



Required Minimum Distributions

The Required Minimum Distributions (RMD) module calculates the required amounts for plan participants who must begin (or who have already begun) withdrawing funds from a tax-qualified retirement plan because they have reached age 70½ or because they have retired. (Some people call these MRDs: Minimum Required Distributions – same thing!)

This module now includes calculations mandated by the final regulations issued by the IRS in April 2002. Either the new rules or the previous rules may be used for most Required Minimum Distributions for the year 2002; only the new rules apply starting in 2003.

Please note that the input screens and on-line Help for the the Required Minimum Distribution calculator and 72(t) Distributions calculator are nearly identical. Certain fields that pertain only to 72(t) Distribution calculations will remain suppressed if they are not needed to perform a Required Minimum Distribution calculation. We have noted those fields below.

When to Use This Calculator

IRAs, tax-qualified Defined Contribution plans, and some non-qualified plans (i.e., Section 457 plans) require that distributions begin after age 70½, or at retirement, if later. The IRS has issued very specific regulations about exactly when distributions must begin, and what the minimum distribution amount must be.

RMD calculations are highly seasonal. In general, which is to say for IRAs and for employer sponsored plans where the participant is already retired, distributions begin the year the fund owner or plan participant turns 70½, although the first distribution may be delayed until as late as April 1 of the following year. After age 70½, a distribution must be made every year, by the end of the calendar year. In most cases where fund owners and plan participants want to make the minimum distribution, the object is to keep the funds tax sheltered as long as possible, so most RMDs are made as close to the last minute as possible. This means at the end of March for initial distributions, at the end of December for subsequent distributions.

In most versions of the system, you may also use this module to obtain a multi-year analysis of how required distributions might play out in the future (this option is selected from the Print menu). By entering a participant and/or spouse death date in the appropriate fields, you can illustrate a number of "Inherited IRA" or "Stretch IRA" concepts. The system does not currently track the future splitting of an account among multiple beneficiaries, however.



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Please note that RMD rules do not apply to Roth IRAs or other Roth-type plans (particularly Roth 401(k) and Roth 403(b) plans, which will become available in 2006).

The screenshot shows the 'Required Minimum Distributions' window in RetirementWorks software. The window has a blue background and contains several sections of input fields and controls:

- Plan basics:** Includes fields for Name, Date of birth, and a checkbox for 'Use 2003 rules, if applicable'. The 'Type of plan' is set to '401(k) / 401(a) / Misc. def. contr.'.
- Plan balance:** Includes 'Adjusted year-end balance' (with a dollar sign), 'Calendar year this balance applied (yyyy)' (set to 2001), and a field for 'For 403(b), amount of this balance that is "grandfathered" (i.e., 12/31/86 balance)'. There is also a 'Recalculate initial Withdrawal Date' button.
- Single or Joint life:** Includes a radio button selection for 'Is there currently a beneficiary named for this account?' (set to No) and another set of radio buttons for 'Who is the beneficiary?' (set to Spouse only). It also includes fields for 'Spouse date of birth' and 'Date of birth of oldest non-spouse beneficiary'.
- Withdrawal dates and options:** Includes fields for 'If plan owner has died, year of death' and 'If spouse has died, year of death'. It also has radio buttons for 'Did required distributions start in a previous year?' (set to Yes), a field for 'Year withdrawals started (yyyy)', and a dropdown for 'Option elected'. There is also a field for 'Option to be illustrated'.
- Other options:** Includes fields for 'Retirement year', '5% Owner' (radio buttons set to Yes), and 'Gov't or church employee' (radio buttons set to Yes).
- Interest rate:** A field for 'Interest rate used to illustrate fund growth' is set to 8.00.
- Buttons:** 'Calculate' and 'Close' buttons are at the bottom left.
- Warning:** A yellow warning message at the bottom right states: 'WARNING: Initial withdrawal date does not match the expected date! Press <F1> for Help.'
- Footer:** 'Version 3.18D expires 04/15/03' is displayed at the bottom left.



How to Use This Calculator

The input screen is divided into four sections. Start at the top of the input screen and work your way down. As you do so, certain fields and certain options will be enabled or disabled, according to what choices you make above. This will guide you in your inputs. Use the detailed instructions that follow, or press the <F1> key at any time during the input process to obtain on-line Help.

When you have finished entering all the required information, use the "Print" menu to print or preview the results.

Detailed Input Instructions

Name

Enter the fund owner or plan participant's name, as it should appear on the printed report.

Date of birth

Enter the fund owner's date of birth in mm/dd/yyyy format. This information is always required.

Use 2003 rules, if applicable

The 2003 rules were issued as final regulations by the IRS in April, 2002, and in almost all cases result in a lower required distribution amount. Therefore, they are usually preferable for RMDs. In most cases, they are optional for the 2002 calendar year.

Starting in 2002, the new rules become mandatory and they will automatically be used.

Type of plan

Select the type of plan from the pull-down list. It is important to indicate the correct plan type



since different plans follow somewhat different rules under IRS regulations. All applicable plans fall into one of four categories:

- **401(k) / 401(a) / Misc. def. contr.** This category includes any plans not listed in the other categories below.
- **403(b)** This category includes only 403(b) plans (also known as tax-sheltered annuities or tax-deferred annuities, whether they are actually funded with annuities, mutual funds, or other financial products).
- **IRA / Simple IRA / SEP IRA** This category covers any kind of IRA plan subject to the rules in question. Note, however, that Roth IRA plans are NOT subject to these rules.
- **457 Plan** This option includes Section 457 plans only

Defined Benefit plans, non-qualified retirement plans (other than Section 457 plans), and Roth IRAs are not subject to the distribution rules that apply to 401(k) plans, IRAs, 403(b) plans and the other plans listed above. Do not use this software for those plans.

Adjusted year-end balance

Enter the total **adjusted** balance as of December 31 of the applicable year (see the "Calendar year this balance applied" field for more information about which year is correct).

Starting with 12/31/2001 plan balances, most adjustments are no longer necessary. The only thing to watch out for is that transfers, rollovers or Roth IRA re-characterizations that are in transit on December 31 must still be counted as plan balance amounts in whichever plan they officially belonged to as of that date (even if they do not physically arrive on time).

Prior to 12/31/2001, the total adjusted balance is the balance in the plan account(s) as of December 31, *including* any interest or other earnings as of December 31, *plus* any forfeitures subsequently received, *plus* any contributions made in the new year that are applicable to the preceding tax year. For example, if the first required minimum distribution is April 1, 2000, and there was \$100,000 in the account as of December 31, 1999, and \$2,000 was contributed in January for the 1999 calendar year, the adjusted account balance would be \$102,000. If the second year of a distribution is being calculated, and the first year's withdrawal was made after the end of the calendar year, *subtract* the amount of the first year's withdrawal. Do not add or subtract any earnings or losses on the account since the end of the previous calendar year. To continue with the above example, suppose \$6,700 was the required withdrawal for the 1999 calendar year and that the withdrawal was made on April 1, 2000. The second withdrawal would have to be made by December 31, 2000. The adjusted year-end balance would then be



the \$102,000 adjusted balance used for the first withdrawal, minus the \$6,700 withdrawal itself, for a second-year adjusted balance of \$95,300.

For a 403(b) plan, this balance includes any grandfathered amounts.

Calendar year this balance applied (yyyy)

Enter the year for which the adjusted year-end balance applies. Since the balance is always that as of December 31, only the year, not the full date, is required. The correct year is generally the year preceding the year in which the actual withdrawal is being made. For example, if a withdrawal is being made in 2000, then 1999 is the correct entry for this field.

Exception: If the withdrawal is a first Required Minimum Distribution, to be made by April 1, the correct year is the year the plan owner turned 70½, which would be two calendar years prior to the withdrawal. This field will default to the year prior to whatever date you are running the system.

For 403(b), amount of this balance that is "grandfathered" (i.e. 12/31/1986 balance)

For 403(b) plans only, balances that can be validated to be correct as of December 31, 1986, are subject to different, and generally more liberal, required minimum distribution rules than are amounts earned or contributed after that date (or amounts earned or contributed under non-403(b) plans). If the 12/31/1986 balance is known, therefore, it is helpful to enter it here in order to determine the lowest allowable withdrawal. The 12/31/1986 balance, if specified, must, however, be reduced each year by the amount, if any, of the grandfathered funds that have been previously withdrawn. It must also be reduced by any non-required distributions.

For example, if the total adjusted plan balance is \$100,000 the first year, of which \$25,000 is grandfathered, the minimum distribution might be \$1,000 for the grandfathered amount and \$5,000 for the non-grandfathered amount. For the next year, the grandfathered balance would be \$24,000 (the initial \$25,000 balance minus the \$1,000 withdrawn the previous year). No interest earned on the grandfathered amount after 12/31/1986 can be taken into account. If the fund owner had previously withdrawn \$4,000 voluntarily from the plan, this \$4,000 would be considered to have come entirely from the grandfathered balance, and the grandfathered amount would instead be \$21,000 the first year, and \$20,000 the second year.

Use of the grandfathered amount is optional, not required. However, once you have begun distributions, either taking the grandfathered amount into account or not, you must continue using the same method thereafter.



Is there currently a beneficiary named for this account?

Required minimum distribution calculations are generally based on some measure of life expectancy.

If there is no beneficiary for the account, or if any beneficiary is not a person (e.g. the fund owner's estate, a trust that does not meet specific requirements outlined in IRS Proposed Reg. 1-401(a)(9), a corporation, or another non-personal entity), select "No".

If there are one or more personal beneficiaries named for the fund, and if there are no non-personal beneficiaries, then you can select "No" or "Yes". Joint life expectancy can be more advantageous for required minimum distributions if you want to minimize annual withdrawals.

Who is the beneficiary?

This field is activated if you have chosen "Yes" in the "Is there currently a beneficiary named for this account?" field above.

Select the appropriate beneficiary. This choice is based only on the principal beneficiary(ies), not on any contingent beneficiaries. For example, if the spouse is the principal beneficiary, and the children are to be beneficiaries only if the spouse dies before the fund owner dies, then the children are merely contingent beneficiaries, and the correct selection is "Spouse only". If, however, the fund is to be split between the spouse and the children when the fund owner dies, then select "Spouse plus non-spouse".

Under the new 2001 rules, a beneficiary does not really have to be determined until the death of the fund owner. (Under the old rules, the correct beneficiary designation is the one in effect at the time that distributions begin. If the beneficiary is subsequently changed, you should use the new beneficiary designation in this field ONLY if the new designation is less advantageous than the old. That is, you may not change from non-personal to personal beneficiaries, from single to joint, or from non-spouse (or spouse plus non-spouse) to spouse only. Or, to be more precise, although the actual beneficiaries may be changed, the calculations must be done as if the beneficiary had not changed. However, if you change from a more favorable to a less favorable beneficiary designation (personal to non-personal, joint to single, spouse to non-spouse), then the newer, less advantageous designation must be entered.)



Spouse date of birth

This field will become active if you've chosen "Yes" in the "Is there currently a beneficiary named for this account?" field and you have selected either "Spouse only" or "Spouse plus non-spouse" in the "Who is the beneficiary?" field.

Enter the spouse's date of birth in mm/dd/yyyy format.

Date of birth of oldest non-spouse beneficiary

This field will become active if you've chosen "Yes" in the "Is there currently a beneficiary named for this account?" field and you have selected either "Non-spouse only" or "Spouse plus non-spouse" in the "Who is the beneficiary?" field.

Enter the birth date of the oldest non-spouse beneficiary in mm/dd/yyyy format.

Did required distributions start in a previous year?

This field asks whether required distributions have already started. It must be answered correctly, even though the default is "No".

If this is the first year of a program of required distributions, click "No". If the calculation is for a withdrawal after withdrawals have already started, click "Yes".

Depending on the answer, different fields below will be turned on or off. Make sure you examine each field that is turned on to make sure that each entry, if applicable, is correct.

Under the new January 2001 rules, this field is not needed unless you indicate that the fund owner has died prior to the required beginning date for required minimum distributions.

Year withdrawals started (yyyy)

This field becomes active if you've chosen "Yes" in the "Did required distributions start in a previous year?" field.

The year withdrawals started is the year the fund owner first became subject to minimum distributions. For most people, this is the year they turned 70½ or, under more recent rules for non-IRA plans, the year they retired. There are at least two reasons that distributions might have actually started in a later year:



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- The first required distribution is normally made by April 1 of the calendar year following the year the person turned 70½ or retired, as appropriate.
- The fund owner may have neglected to make the withdrawal, even though it was required.

In either case, use the year the person turned 70½ or retired, as appropriate, not the year the first withdrawal was physically made. For example, if the fund owner turned 70½ on July 4, 1999, his or her first required minimum distribution needs to have been made by April 1, 2000. Nevertheless, if the second or later distribution is the one being calculated, enter "1999" as the year withdrawals started. (Note that sometimes the correct year can be other than age 70½ or retirement, particularly if the fund owner dies before the required beginning date, or if the fund owner is still working at age 75 and grandfathered funds are involved.)

Under the new January 2001 rules, this field is not needed unless you indicate that the fund owner had died prior to the required beginning date for required minimum distributions.

Option elected

If you selected "Yes" in the "Did required distributions start in a previous year?" field, this field becomes active. If distributions have already begun, you must indicate which option was originally selected. Select from the following options:

- **No annual recalculation.** Distributions are based on life expectancy at the time of the first withdrawal. This is usually the preferable option if a non-spouse beneficiary is involved.
- **Annual recalculation.** Distributions are based on life expectancy that is recalculated every year based on who is still alive and what their current ages are. This is usually the preferable option for single life expectancy or for joint life expectancy with a spouse alone.
- **Recalculate Owner only.** When joint life expectancy is being used, only the fund owner's life expectancy is recalculated; the other party's "adjusted age" is used.
- **Recalculate Spouse only.** When joint life expectancy with a spouse (only) is being used, only the spouse's life expectancy is recalculated; the fund owner's "adjusted age" is used.



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If plan owner has died, year of death

If the fund owner has died, enter the year of death in yyyy format. The exact date does not matter, just the year. The death of either the fund owner or the spouse beneficiary could significantly affect the appropriate calculations.

So-called Inherited IRAs or Stretch IRAs can be illustrated using this field. The underlying concept is that if a much younger, non-spouse beneficiary is chosen, when the fund owner dies, required minimum distributions will be subsequently based on the survivor/beneficiary's life expectancy alone. Since he or she is so young, life expectancy is long, and distributions are stretched out. To illustrate this concept, select a beneficiary in the "Who is the beneficiary?" field, enter the beneficiary's date of birth, and enter a future/hypothetical year of death in the "If plan owner has died, year of death" field. Then select the multi-year required minimum distribution report from the "Print" or "Preview" menu. On this report you will see that following the projected year of death of the fund owner, the divisor suddenly jumps up and the rate of withdrawals suddenly drops. Note that you can also illustrate the Inherited or Stretch IRA concept any number of years before the required beginning date if you wish; if you are also indicating death before the required beginning date, however, enter the death date before selecting the illustration concept, since the options differ from normal in this situation.

If spouse has died, year of death

If the spouse has died, enter the year of death in yyyy format.

The year of death for a non-spouse beneficiary is not material, since even if life expectancy is being recalculated every year, such recalculations are permissible only for the fund owner and/or spouse.

Inherited IRA

This check box appears on the same line as the Year of Death fields, and it is enabled when there is both a spouse and non-spouse beneficiary. When all the proper inputs are entered (see below), you can select a special "Inherited IRA" illustration from the Print menu.

The Inherited IRA concept applies to families where there are two spouses and at least one child, grandchild, or other younger beneficiary, and where there is a desire to minimize required distributions as much as possible to preserve assets. Under current regulations, the best way to do this is to have the spouse be the sole beneficiary while the original account holder is still alive. If the account holder dies first, then the account should be rolled over into a spouse-owned IRA (or re-characterized as the spouse's IRA, if it was already an IRA account), and the



younger beneficiaries added at that point. (If the spouse dies first, then the younger beneficiaries should be added to the original account after the spouse dies.) The Inherited IRA illustration will do a side-by-side comparison of several possible arrangements, and show how much better the Inherited IRA is.

In order to illustrate the concept, you need to have (1) both spouse and non-spouse beneficiaries; (2) hypothetical death dates for both the original fund owner and spouse; and (3) the Inherited IRA check box on. If you have all these same inputs but leave the Inherited IRA check box off, a multi-year report will include the non-spouse beneficiaries immediately; with the Inherited IRA check box on, a multi-year report will show the non-spouse beneficiaries only after both spouses are dead.

You can select the Multi-year print option to produce detail reports to show how the Inherited IRA values were arrived at, but you will have to adjust the beneficiary options and then run each arrangement separately, if you want detail for each alternative.

Retirement year

For plans other than those in the IRA category, the rules changed in 1997 concerning the beginning date for required minimum distributions. The required beginning date is now April 1 of the year following the later of the year the fund owner turns 70½ or the year he or she retires. If you are calculating an RMD for a non-IRA plan, therefore, you need to specify the date of retirement, and this field will be activated. This is necessary so that the system can verify the beginning date for distributions.

Unfortunately, the definition of retirement is not always clear. One rule of thumb commonly used is that if the participant is eligible for a defined benefit plan distribution, or for a defined contribution plan benefit based on separation from service, then that person is considered to be "retired". But if the participant continues working on a part-time or contract basis, or takes substantial employment with another employer, the retirement status is at least somewhat arguable. Clear guidance from the IRS does not yet exist in this area.

5% Owner

For plans other than those in the IRA category, fund owners who are 5% owners of the sponsoring organization must begin RMDs on April 1 following the year they turn 70½, even if they are still working. In order to calculate the required beginning date for such distributions, therefore, the system needs to know whether this status applies. This field will become active if needed.



A 5% owner is an employee who owns or has owned 5% or more of the outstanding stock, or 5% or more of the total voting power of all stock, or is the source of 5% or more of the capital, or is entitled to 5% or more of the profit, at any time during the five plan year period ending in the calendar year the employee turns 70½.

Gov't or church employee

For 403(b) plans, the rules changed in 1997 concerning the beginning date for RMDs. The required beginning date is now April 1 of the year following the later of the year the fund owner turns 70½ or the year he or she retires. However, for government and church employees, this rule was always in effect, although distributions were required to begin no later than age 75. If you are calculating an RMD, therefore, for a 403(b) plan, you may need to specify whether the plan participant is a government or church employee so that the system can verify the beginning date for distributions. This field will become active when needed. Please note that a school teacher is considered to be a government employee.

Initial withdrawal date

Enter the initial withdrawal date, which is the required beginning date as defined by the IRS – even if the actual withdrawal occurs or is going to occur on a different date. If the date you enter does not match that calculated by the system, a warning will appear at the bottom of the screen. You may still run the calculation, however, even with the warning present.

If the first distribution is being calculated, enter the date (in mm/dd/yyyy format) that distributions are required or expected to begin. (Note that if the participant dies before the first distribution is made, the initial withdrawal date is December 31 of the year following the year of death.) If a second or later distribution is being calculated (and you have clicked "Yes" in the "Did required distributions start in a previous year?" field), do not enter anything in this field; use the "Year withdrawals started (yyyy)" field instead.

The system will calculate the date for you when you first enter the date of birth for the fund owner. However, once a date appears, the system will not always change it, even if you make other entries that suggest a different date, since the system cannot be sure whether or not you intend a different date. You can always have the system recalculate the date for you by clicking the "Recalculate initial Withdrawal Date" button.



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Interest rate used to illustrate fund growth

Enter a reasonable rate of interest to be used in calculating fund growth. This entry has no effect on the RMD calculation for the current year, but if you are illustrating a multi-year calculation, the system will calculate future fund growth using the rate you enter here.