Certain individuals may wish to adopt the following planning technique.

Jane Doe is currently age 69 and she is still working for Roogle. She is a successful marketing executive, but she is not a 5% owner. Jane's date of birth is November 29, 1933. She will be age 70 on November 29, 2013 and she will be age 70½ on May 29, 2014.

Jane has a traditional IRA with First National Bank with a current balance of $265,000. In 2002 she had rolled over $175,000 from a prior employer's 401(k) plan. Below is an estimate of her RMDs from her IRA for 2014-2016, totalling $29,882.

2014 $265,000 / 26.5 = $10,000
2015 $255,000 / 25.6 = $9,961
2016 $245,039 / 24.7 = $9,921
Total of Anticipated RMDs = $29,882

In 2009 she was hired by Roogle. She is a participant of the Roogle 401(k) plan and her current balance is $95,000. The Roogle 401(k) plan provides that a non-5% owner employee is required to take an RMD distribution for the year he or she separates from service and subsequent years. Prior to such year, any distribution is not a required distribution. However, if a person separates from service prior to age 70½, then he or she is required to commence RMDs for the year during the which he or she attains age 70½. Jane is planning to work for Roogle until January 2, 2017.

With respect to the Roogle 401(k) plan, Jane is not required to take a required distribution until the year she separates from service. This would be 2017. There would be no RMD for her for 2014, 2015, and 2016.

With respect to her IRA, Jane has a planning option if the Roogle 401(k) plan authorizes her to rollover her IRA funds into the 401(k) plan. In fact, the plan has been so written. She may roll over her IRA balance ($265,000) into the Roogle 401(k) plan. By doing this, she will not have to take an RMD with respect to the $265,000 for 2014-2016.

Should she do the rollover in 2013 or 2014?

She wants to do the rollover in 2013. By doing so, there will be no funds in her IRA as of December 31, 2013. This means she does not have to take a 2014 RMD from her IRA and there will be no RMD for 2015 and 2016.

What would be the situation if she would not do the rollover until January 20, 2014?

Jane has an IRA as of January 1, 2014. This means she has an RMD with respect to the traditional IRA of $10,000 for 2014. This amount is ineligible to be rolled over to the Roogle 401(k) plan or any plan or IRA. It does matter is she does the rollover prior to attaining age 70½. Because she attains age 70½ in 2014 and there is a balance in her IRA as of December 31, 2013, she will have an RMD for 2014.

Her rollover would be limited to $255,000 rather than the $265,000. She will avoid taking an RMD with respect to the remaining $255,000 until she separates from service.

An employee who is a 5% owner of the business sponsoring the 401(k) plan must take RMDs commencing with the year he or she attains age 70½ just as an IRA accountholder must.

When IRA funds are rolled over into a 401(k) plan such funds are no longer IRA funds. Such funds are not “rollover” funds within the 401(k) plan and all of the plan rules applying to distributions will apply to such funds. An individual who has the same situation as Jane De will most likely also want to rollover his or her IRA funds into the employer’s 401(k) plan. Many individuals will have the attitude, “why take any distribution if one is not required?”