



## Policy Clarification 2019-10-01

### Title: IRA – Required Minimum Distribution (RMD)

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From: Erin Kelley, Senior Policy Manager

Program(s) Impacted: Elderly & Disabled Medical Assistance Programs

The purpose of this document is to provide guidance on the treatment of a Required Minimum Distribution (RMD) taken from a non-annuitized Individual Retirement Account (IRA).

A Required Minimum Distribution (RMD) is the minimum amount the owner of an IRA, SEP IRA, Simple IRA, or retirement account [401(k), 403(b), 457(b)] must withdraw each year from the account for tax purposes. The withdrawals must commence when the owner reaches age 70½. Under the law, the first required distribution will be April 1 of the year following the calendar year in which the owner turns 70½. Thereafter, the RMD must be taken by December 31 of each year after the year the owner turns 70½. This means that the owner will normally take two distributions in the first year – one (1) on April 1 (for the year prior) and the second (2<sup>nd</sup>) by December 31 for the current year. Only one (1) distribution is required in each year thereafter.

Note: A Roth IRA does not require withdrawals until after the death of the owner. Any voluntary withdrawals taken before the death of the owner will be treated the same as a required distribution under this clarification policy. In addition, the owner may elect to take non-mandatory distributions from a non-annuitized IRA before turning 70½, which are also treated the same as a mandatory distribution.

The following Medical KEESM provision states the basic policy for treatment of mandatory or voluntary distributions from a non-annuitized IRA or retirement account:

**5200 (12)** – *“A conversion of real and personal property from one form to another shall not be considered as income unless there are proceeds from a contract from the sale of property. A resource may change form and thereby result in the loss or gain of exempt status.”*

Based on this provision, a required or voluntary distribution from a non-annuitized IRA or retirement account shall be treated as a conversion of resource from one form to another, and not as income. Once the IRA or retirement account is annuitized and turned into an income stream, the IRA or retirement account is an exempt resource and the periodic payments made from the IRA or retirement account are countable unearned income to the recipient.

Consider the following examples:

1. A single 75-year old applicant owns a non-annuitized IRA and has been taking required distributions from the account for several years. When determining eligibility, the annual distributions are not counted as income. The IRA itself is a countable resource per Medical KEESM 5430 (20)(c). The annual distribution shall also be treated as a resource and is countable or exempt depending on where the funds are ultimately deposited.

**Note:** If the applicant was married and the above IRA was owned by a non-applicant spouse, the IRA would be an exempt resource per Medical KEESM 5430 (20)(c)(iii). The annual distribution would not be considered income, but instead a countable or exempt resource depending on where the funds were deposited.

2. A single 71-year old applicant owns a non-annuitized IRA. This will be the first year the applicant will be required to take a required distribution because he turned 70½ in the prior year. He will take his first distribution on April 1. That distribution is for the prior year. He must also take a distribution for the current year by December 31 of this year. For eligibility purposes, the IRA is a countable resource, but neither distribution would be counted as income.

**Note:** If the applicant had annuitized the IRA prior to applying for assistance, the IRA would be considered exempt per Medical KEESM 5430 (20)(c)(i). The periodic payments would be considered countable unearned income in the month received. Any amount of the payment remaining after the month of receipt would be considered a countable or exempt resource depending on where the funds were ultimately deposited.

3. A single 55-year old applicant owns a non-annuitized IRA and has decided to take non-mandatory distributions. Even though the distributions are not required due to the age of the owner, the distributions are still not considered income, but rather as a conversion of resource form one form to another. The distribution would be considered an exempt or countable resource depending on where the funds were deposited.

**Note:** In this example, the applicant will incur an additional 10% tax penalty for taking the early non-mandatory withdrawals from the IRA, plus the distributions will be taxable as income to the applicant at his/her regular rate. Even though taxed by the IRS as income, the distributions are not considered to be income for Medicaid eligibility purposes.

**For questions or concerns related to this clarification, please contact one of the Medical Program Eligibility Policy staff below.**

Erin Kelley, Senior Policy Manager – [Erin.Kelley@ks.gov](mailto:Erin.Kelley@ks.gov)

Jessica Pearson, Elderly & Disabled Program Manager – [Jessica.Pearson@ks.gov](mailto:Jessica.Pearson@ks.gov)

Kris Owensby-Smith, Elderly & Disabled Program Manager – [Kristopher.C.Smith@ks.gov](mailto:Kristopher.C.Smith@ks.gov)

Jerri Camargo, Family Medical Program Manager – [Jerri.M.Camargo@ks.gov](mailto:Jerri.M.Camargo@ks.gov)