



## Montana Teachers' Retirement System FACT SHEET: Required Minimum Distributions

This Fact Sheet describes requirements for a TRS member to begin receiving **required minimum distributions** (RMDs) from TRS on or before the member's **required beginning date** (RBD), which occurs after the member has both attained age 72 and terminated employment in all TRS reportable positions.

The RMD requirements arise under federal tax law (Section 401(a)(9) of the Internal Revenue Code (IRC)) and are applicable to TRS as a 401(a) tax-qualified retirement plan. If you are a TRS member, the RMD requirements apply to you, regardless of whether you are a vested or non-vested member on your RBD. Failure to comply with the RMD requirements may result in a substantial tax penalty for any RMD that you should have received but did not receive by your RBD.

### Important Information for TRS Members Who Are or Soon Will Be 72 Years of Age

If you have already terminated or will soon terminate all TRS reportable employment and you have not yet submitted an application to TRS for retirement benefits or for withdrawal and refund of your accumulated contributions, please contact TRS immediately.

Read all information in this Fact Sheet so that you are prepared to begin receiving RMDs in conformity with federal tax law. You may need to take action without additional prompting or instruction from TRS.

### Frequently Asked Questions

#### What is my required beginning date (RBD)?

Your RBD is the date by which you must receive your first RMD and is the *later* of:

- The April 1<sup>st</sup> following the end of the year in which you turned or will turn 72, *or*
- The April 1<sup>st</sup> following the end of the year in which you terminated or will terminate employment in all positions reportable to TRS.

**Example 1.** If you terminated employment in all TRS reportable positions in 2019 but you did not turn 72 until 2020, your RBD would be April 1, 2021.

**Example 2.** If you turned 72 in 2020 but you continued to work in a position reportable to TRS until sometime in 2021, your RBD would be April 1, 2022.

#### Does the RMD requirement establish a mandatory retirement age?

No. It merely places a time limit on when you must begin receiving your TRS retirement benefit (or withdraw from TRS) *after* you have both attained age 72 and terminated all TRS reportable employment.

Please note that the RBD requirement does not change the age at which you may be eligible for TRS retirement. If you meet TRS requirements,<sup>1</sup> you may apply for and begin receiving a retirement benefit. Your RBD only establishes the *latest* date on which you may begin receiving payments without incurring a tax penalty once the RMD criteria have been met.

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<sup>1</sup> See the TRS Fact Sheet *Terminating Employment and Retiring with TRS*, available at [trs.mt.gov/trsinfo/factsheets](https://trs.mt.gov/trsinfo/factsheets).

### How do I begin receiving RMDs from TRS?

If you are a **vested member**, you will fulfill your RMD requirement:

- by applying for retirement and receiving your first monthly benefit payment on or before your RBD,
- Or
- by applying for withdrawal from TRS and receiving a lump-sum refund of your accumulated contributions account balance (your member contributions and interest) on or before your RBD.
- *Important Note:* Upon withdrawal from TRS you will forfeit your right (or the right of a joint annuitant or beneficiary on your behalf) to receive any retirement or death/survivor benefit from TRS. Your forfeited retirement benefit is guaranteed to be at least equal to your accumulated contributions account balance and may significantly exceed your account balance, as it is payable for your lifetime. As a rule of thumb, TRS retirees receive retirement benefits at least equal to their accumulated contributions account balance within approximately five years. TRS strongly advises that you give careful consideration and seek competent financial advice before deciding to withdraw from TRS as a vested member.

If you are a **non-vested member**, you are not eligible to receive a retirement benefit and will fulfill your RMD requirement by applying for withdrawal from TRS so that you receive a one-time, lump-sum refund of your accumulated contributions account balance on or before your RBD.

### How do I apply for retirement or withdrawal?

- **If you are a vested member who wants to receive a lifetime, monthly benefit:** Contact TRS to request an estimate(s) of benefits and an *Application for Retirement Allowance* as soon as you know you will terminate employment in all TRS reportable positions. You must complete and submit the application and all required supporting documentation to TRS by the March 1<sup>st</sup> preceding your RBD.
- **If you are a vested member who wishes to withdraw from TRS rather than receive a lifetime, monthly retirement benefit:** Contact TRS to request an *Application for Withdrawal* and an estimate of the retirement benefits you will forfeit. You must complete and submit the application and all required supporting documentation to TRS by the March 1<sup>st</sup> preceding your RBD. To ensure sufficient time for TRS to process your withdrawal and issue you a refund, you should request the application as soon as you know you will terminate all TRS reportable employment.
- **If you are a non-vested member:** Contact TRS to request an *Application for Withdrawal*. You must complete and submit the application and all required supporting documentation to TRS by the March 1<sup>st</sup> preceding your RBD. To ensure sufficient time for TRS to process your withdrawal and issue you a refund, you should request the application as soon as you know you will terminate all TRS reportable employment.

### Will TRS notify me when I am about to reach my RBD?

Not necessarily. Although TRS can readily determine when you will turn age 72, TRS may not know whether you have terminated employment in all TRS reportable positions as of that date.

For example, many TRS employers do not report service to TRS during the summer break, even though teachers may remain legally employed during that break. Many substitute teachers also have gaps of one or more months between teaching days while remaining on the employer's substitute teacher rolls. A non-tenured teacher may terminate employment with one TRS employer and then begin work with another TRS employer several months

later; or, a teacher may take an unpaid sabbatical during which no service is reported. Because of circumstances such as these, TRS does not assume you have terminated employment until no TRS employer has reported service on your behalf for at least 180 consecutive days. It is possible your RBD will have passed by that time.

#### How is the amount of a late RMD determined?

In every case, unless written documentation provided to TRS conclusively establishes a later date of termination of employment, TRS will deem you to have terminated employment in all TRS reportable positions as of the last day of the last month for which service was reported on your behalf by any TRS employer.

If you receive your RMD in the form of monthly retirement benefit payments, your late RMD will be the total of all payments you should have received as of the end of the month prior to the month in which you receive your first distribution from TRS.

If you receive your RMD in the form of a lump-sum distribution upon withdrawal, the portion of the distribution that constitutes a late RMD will be calculated in conformity with 26 CFR 1.401(a)(9)-6(d)(1).

#### What is the tax penalty for a late RMD? Are there other repercussions?

If you do not begin receiving distributions on or before your RBD, the portion that constitutes a late RMD is subject to a **50% tax penalty**. TRS *does not* withhold the penalty tax from your distribution. You are responsible for reporting the late RMD.

In addition, if you withdraw from TRS, any portion of the distribution that constitutes an RMD is not eligible for rollover to an IRA or another eligible plan. For additional information, please consult your tax advisor or accountant.

#### Questions?

If you have questions about any information provided in this Fact Sheet, please contact us.

**Montana Teachers' Retirement System ♦ 406-444-3134 ♦ 866-600-4045 ♦ trs.mt.gov**

**Please Note:** *This Fact Sheet is intended to provide a concise, easy-to-understand summary of TRS law and policy. The actual application of TRS law will depend upon the specific circumstances and facts presented. In determining the rights and obligations of any person, TRS law will supersede any contradictory information provided in this Fact Sheet.*