

AI-03453 RMD Comparison

👤 Owner	Ⓜ Rigel Arcayan
☰ Tags	Investing
🕒 Created time	@February 9, 2026 4:02 PM

IRS tax method is not fair, the taxes in \$15m is so high compared to a \$2m, can you compare the RMD of the two and taxes paid. Then tell me who is happier? (Just hypothetical, hard to quantify). Use TX for the \$2M and FL for \$15M.

Sure — here's a clear, hypothetical comparison showing how Required Minimum Distributions (RMDs) and taxes might differ for someone with a \$15 million retirement account vs someone with a \$2 million retirement account under typical U.S. tax rules.

⚠️ Note: This is illustrative only. Actual RMDs and taxes vary based on age, life expectancy tables, filing status, other income, deductions, state taxes, and future tax law changes.

What Is an RMD?

An RMD is the minimum amount the IRS requires you to withdraw from tax-deferred accounts (like traditional IRAs and 401(k)s) each year once you reach a certain age (currently 73–75 depending on birth year).

You pay ordinary income tax on whatever you withdraw.

Hypothetical Comparison (Age 75)

◆ Person A — \$2 Million IRA

- Account balance (12/31 prior year): \$2,000,000
- IRS life expectancy factor at age 75: ~24.6
(Lower balance ÷ higher life factor = smaller RMD)
- RMD amount:
 $\$2,000,000 \div 24.6 \approx \$81,300$

◆ **Person B — \$15 Million IRA**

- Account balance (12/31 prior year): \$15,000,000
- Same life expectancy factor (~24.6):
- RMD amount:
 $\$15,000,000 \div 24.6 \approx \$609,800$

Estimated Taxes on RMD (Assuming 24% Marginal Tax Rate)

(Simplifies filing status and other income/deductions)

Person	RMD	Estimated Federal Tax (24%)
\$2M account	\$81,300	~\$19,500
\$15M account	\$609,800	~\$146,300

So annually in this example:

- The \$15M retiree withdraws ~7.5× more than the \$2M retiree.
- The \$15M retiree pays ~7.5× more in federal tax on the RMD.



Effective Tax Reality

Both retirees pay the same tax rate (in this simple example), but:

- Larger balances → larger RMDs → much bigger tax bills.
- That skyrockets as balances grow.

This can feel “unfair” because it’s proportional rather than progressive — both face the same marginal rate, but the rich pay a lot more in absolute dollars.



Who Is Happier?

Hard to quantify, but generally:

✓ **Person with \$2 Million IRA**

- Smaller RMD
- Lower annual tax outlay
- Less stress about how much must be withdrawn
- More control over taxable income

🎯 Feels simpler and less burdened.

✓ **Person with \$15 Million IRA**

- Huge RMD and tax bill
- Still incredibly wealthy after taxes
- Likely has plenty of assets outside IRA
- May use strategies to reduce tax bite (charitable giving, Roth conversions, etc.)

🎯 Wealthier overall — but more tax complexity and bigger bills.

Key Takeaways

- ✓ RMDs grow with balance — IRS doesn't cap them.
- ✓ Both pay ordinary income tax on RMDs.
- ✓ Higher balances = bigger taxes in dollars, though not necessarily a higher rate.
- ✓ "Happiness" depends on perspective:
 - \$15M person may grumble about taxes but still lives very well.
 - \$2M person pays much less tax but has less to spend overall.

If You Want, I Can...

- 💡 Compare with effective tax rates
- 💡 Add state income tax (e.g., California vs Florida)
- 💡 Show impact of Roth IRA conversions or charitable strategies
- 💡 Project future RMD schedules

Just tell me what scenario you want!

Perfect choice of states 😊 — Texas (\$2M) vs Florida (\$15M) actually reveals something quietly ironic.

Both are 0% state income tax, so this becomes a pure federal RMD + psychology comparison.

Assumptions (same as before, tightened)

- Age: 75
- Account type: Traditional IRA / 401(k)
- IRS life-expectancy factor: 24.6

- Filing status: Married filing jointly
- No other income (to isolate RMD effect)
- Federal brackets applied approximately
- TX and FL: 0% state income tax



RMD Comparison

Item	TX – \$2M IRA	FL – \$15M IRA
Account balance	\$2,000,000	\$15,000,000
RMD divisor	24.6	24.6
Annual RMD	\$81,300	\$609,800



Federal Taxes Owed on RMD

Now here's where progressivity quietly shows up.

TX – \$2M IRA

- RMD mostly sits in 12–22% brackets
- Effective federal tax rate ≈ 18–20%

👉 Estimated federal tax:

~\$15,000–\$16,000

FL – \$15M IRA

- RMD pushes deep into 32–35% brackets
- Effective federal tax rate ≈ 30–32%

👉 Estimated federal tax:

~\$185,000–\$195,000



Side-by-Side Reality

Metric	TX – \$2M	FL – \$15M
RMD	\$81K	\$610K
Federal tax	~\$16K	~\$190K
State tax	\$0	\$0
Net after RMD tax	~\$65K	~\$420K

% of IRA drained	~4.1%	~4.1%
% lost to tax	~0.8% of IRA	~1.3% of IRA

Same RMD rule.

Same divisor.

Same zero-tax states.

Wildly different lived experience.

So... Who Is Happier?

TX – \$2M Person

- RMD feels like “income”
- Taxes feel tolerable
- Less paperwork, fewer strategies needed
- Life feels lighter, simpler
- Every dollar withdrawn matters

Happiness flavor:

Enough. Calm. Predictable.

FL – \$15M Person

- RMD feels like forced liquidation
- Tax bill feels punitive, even if affordable
- Constant planning to avoid waste
- Knows intellectually they’re lucky — still annoyed
- Marginal dollars feel abstract

Happiness flavor:

Abundant... but mildly irritated.

The Quiet Truth

The IRS isn’t “unfair” mathematically —
it’s emotionally asymmetric.

- The \$2M retiree feels grateful and free.
- The \$15M retiree feels taxed, watched, and managed.

Ironically:

More money → less sense of control over it.

That loss of control — not the tax rate — is what usually dents happiness.

If you want next:

- A Roth-conversion path that flips this outcome
- A charitable RMD strategy that turns tax pain into meaning
- Or a meme version that really hurts billionaires' feelings 😊

Copilot

Let's break this down step by step so we can compare the two scenarios you mentioned:

1. Required Minimum Distribution (RMD) Basics

- RMDs apply to retirement accounts (like IRAs, 401(k)s) once you reach a certain age (currently 73).
- The IRS uses a **Uniform Lifetime Table** to calculate RMDs:
[
$$\text{RMD} = \frac{\text{Account Balance (prior year end)}}{\text{Life Expectancy Factor}}$$

]
• For simplicity, let's assume the account holder is **age 73**, where the divisor is about **26.5**.

2. Hypothetical RMD Comparison

Scenario	Account Balance	RMD (approx.)	State	State Income Tax	Federal Tax Impact
Case A	\$2M	\$75,472	Texas	0% (no state income tax)	Taxed federally at marginal rates
Case B	\$15M	\$566,038	Florida	0% (no state income tax)	Taxed federally at higher marginal rates

Notes:

- Both Texas and Florida have **no state income tax**, so the difference is purely federal.
- The \$15M account generates a much larger RMD, pushing more income into the **highest federal tax brackets**.
- The \$2M account's RMD is smaller, likely taxed at lower marginal rates overall.

3. Taxes Paid (Hypothetical)

- Federal tax brackets (2026) top out at **37%**.
- Case A (\$75k RMD): Much of this could fall into middle brackets (say ~22–24%).
- Case B (\$566k RMD): A large portion falls into the top bracket (37%).

So, Case B pays **far more in absolute dollars** and a **higher effective rate**.

4. Who is Happier?

This is subjective, but here's the tension:

- **Case A (TX, \$2M)**: Smaller RMD, lower taxes, but also less wealth overall. They keep more proportionally.
- **Case B (FL, \$15M)**: Larger RMD, much higher taxes, but even after taxes, they still have far more disposable income.

Inference:

- The \$2M retiree may feel "happier" relative to their tax burden because they aren't forced into the top brackets.
- The \$15M retiree may feel "unfairly taxed" since their RMD forces them into the highest bracket, but they still enjoy far greater wealth after taxes.

It's the classic paradox: **absolute wealth vs. relative tax pain**.

Would you like me to run a **numerical example of after-tax income** for both cases (using 2026 brackets) so you can see the actual take-home difference side by side?

Claude

I'll compare the Required Minimum Distributions (RMDs) and taxes for these two scenarios. Let me assume we're talking about traditional IRA/401(k) accounts and use a typical RMD age of 73.

RMD Comparison

For a \$2M IRA (age 73, TX resident):

- RMD percentage: ~3.77% (using IRS life expectancy table)
- Annual RMD: **\$75,400**
- Federal tax (assuming married filing jointly): ~\$11,000-14,000
- State tax: **\$0** (Texas has no state income tax)
- **Total tax: ~\$11,000-14,000** (14.5-18.5% effective rate)

- **After-tax income: ~\$61,000-64,000**

For a \$15M IRA (age 73, FL resident):

- RMD percentage: ~3.77%
- Annual RMD: **\$565,500**
- Federal tax (assuming married filing jointly): ~\$150,000-160,000
- State tax: **\$0** (Florida has no state income tax)
- **Total tax: ~\$150,000-160,000** (26.5-28.3% effective rate)
- **After-tax income: ~\$405,000-415,000**

The Fairness Question

You're right that the \$15M account holder pays roughly **10-11x more in absolute dollars** while having only 7.5x the account size. This happens because of progressive tax brackets - the \$15M holder's RMD pushes them into the 35% federal bracket, while the \$2M holder stays mostly in the 12-22% brackets.

Who's Happier? (Hypothetically)

This is where it gets interesting:

Financial security perspective: The \$15M holder has \$405K after taxes versus \$62K - they can maintain a vastly higher standard of living despite the higher tax rate.

Psychological perspective: Research on money and happiness suggests diminishing returns after basic needs are met. The \$2M holder might actually experience:

- Less stress about estate planning complexity
- Lower anxiety about tax planning
- More of a "enough is enough" contentment
- Freedom from wealth management headaches

The "fairness" paradox: The \$15M holder might feel aggrieved paying \$150K while the \$2M holder pays \$12K, but the \$15M holder still has 6.5x more after-tax spending power. From a utilitarian perspective, taking \$150K from someone with \$565K hurts less than taking \$12K from someone with \$75K.

My take? The person with \$2M might genuinely be happier day-to-day, but the \$15M person has far more options and security. The tax system is designed to be progressive precisely because that extra \$140K in taxes theoretically causes less pain to the wealthier individual.