NEW IRS MORTALITY TABLE MEANS AN "RMD CHECKUP" IS DUE IN 2022

The IRS has a new mortality table. There is good news: we're living longer! This means that Required Minimum Distributions (RMDs) will be smaller, allowing qualified retirement accounts to last longer.

On November 6, 2020, the IRS released final regulations for the updated life expectancy tables under IRC Section 401(a)(9). The Uniform Life, Joint and Last Survivor, and Single Life tables are used to calculate RMDs from qualified accounts, such as IRAs, and certain nonqualified accounts, such as inherited nonqualified annuities. The new tables apply to inherited qualified accounts as well as 72(q) and (t) accounts.

What This Means for Clients

These new tables mean smaller RMDs, so their effects on clients depend on whether their assets are "live on" or "leave on" assets. For example, in 2021, a 75-year-old IRA owner with an account balance of $500,000 had a life expectancy factor of 22.9, which made their RMD $21,834 ($500,000/22.9 = $21,834). Under the new 2022 tables, the same IRA owner has a factor of 24.6, making their RMD $20,325. If the assets are "live on," meaning clients rely on their RMD for income, they may need to adjust the distribution to be higher. If the assets are "leave on," the smaller payment means more for their beneficiaries.

Now is the time to consider scheduling an "RMD Checkup" for clients with the accounts noted above. Here are some key questions for clients:

Will a Smaller RMD Help Your 2022 Form 1099-R?

For clients already taking RMDs, their 2022 distribution will be smaller. If the client does not need the income, the smaller payment may reduce their tax bill and/or keep them under the Social Security or IRMMA thresholds. ***This may also be a good time to discuss whether other nonqualified assets might be repositioned to a nonqualified annuity for tax control.***

Were You Aware That, If You Waited Until April 1 of 2022 to Take Your First RMD, You Use TWO Calculations in 2022?

For those who turned 72 in 2021 and waited until April 1, 2022 to take their first RMD, two calculations may be used in 2022. For the 2021 distribution, the old tables must be used. But for the 2022 distribution, the client can use the new tables and receive a smaller payment. ***For clients starting RMDs, consider whether a Qualified Longevity Annuity Contract (QLAC) may be a good option to postpone some of the RMD (and the associated taxes) until as late as age 85.***

If You Already Took Your 2022 RMD Using the Old Tables, Did You Know You Can Roll the Excess Distribution to an IRA?

Some clients may have several IRAs and take their RMD from only one. If they miss this information and use the old tables for their 2022 distribution, they will take more than needed.

The excess portion of the distribution can be rolled to an IRA. ***If this is attractive to the client, they may want to consider using tax deferral for other assets.***

Should We Maximize the Guaranteed Minimum Withdrawals From Your IRA?

If the client has requested that RMDs be automatically distributed from a qualified annuity with a guaranteed minimum withdrawal benefit, the distribution may be less than the guaranteed amount permitted. For example, the guaranteed permitted distribution may be 5%, but the RMD is only 3.6%. It may make sense to increase the distribution to the permitted 5%—after all, a traditional IRA (or qualified account) is a "spend down" asset. ***As this produces more income, the client may want to control their tax implications by using a portion of their nonqualified assets.***

There are other issues to consider as well. Those considering using periodic payments, such as a 72(t) or (q), may find their payments are lower under the new tables. Certain inherited accounts[1] may be affected as well. And those who have IRA annuities with income or death benefits may find their Actuarial Present Value (APV) or Fair Market Value (FMV) calculations affected.

Next Steps: Schedule an RMD Check-up Meeting

The new life expectancy tables will affect how clients use their qualified money. Make sure to schedule an "RMD checkup" to help each client make decisions that work well for them.

2019	**2020**[1] (First Year for RMD from Inherited IRA)	**2022** (Year 3 for RMD from Inherited IRA)
• IRA owner dies at age 80 • IRA Beneficiary is a non-spouse and age 75	• Single Life Expectancy (SLE) factor for age 76 = 12.7 using pre-2022 table • Recalculated = minus one from 12.7 in subsequent years (e.g., 11.7 is the divisor for 2021)	• "Redetermine" the SLE factor using 2022 table going back to year of first distribution • Age 76, new SLE factor = 14.1 • 14.1 minus 2 = 12.1 divisor for 2022

[1]For inherited IRAs: Recalculation methodology

Additional Resources and Links

About Form 1099-R

Annuitizing an IRA and the Effect on RMDs

In a Rising Tax-Rate Environment, Deferral Can Help Manage the 1099

Nonqualified Annuities

For more information about retirement planning,
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