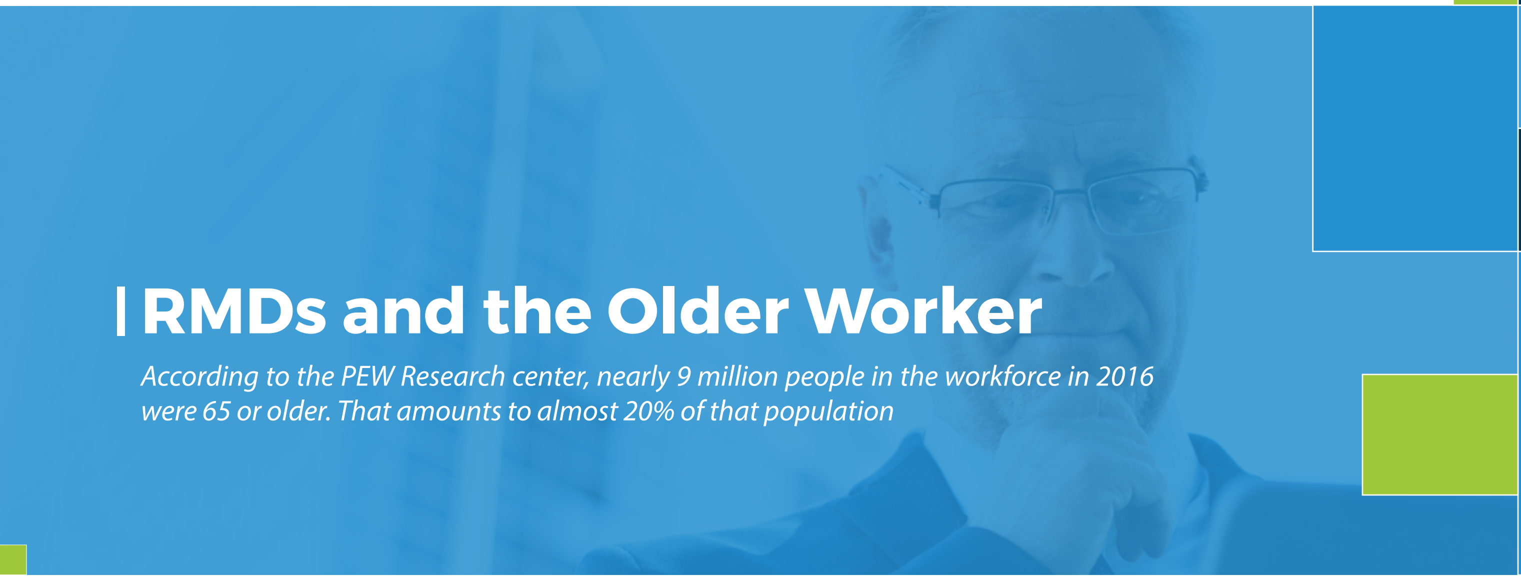

RMDs and the Older Worker

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According to the PEW Research center, nearly 9 million people in the workforce in 2016 were 65 or older. That amounts to almost 20% of that population and is up since 2000. And some are only partially retired; many continue to work part-time. In fact, the average age of retirement is trending up. This trend is driven by a variety of factors, including the cost of living and housing. Other factors include that many seniors are healthier and more active than

A number of factors are keeping older Americans in the workforce. Many seniors are healthier and living longer than previous generations. Some decide not to fully retire because they enjoy the work and the mental benefit from continuing to be engaged in their careers. Others continue to work because of the rising cost of health care.

> *A number of factors are keeping older Americans in the workforce. And many older workers may be confused by the rules regarding RMDs. Some may think that by continuing to work, the funds can stay in the account indefinitely.*

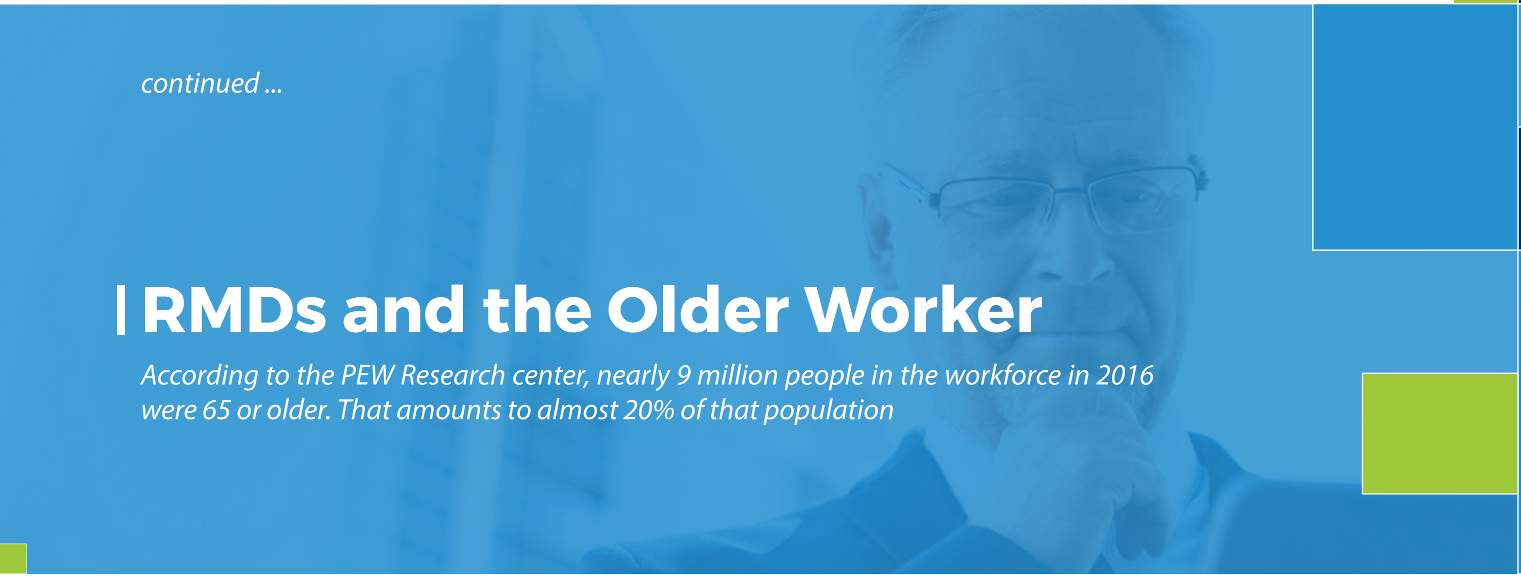
And, this trend presents a few quirks in retirement planning, since many retirement accounts require a minimum required distribution ("RMD") after age 70.5. Those accounts include: a Traditional, Rollover, SEP, or SIMPLE IRA, 401(k) plans, 403(b) plans, 457(b) plans, profit sharing plans and other defined contribution plans. They do not apply to Roth IRAs.

Many older workers may be confused by the rules regarding RMDs as they can be confusing. Some workers may think that by continuing to work, the funds can stay in the account indefinitely. So what are key points to advise your clients on, and how can you begin preparing your own processes and marketing materials to account for what appears to be an increasing trend?

The first topic to inform your client's older workforce may be the amount of the withdrawal required, the flexibility (or lack thereof) in that amount and the penalties for not withdrawing. The penalty for not withdrawing may be the most important aspect of this information for your client's employees: If they fail to take the RMD, they may be liable for a penalty of 50%. That means 50% of the total RMD, so an RMD $10,000 would be $5,000.

The key is if you're 70 or older, still working and don't own more than 5% of the company you work for, you can delay your RMD from a 401(k) until you retire. But that itself requires a little bit of careful advice and planning. If an investor waits too long, there may be a need to take two distributions in one year and since the RMDs are treated as income, could move the investor into a different tax bracket. This means that while a 70+ worker may want to delay retirement as long as possible, taking the RMD while working may be advisable. An alternative route may be to convert IRAs to Roth IRAs, which again are not subject to the RMD. Roth IRAs are not available for all investors and have tax concerns, so preparing your client's investors and employees for this possibility may raise a variety of questions best left to tax advisors and accountants. A roundtable or educational presentation between your financial advisory firm and local tax advisors on common questions could be potentially helpful.

But the caveat to the delay in taking the RMD if you are working, that is if you own 5% or more of the company you work for, is another wrinkle in how people are choosing retirement. As noted above, many seniors are continuing to work at least part time. Some do this by moving from traditional work to self-employment. While their earnings drop by a significant percentage, they may be able to have greater flexibili-



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ty over hours or clients selected. This option, of moving to consulting or self-employment may need to be discussed with current workers who are considering this consulting in their retirement planning. It may also be crucial to those not nearing retirement who have a life long dream of owning a restaurant or flower shop in their retirement.

Another option that might be important to include in education sessions or messaging is that RMDs can be moved into charitable contributions. However, there are limits on which accounts can be used this way (e.g., IRAs not others) and there are specifics about how that contribution can and cannot be claimed on tax forms.

Additionally, many employees may have more than one retirement account. The average worker no longer stays at the same job their entire career, and noting that the RMD has to come out of each account they have (IRAs, 401ks and others) may be helpful for some workers who are decades away from retiring. ■