2018 American College of Employee Benefits Counsel
Employee Benefits Simplification Award Winning Proposals

The ideas described in the draft article below were selected to receive the American College of Employee Benefits Counsel's 2018 Employee Benefits Simplification Award. The Simplification Award was established by the ACEBC in order to encourage those working in the field of employee benefits to think creatively about how this complex area of the law could be simplified in ways that benefit both plan sponsors and plan participants. The ACEBC ™ is dedicated to advancing the public's understanding of the practice of employee benefits law by encouraging the study and development of employee benefits and compensation laws and sponsoring the initiation of professional discussions of significant employee benefits and compensation issues. In granting its Award, the ACEBC™ does not endorse, advocate, or oppose the ideas or proposals offered by the authors.

Complex RMD Policy: Behavioral Economics and Principle-Based Public Policy for Older Retiree Participants[1]

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"RMD rules can be complex, especially with respect to beneficiary distributions and the correction of miscalculations or missed RMD obligations."[4]

"Required minimum distributions are one piece of the retirement puzzle that could hardly be more puzzling."[5]

Required Minimum Distributions (RMDs) are annual payments that defined contribution pension participants and traditional IRA owners are generally required to receive starting by April 1 of the year following the year they turn age 70½. The rules for calculating RMDs are complex. Consider a person who reaches age 70 on July 9, 2019. He reaches age 70½ on January 9, 2020. April 1 of the following year is April 1, 2021, two calendar years later. The determination of the date the person turns 70½ is a needless step. The existing approach is needlessly complex and confusing because it involves an unnecessary step (complexity), and because it is based on a half birthday it is not the most logically intuitive approach (confusing).

Part of the complexity arises because the rules are inconsistent for different types of plans and are inconsistent for people born in the first half and second half of the year. Because of the complexity and inconsistency, some taxpayers make errors and are forced to pay sizeable

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[4] FINRA, Required Minimum Distributions-Common Questions About IRA Accounts (2016), http://www.finra.org/investors/alerts/rmd-common-questions-ira-accounts (last visited Aug 25, 2018).
[5] Richard A. Carriuolo, Everything You Need to Know about RMDs (2018), http://www.kiplinger.com/article/retirement/T032-C032-S014-everything-you-need-to-know-about-rmds.html (last visited Aug 25, 2018).

IRS penalties. For sophisticated participants, however, they also offer economically significant strategies for avoiding paying taxes on investments. The other part of the complexity arises due to the interaction of the capabilities of the people affected—persons in their 70s and older.

The initial RMD regulations were promulgated in 1987 as a result of provisions of the Deficit Reduction Act 1984 ("DEFRA")[6] and the Tax Reform Act of 1986[7].[8] Thus, they were promulgated before the development of behavioral economics, and the understanding that many people have limitations in numeracy making some problems complex for them.

After 30 years and given the fact that approximately 10,000 baby boomers are turning age 70½ every day,[9] it is time to rethink the RMD rules. This article argues that the RMD regulations should be based on clearly articulated principles, rather than on special rules. The article begins by providing background on RMDs and discusses basic principles that should underlie the policy proposals. It then considers five policy proposals for reforming RMDs in order to make compliance simpler for older taxpayers and to close what might be considered to be loopholes. For each proposal, the discussion first explains the principle of public policy underlying the reform proposal. Second, it discusses the current regulation. Third, it discusses the need for change. Fourth, it explains the proposal. Fifth, it discusses the proposal. To avoid repetition, at the end of the paper, a further discussion of the proposals as a group is provided for issues that are similar across proposals.

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[6] Deficit Reduction Act, Pub. L. No. 98-369, 98 Stat. 513 (1984).
[7] Tax Reform Act of 1986 (TRA), Pub. L. No. 99–514, 100 Stat. 2085 (1986).
[8] The 2002 simplifications implemented the RMD regulations. 67 Fed. Reg. 18987 (April 17, 2002).
[9] Edward A. Zumdorfer, Required Minimum Distributions: 3 Common Mistakes to Avoid (2017), https://www.myfederalretirement.com/public/3-rmd-mistakes.cfm (last visited Aug 25, 2018).

Background

Increasingly, as attention has been focused on the payout phase of 401(k) plans and IRAs, references abound as to the complexity of RMD rules.[10] Relatively little policy attention, however, has focused on simplifying those rules. To assure retirement accounts are used for the purpose of providing retirement income, government policy has established RMD rules requiring annual distributions be made starting the year the retiree turns age 70½ and later.[11] The RMD rules apply to qualified retirement plans, individual retirement accounts (IRAs), Roth IRAs, retirement annuities, §403(b) annuity contracts, §457(d) deferred compensation plans, custodial accounts, and church-provided retirement income accounts under §403(b)(9). The RMD requirement limits the tax expenditure associated with tax-favored retirement savings arrangements. So generally—with some important exceptions—preferential tax treatment for retirement accounts is not providing tax subsidies for accounts used as estate planning vehicles.

The Financial Industry Regulatory Authority (FINRA) provides guidance concerning RMDs from Individual Retirement Accounts (IRAs), noting that it frequently receives questions from investors around tax time.[12] FINRA summarizes the basic rule for when the first RMD should be taken: "IRS rules mandate that you take your first RMD by April 1 **of the year following the calendar year in which you reach 70½ years of age."**[13] FINRA focuses on IRAs because individuals are directly responsible for calculating RMDs for those accounts.

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[10] 26 C.F.R. §§ 1.401(a)(9)-1 to -8.
[11] 26 C.F.R. § 1.401(a)(9)-5.
[12] FINRA, Required Minimum Distributions-Common Questions About IRA Accounts (2016), http://www.finra.org/investors/alerts/rmd-common-questions-ira-accounts (last visited Aug 25, 2018).
[13] *Id*. One commonly used measure for assessing complexity in the English language is the Dale-Chall readability score, which is based on the difficulty of the vocabulary used and sentence length. The FINRA sentence, including numbers, is 27 words long, which makes it an inherently complex sentence, presumably reflecting the inherent complexity of the determination of the RMD due date. *See* Edgar Dale & Jeanne S. Chall, *A Formula for Predicting Readability: Instructions*, 27 EDUC. RES. BULL. 37–54 (1948).

Concerning the calculation of RMDs, FINRA notes, "[t]he IRS requires brokerage firms and other financial institutions that are custodians or trustees of traditional IRAs calculate or offer to calculate the RMD for IRA owners and to report this information to the IRS. Firms that serve as administrators to employer-sponsored retirement plans typically have the same responsibility for plan participant RMDs."[14] However, these requirements do not free the participant from responsibility. FINRA warns, "One thing the IRS makes very clear is that RMD calculations are ultimately the taxpayer's responsibility, so don't rely blindly on calculations by your IRA custodian or retirement plan administrator."[15] The IRS writes, "Although the IRA custodian or retirement plan administrator may calculate the RMD, the IRA or retirement plan account owner is ultimately responsible for calculating the amount of the RMD."[16]

While some people have their RMDs automatically calculated by the financial institution holding their retirement account, that is not the case for everyone. The Treasury Department's Inspector General has estimated more than 250,000 individuals failed to take required minimum distributions valued at $348 million in 2006 and 2007.[17] Some people fail to take RMDs because physical illness or dementia makes it difficult for them to do so.[18] As a cost savings to retirees, our proposals would reduce the penalty fees paid by some retirees by simplifying compliance.[19]

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[14] FINRA, Required Minimum Distributions-Common Questions About IRA Accounts (2016), http://www.finra.org/investors/alerts/rmd-common-questions-ira-accounts (last visited Aug 25, 2018).
[15] *Id.*
[16] Internal Revenue Service, Retirement Topics Required Minimum Distributions RMDs, https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-required-minimum-distributions-rmds (last visited Aug 25, 2018).
[17] Sandra Block, IRS Cracks Down on Retirees Who Don't Take Required Distributions from IRAs (2018), https://www.kiplinger.com/article/taxes/T045-C000-S002-irs-cracks-down-on-retirees-who-do-not-take-rmds.html (last visited Aug 25, 2018).
[18] *Id.*
[19] While we believe that on net our proposals would result in an increase in tax revenue, due to the elimination of special tax rules that mainly benefit wealthy individuals, the largest source of lost tax revenue resulting from our proposals could be the reduction in tax penalties.

The penalty for missing or miscalculating and underpaying an RMD is one of the most severe in the Internal Revenue Code ("Code"). A 50 percent penalty applies to workers with any shortfall in taking RMDs.[20] In addition to owing the 50 percent penalty tax, the defined contribution plan participant must still take the full RMD amount once the error is discovered and pay any income taxes due when the distribution occurs. Thus, if they paid 20 percent on federal taxes and 10 percent on state and local income taxes, their total tax bill would be 80 percent. Because of the severe penalties, the RMD rules need to be relatively simple so older taxpayers can easily comply with the requirements.

Current Law

The required minimum distribution for a year is the account balance as of December 31 of the preceding calendar year divided by a distribution period from the IRS's Uniform Lifetime Table.[21] A separate table is used if the sole beneficiary is the owner's spouse who is ten or more years younger than the owner. The date by which the first required minimum distribution must be made is determined as follows:[22]

- IRAs (including SEP and SIMPLE IRAs):
    - April 1 of the year following the calendar year in which you reach age 70½.
    - Roth IRA Owners not subject to these rules
- 401(k), profit-sharing, 403(b), or other defined contribution plan:
    - Generally, April 1 following the later of the calendar year in which you:

[20] 26 C.F.R. § 54.4974-2.
[21] 26 C.F.R. § 1.401(a)(9)-6)
[22] Internal Revenue Service, Retirement Topics Required Minimum Distributions RMDs, https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-required-minimum-distributions-rmds (last visited Aug 25, 2018).

> reach age 70½, or retire. If you own 5% or more of the business sponsoring the plan, you must begin receiving distributions by April 1 of the year after the calendar year in which you reach age 70½.

Your RMD is generally determined by dividing the adjusted market value of your IRAs as of December 31 of the preceding year by the distribution period that corresponds with your age in the Uniform Lifetime Table [23] If your spouse is your sole beneficiary and is more than 10 years younger than you, you will use the Joint Life and Last Survivor Expectancy Table [24]

Principles for Reform

In examining the RMD rules below, it is sometimes difficult to discern the principles that presumably were the basis for the rules. For example, we argue that age-based rules should be based on birthdays rather than half birthdays. We argue that similarly situated people or plans should be treated similarly. At the same time, it may be appropriate to apply different rules for groups of people who are arguably different. For example, we argue that the rules should differ for spousal beneficiaries and non-spousal beneficiaries.

We argue that unless compelling reasons dictate otherwise, pension law, and other aspects of tax law, should be based on broad principles rather than special rules. We argue that principles for reform should be clearly formulated and transparently disclosed because that enhances clarity of thinking and makes transparent the bases for proposals. Explicitly stating the principles assists in forming rules that are consistent with underlying principles. It also helps

[23] Internal Revenue Service, Publication 590 - Individual Retirement Accounts, Table III https://www.irs.gov/pub/irs-pdf/p590a.pdf (last visited Aug 25, 2018).
[24] *Id. at* Table II.

clarify issues when differences of opinion arise as to what the RMD rules should be. The nine proposals in the following sections are based on these principles for reform.

Five Proposals

The following sections present five proposals for simplifying RMDs. Some changes would simplify how the RMDs work, while maintaining their purpose of using tax-preferred retirement accounts. These changes could reduce noncompliance and thus reduce the associated tax penalties retirees pay.

Proposal 1. Simplify the Determination of the Distribution Date

Principle. Age-based rules should be based on birthdays rather than half birthdays because birthdays are far more salient than half birthdays.

Current Law. Under current law, the first distribution must be made by April 1 of the year following the year the participant turns age 70½, with all subsequent distributions being made by December 31 of the relevant year.[25]

Reasons for Change. "One of the most confusing RMD requirements and the question most clients ask is, 'When do I have to start taking my required minimum distributions?'"[26] The current approach for determining the initial distribution is needlessly complex. The current requirements are confusing both as to when people can take their first minimum distribution and

[25] 26 C.F.R. § 1.401(a)(9)-5.
[26] Barry Glassman, Top 5 RMD (Required Minimum Distribution) Mistakes and How to Avoid Them, Glassman Wealth Services (2017), https://www.glassmanwealth.com/blog/top-5-rmd-required-minimum-distribution-mistakes-and-how-to-avoid-them/ (last visited Aug 25, 2018).

when they must take their first distribution. Do they need to wait until they are 70½? The answer to that question is that they can take their first RMD any time during the year they turn age 70½. However, the IRS web site confuses the issue by stating, "You generally have to start taking withdrawals from your IRA, SIMPLE IRA, SEP IRA, or retirement plan account when you reach age 70½."[27]

One aspect of confusion is exactly when does a person turn age 70½. Since most calendar years are 365 days, it might be thought that a person would turn 70½ 182.5 days after they turn age 70. That is not the correct answer. Recognizing the potential for confusion, the IRS writes, "You reach age 70½ on the date that is 6 calendar months after your 70th birthday. Example: You are retired and your 70th birthday was June 30, 2013. You reached age 70½ on December 30, 2013. You must take your first RMD (for 2013) by April 1, 2014." [28]

The participant will end up taking two distributions within eight months during the first year, if they postpone taking their first distribution until the year following when they turn 70½, which is particularly bad timing if the stock market is down. Taking two RMD distributions in one year increases the person's taxable income for that year and may place them in a higher marginal income tax bracket, reducing the net amount of their withdrawal. Having the extra income in one year could increase the portion of the person's Social Security benefits that are taxable or trigger the Medicare high-income surcharge for Part B and Part D benefits.

Having that option is a needless complication that is not a good option for many people. The first year the participant has the decision whether to take the RMD the year he or she turns age 70½ or the following year—with the possibility that taking it the following year could be a

[27] Internal Revenue Service, Publication 590 - Individual Retirement Accounts, Table III https://www.irs.gov/pub/irs-pdf/p590a.pdf (last visited Aug 25, 2018).
[28] *Id.*

costly mistake. In addition, the current approach is based on the date at which a person turns age 70½, which is much less salient than the date the person turns age 70. While people celebrate their 70th birthday, they do not generally celebrate the date they turn age 70½.

Complexity arises in this case because of the unusual key date (half birthday), the number of years potentially involved in the calculation (up to three), and the fact that the calculation differs for people born in the first half of the year and the second half of the year. Complexity also arises because the first distribution due date differs from subsequent distribution due dates, and the person has a decision as to which year to take the first distribution.

Proposal 1. The first distribution must occur during the calendar year the person turns 71. Thus, it must occur between January 1 and December 31 of the year the person turns 71.

Analysis of Proposal. While the current rule is complex and requires 27 words to explain, our first proposal is simple and can be explained in less than half as many words. In addition, our proposed simplification makes clear both when the first distribution can occur and by when it must occur. The current rule does not identify when the first distribution can occur.[29]

Generally, birth dates, rather than half birthdays, are relevant for other retirement income considerations. For example, Social Security's early retirement age and age at which further postponements do not increase benefits are ages 62 and 70, not 62½ and 70½.

Currently, if the person turns age 70½ in the first half of the calendar year, the first distribution is made based on the person being age 70, and is based on their account balance at the end of the previous year. If the person turns age 70 ½ in the second half of the year, the first

[29] A further complication under the current rules is that if a person wishes to give their first RMD to charity, thus avoiding any taxes on the RMD, they must wait until they reach 70½. With our proposal they could do that anytime during the year they turn 71.

distribution is based on the person being age 71. Our proposal would simplify this. This proposal makes clear both the earliest and the latest dates at which the first RMD can be taken.

A publication on the IRS web site adds to the confusion as to beginning and ending dates for the first RMD. It writes (with the following formatting and bold), "Beginning date for your first required minimum distribution. IRAs (including SEP and SIMPLE IRAs)**:** April 1 of the year following the calendar year in which you reach age 70½."[30]

The IRS's statement is not correct. In its effort to simplify the explanation of a complex rule, it has provided an erroneous simplification. It is not the beginning date, but rather the ending date, by which the first distribution must occur.

To better understand the complexities of the current rules, consider a person turning age 70 on July 9, 2019 (i.e., in the second half of the year). She would turn 70½ on January 9, 2020 and her first distribution would be due by April 1, 2021. Thus, this calculation involves three years (2019, 2020, 2021). Her second RMD would be due December 31, 2021—potentially two RMDs in a single year. Her first RMD would be based on age 71 and her second RMD would be based on age 72. Under our simplifying proposal, because she turned age 71 in 2020, her first RMD would be due December 31, 2020. Thus, rather than having three years involved in the determination, only one year (the current year) is involved.

A person can avoid having two distributions the first year by taking the first one in the previous calendar year. Doing so would also reduce the second RMD because it would reduce the account balance at the end of the year. However, this decision and strategy is a needless complication.

[30] Internal Revenue Service, Publication 590 - Individual Retirement Accounts, Table III https://www.irs.gov/pub/irs-pdf/p590a.pdf (last visited Aug 25, 2018).

Under our simplifying proposal, based on the year a person turned age 71, everyone turning age 71 in a calendar year would be treated the same way. Under the current requirements people turning age 70 in the first half of the year are treated differently than people turning age 70 in the second half of the year. While there may be arguments for doing so, those arguments are not obvious, and simplification and clarity are not among them.

The current requirements can also be confusing as to when the second RMD is required. The first RMD currently is tied to turning age 70½. What age is the second RMD tied to? Is it tied to turning 71? If the person turns age 70½ on January 1, 2018, their second RMD is due December 31, 2019, when they are 72. If the person turns age 70 ½ on December 31, 2018, their second RMD is due on December 31, 2019, when they are age 71. Thus, the second RMD is not directly tied to age in the way that it is in our proposal.

Those born after June 30 (i.e., individuals who turn 71 the calendar year after they turn 70½) would be able to delay their first RMD until December 31 of the subsequent year (instead of until April 1 of that year). This revenue loss from the post-June 30 birthdates would be partially offset by the one-year acceleration of some of the revenue from the pre-July 1 birthdates (but not completely because some of those amounts are already coming out in the year the individual turns 70½). The acceleration of revenue of the pre-July 1st birthdates will generally come from higher income individuals since those with lower income will likely already be taking distributions in the age 70½ year to cover living expenses.

Canada has a simpler RMD requirement than the United States. Its requirement is based on the age of the person on January 1 of the year, with the requirement starting at age 71.[31]

[31] Legislative Services Branch, Consolidated Federal Laws of Canada, Income Tax Regulations, http://laws-lois.justice.gc.ca/eng/regulations/C.R.C.,_c._945/page-92.html (last visited Aug 25, 2018).

It might be argued that the current approach of having until April 1 of the following year to take the first RMD might reduce the number of people who fail to take the first distribution on a timely basis because they have more time to do so. Some people may not realize that they need to take the first RMD until they file their taxes. While that is an empirical question, we argue that our approach would reduce the number of people who fail to take the first RMD on a timely basis because the deadline is easier to understand. In addition, similarly to the current requirement, it would be required that service providers notify people turning age 71 in a calendar year that they need to take their first RMD that year.

Proposal 2. Simplify the IRS Table Used for Calculating RMDs

Principle. Required mathematical calculations should be as intuitive as possible because many people lack numeracy.

Current Law. Under current law, each year the individual, or a service provider, must determine the relevant asset base on December 31 of the previous year and then determine the amount of the RMD by dividing by the estimated payout period.[32]

Table 1. RMD distribution period

Age	Distribution period
70	27.4
71	26.5
72	25.6

[32] 26 C.F.R. § 1.401(a)(9)-5.

73	24.7

Instructions: divide the December 31 account balance of the previous year by the distribution period for your age on your birthday this year

Reasons for Change. This approach is not intuitive for most people due to the math required. The complexity in this case arises in part because of the lack of intuitive connection between the expected number of years left and the percentage amount of the required distribution. The assumed payout period is not intuitive because of large differences in life expectancy across individuals. Simply stating percentage amounts of reduction would be clearer.

Proposal 2. The IRS table should indicate that the RMD equals a percentage amount of the asset base, as follows:

Table 2. RMD multiplication factor

Age on birthday this tax year	Percentage distribution from your account balance on December 31 of the previous year	Multiplication factor for determining RMD
71	3.8%	0.038
72	3.9%	0.039
73	4.0%	0.040

Instructions: multiply the December 31 account balance of the previous year by the multiplication factor for your age on your birthday this calendar year.[33]

[33] Note that in the new table the line for age 70 no longer appears because due to our first proposal that line would be obsolete. In addition, we have expanded the explanation within the column headings for greater clarity, so that the table can be understood on its own. Instead of dividing by 26.5 for the age 71 RMD and 25.6 for the age 72 RMD, the person would multiply by 3.8 percent and then 3.9 percent, providing a clear understanding of how the RMD changes over time.

Analysis of Proposal. The change clearly indicates how the percentage amount of the distribution increases over time. It does not affect the amount of the RMD. It is a more intuitive approach than the current approach because it multiplies the account balance as of December 31 by the relevant percentage of the account to be distributed (which is the inverse of the payment period).

Table 1 replicates part of the current IRS table for calculating RMDs. By comparison, Table 2 provides information and instructions for calculating a RMD under our proposal. As seen in Table 1, the current IRS table only contains the first two columns. We argue the expanded table provides a better understanding of how the RMD works because it provides a clear statement of the percentage distribution and how that changes over time.

This proposal is the approach used in Canada. Knowing your estimated payment period is 26.4 years does not give an intuitive idea of what percent of your assets you need to distribute. Knowing the percentage factor is 3.8 percent and that you multiply by 0.038 would provide a better, intuitive understanding of how much the required distribution is, how it is calculated, and how it changes over time.

Proposal 3. Simplify the Rules for People Working Beyond Age 70½

Principles. Similar plans should be treated similarly because the rules should be based on broad principles instead of special rules. Options available that sophisticated persons use to get around rules should be made automatic for everyone or should be ended.

Current Law. Under current law, people working beyond age 70½ do not generally need to take an RMD from their current plan if their plan does not require them to do so, but are required to take RMDs from other plans and IRAs.[34] If you own 5% or more of the business sponsoring the plan, you must begin receiving distributions by April 1 of the year after the calendar year in which you reach age 70½ even if you are still working for the plan sponsor.

Reasons for Change. Sophisticated (and generally higher income) taxpayers can already get around this complication by rolling over the other accounts into their current employer's account if the employer's plan permits doing so. However, to avoid the RMD for turning age 70½, the rollover must occur by the year the person turns age 69½,[35] which is a complicating factor not everyone knows. Under this rule, job changers with retirement accounts with other employers are treated differently from people who have not changed jobs and thus can avoid an RMD from their employer-sponsored plan. Zumdorfer cites confusion as to the different treatment of accounts for people working past age 70½ as a source of errors people make.[36] Complexity arises in this case because of the different treatment of plans between the worker's current employer and previous employers. In addition, Kitces writes, "There is a lot of complexity in the rules surrounding the still-working exception, yet, at the same time, a lot of opportunity for tax planning as well (at least for those who have the luxury of not needing their retirement funds at age 70 ½ and who can continue to defer spending into the future)!"[37]

[34] 26 C.F.R. § 1.401(a)(9)-2.
[35] Edward A. Zumdorfer, Required Minimum Distributions: 3 Common Mistakes to Avoid (2017), https://www.myfederalretirement.com/public/3-rmd-mistakes.cfm (last visited Aug 25, 2018).
[36] *Id.*
[37]Delaying 401(k) RMDs With The Still-Working Exception, , https://www.kitces.com/blog/still-working-exception-delay-rmd-401k-required-beginning-date-5-percent-owner/?utm_source=Nerd's Eye View | Kitces.com&utm_campaign=6c42532e86-NEV_MAILCHIMP_LIST&utm_medium=email&utm_term=0_4c81298299-6c42532e86-57149837 (last visited Aug 25, 2018).

Proposal 3. Treat all retirement account RMDs the same and permit the person to postpone RMDs on all accounts without requiring rollovers to the current employer's plan to achieve that result.

To limit the tax revenue lost due to the postponement of RMDs, a cap would be placed on the reduction of RMDs. The cap in the amount of reduction in RMDs would be set as equal to the person's wages or the taxable maximum for Social Security earnings, whichever is lower. Further, full RMDs would be required for persons whose accounts totaled $3 million or more, regardless of whether or not they were working.

Analysis of Proposal. This proposal simplifies the treatment of RMDs by making it more consistent across different types of retirement accounts. It provides greater fairness in the treatment of job changers versus workers who have a long career with a single employer. Because a sophisticated person could already avoid the RMD by rolling over accounts into an account not subject to an RMD because of his current work, this proposal provides benefits to less sophisticated workers that sophisticated workers already take advantage of. This proposal would not change the treatment of inherited IRAs because the calculation of distributions is different.

The cap on the amount by which the RMD could be reduced would have the advantage of dealing with jobs where a person received little income but still qualified on that job for not needing to take a RMD. The additional rule for large accounts would also deal with the issue of very wealthy individuals with very large accounts being able to continue tax sheltering those accounts. That issue is discussed in Turner, McCarthy and Stein, where Form 5500 data is used to document that some individuals have accounts in the hundreds of millions of dollars.[38]

Proposal 4. Expanding the Aggregation of IRAs for Taking RMDs

Principles. The reason for RMDS is to require that tax-preferenced pension plans be largely liquidated during the lifetime of the account owner and surviving spouse because the plans are designed for planning retirement income. Options available that sophisticated persons use to get around rules should be made automatic for everyone or should be ended.

Current Law. Under current law, a person with multiple IRAs can aggregate those IRAs and take a single distribution from one IRA if they choose to do so. However, Roth IRAs are an exception because RMDs do not apply to them (unless they are inherited Roth IRAs). A person must take RMDs from a Roth 401(k) but can avoid that requirement by rolling the Roth 401(k) over to a Roth IRA.

Reasons for Change. Complexity arises in this case because of the inconsistent treatment of Roth IRAs compared to all the other types of IRAs and to a Roth 401(k). Requiring RMDs from Roth IRAs would end the exception and would make their treatment in this respect equivalent to that for other RMDs.

[38] John Turner, et al., *Defined Contribution Plans with Large Individual Account Balances*, 3 J. Retirement 113 (2014); Vanguard's Required Minimum Distribution Service, , https://personal.vanguard.com/us/whatweoffer/accountservices/requiredminimumdistribution?lang=en (last visited Aug 25, 2018).

Proposal 4. RMDs would apply to Roth IRAs. As with existing traditional IRAs, taxpayers would be allowed to aggregate all their Roth and traditional IRA plans (other than inherited Roth and traditional IRAs) and if they choose to do so, take the aggregate RMD from one of the plans.

Analysis of Proposal. This proposal would end the inconsistent treatment of Roth IRAs and end the ability to avoid RMDs by allowing them to roll over Roth 401(k)s to Roth IRAs. Inherited IRAs would not be included in this proposal because the calculation of the RMD is different for them.

This change would end an advantage currently enjoyed by Roth IRAs, which presumably would reduce the amount of money going into Roth IRAs. While it might be argued that it would be unfair to end this special advantage, it is consistent with public policy generally that it is acceptable to change a situation that is deemed to provide a special advantage. This proposal is similar to one put forth by the Obama Administration.[39]

Proposal 5. Simplify the Disposition of RMDs by Enabling Auto RMD Sidecar Accounts

Principle. Many people have difficulty managing their investments, which impedes some people from investing, because of lack of financial literacy.

Current Law. Under current law, participants have no default for the reinvestment of their RMDs if they decide they do not need the money for current consumption. They must figure out how to reinvest the money.

[39] Obama budget proposes significant changes to Roth IRAs, (2015), https://www.cuinsight.com/obama-budget-proposes-significant-changes-to-roth-iras.html (last visited Aug 25, 2018).

Reasons for Change. For tax reasons, RMDs require some workers to take distributions they otherwise wouldn't take and don't need for financing their current retirement consumption. As a result, the forced liquidation of investments that can result from the RMD rules may lead to greater consumption, additional fees, and less retirement security. Thus, we propose to simplify the disposition of the distributions. Complexity arises in this case because of many people's lack of knowledge about investing.

Conclusions

Retirement policy analysts increasingly are focusing on the pay-out phase for 401(k) plans and IRA accounts, but relatively little attention has been focused on policy relating to Required Minimum Distributions (RMDs). Many people do not take a withdrawal from their 401(k) plans and IRAs until they are required by the RMD to do so. This paper considers nine policy options for making RMDs simpler for taxpayers in their 70s, 80s and older. The simplifications proposed make changes to make RMDs easier and less costly for retirees to manage. The changes also end some aspects of RMDs that allow sophisticated people to avoid or postpone paying them.