

# Required Minimum Distributions

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## *A Segment in Our Retirement Rescue Series*

### **The Rules**

The Internal Revenue Code (IRC) establishes a mandatory date by which a Participant must begin receiving required minimum distributions (RMDs) in a defined contribution or defined benefit plan. For a Participant that is not a 5% owner, the required beginning date (RBD) is generally April 1st of the year following the latter of these two events:

- ⇒ The Participant turns 70½, or
- ⇒ The Participant retires.

If a Participant is a 5% owner, the RBD is April 1st of the year following the year in which he or she turns 70½, regardless of retirement status. After the required beginning date, Participants must receive their RMD annually.

### **The Error**

The Plan's minimum distribution rules should be included in the Plan Document and may differ from the general rules above. For example, the Plan may require all Participants to begin receiving their RMD by April 1st of the year following the year in which they turn 70½, regardless of ownership or retirement status.

Failures regarding required minimum distributions are common when non-owner participants continue working past 70½. If an error has occurred resulting in a RMD not being paid, the Plan's tax-qualified status is in jeopardy. Also, the Participant, not the Plan, is subject to an additional 50% excise tax on the underpayment. The IRS may waive the additional tax if the error is corrected and reasonable efforts are taken to ensure that the error does not occur in the future.

### **The Fix**

The Employee Plans Compliance Resolution System (EPCRS) should be used to correct errors regarding required minimum distributions. The time period to correct a RMD error using the EPCRS Self-Correction program (SCP) is two years following the end of the Plan year in which the failure occurred. SCP may be used even when an error is considered significant overall. The EPCRS Voluntary Corrections Program (VCP) may be used to correct the error, restore the Plan's tax-qualified status, and request a waiver for the 50% excise tax.

### **The Prevention**

Failures regarding RMDs can be very costly for both the Plan and Participant. To prevent these errors, Plan Sponsors should ensure the accuracy of Participant data including dates of birth & retirement status, and periodically review Participant data to ensure that Participants are receiving their required minimum distribution when applicable.