RMDs & Investment Options

November 28, 2022

A recent WSJ report entitled: "Wealth Management" provides several interesting ideas about how to invest the funds from required minimum distributions in ways to minimize taxes. However, the focus of an RMD is to allow the retiree to benefit from that money and use it to improve standards of living. There are many investors who will be receiving RMDs once they have reached age 72. For a man, life expectancy is 13.25 years and for a woman 15.25 years. Since we know that some retirees will live beyond these ages, there is time to implement investment strategies that consider both retirement plan distributions and life expectancy.

For investment advisors who serve in the capacity of financial planners, the ability to develop meaningful alternative plans for these retirees can offer a solid business opportunity especially since demographics will provide an ever-increasing number of prospects for a successful retirement program. The Wealth Management article ("How to be Smart About RMDs") goes into detail as to how to develop various strategies that would appeal to those retirees where RMDs are not needed for maintaining a standard of living but could be used to provide tax savings given current levels of income and a philanthropic objective.

At the end of the article, the author discusses the use of Charitable Remainder Trusts or "CRTs"; a complex investment vehicle that can help accomplish a variety of retirement planning needs. We have written several Market Musings over the years advocating the benefits of creating a CRT and have used these vehicles both in our personal and client accounts. The key benefits of a charitable remainder trust are that the donor gets a partial tax deduction for the contribution and a future stream of income based on a percentage of the trust, which is determined by the age of the donor. Another important distinction is that the percentage of the trust that must be taken as a distribution is set by the donor and must be a minimum of 5% of the contributed value but can be higher depending on the age of the donor. The retiree can select the ultimate beneficiary of the trust, which must be a qualified charity or a private foundation. The retiree can also make ongoing contributions to the trust and take tax deductions based on the age at the time of the donation. If the portfolio is invested in growth stocks and history is repeated, then the size of the trust could grow and, along with it, a rising income distribution. We have utilized this growth stock strategy since 1999 and demonstrated both increasing principal and income for the donor.

We have only touched on a few aspects of structuring a strategy for pre- and post-retirees to reduce taxes paid and increase future income received. Using a demonstrated investment strategy that allows for growth in the value of distributions plus a significant charitable contribution at some future time can make a difference in how a retiree thinks about required distributions.