AGGREGATING RMDS – WHAT IS (AND WHAT IS NOT) ALLOWED

Monday, August 23, 2021

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Recently, I had a conversation with an advisor who wanted a second opinion. He disagreed with how a 401(k) custodian was handling his client's required minimum distribution (RMD). To arm himself with facts, the advisor contacted us so he could push back on that custodian. After listening to the details, the scenario was clear. It brought me no joy to inform the advisor that the custodian was correct - and there was no fix for what the advisor had done. I could offer no magic corrective bullet. Deflated, the advisor realized he had to explain how his faulty advice cost the client an additional and unnecessary $25,000 in taxable earned income for the year.

Where did this advisor go wrong? He botched the RMD aggregation rules.

Example: Karl, age 74 and retired, has three retirement accounts:

- IRA at Bank Uno with a $10,000 RMD.
- IRA at Bank Two with a $17,000 RMD.
- 401(k) at his former employer with a $25,000 RMD.

Karl is incorrectly informed by his advisor that he can add the IRA and plan RMDs together and take them all from any one of the accounts. In January, Karl took a $52,000 withdrawal from his IRA at Bank Uno. Karl was under the false impression that his annual RMDs were satisfied.

Six months later, Karl and the advisor contacted the 401(k) and requested a full rollover of the plan assets to one of Karl's IRAs. The 401(k) custodian informed Karl they would send one large check to be rolled over, and another check for the $25,000 plan RMD. Karl said, "But I already took my plan RMD. I took it from my IRA." Their conversation deteriorated from there.

The custodian was correct in this scenario. Had Karl proceeded with the full rollover, he would have compounded his problems by creating an excess contribution in his IRA for the RMD amount. (RMDs cannot be rolled over.) As things stood, Karl needed to take the additional $25,000 from his plan. Unfortunately, he could not return (roll over) the previous $25,000 he took from the IRA, because it was after 60 days. That withdrawal had to remain as a normal (and unnecessary) distribution.

Be careful with multiple RMDs! The basic aggregation rules are as follows:

IRAs (including SEP and SIMPLE IRAs) - RMDs for each IRA account must be calculated separately, but the total RMD for all IRA accounts may be taken from one (or more) IRA.

Company Plans (excluding 403(b) and IRA-based Plans) - RMDs for each company plan (excluding 403(b) and IRA-based plans like a SEP or SIMPLE) must be calculated separately for each plan and taken separately from each plan.

403(b) Plans - RMDs for each 403(b) account must be calculated separately, but the total RMD for all 403(b) accounts may be taken from one (or more) of the 403(b) accounts.

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