How to calculate a participant's RMD from a defined contribution plan

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A defined contribution plan must make RMDs to a participant by April 1 of the first year after the later of the calendar year in which the participant reaches age 70- 1/2, or retires from the employer maintaining the plan (if delaying RMDs is allowed by the terms of the plan). However, the plan must begin making RMDs to a participant who is a 5% owner of the employer maintaining the plan by April 1 of the first year after the calendar year in which the participant reaches age 70- 1/2.

Calculating RMD depends on the type of defined contribution plan involved, noted IRS. Most defined contribution plans, as, for example, 401(k) and profit-sharing plans, must comply with Reg. § 1.401(a)(9)-1 through -9. 401(k) and profit-sharing plans must calculate RMDs by dividing the participant's account balance at the end of the calendar year prior to the year in which the RMD is to be made by using the appropriate number from either (1) the Joint Life and Last Survivor Expectancy Table, which is for a married participant whose spouse is more than 10 years younger than the participant and is the sole beneficiary of the participant; or (2) the Uniform Lifetime Table, which is for all other participants. SEP and SIMPLE IRA plans are defined contribution plans, but are governed by the Reg. § 1.408-8 IRA RMD rules, and 403(b) plans mostly follow the IRA rules. (Other RMD rules apply to defined benefit plans.)

A participant's first year's RMD can be made as late as April 1 of the following year. A plan may purchase an annuity or use a shorter period than those listed in the Tables to distribute the participant's account balance.

Participant dies on or after RMDs begin. If a participant dies on or after RMDs begin, the participant's account balance should be divided at the end of the calendar year prior to the year in which the RMD is to be made by the applicable number in the Single Life Expectancy Table depending on who the beneficiary is.

- *When there is no designated beneficiary*— Use the participant's life expectancy, for the participant's age at his birthday in the year of death and subtract one to calculate the RMD for the year after the year of death. In each subsequent calendar year, reduce the number by one for each calendar year since the participant's death.

- *When there is a designated beneficiary*— If the beneficiary is a *nonspouse* beneficiary (or when the spouse is not the sole beneficiary), use the beneficiary's remaining life expectancy based on the beneficiary's age in the calendar year after the calendar year in which the participant died. In each subsequent calendar year, reduce the number by one for each calendar year since the participant's death. If there are multiple beneficiaries, use the beneficiary with the shortest life expectancy. If the beneficiary is a *spouse* (the sole designated beneficiary), use the surviving spouse's life expectancy based on his age in each distribution calendar year after the participant dies. If the spouse dies, continue to use the spouse's life expectancy based on his or her age at death, reducing the number by one for each calendar year since the spouse's death. For both spouse and nonspouse beneficiaries, if the RMD determined for no designated beneficiary (above) is smaller, then use that method.

A plan must offer a nonspouse beneficiary the opportunity to directly roll over an inherited plan account to an inherited IRA.

Participant dies on or before RMDs begin. If a participant dies on or before RMDs begin, IRS said to use similar methods as used when the participant dies on or after RMDs begin, except: (a) if there is no designated beneficiary (or if allowed by the terms of the plan), the participant's entire account must be distributed by December 31 of the fifth year following the year of death; and (b) if there is a designated beneficiary, RMDs must be based solely on the beneficiary's remaining life expectancy (the participant's life expectancy cannot be used).