



## Retirement Account Distributions After Age 70½

If you have assets in a qualified retirement plan, such as a company-sponsored 401(k) plan or a traditional Individual Retirement Account (IRA), you'll want to be aware of several rules that may apply to you when you take a distribution.

### Required Minimum Distributions During Your Lifetime

Many people begin withdrawing funds from qualified retirement accounts soon after they retire in order to provide annual retirement income. These withdrawals are discretionary in terms of timing and amount until the account holder reaches age 70½. After that, failure to withdraw the required minimum amount annually may result in substantial tax penalties. However, those rules are generally not in effect for 2009. Thus, it may be prudent to familiarize yourself with the minimum distribution requirements.

For traditional IRAs, individuals must generally begin taking required minimum distributions no later than April 1 following the year in which they turn 70½. The same generally holds true for 401(k)s and other qualified retirement plans. (Note that some plans may require plan participants to remove retirement assets at an earlier age.) However, required minimum distributions from a 401(k) can be delayed until retirement if the plan participant continues to be employed by the plan sponsor beyond age 70½ and does not own more than 5% of the company. Also keep in mind that the Worker, Retiree, and Employer Recovery Act of 2008 waives any required minimum distributions (RMDs) for 2009 from retirement plans — such as 401(k) plans, 403(b) plans, and certain 457(b) plans — and also waives any RMDs for 2009 from IRAs.

In 2002, the IRS issued final regulations that greatly simplify the calculation of required minimum distributions. Now, minimum distributions are determined using one standard table based on the IRA owner's/plan participant's age and his or her account balance. Thus, required minimum distributions generally are no longer tied to a named beneficiary. There is one exception, however. IRA owners/plan participants that have a spousal beneficiary who is more than 10 years younger can base required minimum distributions on the joint life expectancy of the IRA owner/plan participant and spousal beneficiary.

These minimum required distribution rules do not apply to Roth IRAs. Thus, during your lifetime, you are not required to receive distributions from your Roth IRA.

### Additional Considerations for Employer-Sponsored Plans

The table below is general in nature and not a complete discussion of the options, advantages, and disadvantages of various distribution options. For example, there are different types of annuities, each entailing unique features, risks, and expenses. Be sure to talk to a tax or financial advisor about your particular situation and the options that may be best for you.

Employer-Sponsored Retirement Plan Distribution Alternatives <sup>1</sup>			
	Method	Advantages	Disadvantages
<b>Annuity</b>	A regular periodic payment, usually of a set amount, over the lifetime of the designated recipient. (Not available with some plans.)	Assurance of lifetime income; option of spreading over joint life expectancy of you and your spouse. <sup>2</sup>	Not generally indexed for inflation.
<b>Periodic Payments</b>	Installment payments over a specific period, often 5 - 15 years.	Relatively large payments over a limited time.	Taxes may be due at highest rate.
<b>Lump Sum</b>	Full payment of the monies in one taxable year.	Direct control of assets; may be eligible for 10-year forward averaging.	Current taxation at potentially highest rate.
<b>IRA Rollover</b>	A transfer of funds to a traditional IRA (or Roth IRA if attributable to Roth 401(k) contributions).	Direct control of assets; continued tax deferral on assets.	Additional rules and limitations.

In addition to required minimum distributions, removing money from an employer-sponsored retirement plan involves some other issues that need to be explored. Often, this may require the assistance of a tax or financial professional, who can evaluate the options available to you and analyze the tax consequences of various distribution options.

### Lump-Sum Distributions.

Retirees usually have the option of removing their retirement plan assets in one lump sum. Certain lump sums qualify for

preferential tax treatment. To qualify, the payment of funds must meet requirements defined by the IRS:

- The entire amount of the employee's balance in employer-sponsored retirement plans must be paid in a single tax year.
- The amount must be paid after you turn 59 ½ or separate from service.
- You must have participated in the plan for five tax years.

A lump-sum distribution may qualify for preferential tax treatment if you were born before January 2, 1936. For instance, if you were born before January 2, 1936, you may qualify for 10-year forward income averaging on your lump-sum distribution, based on 1986 tax rates. With this option, the tax is calculated assuming the account balance is paid out in equal amounts over 10 years and taxed at the single taxpayer's rate. In addition, you may qualify for special 20% capital gains treatment on the pre-1974 portion of your lump sum.

If you qualify for forward income averaging, you may want to figure your tax liability with and without averaging to see which method will save you more. Keep in mind that the amounts received as distributions are generally taxed as ordinary income.

To the extent 10-year forward income averaging is available, the IRS also will give you a break (minimum distribution allowance) if your lump sum is less than \$70,000. In such cases, taxes will only be due on a portion of the lump-sum distribution.

If you roll over all or part of an account into an IRA, you will not be able to elect forward income averaging on the distribution. Also, the rollover will not count as a distribution in meeting required minimum distribution amounts.

### Periodic Distributions.

If you choose to receive periodic payments that will extend past the year your turn age 70 ½, the amount must be at least as much as your required minimum distribution, to avoid penalties.

Uniform Lifetime Table for Required Minimum Distributions								
Age	70	75	80	85	90	95	100	105
	27.4	22.9	18.7	14.8	11.4	8.6	6.3	4.5

This table shows required minimum distribution periods for tax-deferred accounts for unmarried owners, married owners whose spouses are not more than 10 years younger than the account owner, and married owners whose spouses are not the sole beneficiaries of their accounts.

Source: IRS Publication 590.

### Other Considerations.

If your plan's beneficiary is not your spouse, keep in mind that the IRS will limit the recognized age gap between you and a younger nonspousal beneficiary to 10 years for the purposes of calculating required minimum distributions during your lifetime.

### Conclusion

There are several considerations to make regarding your retirement plan distributions, and the changing laws and numerous exceptions do not make the decision any easier. It is important to consult competent financial advisors to determine which option is best for your personal situation.

<sup>1</sup>Speak to a tax or financial advisor about your alternatives before making a decision.

<sup>2</sup>Annuity guarantees are backed by the claims-paying ability of the issuing company.

## Points to Remember

1. Distributions from a 401(k) can be delayed until retirement if a plan participant is still employed by the plan sponsor beyond age 70 ½ and if the plan participant does not own more than 5% of the company.
2. After age 70½, failure to withdraw the required minimum amount annually may result in substantial tax penalties.
3. A lump-sum distribution may qualify for 10-year forward income averaging.
4. The IRS will give you a break (minimum distribution allowance) if your lump sum qualifies for 10-year forward averaging and is less than \$70,000.
5. You may be able to accelerate or minimize the disbursement of your retirement assets by how you choose to calculate periodic payment time periods.