18 Commonly Asked QUESTIONS for TRADITIONAL IRAs: REQUIRED MINIMUM DISTRIBUTION

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Compliments of
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For over 27 years, Brian Ambrose has pursued a singular mission — to develop retirement income plans to help clients ensure their "golden years" are just that, truly golden, and in the process, create an income stream for life.

Brian attended the University of California at Berkeley, and shortly after graduating with a BA in Economics, he earned his certification as a CPA. Desiring to help clients with more than tax and accounting services, he earned the designation of Certified Financial Planner™ professional, which trained him to assist clients with virtually all their financial needs, from retirement account rollovers and income planning to asset protection and estate planning.

Rather than utilizing the one-size-fits-all approach so common in today's retirement planning, Brian works closely with clients to develop customized plans. "I strive," he says, "to help clients feel confident with their financial future through a unique blend of education, service and processes tailored to their individual needs."

Brian's services have gained him recognition for the past two years (2012-2013) in Diablo magazine as a San Francisco East Bay Five Star Wealth Manager, a group representing less than 3% of licensed wealth managers in the East Bay area. A greater tribute to him is his loyal, growing clientele.

Married since 1983, Brian and his wife, Marilyn, make their home in Concord, California, with their two boys, Michael and Kevin.

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Defining ***Required Minimum*** Distributions

Decisions can be difficult—especially those involving finances and retirement income planning. The intent of this booklet is to address commonly asked questions and misperceptions regarding Required Minimum Distributions (RMDs) from traditional IRAs.

Although Individual Retirement Accounts (IRAs) provide tax-deferred accumulation of funds for many years, taxation on distribution amounts is inevitable. Since the government requires you to take distributions (known as Required Minimum Distributions or RMDs) from your IRAs annually after age 70½, you can't avoid the tax on those withdrawals.

If you're like most people, you may have questions regarding RMDs and potential penalties incurred if you don't follow IRS regulations for distribution. This informational guide can help you understand how the rules of distribution impact your family finances with answers to commonly asked questions.

18 Commonly Asked QUESTIONS for TRADITIONAL IRAs: REQUIRED MINIMUM DISTRIBUTION

1

What is a Required Minimum Distribution from an IRA and how does it impact me?
Simply put, a Required Minimum Distribution (RMD) is the amount that must be distributed each year from the sum total of your traditional IRAs. This Internal Revenue Service (IRS) requirement begins the year you (as an IRA owner) reach age 70½ and is based on the year-end account value of your IRA(s).

2

When I turn age 70½, do I have to take a distribution immediately?
Your initial distribution must be taken by April 1 following the calendar year you reach age 70½. After the initial distribution, you must make annual distributions by December 31 of each year.

Since IRA money is taxable upon withdrawal, it's important you understand and make preparations for taxation. More importantly, you also need to determine what you want to do with the additional funds available to you as a result of the withdrawal. Do you pay off bills? Take the vacation of a lifetime? Provide financial assistance to a son or daughter? The more you know before age 70½, the better prepared you are to make the right financial decisions for you and your family.

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What if I choose not to take the Required Minimum Distribution or don't take out enough?
The government rules are clear. If you, as an IRA owner, do not take out the required amount, you will be subject to a 50 percent penalty on the amount that should have been distributed. The tax repercussions and other penalties from not taking the RMD could become a cyclical issue for you in years to come. It may be hard for you to get back on track as a result of the penalty.

How do I know what I'm required to take out each year?
Your RMD is determined by dividing the previous year-end value of your IRA(s) by your life expectancy factor. This life expectancy factor is determined by the IRS' Uniform Lifetime Table (below). There is a separate table used if your spouse is the sole beneficiary of your IRA and he/she is more than 10 years younger than you. Note that since the value of your IRA(s), along with your life expectancy, will change each year, your RMD will also change from year to year.

Source: IRS Publication 590, p.104 (http://www.irs.gov/pub/irs-pdf/p590.pdf)

Appendix C. Uniform Lifetime Table

Table III
(Uniform Lifetime)

(For Use by:
- Unmarried Owners,
- Married Owners whose spouses are not more than 10 years younger, and
- Married owners whose spouses are not the sole beneficiaries of their IRAs)

Age	Distribution Period	Age	Distribution Period
70	27.4	93	9.6
71	26.5	94	9.1
72	25.6	95	8.6
73	24.7	96	8.1
74	23.8	97	7.6
75	22.9	98	7.1
76	22.0	99	6.7
77	21.2	100	6.3
78	20.3	101	5.9
79	19.5	102	5.5
80	18.7	103	5.2
81	17.9	104	4.9
82	17.1	105	4.5
83	16.3	106	4.2
84	15.5	107	3.9
85	14.8	108	3.7
86	14.1	109	3.4
87	13.4	110	3.1
88	12.7	111	2.9
89	12.0	112	2.6
90	11.4	113	2.4
91	10.8	114	2.1
92	10.2	115 and over	1.9

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How much income tax am I required to pay on my Required Minimum Distribution?
Pre-tax contributions to your IRA and any interest earned that are withdrawn are subject to federal and possibly state income tax. The amount of taxes due depends on your income tax rate.

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Could I begin Required Minimum Distributions before I turn age 70½?
You may start withdrawing from your IRA any time after age 59½ without incurring an early distribution penalty.

7

How will the government know if I did—or did not—take my Required Minimum Distribution annually?
Think of it as a requirement that you must adhere to, just like filing your income tax each year. Just as employers are required to submit your earnings information to the IRS, IRA custodians must report accounts that are subject to Required Minimum Distributions to the IRS on a regular basis.

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The balance in my IRA is less than the Required Minimum Distribution amount. Will I be penalized for not paying the Required Minimum Distribution under these circumstances?
No. According to IRS Publication 590, you can simply withdraw the remaining balance of your IRA account, and the 50 percent excise tax will not apply.

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Do I have Required Minimum Distributions of Roth IRAs?
Since Roth IRAs are funded with post-tax dollars, there are no RMD requirements for Roth IRA owners. However, if you are a Roth IRA beneficiary, you must adhere to RMD requirements for beneficiaries, or face the same penalties as traditional IRA owners.

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I'm nearly 70, and I don't foresee needing the income that my Required Minimum Distribution would provide. What should I do with it in the meantime?
The beauty of proper investing throughout your lifetime is that it allows you choices when it comes to how you want to use your money. If you don't need the money for expenses when you turn 70½, you still need to take your Required Minimum Distributions. Although you can't take that money and invest it into another tax-deferred IRA, you can move it into one of many other tax-favored assets—including a tax-deferred annuity. Or, as you age, you may want to invest your distribution dollars into a long-term care insurance policy, which allows you to maintain choices in regard to elder care.

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My husband is my sole IRA beneficiary. If I die before he does, will he have to take Required Minimum Distributions from my IRA?

Yes. But not until he reaches age 70½ if spousal continuation is elected. However, if the surviving spouse elects to treat the IRA as inherited, RMDs begin at the time the deceased spouse would have been 70½.

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When I die, does my non-spouse beneficiary(s) have to take RMDs from my IRA?

If your beneficiary(s) is someone other than your spouse, he/she has the option to take over your IRA as an inherited IRA. An inherited IRA allows your beneficiary(s) to continue to grow the IRA tax-deferred while taking RMDs according to his/her life expectancy (apart from certain exceptions). The Inherited IRA could help your beneficiaries spread the income tax over their own life expectancy. For your reference, the following is the IRS' Single Life Expectancy Table for inherited IRAs.

Source: IRS Publication 590, p.104 (http://www.irs.gov/pub/irs-pdf/p590.pdf)

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I've been married twice, so I have two children in different generations. My son from my first marriage is 39 and my adopted daughter from my current marriage is five. How is the RMD determined for each beneficiary?

This is a good question since many people don't realize the significance of their children's ages as they relate to Required Minimum Distribution rules.

If the inherited IRA is not divided into separate accounts for each beneficiary, upon your death, your children's Required Minimum Distribution will be based on beneficiary with the shortest life expectancy. However, if the inherited IRA is divided into separate accounts for each beneficiary by the end of the year following the year of the IRA owner's death, each beneficiary may use his/her own age for computing the RMDs on the inherited IRA(s). Proper planning is key to ensuring both children begin RMDs based on their respective life expectancies, and not that of the much older sibling.

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What happens to my IRA if I die and I don't have a spouse or named beneficiary?

If you don't name a beneficiary, the IRA is moved to your estate. Presumably, your estate has beneficiaries named. If you have not yet begun RMDs, those beneficiaries must withdraw all funds and deplete the accounts under the five-year rule, meaning the account must be depleted by December 31 of the fifth year following your death. Balances remaining after the five-year rule will be subject to the 50 percent excise tax based on RMD rules. If you die after you begin RMDs, your estate beneficiaries will experience a distribution period based on your life expectancy calculated based on the year of your death, and reduced by one for each subsequent year.

I have a number of IRAs through different companies. How do I handle taking my Required Minimum Distributions?

Simply add the balance in all of your IRAs and divide the total by the factor applicable to you in the IRS' Uniform Lifetime Table (see table depicted on page 4). You do not have to take individual RMDs from individual IRA accounts. The IRS will allow you to withdraw the total RMD owed on all IRAs annually from one IRA, or any combination of IRAs (excluding inherited IRAs).

Is it advantageous to convert all of my traditional IRAs to Roth IRAs?

This is a question best answered through consultation with your tax adviser and financial professionals. But, if you decide to convert your traditional IRAs to Roth IRAs, it's advisable to do so before you turn age 70½. Roth IRAs do not require RMDs during the IRA owner's lifetime.

I've made after-tax contributions to my IRA. How does that impact my Required Minimum Distributions?

Despite the fact that some IRA contributions made are non-deductible, they're still considered when calculating RMDs. Of course, you will not pay taxes on non-deductible portions of the distribution, but you will owe taxes on any earnings made on those contributions.

Who can help me do some advanced planning regarding what to do with my Required Minimum Distributions?

As with all other aspects of retirement income planning, professionals are available to help you make the decisions that are right for your particular situation. To help you become familiar with options for your Required Minimum Distributions, please contact your insurance professional. They would be able to review your current retirement strategy and give guidance to you.

3 *Added Bonus:* Hypothetical Scenarios

Scenario 1: Sylvia is age 70 with a $153,000 IRA after 35 years of work as a marketing executive. Dale, Sylvia's husband, is age 75 and has IRAs valued at $220,000 at year's end. He's been taking Required Minimum Distributions since he was age 70. Before turning 70½, Sylvia will need to determine her RMD from her $153,000 IRA. Sylvia would utilize the Uniform Lifetime Table to determine her life expectancy so she can calculate her amount.

Scenario 2: Tanya and James were beneficiaries of their father's traditional IRAs and his 401(k) when he died at age 62. After reviewing the Single Life Expectancy Table, Tanya sees that her life expectancy is 42.7 years. According to her advisor, she determines her age of 41 sets the precedent for life expectancy for both her and James. This means although James is only 33, as a result of Tanya's age, James' life expectancy will be considered as 42.7 years unless separate accounts are established by the end of the year following the year of their father's death.

Scenario 3: On October 21, Daniel will reach the age of 70½. Normally, this would mean he would consult the Uniform Lifetime Table to determine his life expectancy. But, his wife, Shirley, is currently age 58 and since she is the sole beneficiary of his traditional IRAs, and also more than 10 years younger than Daniel, they would consider their "joint" life expectancy to determine the RMD by consulting the IRS' Joint Life and Last Survivor Expectancy Table (not included in this booklet).

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As required by the IRS, you are advised that any discussion of tax issues in this material is not intended or written to be used, and cannot be used, (a) to avoid penalties imposed under the Internal Revenue Code or (b) to promote, market or recommend to another party any transaction or matter addressed herein.

Determining when (or if) you should convert to a Roth IRA is an individual decision based on factors such as your financial situation, age, tax bracket, current assets and alternate sources of retirement income. Your unique circumstances help determine what's right for you.

Respond and learn how life insurance and annuities can be used in various planning strategies for retirement.

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