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After having saved for retirement for so many years, some people don't realize that eventually they will have to start taking distributions—or be hit with tax penalties. The rules surrounding these forced withdrawals—known as required minimum distribution, or RMDs more colloquially—are not new or complicated. But they are important to understand so you don't end up paying more in taxes than you have to.

For starters, RMDs apply to retirement accounts in which you contributed tax-deferred assets or had tax-deferred earnings. This covers Traditional IRAs, Rollover IRAs, SIMPLE IRAs, SEP IRAs, most Keogh accounts and most 401(k) and 403(b) plans, for example. Roth IRAs, however, are not subject to RMDs. In fact, you can't even satisfy your Traditional IRA RMD requirement with a Roth IRA withdrawal.

Required distributions must begin by April 1 of the year after you reach age 70 ½. So, if you are turning 70 ½ at any point this year, you have until April 1, 2018 to take your first required distribution. After your first withdrawal, RMDs must be taken each year by December 31.

When it's time to start making distributions, we can help you consider the tax consequences and manage the rest of your portfolio accordingly. Generally, withdrawals of pre-tax contributions and earnings are taxed as ordinary income. However, if you don't take distributions on time—or if you don't take enough, you'll be subject to a tax penalty.

Also, be careful of the timing of that first distribution if you don't want to make two withdrawals during the same calendar year. (If you reach age 70 ½ this year, but wait until early 2018 to take the first distribution, you'll still have to make another RMD before the end of the 2018 calendar year.) This could result in significantly more taxable income than you expected, so plan accordingly.

The amount of the minimum distribution is calculated by dividing your retirement account's December 31 balance from the prior year by the IRS divisor (from the Uniform Lifetime Table). This will give you the amount you need to withdraw. For example, a 71-year-old with an IRA balance of $100,000 has a divisor of 26.5 and will be required to take a distribution of $3,774 from his or her IRA.

Here are some other important details. While, the IRS provides tables to help you calculate your RMD amount, you'll need to recalculate your RMDs every year. Note that you can withdraw more than the calculated RMD amount at any time. But even if you do withdraw more in one year, you'll still need to take the full RMD the following year.

Things can be more complicated if you have multiple retirement accounts subject to RMD rules. RMDs need to be calculated separately for each account. If you have multiple IRAs, you may be able to withdraw the total from one account, or a portion from each, but rules for 401(k)s or 403(b)s don't allow this. It might make sense to consolidate all your accounts into an IRA to make things more manageable, but it depends on your individual circumstances. So, it's best to consult an advisor before making any decisions.

As with everything there are exceptions to the RMD rules. For instance, if you continue to work after age 70 ½—and you don't own more than 5 percent of the business you work for—you may be able to delay taking RMDs from that employer retirement plan until you retire. (However, other plans from previous employers are still subject to RMDs, so be aware.) Even if you think you are exempt, it's advisable to consult your plan administrator so you don't inadvertently overlook important details.

Certainly, there's a lot to digest when it comes to RMDs. Advanced preparation is always advisable, and we at Align work closely with you to help you understand—well in advance—what decisions need to be made and when.

Please don't hesitate to reach out to discuss further how we can best assist you. We're here to help.