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CHANGING REQUIRED MINIMUM DISTRIBUTION RULES WOULD HAVE NEGLIGIBLE IMPACT ON TAX REVENUE WHILE PROVIDING ADDITIONAL FLEXIBILITY FOR RETIREMENT SAVERS

New research from the TIAA Institute and Pension Research Council examines the potential impact of RMD rule changes on households' financial behavior

NEW YORK (January 26, 2020) – A new report issued by the TIAA Institute and the Pension Research Council (PRC) of the University of Pennsylvania's Wharton School reveals that changing Required Minimum Distribution (RMD) rules would likely have a negligible impact on tax revenue, while increasing flexibility for retirement savers.

In "Would Raising the Required Minimum Distribution Age for Retirement Accounts Enhance Old-Age Security?" researchers found that raising (or eliminating) the RMD age has little effect on individuals' financial behaviors while they are still working, including on savings and asset allocation in and outside tax-qualified retirement accounts. At retirement, however, the impact of raising the RMD age depends on whether the retiree wishes to bequeath wealth to someone else.

For households without a bequest motive, the chance that a retiree would elect to withdraw less than the RMD is relatively low (between 2% and 4% depending on educational level). But for households with a bequest motive, the probabilities are higher and vary between 6% and 12%. Nevertheless, in either case, total tax payments over individuals' lifetimes are not dramatically altered, because initially lower tax payments due to smaller retirement plan withdrawals are mostly offset by larger withdrawals and thus higher tax payments at a later age.

"With the recent increase in the RMD age as a result of 2019's SECURE Act, and debate about eliminating RMDs completely, providing clarity on the real-world implications of this rule change is critical," said David P. Richardson, head of the TIAA Institute and managing director of research. "The findings suggest financial institutions can better serve clients by careful consideration of how changes in RMD rules will impact their retirement income and estate planning strategies."

"We are delighted to contribute to the important policy debate as well as the literature on household finance, by analyzing changes in withdrawal rules for tax-qualified retirement plans," said Olivia S. Mitchell, Director of Wharton's Pension Research Council and coauthor of the new report.

The full report can be found HERE.

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About the TIAA Institute

The TIAA Institute helps advance the ways individuals and institutions plan for financial security and organizational effectiveness. The institute conducts in-depth research, provides access to a network of thought leaders, and enables those it serves to anticipate trends, plan future strategies and maximize opportunities for success. For more information about the TIAA Institute, visit www.tiaainstitute.org and follow us on Twitter @TIAAInstitute.

About the Pension Research Council

For over 65 years, the Pension Research Council/Boettner Center at Wharton School of the University of Pennsylvania has sponsored research on the entire range of private pension and Social Security programs, as well as related benefit plans in the U.S. and worldwide. Follow us on Twitter @pensionresearchcouncil and learn more at www.pensionresearchcouncil.wharton.upenn.edu

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[1] The Refinitiv Lipper Fund Awards are based on the Lipper Leader for Consistent Return rating, which is a risk-adjusted performance measure calculated over 36, 60 and 120 months. Lipper Leaders fund ratings do not constitute and are not intended to constitute investment advice or an offer to sell or the solicitation of an offer to buy any security of any entity in any jurisdiction. For more information, see lipperfundawards.com. Lipper Fund Awards from Refinitiv, ©2020 Refinitiv. All rights reserved. Used under license. The Award is based on a review of risk-adjusted performance of 39 companies for 2016, 36 for 2017, 35 for 2018 & 2019, and 30 for 2020. The award pertains only to the TIAA-CREF mutual funds in the mixed-asset category. Without such waivers ratings could be lower. Past performance does not guarantee future results. For current performance, rankings and prospectuses, please visit TIAA.org.

[2] Based on approximately $1.3 trillion of assets under management across Nuveen affiliates and TIAA investment management teams as of 12/31/2020..