

Abstract: In January, the IRS overhauled its regulations for taking required minimum distributions (RMDs) from traditional IRAs, Roth IRAs and qualified retirement plan accounts. The 2001 regulations are simpler and more generous to IRA owners and their beneficiaries. This article explains what's new and how to calculate the RMD amount.

IRA Distribution Requirements Simplified

In January, the IRS overhauled its regulations for taking minimum distributions from traditional IRAs, Roth IRAs and qualified retirement plan accounts. The 2001 regulations are simpler and more generous to you and your beneficiaries. Let's examine what has changed.

What's New?

The age at which you must start taking distributions hasn't changed -- it's still 70½. But the IRS has simplified the way you calculate the required minimum distribution (RMD) each year after you reach age 70½.

In most cases, the RMD will be lower than under the old calculation methods. In addition, you'll be able to stretch out the distribution period, allowing a greater accumulation of tax-deferred interest and dividends. And because the calculations are simpler, you'll be less likely to underestimate the RMD. Underestimating this amount could result in stiff penalties of 50% of the amount you should have withdrawn but didn't.

Calculating the RMD

Beginning in the first full year after you reach age 70½, you must take yearly distributions from your IRA. Under the old regulations, to calculate the RMD you had to take into account both your age and your beneficiary's age. Then you had to choose between three calculation methods: 1) term certain (also called fixed-term), 2) joint recalculation or 3) hybrid (or split).

Under the new regulations, you simply use the IRS's uniform life expectancy table. (See "Uniform Life Expectancy Table" at right.) For most participants and beneficiaries, this table produces lower annual distributions than the old calculation methods. But the new rules may produce larger RMDs for some beneficiaries who inherit benefits from a participant who died after his or her required beginning date.

To calculate your RMD in any given year, locate your age in the left column of the table. In the right column of that line is the number of years over which you can stretch distributions. Simply divide your account balance as of Dec. 31 of the previous year by the number of years in your distribution period. For example, let's say when you reach age 80, your IRA balance is \$400,000. Using the uniform life expectancy table, your RMD would equal \$22,727 (\$400,000 divided by 17.6).

But if your beneficiary is a spouse more than 10 years younger than you are, your calculation will be based on your joint life expectancy. You would then use a different table available in IRS publication 590.

Because the age of your beneficiary doesn't matter while you're alive -- unless he or she is your spouse - - you may change the beneficiary any time you wish. In fact, you don't have to name a beneficiary at all.

If you die without naming one, your heirs will inherit the IRA. Under the old rules, if you failed to name a beneficiary shortly after you reached age 70½, you'd probably have to take larger distributions over a shorter period.

Post-Death Distributions

Under the new regulations, the identity of your beneficiary will not be finalized for purposes of computing the RMD until the end of the year following your death. In addition, your beneficiary's life expectancy is the basis for the applicable distribution period. If you die without naming a beneficiary and you've already begun taking distributions, your heirs will calculate their distribution period based on your age at the end of the year following your death. That divisor is reduced by one year for each year after your death.

If you die without naming a beneficiary and before commencing distributions, all benefits must be distributed no later than Dec. 31 of the year that contains the fifth anniversary of your date of death. The former distribution rules required beneficiaries to take a lump sum distribution, resulting in hefty tax consequences.

Regulations In Effect Now

The new regulations went into effect Jan. 1, 2001. You may use the new regulations for calendar year 2001, but you must follow the new regulations beginning with distributions you make in 2002. If you would like help assessing how the 2001 distribution rules affect your IRA, please give us a call. We can explain how they simplify your estate plan.

Uniform Life Expectancy Table

Your Age Distribution Period

70	26.2
71	25.3
72	24.4
73	23.5
74	22.7
75	21.8
76	20.9
77	20.1
78	19.2
79	18.4
80	17.6
81	16.8
82	16.0
83	15.3
84	14.5
85	13.8
86	13.1

87	12.4
88	11.8
89	11.1
90	10.5
91	9.9
92	9.4
93	8.8
94	7.8
95	7.3
96	6.9
97	6.5
98	6.1
99	5.7

Please note that the Uniform Life Expectancy Table goes up to age 115.