

Figuring Required Minimum Distributions

As you are approaching retirement, consideration should be given to when to begin taking distributions from your qualified plans and IRAs. In addition to restrictions on when you can *start* taking money from your retirement accounts, the IRS also has requirements concerning distributions you *must* take. It makes you withdraw a certain amount each year so that it can tax a certain minimum amount each year. However, Congress passed the Worker, Retiree, and Employer Recovery Act of 2008, which suspends distribution requirements for 2009 only. As you know, retirement savings are at all-time lows due to the current financial crisis. The suspension applies to IRAs and certain workplace arrangements.

The distribution requirements were established to prevent you from accumulating funds tax free indefinitely. In the case of a qualified plan in which you participate, you are required to begin taking at least minimum distributions starting April 1 of the year following the year in which you reach age 70 1/2 or retire, whichever is later. In the case of your IRAs, you must begin distributions starting April 1 of the year following the year in which you turn 70 1/2, regardless of whether you have retired.

If you have enough other assets for your support, you probably want to minimize distributions from your retirement plans so that your plan assets can continue to accumulate tax-deferred as long as possible. The detailed workings of the required minimum distribution (RMD) rules are contained in IRS regulations issued in 2002 and 2004, and fine-tuned later by further guidance. These regulations go far beyond the Internal Revenue Code provisions in providing the details that are needed to determine an RMD. Thus, as a practical matter, the regulations must be consulted when calculating an RMD. While voluminous, they required a calculation that is much more favorable to taxpayers than had previously been the case. (If you have a Roth IRA, the news is even better. Since contributions to a Roth IRA are the result of after-tax dollars, no tax is generally due on distribution after retirement age, and there is no requirement that you distribute your account balance according to any particular schedule.)

The minimum amount that must be distributed from your retirement accounts depends on your life expectancy, or the joint life expectancy of you and your spouse if your spouse is more than 10 years your junior. If the required amounts aren't distributed, a 50-percent excise tax is imposed on the amount that should have been distributed but wasn't.

In order to determine the amount of the minimum distribution you must receive for a year, you must locate your current age on one uniform table each year to obtain the updated number of years over which your benefits are expected to be paid. That number will then be divided into your account balance as of the end of the previous year to give you the amount that must be distributed to you for the current year. The table you will use is the same table that will be used by *all* retirement plan participants to calculate their required distributions. (In the only exception to this uniformity, a participant whose spouse is more than 10 years younger may use the old joint and last survivor table to stretch out and reduce annual payments even more.)

At the same time you are arranging your post-retirement finances, you can also incorporate some estate planning. Along with simplification in calculating your benefits, the recent rule changes will also bring greater flexibility and opportunity in the designation of your beneficiaries. You may now change beneficiaries as often as you like before your death, and it will not affect the amount of your annual contributions (unless, of course, you are moving into or out of a beneficiary relationship with a spouse more than 10 years younger). And if your heirs are faced with changed conditions following your death, there is an opportunity for them to rearrange your pre-death beneficiary choices so they can accommodate the new conditions.

If you would like to make sure your spouse's financial needs will be taken care of after your death, but you would also like to let your assets continue to accumulate on a tax-deferred basis and eventually provide an inheritance for your children or grandchildren, you should name your spouse the primary beneficiary and your younger heirs the secondary beneficiaries. If your spouse doesn't need your retirement plan assets for his or her support after your death, he or she has until the last day of the year that follows the year of your death to disclaim any interest in your account assets. This allows that amount to pass directly to your younger beneficiaries, over their longer life expectancy, as if your spouse had never been named a beneficiary at all.

After your death, your remaining plan assets will be paid to your beneficiary over his or her lifetime (unless you or your plan provide for a shorter distribution period). If you die before naming a beneficiary, but after the date the IRS says you *must* begin distributions from your plan, your remaining plan assets will be paid out over a period equal to your life expectancy immediately *before* your death unless your plan calls for a shorter period. If you die before that date without having named a beneficiary, your plan assets must be paid out within five years of your death.

Working within the distribution rules, you must make decisions about your post-retirement finances and planning your estate. If you want to know more about the rules and how they will work best in your situation, please call our office.