

Required Minimum Distributions: The Basics - Transcript

Tom Mullooly: In episode 114, we get to talk about required minimum distributions. Stay tuned.

Welcome to the Mullooly Asset Show. I'm your host Tom Mullooly and this is episode 114. Thanks for watching.

We need to talk. I hate to say it, but we need to talk about required minimum distributions. Because we're Americans, we have to have a shortened phrase for that, so everybody calls them RMDs in our business, required minimum distribution.

If you are at age 70 or older, you've heard this phrase before because if you have an IRA, if you have a 401(k), if you have a retirement plan at work and you get to age 70, you have to start taking a required minimum distribution each and every year. We get clients who ask us all the time, "Do I have to do this?" We ask ourselves every year, "Gosh. I can't believe we have to do this again." In your first year when you turn 70, what I have often heard from folks is a good back-of-the-envelope kind of number is around 4% is the minimum amount that you have to take out.

Remember, it's a minimum. Okay? You can always take out more. To put that in dollars and cents, if you had \$100,000 in your retirement account, in your first year you'll have to take out about approximately \$4,000. You can have taxes withheld, both federal and state, from this distribution. It's a taxable distribution coming out of your 401(k). Remember, the money that went into your 401(k) or into your IRA hasn't been taxed yet, so a portion of this, now it's called a required minimum distribution, is going to come out. It's a drag. It's a chore. Every year it has to get done. It's the rules.

Now it's going to sound like I'm shifting gears, but stay with me on this. Okay? The reason why I'm talking about RMDs, since the new tax law came out in 2018, more and more folks are talking about not needing to itemize their taxes. Part of the new tax law was they doubled the standard deduction. There's a lot of folks that aren't going to need to even itemized their taxes. In fact, through 2016 and going back, about 30% of 1040s, your tax returns, were itemized returns. The reports that I've seen now are estimating that just 10% of returns are going to be itemized going forward.

When you don't itemize, you lose that ability to write-off certain things like a charitable deduction, like donations to your church for example. We also hear from clients who have these RMDs, these required minimum distributions they have to take, "Hey, do I need to do that every year? I don't even need the money. Maybe I have to take out \$4,000, \$8,000, \$20,000. I don't need it. I don't need to take the money out. We're doing okay. Why do I have to do this?" The answer is yes, you have to take it out. Remember, the R is RMD is required. It's the required minimum distribution.

A lot folks take the RMD and they simply reinvest it in their bank account or in their brokerage, their investment account. They don't even take the money. They just have the taxes taken out. Here's an idea. You can take your required minimum distribution now and you can actually

donate it to your favorite charity or your church or organization. Think about this. It's no longer going to be taxable income to you. You're not taking the check. You're sending it to your charitable organization. You don't get the write-off, but you probably weren't going to get the write-off anyway under the new tax law.

You don't get possession of the money when you do it this way. You're actually making the donation. To recap, there's a way to still make a donation to a charity of your choice. You satisfy your legal obligation to take a distribution from your retirement account. Third, you're not showing any additional income by taking the required minimum distribution. It's a great idea under the new tax law. This is a way for you to make a donation. You won't get the write-off for it, but you won't get the taxable income from the RMD either.

If you'd like more information, just reach out to any of us here. We're happy to help you. That's it for 114. Thanks for watching.