Retirement Planning

Revised RMD tables enhance tax-deferral opportunities in retirement savings plans.

By Randolph Buchanan, JD, CPA, LL.M.

The release of the highly anticipated revised required minimum distribution (RMD) tables, combined with the recent passage of the original SECURE Act and the likely passage of "SECURE 2.0," has raised many questions on how the revised tables work in the context of the new retirement planning legislation. Understanding these changes can highlight new planning opportunities for additional tax deferral strategies.

RMD Age Limits May Increase to 75

Most taxpayers generally cannot keep funds in their individual retirement accounts indefinitely* and have to start taking RMDs from their IRAs or retirement plans when they reach age 70½ or 72. Under the SECURE Act passed in 2019, if an individual turned age 70½ before January 1, 2020, then his RMDs started immediately after turning that age; if the same individual turned age 70½ after December 31, 2019, then no withdrawals are required until he reaches age 72.

If a follow-up bill, the Securing a Strong Retirement Act of 2022 (nicknamed SECURE 2.0), is approved by Congress, the RMD age would gradually be increased to 75, providing individuals with several additional years of enhanced tax deferral on their retirement savings.

SECURE 2.0 was approved by the US House of Representatives in early 2022 and is currently pending in the Senate.

New RMD Tables Factor Life Expectancy to 120

Adding to the opportunities for additional tax deferral on retirement savings, the IRS released revised RMD tables earlier this year. Among other things, these highly anticipated revised tables now reflect longer life expectancies and include life expectancy factors through age 120.

* Unless it is a Roth IRA which does not require withdrawals until after the death of the account holder.

The two most commonly used RMD tables are:

- The Uniform Lifetime Table, which is used by all single IRA owners calculating their own withdrawals and married IRA owners whose spouses are not more than 10 years younger and are not the sole beneficiaries of their IRAs; and
- The Single Life Expectancy Table, which is only used by non-spouse beneficiaries of the IRA owner.

If an individual does not fall within those two categories, then he or she would use the Joint Life Table, which should be used by IRA owners whose spouses are more than 10 years younger and are the IRA's sole beneficiaries. (Find current copies of all the RMD tables on www.IRS.gov.)

Calculating RMDs

Calculating required minimum distributions after an account owner dies depends on whether the beneficiary is designated or not. A designated beneficiary is one that is either named on the beneficiary form by the account owner or is named in the IRA or plan document.

Under the 2019 SECURE Act, a designated beneficiary may also be considered an "eligible designated beneficiary" which provides additional tax deferral opportunities. For individuals and employees with retirement accounts who die before January 1, 2020, designated beneficiaries of IRAs and retirement accounts calculate their RMDs using the Single Life Table, which provides a life expectancy factor based on the beneficiary's age. The beneficiary uses the life expectancy factor based on their age in the year after the IRA owner's death. The account balance is divided by the life expectancy factor to determine the first RMD. The life expectancy factor is then reduced by "1" to calculate the individual's RMDs for all subsequent

Single Life Expectancy Table

Age of IRA or Plan Beneficiary	Life Expectancy (in years)	Age of IRA or Plan Beneficiary	Life Expectancy (in years)	Age of IRA or Plan Beneficiary	Life Expectancy (in years)
0	84.6	40	45.7	80	11.2
1	83.7	41	44.8	81	10.5
2	82.8	42	43.8	82	9.9
3	81.8	43	42.9	83	9.3
4	80.8	44	41.9	84	8.7
5	79.8	45	41.0	85	8.1
6	78.8	46	40.0	86	7.6
7	77.9	47	39.0	87	7.1
8	76.9	48	38.1	88	6.6
9	75.9	49	37.1	89	6.1
10	74.9	50	36.2	90	5.7
11	73.9	51	35.3	91	5.3
12	72.9	52	34.3	92	4.9
13	71.9	53	33.4	93	4.6
14	70.9	54	32.5	94	4.3
15	69.9	55	31.6	95	4.0
16	69.0	56	30.6	96	3.7
17	68.0	57	29.8	97	3.4
18	67.0	58	28.9	98	3.2
19	66.0	59	28.0	99	3.0
20	65.0	60	27.1	100	2.8
21	64.1	61	26.2	101	2.6
22	63.1	62	25.4	102	2.5
23	62.1	63	24.5	103	2.3
24	61.1	64	23.7	104	2.2
25	60.2	65	22.9	105	2.1
26	59.2	66	22.0	106	2.1
27	58.2	67	21.2	107	2.1
28	57.3	68	20.4	108	2.0
29	56.3	69	19.6	109	2.0
30	55.3	70	18.8	110	2.0
31	54.4	71	18.0	111	2.0
32	53.4	72	17.2	112	2.0
33	52.5	73	16.4	113	1.9
34	51.5	74	15.6	114	1.9
35	50.5	75	14.8	115	1.8
36	49.6	76	14.1	116	1.8
37	48.6	77	13.3	117	1.6
38	47.7	78	12.6	118	1.4
39	46.7	79	11.9	119	1.1
				120+	1.0

tax years. Spousal beneficiaries who do not elect to roll over the IRA or treat it as their own also use the Single Life Table, but they can look up their age each year.

However, for individuals and employees with retirement accounts who die after December 31, 2019, the SECURE Act eliminated the ability of a designated beneficiary to stretch RMDs over the life expectancy of the beneficiary of an inherited IRA unless the beneficiary is considered an "Eligible Designated Beneficiary." Eligible designated beneficiaries include surviving spouses, disabled or chronically ill individuals, individuals that are less than 10 years younger than the IRA owner, and minor children of the IRA owner (but only until the minor child reaches the age of majority, at which point the ten-year rule becomes applicable). Moreover, certain trusts that are created for the exclusive benefit of disabled or chronically ill beneficiaries would also be included as an eligible designated beneficiary. And a surviving spouse beneficiary may delay the start of their distributions until the later of the year that the employee or IRA owner would have reached age 72 or the surviving spouse's required beginning date.

EXAMPLE: *The daughter (age 46) of an IRA owner who died last year (age 77) is the sole designated beneficiary of an IRA with a value of $1,000,000. Since the daughter would be considered a non-spouse beneficiary, she would use the Single Life Table (as shown above) to calculate her RMD. According to the table, her life expectancy factor that will be used to calculate her initial RMD payout would be 40, so the IRA balance she inherited will be paid out or distributed to her over 40 years and will have a value of zero at the end of that period. However, under the pending new rules, she would no longer be considered an eligible designated beneficiary – which means she can no longer stretch her distributions over her life expectancy of 40 years. Rather, she must withdraw and pay taxes on the entire balance of $1,000,000 over 10 years, which dramatically decreases her opportunities for tax deferral related to these distributions ($100,000 vs $25,000).*

If there is an eligible designated beneficiary, the stretch rules are still applicable, which means that the life expectancy of the beneficiary of the inherited IRA may be used for purposes of calculating the beneficiary's RMD, which usually provides greater tax deferral opportunities. For all other beneficiaries, the ten-year rule is applicable, which means that the beneficiary must withdraw the entire account balance by December 31st of the year containing the tenth anniversary of the IRA owner's death.

The example above illustrates how the provisions of the pending SECURE 2.0 bill dramatically differ from the current rules under the 2019 act, affecting how quickly an individual would have to pay taxes on the distributions from an inherited IRA.

While the provisions of the SECURE Act would also apply to RMDs calculated using the Uniform Tables, such as single IRA owners trying to determine their own withdrawals, different rules would apply to the calculation of these individual's RMDs.

In Summary

The revised RMD tables combined with the bipartisan support of the pending bill that would expand the original SECURE Act's provisions designed to bolster retirement savings presents a timely reminder of the importance of conducting periodic reviews and making strategic updates to your estate plan. To explore these new planning opportunities for additional tax deferral and to determine which table is most applicable to your personal tax situation, talk with your financial professional or local tax counsel.

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