

“Required Distribution:” Rules for Retirement Plans

INTRODUCTION: IRS ISSUES DISTRIBUTION RULES FOR RETIREMENT PLANS

The IRS, in 2001, issued rules that make sweeping changes in how “Minimum Required Distributions” are calculated. These changes potentially affect everyone who is now taking required distributions from an IRA or other retirement plan. That includes most individuals over age 70 ½, as well as individuals who have inherited an IRA or retirement plan from someone else.

Surprisingly, the changes are almost all good: the necessary calculations have become simpler and the new methods produce smaller required distributions for most people.

EFFECT ON IRA OWNERS NOW OVER 70 1/2

If you are age 70 ½ or older, and you own an IRA, then (as you know) you are required to take a distribution from that IRA every year.

Under the rules, everyone uses a “Uniform Table” to calculate his or her required distributions. The uniform table is reproduced at the end of this report (along with an explanation of how to use it).

With that system, it no longer matters (for purposes of calculating your lifetime distributions) who is named as your beneficiary, with one exception: if your sole beneficiary is your spouse, and your spouse is more than ten years younger than you, then you calculate your distributions using the “joint and survivor life expectancy” of you and your spouse. This will produce an even smaller required distribution than the Uniform Table.

The rule changes described above do not affect Roth IRAs, because there are no required distributions during life from a Roth IRA.

OTHER KINDS OF RETIREMENT PLANS

The above explains how the rules apply to required distributions from IRAs as well as 403(b) plans, 401(k) plans, pension plans, Keogh plans and other “qualified retirement plans”.

EFFECT ON BENEFICIARIES HOLDING INHERITED IRAS

There are also changes in how beneficiaries who have inherited IRAs and other retirement plans are to calculate their required distributions from those inherited plans.

IMPROVED ESTATE PLANNING CHOICES FOR OLDER INDIVIDUALS

The rules expand estate planning opportunities for individuals who are approaching or already past age 70 ½. Here are two examples:

Earlier 2001 rules made it difficult for a person age 70 ½ or older to leave retirement benefits to charity. Basically, the rules penalized individuals who chose to leave benefits to charity after age 70 ½ (by forcing them to take larger distributions from the plan during life). Under the present rules, leaving retirement benefits to charity does not cause accelerated distributions during life.

The rules also make it easier for older clients to take advantage of the “stretch IRA” concept. Whoever you designate as your beneficiary can enjoy a deferred pay-out of the IRA over his or her life expectancy, regardless of when you named him or her as your beneficiary.

WHAT TO DO NOW

You may now easily determine your required distribution by doing the following:

The "Uniform Table"

Age	Applicable divisor	Age	Applicable divisor	Age	Applicable divisor
70	26.2	86	13.1	102	5.0
71	25.3	87	12.4	103	4.7
72	24.4	88	11.8	104	4.4
73	23.5	89	11.1	105	4.1
74	22.7	90	10.5	106	3.8
75	21.8	91	9.9	107	3.6
76	20.9	92	9.4	108	3.3
77	20.1	93	8.8	109	3.1
78	19.2	94	8.3	110	2.8
79	18.4	95	7.8	111	2.6
80	17.6	96	7.3	112	2.4
81	16.8	97	6.9	113	2.2
82	16.0	98	6.5	114	2.0
83	15.3	99	6.1	115+	1.8
84	14.5	100	5.7		
85	13.8	101	5.3		

Under the Regulations, the above Uniform Table may be used by ALL IRA owners who have reached age 70 ½ to determine their annual required minimum distributions. For each "Distribution Year" (i.e., a year for which a distribution is required), determine:

- (A) the account balance as of the preceding calendar year end;
- (B) the participant's age on his or her birthday in the Distribution Year; and
- (C) the "applicable divisor" for that age from the above table.

"A" divided by "C" equals the minimum required distribution for the Distribution Year. (In the age 71½ Distribution Year, first reduce the "A" number by the amount of any required distribution for the age 70 ½ year that had not been taken out by the end of that year.)

This table does not apply to beneficiaries of a deceased IRA owner; or if the sole beneficiary of the IRA is the participant's spouse who is more than 10 years younger than the participant.

This communication may not be used and is not intended or written to be used and cannot be used, by you for the purpose of avoiding penalties that may be imposed on you by the Internal Revenue Service.

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