March 8, 2001

# REVISED REQUIRED MINIMUM DISTRIBUTION RULES FOR QUALIFIED PLANS AND IRAS

IRS's major revision of the required minimum distribution rules for qualified plans and IRAs has received much attention in the press in the past few weeks, and for good reason. The rules dramatically simplify the method of calculating minimum payouts for owners of retirement plan accounts and their beneficiaries, and completely revise the rules on when beneficiaries are designated.

- You must begin taking minimum annual distributions from your IRAs, 401(k)s and other individual accounts in an employer-sponsored defined contribution plan (such as a profit-sharing plan) when you reach a certain age. For most people, the required beginning date for payouts is April 1 following the year in which they turn age 701/2. The IRS has simplified and liberalized the rules which determine the minimum annual distribution that must be withdrawn from these types of retirement accounts. In general, you'll have to withdraw less each year under the revised rules than you did under pre-existing IRS guidance. For those looking to withdraw the rock-bottom minimum from their retirement plan accounts, the new rules will result in a lower tax bill, a longer-lived tax shelter for the family, and potentially larger payouts for the owner's beneficiaries.

There are three major simplifications and liberalizations you should be aware of:

(1) Simplified payout rules mean smaller distributions for most people. Under the new IRS rules, one simple table is used by virtually all people to calculate the minimum annual distribution from IRAs and other individual accounts in an employer-sponsored defined contribution plan. (The one exception is where a spouse is more than ten years younger than the employee or IRA owner, in which case a “joint and survivor” table is used to figure minimum payouts.) Under the prior rules, the minimum annual distribution depended on a host of complex factors.

The new, simplified table means smaller required distributions for most people. If you are already receiving required distributions (or are about to start), they will be lower under the new rules. If you want to withdraw the absolute minimum from your IRA, you will have to tell the trustee or fiduciary to make smaller payments to you from the account.

(2) New rules for post-death payouts. The balance remaining in a retirement account such as an IRA after its owner dies must be paid out within a certain period of time. These post-death payout rules also have been simplified and liberalized as follows:

- If a retirement account has a designated beneficiary, the account balance may be paid out over the beneficiary's remaining life expectancy. In general, a designated beneficiary must be an individual, such as your child, and can't be an institution or your estate.

- If the retirement account does not have a designated beneficiary and the account owner dies after his required beginning date, the account balance may be paid out over the remaining life expectancy of the account owner, determined just before he died.

… If the account does not have a designated beneficiary and the account owner dies before his required beginning date, the account balance must be paid out within 5 years after the owner's death.

These rules replace an incredibly complex labyrinth of rules where post-death payouts depended on the payout method chosen by the account owner.

(3) When designated beneficiary must be named. Under the revised rules, the designated beneficiary of a retirement account is determined as of the end of the year following the year of the account owner's death, allowing you to change beneficiaries easily.

Please feel free to call at your convenience to discuss how the new rules affect your retirement, estate and financial plans.