

Understanding Required Minimum Distributions

Wood Financial Services

David A. Wood
CLU, ChFC

David Wood is a
branch manager of
Jefferson Pilot
Securities
Corporation, member
[FINRA](#), [SIPC](#) and
president of
Wood Financial
Services
8 Fountain Place
Frankfort, KY 40601
502-875-5231
dawoody@fewpb.net

On Jan. 11, 2001, the IRS released new proposed regulations for Required Minimum Distribution (RMD) calculations. The new rules went a long way in eliminating the complexity of taking forced distributions from qualified retirement plans. For most taxpayers, these changes reduced the amount of distributions that are forced out of Traditional IRAs, 401(K), 403(b), and 457 plans at age 70 ½.

Under the 2001 regulations, the calculation of the RMDs is much less complex because the rules eliminated the need to make an irrevocable distribution decision at age 70 ½. Instead, the taxpayer's RMD will be calculated based on the Minimum Distribution Incidental Benefit (MDIB) life expectancy factor table. A new factor will be selected each year, based on the taxpayer's age. For the purpose of calculating the minimum distributions from the IRA, the account balance is determined as of December 31st of the preceding year. After determining the account balance and the MDIB factor, the IRA institution will simply divide the two numbers to calculate the amount that must be distributed. Do not worry about calculating the RMD yourself, the IRA institution is required to do it for you.

Designated beneficiaries will no longer affect RMDs except in the case where a spouse is ten years younger than the IRA owner and is the sole beneficiary. In this situation, the joint life expectancy of the retirement account owner and spouse may be used.

What happens at the death of the IRA Owner?

Spouse as the beneficiary:

If the spouse is the beneficiary he or she has the option of rolling over the assets into his or her own IRA. Distributions will be based on the spouse's own RMD and life expectancy according to the universal RMD table. The beneficiary also has the option to take control of the owner's IRA and continue taking distributions on the IRA owner's schedule. If the spouse beneficiary is older than the owner, taking distributions on the owner's schedule may be a better option because the distribution would be based on the younger spouse's life expectancy, hence reducing the distribution that would be forced out of the account.

Non-Spouse as the Beneficiary:

If the owner dies prior to starting their required minimum distributions, non-spouse beneficiaries can take distributions over their life expectancy. The required distribution would be re-calculated based on the beneficiary's age. If the owner dies after the owner started required minimum distributions, non-spouse beneficiaries may also take distributions over their life expectancy provided the assets are moved to a beneficiary IRA.

This is a significant change. In the past, depending on the RMD calculation method chosen by the owner, the owner's death could accelerate the distribution schedule. If you have already started taking minimum distributions you have the option of re-calculating your RMD. You can use the 2001 rules, which will probably result in a smaller required distribution for future years. Remember, these rules set the minimum amount you must withdraw from your IRAs; you can always take more. For more information on the Required Minimum Distributions and how the 2001 rule changes affect you, contact David Wood at 502-875-5231.

Jefferson Pilot
Securities Corporation
One Granite Place Concord, NH 03301
800-258-3648