A FISCAL FOOTNOTES BREAKDOWN

The Hidden History of the Rule That Taxes Your Retirement

What a Required Minimum Distribution actually is, where it came from, and the costly traps to plan around.

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Context Creates Clarity

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What an RMD Actually Is

At a certain age, the government can reach into the retirement account you spent your whole life building, and make you take the money out. Not ask. Make.

Whether you need it or not. And when you do, you finally pay the tax they have been waiting on for forty years.

That is a Required Minimum Distribution. An RMD.

A woman called us last fall. 72 years old. Just retired. She did everything right her whole life. Saved. Stayed disciplined. Never touched it. And that January she opened a letter telling her she had to pull out forty-some thousand dollars and write a check to the IRS on it.

She did not ask for the money. She did not need the money. But the government did.

Here is the part that stings. That rule was never built to help you. It was built to make sure the government finally gets paid.

This guide is going to show you where the RMD came from, how the amount is calculated, what happens if you miss it, and the traps that catch good people every single year. No pressure. No fear. Just the facts, and the moves you can make before that letter ever shows up.

-- David, Fiscal Footnotes

Why the Rule Exists: The Bargain You Forgot

Every Dollar Went In Before Taxes

Here is the thing most folks miss. Every dollar in a traditional IRA or a 401(k) went in before taxes.

You got a deduction on the way in. The money grew for 30, 40 years. And you never paid a dime of tax on it. That was the deal. The government let you wait.

But the government does not wait forever.

Deferring tax is not the same as avoiding tax. At some point you have to start taking it out. And when you do, you finally pay the tax they have been waiting on your whole working life.

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The Individual Retirement Account was created in 1974 under a law called ERISA. From the very start, the rules built in a catch: the tax break came with a future obligation to take the money out. Then in 1986, the Tax Reform Act locked the same rule across the board for 401(k)s, 403(b)s, and other qualified plans. The nest egg cannot grow tax-free forever.

Same idea every time. The money was allowed to grow untaxed. Eventually, the tax comes due. The RMD is simply the mechanism that makes sure it does.

The RMD is not a punishment. It is the back half of a deal you made 40 years ago and probably forgot about.

Where 70 1/2 Came From: The Age Ladder

For decades, the magic age was seventy and a half. Not 70. Not 71. Seventy and a half. There has never been a satisfying explanation for the half. It was a number Washington picked and made everybody live with for 50 years.

Then things started moving. And the starting age has been climbing ever since.

The Law	RMDs Begin At	When
Original rule	Age 70 1/2	For decades
SECURE Act	Age 72	Signed 2019
SECURE 2.0	Age 73	Effective 2023
SECURE 2.0	Age 75	Beginning 2033

So Where Does That Leave You Today?

If you are turning 73 right now, that is your year. The clock has started. If you were born in 1960 or later, your starting age moves up to 75.

Here is the quiet catch. The later they let you wait, the bigger the account gets, and the bigger the tax bill waiting at the end.

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The SECURE Act of 2019 raised the starting age from 70 1/2 to 72. SECURE 2.0, passed at the end of 2022, raised it to 73 effective in 2023, and schedules a further rise to 75 beginning in 2033. Your exact starting age depends on your year of birth.

How They Decide How Much You Take

It is actually not complicated. You take your account balance from the end of last year. Then you divide it by a number off an IRS chart called the Uniform Lifetime Table.

The Formula	
Prior year-end balance	$1,000,000
Divided by factor at age 73	26.5
Your required minimum	~$37,700

That chart is just life expectancy. The older you get, the smaller the number you divide by, which means the bigger the slice they make you take. And all of it is taxable as ordinary income.

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The IRS updated the Uniform Lifetime Table in 2022 to reflect longer life expectancies, which slightly lowered required amounts. Good news on its own. But as you will see, the size of the RMD is not the part that does the most damage.

What Happens If You Miss It

This is where it used to get brutal. For years, if you missed your RMD, the penalty was fifty percent. Half of what you were supposed to take, gone, just as a penalty.

Good people got caught by that through no fault of their own. They turned the right age, did not realize the rule had started, and got hammered.

The penalty is lower now, but it is still real money.

Recent law softened the penalty. It is now 25 percent of the amount you should have taken. And if you catch the mistake and correct it quickly, that drops to 10 percent. Better than 50. Still worth a phone call before December rolls around.

FISCAL FOOTNOTE

The missed-RMD penalty was historically 50 percent under the tax code. SECURE 2.0 reduced it to 25 percent, and to 10 percent if the shortfall is corrected within the timely window. The fix is usually straightforward when caught early, which is exactly why a year-end review matters.

Three Traps That Cost Real Money

Here is the part to really hear. The RMD itself is not even the worst part. It is what it sets off.

When that money lands on your tax return, it counts as income. And income is the domino.

Trap 1: The Medicare domino (IRMAA).

A lot of folks do not know this. The more income that shows up on your return, the more you can pay for your Medicare Part B and Part D. They call it IRMAA. So you get forced to take money you did not want, it raises your income, and Medicare can quietly raise your premium a year later. The forced withdrawal and the premium increase do not even arrive in the same year, which is why so few people connect the two.

Trap 2: The smarter way to give (QCD).

If you give to charity anyway, there is a smarter way to do it. It is called a Qualified Charitable Distribution. You send the money straight from your IRA to the charity. It counts toward your RMD, and it never hits your income at all. It is one of the most underused moves in retirement giving.

FISCAL FOOTNOTE

A Qualified Charitable Distribution is available starting at age 70 1/2, goes directly from your IRA to an eligible charity, and counts toward your RMD without being added to your taxable income. There is an annual limit, indexed for inflation: for 2025 the IRS set it at $108,000 per person. Confirm the current-year limit before you act, because it changes. (Source: IRS, irs.gov.)

Trap 3: The stretch is gone (the 10-year rule).

It used to be that when you passed an IRA to your children, they could stretch those withdrawals out over their whole lifetime. We called it the stretch. The SECURE Act killed it for most beneficiaries. Now many children who inherit an IRA have just ten years to empty the whole thing. Often right in their highest-earning years, at their highest tax rate. Without a plan, it can hand a large share of what you leave behind straight to the IRS.

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The SECURE Act eliminated the lifetime stretch IRA for most non-spouse beneficiaries who inherit after 2019, replacing it with a 10-year payout rule. Certain beneficiaries, such as surviving spouses and some others, are treated differently. This is a planning conversation worth having before it ever applies.

The Roth Escape Hatch

Now, this is not all bad news. There is a bright spot, and it has a name. A Roth.

A Roth IRA has no required distribution during your lifetime. Period.

You already paid the tax going in, so the government has nothing left to wait for. It just sits there and grows. Yours. Untouched. On your terms.

And here is a fresh one.

As of 2024, even the Roth side of a 401(k) got the same treatment. No more required distributions there either while you are living. That closed a gap that used to trip people up.

FISCAL FOOTNOTE

Roth IRAs have never carried lifetime required minimum distributions for the original owner. Beginning in 2024, SECURE 2.0 also eliminated lifetime RMDs from Roth accounts inside employer plans, such as Roth 401(k)s. Inherited Roth accounts follow their own distribution rules.

That is why, in the years before these rules kick in, a lot of good planning is about quietly moving money from the they-will-tax-it-later bucket into the they-can-never-touch-it bucket.

But you have to do that on purpose, ahead of time. Not the January the letter shows up.

Where Does This Money Go?

Here is the question worth asking before the next RMD season arrives. If you do not need this money, where do you want it to go?

That stops a lot of people. They have spent years protecting a pile of money without ever deciding who it is for. And the way an IRA passes to the next generation now, under the 10-year rule, can hand your family a tax problem you never intended.

A plan beats a surprise.

Naming beneficiaries the right way, deciding whether Roth conversions make sense, timing withdrawals around your income and your Medicare brackets. These are not things to figure out in a panic the year the first letter arrives. They are decisions you make on purpose, with time on your side.

The back half of the deal is where the real planning happens. The Medicare domino. The 10-year rule. The timing of every withdrawal. Get those right and you stay in control of your own money. That is what this guide is for.

Your RMD Readiness Checklist

Print these pages. Check items off as you go.

Know Your Numbers

[ ] Find out which starting age applies to you (72, 73, or 75) based on your birth year

[ ] Pull the December 31 balance of every traditional IRA and 401(k) you own

[ ] Ask which accounts are subject to RMDs and which are not

[ ] Confirm whether you have already taken this year's RMD, if one is due

[ ] Note the deadline (generally December 31, with a one-time exception for your first year)

Watch the Dominoes

[ ] Estimate what the RMD will add to your taxable income this year

[ ] Ask how that added income could affect your Medicare premiums (IRMAA)

[ ] If you give to charity, ask whether a Qualified Charitable Distribution fits

[ ] Review who is named as beneficiary on every retirement account

[ ] Understand how the 10-year rule could affect the people who inherit from you

Look Ahead

[ ] Ask whether Roth conversions before your starting age make sense for you

[ ] Map out which bucket each dollar lives in: taxed-later or never-taxed-again

[ ] Build a withdrawal plan that accounts for taxes and Medicare, not just the minimum

[ ] Schedule a review before December, not after the letter arrives

The Rule Is Not Going Anywhere. Getting Surprised By It Is Optional.

The RMD is just the back half of a deal you made decades ago. The back half is where the planning lives, and most of it happens before that first letter ever arrives.

Once you understand the ages, the math, and the traps, the decisions get clearer, and you have time to make the smart moves before that first letter ever arrives.

Context creates clarity. And clarity creates confidence.

If you want help mapping your own RMDs, your Roth options, and how it all touches your taxes and your Medicare, the team at American Retirement Advisors is here to help.

Book a No-Cost Discovery Session

123easy.com/retirement-discovery-session-booking-page

Or call: (602) 281-3898

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Required minimum distribution rules, starting ages, penalty percentages, Qualified Charitable Distribution limits, and Medicare income-related premium thresholds are set by federal law and agencies and are adjusted periodically. Always confirm the current-year figures and the rules that apply to your specific accounts before acting. References to the SECURE Act and SECURE 2.0 describe federal legislation; consult the IRS, Medicare.gov, and the Social Security Administration, or a qualified professional, for current details.

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