



Registered Investment Advisor Firm

©ISSUE XII, VOL. VI –

DECEMBER – 2017

RMDs

In retirement planning, you should not worry about running out of money if you follow the required minimum distribution (RMD) for withdrawal. You should not run out of money before age 95 as long as you don't withdraw much more than the required amount.

So what is a RMD? According to the IRS, it's the minimum amount of money you have to withdraw from a retirement account each year. You have to start taking distributions from your IRAs, SEP IRAs, SIMPLE IRAs or retirement plan accounts when you reach age 70 ½. The purpose of the RMD is to insure that the government collects taxes on money that was never taxed.

Roth IRA accounts are funded with after-tax dollars; therefore, your withdrawals are all tax-free as long as you are 59 ½ and your account is older than 5 years. There is no RMD for ROTHs.

First year RMDs must begin before April 1 of the year after you turn 70 1/2. If you turn 70 ½ during 2017, you have

until April 1, 2018 to withdraw your RMD. Your second year and all subsequent years must be withdrawn by December 31.

If you are a 5 percent owner of the business sponsoring the retirement plan, RMDs must also begin when you turn 70 ½, even if you have not retired.

The RMD rules apply to all employer-sponsored retirement plans, including profit-sharing, 401(k), 403(b), and 457(b) plans.

The IRS provides tables used to calculate the amount of the RMD for each account. Your adviser or account custodian can help with the calculation. The tables are based on life expectancy. The Joint and Last Survivor Table is used if your spouse is the sole primary beneficiary and is less than 10 years younger than you. The Uniform Lifetime Table is used if your spouse is not the sole primary beneficiary or they are more than 10 years younger than you. The Single Life Expectancy Table is used if you are a beneficiary of an inherited IRA.

This publication is intended for informational and educational purposes only. It is not intended nor should it be construed to be an offer of investment advice and any mention of a stock, bond, mutual fund, ETF or other investment vehicle should not be considered an endorsement or recommendation. Investment returns if referenced are based on past performance and should not be considered an indicator of future results. You should carefully assess your own circumstance, conduct your own research or consult your investment advisor before making any investment decision based on any material presented.

You have to calculate RMDs separately, but you can aggregate the money from a single account.

Even though your IRA custodian or retirement plan administrator may calculate the RMD, you, as the account owner are the one who is ultimately responsible. Double check their work.

This is the minimum; you can take more, but not less than the required amount. If you fail to take the RMD on time, or the full amount, you are hit with a 50 percent penalty on the amount that should have been withdrawn. That is a stiff penalty which could have been spent on retirement or savings. There are ways to get the penalty waived, but take the distribution correctly and avoid the hassle of dealing with the IRS.

RMDs are taxed at your regular tax rate. You add your RMD to any regular income to calculate your tax rate, which could be the same rate or move you into a higher tax bracket. This takes financial planning.

A strategy to employ to reduce the tax burden is charity. Retirement distributions that are directed to charity typically will be tax-free. The charitable IRA rollover provision allows you to take your RMD (max \$100,000 or \$200,000 per couple if each spouse has a separate IRA) without increasing their tax burden, as long as the funds are transferred directly to the qualified charity.

Post 70 ½ contributions can be made to SEP IRAs, ROTH IRAs and 401(k) s.

You can even avoid RMD post age 70 ½ in your 401(k) plan as long as you continue to work for the same employer that sponsors the plan and you are not a 5% or more owner of the company.

If you need more information on the rules or calculations, contact Bob Davis at DIG at (707) 648-2024 to help.

FED Watch

No change at the Fed's November meeting; that was expected. There is a 93% chance of a rate increase at the December meeting.

Next meeting:
December 12th and 13th.

Davis Investment Group

Davis Investment Group is a fee-based Registered Investment Advisor firm servicing the needs of clients across the United States.

Davis Investment Group custodies all client assets at Charles Schwab & Co. Davis Investment Group's home office is located at 714 Marin Street, Suite #C, Vallejo, CA 94590. The telephone number is (707) 648-2024.

If you have questions or would like further information on this month's topics or any other financial or investment related subjects, including Social Security claiming strategies, please contact me by phone or through my email address at:

bob@davisinvestmentgroup.biz

This publication is intended for informational and educational purposes only. It is not intended nor should it be construed to be an offer of investment advice and any mention of a stock, bond, mutual fund, ETF or other investment vehicle should not be considered an endorsement or recommendation. Investment returns if referenced are based on past performance and should not be considered an indicator of future results. You should carefully assess your own circumstance, conduct your own research or consult your investment advisor before making any investment decision based on any material presented.