

News & Notes

Spring 2021

Required Minimum Distributions - Update 2021

by Karen Giles, Sr. Specialist - Compliance & Plan Services

FCMM encourages Members to stay informed of current regulations and rules specific to Required Minimum Distributions (RMDs) and their FCMM account. The year 2020 brought a few changes to retirement plans, some of which pertain to RMDs. Whether you are well versed in minimum distribution requirements or only approaching age 72, keep reading!

RMD BASICS

While funding a retirement account, the IRS allows individuals to defer tax on the amounts contributed toward retirement savings. There is a specified time, however, the IRS requires individuals to begin periodic tax payments on those deferred amounts. It collects this income tax via Required Minimum Distributions (RMDs). RMDs are the minimum amount the IRS mandates be withdrawn from one's retirement account annually. Generally, the IRS requires an individual to start receiving minimum distributions no later than April 1 in the year following the year an individual:

1. Reaches age 72, or
2. Retires

The later of the two occurrences above establishes one's Required Beginning Date (RBD). For those still working at least 20 hours a week for an FCMM Qualified Employer, the RBD is postponed until he/she "retires". Once started, RMDs must continue to be paid out annually to avoid the IRS imposed 50% tax penalty on the amount not received by the account holder.

In most cases, RMDs are calculated by dividing the prior year's December 31 retirement account balance by the IRS life expectancy factor associated with the Member's age on December 31 of the current RMD year. One must receive at least this amount from the retirement account to satisfy the requirement. FCMM notifies Members mid-year of the annual calculation for accounts subject to an RMD. Members may request their RMD payment anytime after the prior year's ending balance is determined. In December of the RMD year, FCMM distributes any remaining RMD amount to its Members.

RECENT CHANGES (2019 and beyond)

In a short period of time, new laws related to Required Minimum Distributions have been enacted; including the age one must start receiving RMDs, a temporary waiver of the requirement, and the

subsequent expiration of that waiver.

Required Beginning Date Delayed to Age 72

Signed into law in December 2019, the SECURE Act shifted the Required Beginning Date from April 1 of the year following the year one turns age 70 ½, to April 1 following the year one reaches age 72. The higher age threshold affects individuals born on or after July 1, 1949.

Waiver of 2020 RMDs

Enacted in March 2020, the CARES Act suspended Required Minimum Distributions (RMDs) for that year. This waiver applied to all retirement accounts subject to RMDs, including IRAs. Therefore, FCMM's standard practice of distributing RMD payments in December did not occur in 2020.

RMDs are Back for 2021

The provision of the CARES Act that placed a pause on RMDs ended on 12/31/2020. The obligation to receive an RMD payment has resumed for 2021. Around mid-year, FCMM will notify Members of their 2021 RMD amount. Any RMD balance not satisfied earlier in the year will be distributed to the Member on December 1, 2021.

UNCHANGED - HOW TO SATISFY THE RMD

With the RMD obligation returning for 2021, it is important to understand the relationship between your RMD and how various types of distributions throughout the calendar year can satisfy the requirement.

Cash Withdrawals

FCMM allows for two types of cash withdrawals: One-time lump sum withdrawals and monthly recurring withdrawals. If an RMD is required for a calendar year, any amount distributed during that calendar year is treated as your RMD until your total RMD amount for that year is satisfied. Accordingly, the IRS also requires the full RMD amount be distributed directly to the Member before a rollout to another retirement account can occur.

Monthly Income Benefit ("Annuity")

For Members who convert their entire FCMM account balance to a Monthly Income Benefit "annuity", on or before their RBD, all future RMD requirements are considered *satisfied*. This means that as long as no future contributions come into the Plan, the Member will have no further RMD mandate.

RMD Update

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For accounts fully converted to annuities after one's RBD, the payments will only automatically satisfy the RMD for calendar years after the year of conversion. In the year of conversion, the annuity payments will be deemed as "cash withdrawals" (see above) from the account. Any portion of the RMD amount not met by the sum of the annuity payments would need to be paid out to the Member in December of that year. One exception to this is if a Member starts the annuity in January. A full twelve months of "annuity" payments in one calendar year satisfies that year's RMD, as well as subsequent years.

In the case of partial conversion to an annuity, any non-annuitized balance will be subject to RMDs and the year-of-conversion rules noted above will apply to the annuity.

CHANGES AHEAD

Life Expectancy Tables to Change for 2022

When calculating RMDs, one of three IRS life expectancy tables is used. These IRS tables provide an established distribution period (factor), based on age, that more or less assumes how many additional years of life you will live. Your previous year's account balance is then divided by that factor to determine your distribution requirement for the current year. The existing tables have been in place since 2002. Per an executive order, the Treasury Department and the IRS evaluated mortality rates and determined that existing tables should be updated to reflect the current life expectancy – found to be 1 to 2 years longer. As a result of the review, the IRS issued final regulations requiring new life expectancy tables be used when determining Required Minimum Distributions ("RMDs"). These new tables go into effect for 2022 RMDs and will result in a lower RMD amount when compared to the existing table. (See table below for comparison.)

Uniform Lifetime Table (2002-2021)		NEW Uniform Lifetime Table (Effective 2022)	
Age	Distribution Period	Age	Distribution Period
72	25.6	72	27.4
73	24.7	73	26.5
74	23.8	74	25.5
75	22.9	75	24.6
76	22	76	23.7

For all RMD tables and all ages, visit the [irs.gov](https://www.irs.gov) website.

Proposed Increase in RMD Age (72 to 75)

In October of 2020, a bipartisan bill, "Securing a Strong Retirement Act of 2020", commonly referred to as the "SECURE Act 2.0", was introduced. It builds on the SECURE Act of 2019 and among other things, proposes raising the RMD age (again); this time from 72 to 75 years. The bill lost traction in the previous session of Congress, but House Ways and Means Committee Chairman, Richard Neal, D-MA, has stated he plans to reintroduce the legislation again in the new Congress. FCMM will continue to monitor this and other legislative activity and will keep Members informed of relevant changes.

Lifetime Fund (Option C) Developments

by Jerry Rich

As previously announced, the 2021 rate for Option C earnings has been set by the FCMM Board to continue at 2%.

Last year, the announced annual rate of 4% was reduced in April to 2% for the remainder of 2020 due to the extraordinary and rapid market downturn. Later in the year the market made a strong comeback.

In consideration of the market rebound, the FCMM Board authorized a one-time January 2021 dividend payment of 2% to Member accounts based on 12/31/2020 balances. This meant the effective rate for 2020 was 4.5% (4% for January-March; 2% for April-December; 2% year-end dividend).

Option C Lifetime Fund is a collective investment fund that aims to provide steady long-term earnings to the member. For more information and details, see the article "Understanding Option C: The Steady Approach" at the FCMM website.

Because of the long-term nature of the Fund, invested funds can be transferred from Option C to other Options only once in a 12-month period. The Lifetime Fund is structured to offer reliable value towards a monthly income benefit ("annuity") for which 100% of accrued value can be converted. If funds are instead transferred or withdrawn, a fair market value reduction may be applied when accrued value is greater than current market value of the Lifetime Fund portfolio.

Since inception in 2004, Option C has returned between 3% and 6% each year and is fully funded. The rate in 2019 was 3.5%, 4% in 2018, and 3% in 2017.

The Retirement Plan offers an array of investment options, from FCMM managed funds to four families of mutual funds. More information on investment Options and funds can be found in the downloadable document "Form 31: Investment Option Descriptions."

New Plan Provision: Qualified Birth or Adoption Distributions

In response to the SECURE Act of 2019, FCMM added a new Plan provision for our Members: Qualified Birth or Adoption Distributions. With some limitations, FCMM Retirement Plan Members, who incur expenses associated with the birth or legal adoption of a child, may request an in-service distribution of up to \$5,000 per child within 12 months of the date of the birth or adoption.

This distribution is not subject to the early withdrawal penalty and it may be repaid to the Plan by the Member at any time, although repayment is not required. The default withholding of 10% may be waived upon submittal of IRS Form W-4P.

Note to clergy: Because the distribution is assumed to provide funds for parents incurring expenses related to the birth or adoption of a child, this distribution type will be considered 100% taxable income, rather than designated as eligible for the housing allowance exclusion.