Required Minimum Distributions

(For Members with TDA Deferral Status)

Internal Revenue Service (IRS) regulations dictate how long participants in Section 403(b) plans such as TRS' Tax-Deferred Annuity (TDA) Program may defer receipt of their tax-deferred funds. In general, participants must begin receiving distributions from their TDA accounts if they have retired, electing TDA Deferral status, and reached a beginning age set by the IRS—now 73 for members who reach age 72 in 2023 or later. The amount they must receive is known as the Required Minimum Distribution (RMD), and they must generally receive an RMD for every year that they maintain a TDA balance.

Note: Members who reached age 72 before 2023 must continue receiving RMDs as they did in previous years.

If you are subject to distribution requirements in a given year, TRS will send you an RMD packet with a letter indicating your calculated RMD amount and an "RMD Election Form" (code TD39). As a convenient alternative to filing the paper election form, you may instead file online in the secure section of our website.

If you are required to receive an RMD for a given year and TRS does not receive a timely RMD election from you, TRS will make a distribution to you at the end of the year to meet the IRS' distribution requirements.

Pre-1987 and Post-1986 TDA Funds

The IRS applies different distribution requirements to Pre-1987 and Post-1986 TDA funds. Pre-1987 funds are all TDA contributions and earnings accumulated as of December 31, 1986. Post-1986 funds are all TDA contributions and earnings accumulated after December 31, 1986 (including earnings on Pre-1987 funds).

Beginning in 2023, for members who elect TDA Deferral status upon leaving service, RMD rules require that distribution of **Post-1986** funds begin as of the later of the following:

- The year you separate from service; or
- The year you reach age 73.

You must receive an annual distribution based on your Post-1986 TDA balance until the year in which you reach age 75. The distribution requirements change as of that year, as described in the following paragraph.

The IRS allows the balance of your **Pre-1987** Funds to be "grandfathered" (*i.e.*, exempt from distribution requirements) until the year in which you reach age 75. Then, distribution based on the total balance must begin. Accordingly, TRS uses the total TDA balance (both Post-1986 and Pre-1987 funds) to calculate the yearly distribution amount once you reach age 75.

Note: If you take any TDA withdrawal prior to age 75 that exceeds your RMD amount in a given year, your Pre-1987 balance will be reduced.

Subsequent Year Distribution Option

If this is the first year that you are subject to RMD rules, you may elect to receive your distribution as late as April 1 of the following year. This "subsequent year" distribution option is available only for the first RMD; all future RMDs must be received by December 31 of each year. *Note:* If you elect the "subsequent year" option, two distributions would normally be required in that calendar year: the first, representing the previous year's distribution, by April 1; and the second, representing the current year's distribution, by December 31.

RMD Calculation

Your annual RMD amount for a given year is determined by applying an actuarial factor from an IRS life-expectancy table to your applicable TDA balance. If your spouse is more than 10 years younger than you, and is your sole primary TDA beneficiary, your spouse's date of birth will be factored into calculating the amount of your RMD.

If you are under age 75, your RMD amount is calculated based on your Post-1986 balance as of December 31 of the previous year. Your Post-1986 TDA balance is determined by subtracting your Pre-1987 balance from your total TDA balance as of December 31 of the previous year.

If you are age 75 or older, your RMD amount is calculated based on your total TDA balance as of December 31 of the previous year.

Please note that any outstanding TDA loan balances as of the preceding December 31 will be included in the amount subject to distribution.

Distribution Options

To meet the IRS distribution requirements for a given year, you may choose one of the following options on your "RMD Election Form" or online equivalent. In general, TRS must receive your election by October 31 (or, for paper forms, the last business day in October).

If you do not make a timely RMD election, TRS will issue you a payment that meets your distribution requirements (from TRS' TDA Program) for the year.

1) Receiving payment from TRS in the amount of your RMD:

You may elect that TRS issue you a payment equaling your RMD amount in a designated month during the current year (or as late as March, if you are eligible for a "subsequent year" distribution). If you receive an RMD from TRS, whether by election or default, your payment will be deducted from any funds in the Fixed Return Fund first (until depleted), and then from any funds in the variable-return Passport Funds, in proportion to their balances. Any RMD made from the variable-return Passport Funds will be based on the unit values for the month prior to the distribution date (*e.g.*, distributions made on the last business day of December will be based on November's unit values).

Note: TRS will issue your RMD payment by Electronic Fund Transfer (EFT) into the same account where you receive your retirement allowance payments from TRS. If the RMD cannot be paid electronically, a check will be issued.

2) Receiving TDA Direct Withdrawals from TRS that represents your RMD:

You may apply TDA Direct Withdrawals that you receive from TRS toward your RMD for the same calendar year. Direct Withdrawals of TDA funds that equals or exceeds your RMD amount will satisfy IRS requirements for the year; Direct Withdrawals in a lesser amount will count toward your RMD, but you must still receive the difference. You must receive the withdrawal during the same year (or by April 1 of the following year if you are eligible for a "subsequent year" distribution).

If your withdrawal amount is not sufficient to meet your RMD amount, TRS will issue an RMD payment to you for the difference. If you have not yet made a TDA Direct Withdrawal this year, you will need to file a "TDA Withdrawal Application" (code TD32) in addition to the "RMD Election Form" to initiate this distribution. Withdrawals are generally processed within 15 to 45 days after application is received. Please note that amounts rolled over to an Individual Retirement Arrangement (IRA) or another eligible successor program, or transferred to another Section 403(b) plan, cannot be applied toward your RMD.

3) Annuitizing your entire TDA balance:

Only members who have retired (or are retiring) under the Qualified Pension Plan may annuitize their TDA funds. To initiate annuitization, you will need to file a "TDA Annuitization Election Form" (code TD6). In general, in order for you to meet RMD requirements for a given year, the effective annuitization date on your annuitization election form must be before April 1. Otherwise, TRS will issue you an RMD payment before annuitizing your TDA balance.

If you elect to receive your TDA balance as a monthly annuity, your TDA balance will be distributed over your lifetime (or, depending on your payment election, your lifetime and that of your beneficiary). In such a case, TRS will not send you RMD materials in future years.

4) Receiving payment from another Section 403(b) plan not administered by TRS:

If you maintain more than one Section 403(b) plan account, you may combine the account balances for calculation purposes and receive an aggregate RMD from one of these accounts. However, TRS will calculate the distribution that is required from TRS' TDA Program only.

If you elect to receive your RMD amount through a new Direct Withdrawal, through annuitization, or from another Section 403(b) plan not administered by TRS, you will assume responsibility for filing the form to initiate the required distribution for the year and (except for annuitization) ensuring that the distribution satisfies the IRS' RMD requirements.

Tax Considerations

The IRS imposes an excise tax on any amounts that are required to be distributed for a given year but are not. **Therefore, it is imperative that the amount of your RMD be distributed to you each year**. This is important to remember if you elect a distribution option that requires you to initiate the distribution: a TDA Direct Withdrawal, annuitizing your TDA account, or receiving payment from another plan.

The RMD amounts are federally taxable and may be subject to state and local taxes. The RMD amounts are taxable in the year in which they are distributed. Distributions for a given year that are made by April 1 of the following year are taxable in that following year, even though they represent the preceding year's RMD.

If you elect to receive an RMD payment from TRS, you may designate the percentage of federal withholding to be applied to your RMD. **If you do not make an election, 10% withholding will be applied automatically to your RMD payment.** You may claim any amounts withheld as tax paid on your federal income tax return for the year of distribution.

RMD amounts are not eligible for transfer to another Section 403(b) plan, or for rollover to another successor program or to an IRA; as a result, the 20% withholding that is normally applied to TDA withdrawals is not applied to RMD payments. However, for new Direct Withdrawals that are used to meet RMD requirements, 20% withholding will be applied to the amounts distributed in excess of the RMD unless those excess amounts are directly rolled over or directly transferred. (You may claim the amount withheld as tax paid on your federal income tax return for the year of distribution.) Any amount withdrawn that exceeds the RMD amount is eligible for Direct Transfer to another Section 403(b) plan, or for rollover to another eligible successor program or to an IRA.

If you meet your RMD requirements by annuitizing your TDA balance, regular withholding requirements will apply unless you elect that no withholding be applied. The TDA funds distributed to you as an annuity are federally taxable and may be subject to state and local taxes.

TRS suggests you consult with a tax advisor if you have any specific tax questions.

This publication should not be solely relied upon, as it is based on currently available information that is subject to change. In all cases, the specific provisions of the governing laws, rules, and regulations prevail.