Can I Delay Taking My RMDs?

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As the landscape of retirement planning continues to evolve, enterprising investors are seeking strategies to maximize their nest eggs while minimizing tax liabilities.

One area of growing interest is the management of Required Minimum Distributions (RMDs). With recent legislative changes and the nuances of tax planning, RMDs can pose significant planning challenges — both for retirees or those nearing retirement.

The RMD Challenge

What are RMDs? These are amounts the U.S. government require individual savers to withdraw annually from their retirement accounts. This rule applies to traditional Individual Retirement Accounts (IRAs) and employer-sponsored plans like 401(k)s and 403(b)s. The intent behind RMDs is to ensure that such tax-deferred savings — which use pre-tax earnings — eventually become taxable income.

The latest set of tax reforms has adjusted the age thresholds for RMDs, creating a marketplace that requires careful navigation. For individuals born between 1951 and 1959, RMDs now begin at age 73. Meanwhile, for those born in 1960 or later, the threshold moves to age 75. Individuals born before 1951 remain subject to the previous age requirement of 72. (Note: Both Schwab and Fidelity have developed intuitive and easily accessible online calculators for determining RMD amounts, based on age and year of withdrawals.)

Failing to meet these RMD deadlines can result in a steep penalty — in some cases up to 25% of the amount that should've been withdrawn. This punitive measure underscores the importance of strategic planning when it comes to managing these distributions.

Strategic Approaches to Managing RMDs

Despite the seemingly rigid structure of RMDs, there are tax strategies that can provide flexibility to potentially reduce tax burdens for retirees. One notable approach involves leveraging employment status and the types of retirement accounts one holds.

John Dahlin, head of IFA Taxes, points to an opportunity for individuals who continue to work into their RMD-eligible years to put off such tax headaches. "If you're still an active employee and not an owner of the business, then you don't have to take RMDs for assets in a traditional 401(k) or 403(b) account," he says.

The certified public accountant (CPA) adds: "This exception in the U.S. tax code does not apply to personal IRAs — you're still subject to RMDs for assets held in a traditional IRA. And that's an important distinction for tax planning purposes."

As a result, Dahlin finds that certain taxpayers can benefit from transferring personal pre-tax savings assets to a similar employer-sponsored plan's account. "You can actually transfer as much as you'd like from a traditional IRA account into your qualified traditional retirement plan's account," he says. "In effect, making such a move will delay RMDs for these assets, as long as the individual remains employed and does not own a significant portion of the business."

However, this strategy is not without its considerations. "The process involves navigating complex rules and ensuring that the move aligns with the individual's broader financial and tax planning goals," Dahlin says.

The Temporary Nature of Shifting Strategies

It's important to recognize, though, that moving assets between retirement accounts to reduce RMD-related taxes is essentially a temporary solution.

"Transferring your assets from an IRA to 401(k) or similar retirement plan account should be considered as just a delaying tactic," Dahlin cautions. "Eventually, whether in a personal IRA or a 401(k) plan, RMDs will become a requirement — and the tax-deferred growth of these assets will be subject to taxation."

Nonetheless, for individuals facing significant taxable events or those seeking to manage their tax brackets more effectively, delaying RMDs can offer temporary relief.

"Perhaps you want to sell a house or create some other major income-generating opportunities in the immediate future," Dahlin says. "In these types of situations, transferring assets between a pre-tax IRA and a traditional 401(k) — or a similar workplace retirement plan account — can help to ease your tax burden and provide a more favorable tax outcome."

The Role of IFA's Advisors in RMD Planning

Given the complexities and evolving nature of tax laws, CPA Dahlin suggests taxpayers discuss with an IFA wealth advisor how best to properly execute such a delaying tactic before making any portfolio moves. Such professional support can provide guidance on executing asset transfers, understanding the implications of different retirement accounts and integrating RMD strategies into a comprehensive retirement and tax planning framework.

"An objective and experienced wealth advisor — working with a team of tax professionals — can play a crucial role in helping you to navigate the intricate rules governing IRA transfers and ensuring that any strategy employed is in compliance with IRS regulations," Dahlin says.

Moreover, IFA's wealth advisors can offer insights beyond the mechanics of RMDs. "They can help retirees understand how these distributions fit into their broader financial picture — including estate planning, charitable giving and investment management," Dahlin notes. "For instance, some retirees might find it advantageous to use RMDs to fund charitable donations, potentially offsetting the tax implications through qualified charitable distributions (QCDs)."

The Bigger Picture

It's critical to view RMD planning not as a standalone task but part of a holistic approach to financial planning, notes Shareen Balkey, head of IFA Retirement Services.

"The strategies employed to manage RMDs should align with the retiree's overall financial goals, risk tolerance and life circumstances," she says. "For some, the focus might be on preserving wealth and minimizing taxes, while for others, ensuring sufficient liquidity to cover living expenses might take precedence."

When discussing such issues with those who've switched employers, Balkey notes too many savers don't realize that rolling their old plan's assets into a personal pre-tax IRA can trigger RMDs in coming years. "For those still working near their RMD age and interested in delaying RMDs," she says, "it's worth taking a close look at transfering your old 401(K) or 403(b) traditional IRA account assets into the new plan's pre-tax account."

That's assuming, of course, plan offerings and services are relatively similar, according to Balkey. "You need to consider the types of investment choices — i.e., the underlying funds — that can fit into your overall financial plan," she says. "Also, issues for discussion with an IFA advisor might include a review of fund management costs, recordkeeping fees and plan administration expenses."

IFA Taxes, which is a division of Index Fund Advisors, works with individual taxpayers as well as business owners to advise on tax strategies. In addition, IFA Taxes provides account and bookkeeping along with tax preparation services for a range of individuals and companies.

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