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Review YOUR IRA Distribution Basics

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Money cannot remain in an IRA forever! Yes, RMDs have returned for tax year 2021!

Either you are preparing for your retirement, or you are currently enjoying it. In 2020, Congress waived all RMDs due to the enactment of the CARES Act because of the Coronavirus. Now it is important to remember to satisfy your RMD requirement for tax year 2021. Moreover, nobody likes penalties!

Let us review the rules for 2021 and how it may affect you and your family.

RMDs

At age 72, remove your RMD (required minimum distribution) from your qualified retirement accounts (traditional IRAs and employee-sponsored plans). If you turned age 72 this year, April 1, 2022, is the deadline to take the First RMD. Are you older than seventy-two? If so, you must continue to take your RMD by December 31st every year. Conversely, remember that Roth IRAs are not subject to RMDs.

Calculating your RMD

1. Determine the distribution tax year.
2. Find the IRA balance.
3. Look up the life expectancy factor.
4. Divide the account balance by the life expectancy factor.
5. Remove the RMD before yearend.
6. Repeat this process every year.

Beneficiaries who inherited IRAs must take RMDs into consideration. Certain designated beneficiaries will be able to take RMDs over their life expectancy. Other beneficiaries will have to liquidate the inherited IRA account within 10 years. Special rules are applicable to inherited Roth IRA accounts.

Do you need your RMDs to support your living expenses and budget? If not, think about reinvesting your distributions into a taxable account to take advantage of continued growth. Or consider qualified charitable distributions (QCDs)!

Finally, do miss taking your yearly RMD. The IRS penalty is 50% for that mistake!

If you need help or advice with retirement accounts, please let me know.

—Brendan Houlihan, a fiduciary, is Financial Advisor at BFH Wealth Management and Learn to Earn Investment program for children.

For more information on Brendan Houlihan's business, you can visit his website at bfhwealthmanagement.com, call him at (708)280-8753, or contact him by email at brendan@BFHWealthManagement.com

