

How Required Minimum Distribution Rules Drive IRA Withdrawals

Are required minimum distribution (RMD) rules a major factor in IRA withdrawals?¹ Recent research by the Employee Benefit Research Institute (EBRI) suggests that they are. According to EBRI's August *Issue Brief*, "IRA Balances, Contributions, Rollovers, Withdrawals, and Asset Allocation," Traditional IRA owners—who are subject to RMD rules—are more likely than Roth IRA owners to take a withdrawal or be ages 71 or older. Further, the withdrawal amounts taken by those 71 or older are generally no greater than the RMD.

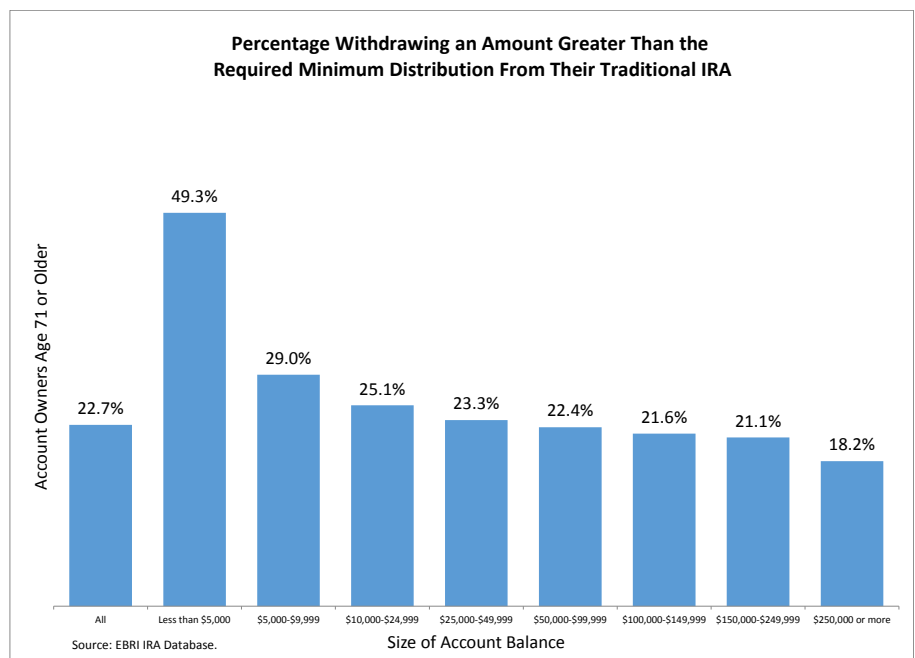
Among Traditional IRA owners in the database, 27.1 percent had a withdrawal in 2016, compared with only 4.6 percent of Roth owners. In particular, the rate of those taking a withdrawal among those ages 71 and older was significantly lower among Roth owners vs. Traditional IRA owners. Only 6.2 percent of Roth IRA owners ages 71–79 took a withdrawal, compared with 85.4 percent of Traditional IRA owners.

About the EBRI IRA Database

The EBRI IRA Database upon which this analysis is based is an ongoing project that collects data from IRA-plan administrators. For year-end 2016, it contains 24.2 million accounts representing 19.1 million unique individuals with total assets of \$2.36 trillion. The database contains information on IRA type, account balance, contributions made, rollovers transferred, withdrawals taken during the year (if any), the asset allocation, and certain demographic characteristics of the account owner.

The amounts withdrawn are telling as well. The required distribution (withdrawal) each year is based on a person's age and the total Traditional IRA balance at the end of the prior year. Therefore, comparing the RMD with the actual amount withdrawn from the Traditional IRA can show whether those who have reached the age where the distributions are required are merely following the rule or if they are withdrawing an amount in excess of the required amount.

In 2016, 22.7 percent of those ages 71 or older were found to have Traditional IRA withdrawals in excess of their RMDs, meaning that over three-quarters took *only* the



amount they were required to take. Among those with balances less than \$5,000, 49.3 percent had withdrawal amounts greater than their RMDs. This percentage decreased to 29 percent for those with an account balance of \$5,000–\$9,999 and to 25.1 percent for those with an account balance of \$10,000–\$24,999. Above those balances the percentage gradually declined to 21.1 percent for those with account balances of \$150,000–\$249,999 and then dropped to 18.2 percent for those with account balances of \$250,000 or more.

The fact that RMDs are such a material force in IRA withdrawals has important potential policy implications. Are retirees using RMDs as a rule of thumb for the amount that should be withdrawn from their IRAs? Or—as EBRI showed in its April *Issue Brief*, “Asset Decumulation or Asset Preservation? What Guides Retirement Spending?”—do retirees simply prefer not to spend their assets and RMD rules are forcing them into drawing down when they would prefer not to? Either way, it is essential to consider whether current RMD rules are driving optimal behavior among retirees.

The EBRI report, “EBRI IRA Database: IRA Balances, Contributions, Rollovers, Withdrawals, and Asset Allocation, 2016 Update,” is published as the August 13, 2018 EBRI *Issue Brief*, and is available online [here](#).

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¹Beginning in the year individuals turn age 70½, owners of Traditional IRAs but not Roth IRAs are required to make an annual minimum distribution (withdrawal). The required minimum distribution (RMD) is calculated by the end of the prior-year balance divided by the longevity factor published by the Internal Revenue Service. For those with more than one IRA, the required minimum distribution does not have to be taken from each account but can be taken from only one account as long as the total minimum amount withdrawn from that one account equals the total that must be taken for all the accounts combined. Consequently, in this study of IRAs, not all Traditional IRA owners over 70 years of age had a withdrawal.