

Required minimum distributions in non-governmental 457(b) plans

The Internal Revenue Code imposes a required beginning date for distributions to participants in qualified retirement plans, traditional individual retirement accounts (IRAs), and certain other tax-advantaged retirement and savings programs. These are commonly referred to as “required minimum distributions” or RMDs.

Participants in non-governmental 457(b) plans are subject to these RMD rules.¹ Plan sponsors and financial professionals should make 457(b) plan participants aware of these rules, as they can significantly impact a retiree’s tax and distribution planning.

The RMD rules contain two components: a required beginning date and a minimum distribution amount.

Required beginning date

An RMD must occur by April 1 of the calendar year following the later of:

- The calendar year in which employees attain age 73²; or
- The calendar year in which the employee retires (and has a “severance of employment”).³

In practice, no minimum distributions are required for active employees.

However, if a plan participant dies before their entire account balance is distributed, an RMD must occur regardless of age. The account balance must be distributed:

- Within 10 years of death, or
- Over the life expectancy of the beneficiary (available only to certain beneficiaries, including a surviving spouse, a beneficiary less than 10 years younger than the deceased owner, and certain disabled or chronically ill beneficiaries).

If the account beneficiary is a surviving spouse, the beneficiary has the additional option to delay distributions until the end of the year in which the participant would have attained age 73.

Minimum distribution amount

The amount of each RMD is calculated using IRS life expectancy tables, which were recently updated to provide for a longer life expectancy. Generally, the distribution amount is calculated by dividing the participant's balance (as of the December 31 preceding the year of the required distribution) by the life expectancy of the participant, or the joint life expectancy of the participant and a beneficiary, as defined in the IRS tables.⁴

It should be noted that RMDs must be calculated on an individual's balances in each of their tax-favored accounts subject to the RMD rules. How they actually receive the distributions varies by the type of account in question. For multiple IRAs or multiple 403(b) accounts, the RMD rules permit an individual to aggregate their RMD calculations in all of their accounts of the same type, and then they may withdraw the required distributions from any one of the same category of accounts.^{2,5} In contrast, RMDs from 457(b) and other qualified retirement plans must be calculated and distributed from each individual plan, with no aggregation permitted.^{1,6}

Failure to distribute an amount equal to or greater than the RMD results in a penalty of 25% of the amount that was required to be distributed but was not (10% penalty if corrected within a two-year window). Participants near or older than age 73 should be sure to discuss their RMD situation with their financial professional.

RMD #	Due date	RMD year	Valuation date
1	04/01/2022*	2021	12/31/2020
2	12/31/2022	2022	12/31/2021
3	12/31/2023	2023	12/31/2022

* This payment may be made in 2021 to avoid taxation on two distributions in 2022.

¹ See IRC Sec. 457(d)(2).

² The Setting Every Community Up for Retirement Enhancement Act of 2019 became law on December 20, 2019 and changed the RMD age to 72 for participants who were not age 70½ or older on December 31, 2019. With some important exceptions, participants who reached age 70½ prior to January 1, 2020, generally must begin receiving distributions from their accounts after attaining age 70½ (See IRC Sec. 401(a)(9)). A participant who has not reached age 70½ by December 31, 2019, must begin receiving distributions after attaining age 72. On December 22, 2022, the SECURE Act 2.0 raised the age to 73 beginning on January 1, 2023, and 75 beginning on January 1, 2033. Section 302 of SECURE Act 2.0 reduced the penalty percentage.

³ See IRC Sec. 401(a)(9)(C).

⁴ Generally December 31 preceding the RMD date is used to value the account, but in the first year, the date is the December 31 prior to the preceding year.

⁵ Treas. Reg. §1.408-8, Q&A-9 and Treas. Reg. §1.403(b)-3, Q&A-4.

⁶ Treas. Reg. §1.401(a)(9)-8, Q&A-1.



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