# Watch out, boomers, here comes 70 and those RMDs

## Mandatory payouts from savings plans may trigger new taxes

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About 75 million baby boomers began turning 70 this year. If you're among them, there are critical decisions to make about your retirement accounts and finances in general.

Why is 70 the magic number? U.S. tax law stipulates that you must take your first required minimum distribution (RMD) from your individual retirement account and 401(k) accounts in the year you turn 70½ (or up to April 1 of the following year) and pay income taxes on it. Those who don't comply face a 50% penalty on that amount.

"This is a major shift if you're a boomer," says retirement adviser Ed Slott, founder of IRAHelp.com. "All this time you've been taught to build, save, invest, sacrifice. Suddenly the government at age 70½ says, 'Now we're sick and tired of waiting for you to drop dead. We want our money back.'"

The scale of distributions for boomers, who were born between 1946 and 1964, will put financial advisers in uncharted territory. "This year is the largest population of first-timers taking their minimum distributions we've ever seen," says Maura Cassidy, director for retirement products at Fidelity Investments. "That's over 90,000 clients. Withdrawing is a new concept for these people, and we want to make sure they do it right, because of the 50% penalty." She says the average IRA balance for its 70-year-old clients is about $200,000.

The IRS has a worksheet to help you determine how much to withdraw each year. The RMD in 2016 starts at 3.6%of the year-end balance on your tax-deferred retirement accounts and grows each year: By age 80 you're taking out 5.3%, and by age 90, 7.9%. Although the 50% penalty on missed or undersize withdrawals is steep, tax filers can ask the IRS to waive it. "File Form 5329 with your tax return and say you missed it because you were confused or had poor financial advice," Mr. Slott says.

Managing your RMDs isn't the only financial challenge awaiting those who turn 70. That's also the age when an individual can begin collecting the maximum benefit for Social Security. Those who opt to receive benefits at the earliest age of 62 receive about 25% less per month than a 66-year-old retiree and 43% less than a 70-year-old one. Boomers who have the financial wherewithal should definitely hold off until 70.

Still, delaying the payouts can raise thorny tax issues. "Once you hit 70½, you're really out of the sweet spot of tax planning, because you're forced to take distributions and Social Security," says Bob Morrison, a financial planner at Downing Street Wealth Management near Denver. Receiving too much money at once can knock you into a higher income tax bracket or deprive you of deductions. "Once your income exceeds $250,000, the IRS phases out your personal exemptions — $4,000 per individual — and then at about $300,000 your itemized deductions start phasing out," he says. Those could include deductions for medical expenses and mortgage payments.

For this reason, Mr. Morrison recommends that clients start converting a portion of their traditional IRAs into Roth IRAs before age 70. Roth IRAs not only offer tax-free withdrawals but also have no

RMDs. The IRS even lets you add money to a Roth account as long as you're still working past 70. Roth conversions are taxable events themselves, but one could convert just enough each year prior to reaching 70 to keep from being bumped into a higher bracket.

Even this strategy has wrinkles, depending on where you live and where you plan to retire. “If you live in New York City and have a high income, you're probably paying very high state and local income taxes,” says Matthew Kenigsberg, vice president for financial solutions at Fidelity Strategic Advisers. “But Florida has no income tax. So if you're planning to retire there, it would make sense to wait till you're in Florida to convert to a Roth to avoid paying those local New York taxes on the conversion.” On the flip side, someone living in a no-income-tax state like New Hampshire who plans to retire in a high-tax one such as California should convert to a Roth early to avoid the future taxation.

Perhaps the biggest decision many boomers will face upon reaching 70 is whether to retire. Steven Podnos, a financial planner with Wealth Care in Cocoa Beach, Fla., often counsels clients to keep working at least part time for psychological reasons, “because they have some anxiety over living off a pool of money,” he says. “We see that a lot.”

For the most diligent savers the psychological trauma of spending down assets may be the greatest challenge. “They've worked so hard to build their portfolio, they're hesitant to take anything from it,” says financial planner Bronwyn Shone of BlueSky Wealth Advisors in Pleasanton, Calif. “In one case, I had to give clients permission to buy tennis rackets and hiking boots. 'Please go buy them,' I said. 'You can definitely afford it.'”