

CASE OF THE WEEK
w/o 11.27.2011 RMD Season

Our ERISA consultants on the Columbia Management Learning Center Resource Desk regularly receive calls from financial advisors on a broad array of technical topics related to IRAs and qualified retirement plans. For example, we routinely guide Columbia Management's financial advisor partners through the rules related to required minimum distributions (RMDs).

A recent call with an LPL advisor in Ohio is representative of a common inquiry regarding RMDs. The advisor asked: **My client is 73 years old and claims he does not have to take a required minimum distribution (RMD) for the year. Is that true?**

Highlights of Recommendations

- Maybe, the answer depends on several factors. However, because your client could face a 50% IRS penalty for failing to take an RMD when required, you are right to double check on his RMD status. Whether your client must take an RMD for the year depends on his age and the type of retirement account or accounts he has. If there is any question with respect to the RMD, your client should consult his tax advisor and the IRA or plan administrator.
- If he is a participant in a defined contribution or defined benefit plan, continues to work for the employer sponsoring the plan and is not an owner of the business, he may be able to delay taking an RMD from the plan until he retires, if the plan document permits the delay. However, if he is no longer working for the employer sponsoring the plan, he would be required to take an RMD if he had a prior year end account balance.
- Generally, if he owns a traditional, savings incentive match plan for employees (SIMPLE) or simplified employee pension (SEP) IRA, he would be required to take an RMD if he had a prior year end account balance.
- If he owns a Roth IRA, he would not be required to take an RMD from the account.
- If he is a beneficiary of any type of IRA, he may be required to take an RMD depending on the distribution options for beneficiaries under the IRA plan agreement.
- If he is beneficiary of a defined contribution or defined benefit plan, he may be required to take an RMD depending on the distribution options for beneficiaries as outlined in the plan document.
- If he is a 403(b) plan participant and continues to work for the organization sponsoring the plan, he may be able to delay taking an RMD until he retires, if the plan document permits. If he is no longer working for the organization sponsoring the 403(b) plan, he would have to take an RMD if he had a prior year end account balance that consisted of post-1986 amounts. He would not be required to take an RMD based on his prior year end account balance that is attributable to pre-1987 accruals until reaching age 75.

Conclusion

As you can see, whether a person is required to take an RMD for the year depends on a myriad of factors. Financial advisors who understand what those factors are set themselves apart from the average advisor and, thereby, win more clients and retirement plan business. As always, the Columbia Management Learning Center is available to help.