the money until age 59 without penalty, although exceptions apply. When you do need the money in retirement, you won't pay taxes on the growth.

Your rst RMD must be taken by April 1 of the year after you turn 73. Subsequent RMDs must be taken by December 31 of each year. As stated above, if you don't take your RMD, you'll have to pay a penalty of up to 25% of the RMD amount.

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Mistake #1: Taking Distributions at the Wrong Time

The timing of your first RMD matters a great deal, in terms of both financial planning and potential tax implications. Not taking an RMD distribution on time is one of the most common and most easily avoided retirement planning mistakes.

> **"You will need to take your first required minimum distribution no later than April 1 following the calendar year in which you turned 73."**

You will need to take your first required minimum distribution no later than April 1 following the calendar year in which you turned 73. For example, if you turned 73 in 2023, you must take your first RMD no later than April 1, 2024.

For subsequent years, you must take your RMD by December 31, so put that date on your calendar! The amount of your RMD will be determined by your age and the amount in the account – early RMDs may be only a small percentage of the account, but as time goes on, the percentages will tend to increase.

Mistake #2: Getting the Calculation Wrong

Your RMDs are calculated by dividing last year's account balance by your life expectancy factor, as published in an IRS table. If your spouse is more than 10 years younger than you, you'll need to use an alternate IRS table.

Working with a Relationship Manager at AAFMAA Wealth Management & Trust LLC (AWM&T) helps you determine the correct RMD amounts, based on the balances of your qualified accounts.

Mistake #3: Not Optimizing Your RMD Strategy

If you have multiple IRAs as well as your military Thrift Savings Plan (TSP) account, you may think you have to take an RMD from each of those accounts, but that is not always the case.

Not optimizing your withdrawals to meet your financial plan is a common mistake with RMDs, and one that is easily avoided.

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The IRS allows the holders of multiple IRA accounts to aggregate those accounts. As long as the RMD amount is correct, it does not matter which accounts you tap – if you want to pull the funds from a single account, you are free to do that. If you prefer to take a prorated amount from each account, you can do that as well.

Mistake #4: Donating Your RMD to Charity in a Non-Tax Friendly Manner

If you have more retirement income than you need, you may also consider helping your favorite charity. If done correctly, you can avoid taxes on the money you withdraw and the money you donate will help a worthy cause, giving you and your favorite charity a double benefit.

When donating your RMD from an IRA, you'll want to use a qualified charitable distribution (QCDs). QCDs allow you to make a direct distribution to a charity that isn't factored into adjusted gross income, thus lowering your tax bill. On the contrary, if you take the RMD and then write a check to your favorite charity, your RMD will be taxed as income. You can choose to donate some or all of your RMD to charity. However, QCDs are limited to no more than $100,000 annually. Starting in 2024, this QCD limit will rise with inflation

RMDs are a part of life for holders of qualified retirement accounts, and dealing with them can be very complicated. As you approach age 73, understanding the best way to avoid the most common RMD mistakes is essential. If you have questions or need assistance with required minimum distributions, we are here to help!

AAFMAA Wealth Management & Trust LLC

Our mission is to be the premier provider of financial planning, investment management, and trust services to the American Armed Forces Community. Focusing exclusively on your needs as a military family, AWM&T provides the most innovative, personalized and lifestyle-appropriate financial services available.

If you are a high-net-worth Veteran or military family, let's work together to make you financially fit, and assist you in protecting your financial future. We'll get to know you personally and develop a clear picture of your circumstances, objectives, and challenges to define, manage, and protect your military family's legacy.

Ready to get started? Visit aafmaatrust.com, call us at 1-910-307-3500, or email wealthmanagement@aafmaa.com.

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