



# Required minimum distribution (RMD) enhancements provision

SECURE 2.0 Act | Implementation as of January 1, 2024

## Overview

The Internal Revenue Code generally requires plan participants to begin taking distributions from a qualified plan either when they reach a certain age or when they retire, whichever comes second. The SECURE 2.0 Act of 2022 (SECURE 2.0) modified several rules related to required minimum distributions (RMDs) taking effect in 2023, in 2024, and beyond.

## Key takeaways

- The RMD age increased from 72 to 73 on January 1, 2023. The age will increase again in 2033 to 75.
- Effective January 1, 2023, the excise tax for missed RMDs has been reduced from 50% of the missed RMD amount to 25%, with a possible further reduction to 10% if certain requirements are met.
- For participants, Roth dollars are no longer subject to an RMD, nor are Roth funds included when calculating RMD amounts, effective January 1, 2024. This change creates parity between Roth IRAs and qualified retirement plans.
- Spousal beneficiaries of deceased participants can elect to have RMD rules applied as if they were the deceased participant, beginning on January 1, 2024. This may result in a lower RMD amount.

## What's changing?

### For plan sponsors

- Little to no action is needed by plan sponsors regarding the required RMD enhancements provision of SECURE 2.0.
- Vanguard has already updated our systems and procedures to reflect RMD changes that took effect on January 1, 2023.
- All systems, processes, and communications have been updated to reflect RMD changes that became effective on January 1, 2024.
- **Plan sponsors will need to amend their plan to reflect all SECURE 2.0 changes (including RMDs) by the end of the 2026 plan year.**

### For participants

- For clients using Vanguard's RMD service, we have raised the RMD age in our systems to 73.
- Participant content, materials, and forms have been updated to reflect the changes to RMD rules.
- Participants with some, or all, of their retirement plan assets in Roth sources have been notified that their RMD payments would decrease, or stop beginning in 2024.

## Vanguard's solution

For RMD enhancements that took effect on January 1, 2024, Vanguard has designed a solution that satisfies compliance requirements while minimizing impact to current RMD processes and provides participants with information to make accurate decisions related to RMDs.

### For Roth RMDs

Effective January 1, 2024, Roth dollars in qualified retirement accounts are no longer subject to RMDs and are not included when calculating RMD amounts.

- **RMD calculations:** To perform RMD calculations for participant accounts, Vanguard is now using an adjusted prior year ending balance (PYEB) and year to date (YTD) distribution values, both of which exclude Roth assets. Existing calculator tools have been updated to support manual RMD calculations when needed.
- **Distributions:** Vanguard has implemented a new fund control rule to ensure the correct money sources are included in disbursements for participant RMDs. For RMD purposes, alternate payees are treated as the participant while the

participant is living and will not have Roth dollars included in the RMD calculation. After the participant is deceased, alternate payees are treated as a spousal beneficiary and Roth dollars will be included in the RMD calculation.

- **Participant experience:** RMD kits and forms have been updated to inform participants that their RMD calculation will not include Roth assets. Annual RMD confirmations began to include adjusted non-Roth values in 2024.
- **Tax and reporting:** RMD reporting has been updated to include the new (non-Roth) PYEB and YTD distribution balances and has been incorporated into future reporting and 1099-R forms.

### For post-death spousal election

Effective January 1, 2024, a surviving spouse who is a sole beneficiary can elect to have RMDs calculated using the Uniform Life Table (ULT) instead of the Single Life Table, potentially resulting in a smaller RMD amount.

- **RMD calculations:** A new data element has been updated to indicate and track a former spouse's election to use the ULT.
- **Distributions:** Vanguard will continue to use existing processes and apply rules currently in place as it relates to distributions.

- **Participant experience:** Vanguard forms and processes have been updated to allow a former spouse to elect to be treated as the participant for RMD purposes (i.e., use the ULT).
- **Tax and reporting:** RMD and beneficiary reporting have been updated to include the new data element indicating a former spouse's election to use the ULT.

## Frequently asked questions

### Roth source exemption

- 1. If participants are no longer required to include Roth as part of their RMD calculations, can Roth distributions still be used to satisfy RMD requirements?**

No. Beginning on January 1, 2024, distributions from Roth retirement plan sources can no longer be used to satisfy a participant's RMD obligation.

- 2. How does the Roth source exemption for RMDs apply to participants who began taking RMDs prior to January 1, 2024?**

Participants who have commenced RMDs prior to January 1, 2024, will stop taking RMDs from their Roth accounts as of the January 1, 2024, effective date.

- 3. How does the Roth source exemption for RMDs apply to participants who were required to begin RMDs due to a termination in 2023?**

A participant who was required to begin RMDs due to a termination in employment in 2023 must still receive their 2023 RMD from their Roth account by April 1, 2024.

### Post-death spousal election

- 4. Can spousal beneficiaries who have already started taking RMDs switch to using the ULT for future calculations?**

No. Spousal beneficiaries who have begun taking RMDs cannot switch from the Single Life Table to the ULT.

- 5. How does the post-death spousal election provision apply to plans that do not give a participant's spouse the option to choose life expectancy?**

If a plan does not give a participant's spouse the option to choose life expectancy (i.e., the spouse is required to use the 10-year method), the post-death spousal election provision does not apply.

In these cases, the participant's spouse cannot elect to have RMD rules applied as if they were the deceased participant.

### Participant experience

- 6. What communications did Vanguard provide to participants before the 2024 RMD enhancements took effect?**

Participants received targeted communications via their preferred delivery channel (email or print) in Q4 2023.

- Participants receiving RMDs who have all of their retirement plan assets in Roth sources were notified that RMDs are no longer required for Roth dollars. As a result, their RMD payments ended in 2024. This communication included information on how to take other distributions, if needed.
- Participants receiving RMDs with both pre-tax and Roth funds were notified that RMDs are no longer required for Roth. This communication included instruction on how to take other distributions, if needed.

