IRA And 401(k) Income: Calculating Your Withdrawal

BY DONALD JAY KORN, FOR INVESTOR'S BUSINESS DAILY

08/28/2015 06:19 PM ET

Yearly Withdrawal

To figure your required minimum payout (RMP), divide your tax- deferred account balance by the distribution period at your age

At age	Distribution period
70	27.4
75	22.9
80	18.7
85	14.8
90	11.4
95	8.6

Source: irs.gov

Many people try to avoid tapping into their tax-deferred retirement plans like IRAs and 401(k)s as long as possible. Their retirement planning calls for prolonging growth, minimizing tax liability and helping heirs. Other people need income from those accounts.

For them, deciding how much to withdraw each year can be tricky. Take out too much, and you deplete your nest egg's mutual funds and other assets too fast. Take too little, and you miss income you may need.

Once you pass age 70-1/2, use a specific IRS table to calculate the minimum amount you must take out yearly. You'll take out more if your investments do well, less in bad times. And your IRA will never run out of money.

It's the IRS Uniform Lifetime Table. It's at irs.gov/pub/irs-tege/uniform_rmd_wksht.pdf. There's even a way to use the table before age 70-1/2. More on that later in this report.

Retirees must take required minimum distributions (RMDs) from traditional IRAs after age 70-1/2. Shortfalls trigger a 50% penalty.

Say a hypothetical Ken Dole, who doesn't need IRA money, turned 70 in July. In January 2016, he'll be 70-1/2. So his first RMD is for 2016.

That RMD is based on his Dec. 31, 2015, IRA balance. Say it's $500,000. Dole can go to the IRS table and find age 71. That's the birthday he'll have in 2016.

The table shows a "distribution period" of 26.5 years at 71. That roughly reflects how long the IRS expects Dole to live. So Dole divides his IRA balance by 26.5.

The result is $18,868: his RMD for 2016.

Never Run Out

"Most IRA custodians will notify IRA owners of their RMD amount in January," said Jeffrey Levine, an IRA technical consultant with Ed Slott & Co., Rockville Centre, N.Y. If yours doesn't, then it's required to do so if you ask.

If that Dec. 31 IRA balance is subsequently altered, Dole must revise the RMD calculation. That could happen if, say, a Roth IRA recharacterization returns money to the traditional IRA.

Each year after that, Dole will repeat the exercise, using the relevant Dec. 31 balance and his current age. His RMD will always be a portion of his IRA.

At age 80, he'll divide his IRA balance by 18.7. At 90, by 11.4. And so on. By following the RMD path, Dole will avoid a penalty. His IRA will never be depleted, and there will be cash left for his beneficiary.

If Dole's sole IRA beneficiary is his spouse, who is more than 10 years younger, he can cut RMDs by using an alternate IRS table.

On the other hand, suppose Al Polk needs income from his IRA. Each year he can calculate his RMD. This will let him take more from his IRA after the account has grown from successful investing. And Polk's RMD will be reduced after his IRA shrinks in any bear market.

Polk won't have to choose some arbitrary amount as his yearly withdrawal. And as he ages and draws down his IRA, the distribution period will shrink. So he'll withdraw a larger portion of the account to pay his living expenses.

But he'll never deplete the IRA. Even with an 11.4-year distribution period at age 90, Polk would withdraw only about 8.8% of his account. That would leave over 90% to keep growing.

What if you want to tap your IRA before age 70, the start of the IRS uniform table?

One possible tactic is to take out the age-70 portion, about 3.65%, until you reach age 71. At age 71, you revert to the table's distribution periods.

http://news.investors.com/082815-768747-how-to-calculate-your-annual-ira-withdrawal.htm?ven=yahoocp,yahoo&src=aurlled&p=full