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The Market Is Swinging Wildly. Should Retirees Wait to Take RMDs?

By Elizabeth O'Brien
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Stocks are down and volatility is up, making it tougher to dealing with IRS rules for required minimum distributions. Market volatility is complicating two perennial questions for retirees: when to take required minimum distributions, and what to do with the money if you don't need it for living expenses.

Starting at age 73, the Internal Revenue Service requires taxpayers to withdraw a certain amount from their tax-deferred retirement accounts and pay income taxes on it. It's the government's way of getting its share of money that has grown tax-deferred for decades.

The requirements apply to employer-sponsored retirement plans like 401(k)s and 403(b)s, although those who are still working at age 73 can postpone RMDs from their workplace account until they retire, unless they're a 5% owner of the business sponsoring the plan.

Regardless of work status, RMD requirements apply to traditional individual retirement accounts and IRA-based plans such as SEPs (Simplified Employee Pension plans) and Simple IRAs (Savings Incentive Match Plan for Employees). Roth accounts aren't subject to RMDS during the original owner's lifetime.

The RMD is based on the taxpayer's age and account balance as of Dec. 31 of the prior year, so the dollar value of RMDs for 2025 is set. Certain heirs of any age must also take RMDs from inherited retirement accounts.

The market's extreme fluctuations and worsening outlook may complicate things. The S&P 500 is down around 7% this year and has fallen sharply since President Donald Trump kicked off a trade war in early April, spooking markets. The economy shrank in the first quarter, due largely to a surge of spending on imports, and there's growing consternation that a recession is settling in or coming later in the year.

All this matters for RMDs. Following a big selloff, the amount you have to withdraw could represent a bigger share of your account value. Selling at a low point requires selling more shares to meet the requirement, versus selling at a high.

"It's always ideal to sell at the peak," says Dan Sudit, founding partner at Crewe Advisors in Salt Lake City. Economic uncertainty due to Trump's tariffs has made timing a sale even harder than usual, he adds.

One strategy to consider: Tailor RMDs to your personal situation. Sudit, for instance, sold some of his clients' holdings in RMD-eligible accounts late last year and put it in debt that matured when clients needed the cash. For those who didn't need withdrawals to live on, he invested the cash in debt that matures toward the end of the year.

Many people put RMDs on autopilot. The fourth quarter is the most popular time to take RMDs, according to Fidelity, whose data suggest that most retirees stick to the same pattern every year, regardless of what the market is doing.

Following a routine is a good way to remember the obligation. Brokerages like Fidelity can set up automatic RMDs at regular intervals. The penalty for not taking RMDs is 25% of the amount not taken, although that could fall to 10% if the taxpayer corrects the mistake within two years.

Rand Spero, president of Street Smart Financial in Lexington, Mass., treats RMDs like a known expense for a short-term purchase. If you were planning to buy a car in a few months, for example, you'd probably want to move money into cash or short-term bonds in

anticipation. Spero shifts clients' money into bonds so they can collect tax-deferred interest until taking their RMD in early December.

"This isn't an optimization strategy," Spero says. "This is predictability, so you don't have to think about it."

What you do with the RMD will depend on your goals. Those who don't need the money can satisfy their RMD by donating up to $108,000 in qualified charitable distributions tax-free to eligible charities.

Another option if you don't need the money: Use your RMDs to build an inheritance for heirs and maximize the value, advisors say. That might involve reinvesting RMDs in a taxable account. But you can still reduce the tax hit by owning long-term growth stocks, which don't pay much in dividends that throw off taxable income, says Robert Ruggirello, chief investment officer of Brave Eagle Wealth Management in New York City. You can bequeath these high-growth stocks to heirs, who will benefit from a step-up in cost basis when they inherit them.

You could also use the RMD to square up your tax obligation for the year. Even if you take the distribution in late December, the IRS will treat it as pro rata for the whole year, meaning it could satisfy quarterly tax payments even if you didn't pay any throughout the year.

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