DO BOOMERS KNOW HOW TO HANDLE RMDS?

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Boomers have been saving toward retirement for years—those who have been able to save, anyway—but while they may be somewhat prepared financially for retirement, that doesn't mean they know what to do about required minimum distributions.

Thus, they may not really be all that ready.

According to Olivia Mitchell, executive director of the Pension Research Council at the Wharton School, University of Pennsylvania, boomers may be savvy about a lot of things, but when it comes to the drawdown of their retirement accounts, they probably are not.

The money in tax-deferred retirement accounts, Mitchell says in a podcast, amounts to some $10 trillion—and once boomers turn 70½, they have to start taking RMDs—and paying the taxes on all that money.

But that could hit many of them hard, taxwise, if they're still working—and they may not understand the ramifications of such withdrawals on their overall financial situation.

According to Mitchell, the rules regarding RMDs are tied to age: "For example, beginning at age 70½, you must take out about 3.7 percent of the total amount in your IRA and the same amount out of your 401(k) plans if you're retired. By the time you're 80, the percent goes up to about 5.5. And at age 100, you have to take out 15.9 percent." But many people aren't aware of this, even though it does get a fair amount of press.

Two reasons contribute to boomers' ignorance on the subject, says Mitchell: financial institutions aren't eager for the money to leave their control, and both workers and retirees often "don't read their mail" from financial services companies that tells them not only that they need to take RMDs, but how much they need to take.

Taking withdrawals at the wrong time or in the wrong amounts can be costly, since getting the money too early will cost boomers a 10 percent penalty—while taking it while working can increase their overall tax bill and be complicated to boot. One way to avoid some of the complications is to amalgamate the total from multiple IRAs and taking the minimum distribution from just one of them, but for multiple 401(k)s, there's no way out—the law requires an RMD from each one.

Says Mitchell, "I think this is going to be a big test for people who may potentially have cognitive aging issues and who are not financially literate."

Another possibility, she suggests, is to "purchase a payout annuity with up to $250,000 in your 401(k) account."

She explains, "Then that amount will start paying you when you tell it to, when you tell the annuity provider to do so. But that is withheld from the required minimum distribution amount. In other words, it reduces the amount you have to take as a required minimum distribution. That may behoove people that want to protect their assets over the longer term and don't want to pay so much tax on it right away."