How Do I Calculate My Required Minimum Distribution?

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May 17, 2023

While tax-deferred retirement accounts are often sought after, they come with a requirement later down the line. Once you turn age 73, the IRS mandates that you withdraw a minimum amount of money from these accounts, otherwise known as your Required Minimum Distribution (RMD). If you're the account owner, it's your responsibility to withdraw the correct amount every year to avoid steep penalties.

How Much Is My RMD?

Your RMD will adjust annually based on two data points: the account balance and your age. The IRS takes the balance of the tax-deferred account (as of December 31st of the prior year) and divides that number by your life expectancy factor, found in the IRS-provided table. The life expectancy factor considers the account owner's age and their actuarial life expectancy.

The RMD Formula

Account Balance (As of December 31st from the prior year) ÷ Life Expectancy Factor

IRS Uniform Lifetime Table

Age	Life Expectancy Factor
72	27.4
73	26.5
74	25.5
75	24.6
76	23.7
77	22.9
78	22.0
79	21.1
80	20.2
81	19.4
82	18.5
83	17.7
84	16.8
85	16.0
86	15.2
87	14.4
88	13.7
89	12.9
90	12.2
91	11.5
92	10.8
93	10.1
94	9.5
95	8.9
96	8.4
97	7.8
98	7.3
99	6.8
100	6.4
101	6.0

Source: Internal Revenue Service (IRS)

Note: Although the IRS Uniform Lifetime Table is the most common table used for calculating RMDs, it doesn't apply to everyone. There are different tables for beneficiaries of these accounts and for account holders whose sole beneficiary is their spouse who is more than 10 years younger than them.

Let's calculate the required distribution for a retiree who is age 74 with an account balance of $200,000 in a Traditional IRA. Based on the Uniform Lifetime Table, the life expectancy factor for someone age 74 would be 25.5. Following the formula above, you should divide $200,000 by 25.5 to come up with the annual RMD of $7,843.14.

What If I Have Multiple RMDs?

To satisfy the RMD for your tax-deferred accounts, you need to calculate the required distribution for each account separately. However, you have the flexibility to withdraw the total amount required from any one of your tax-deferred accounts.

For example, if you must withdraw at least $5,000 from your 401(k) and $3,000 from your Traditional IRA, you can take out the total amount of $8,000 from either account to fulfill your RMD obligation for the year.

The Bottom Line

By understanding the formula used, you can accurately determine how much you need to withdraw annually from your tax-deferred accounts. With proper planning and attention, you can navigate your retirement years with financial security and peace of mind.