

Understanding Required Minimum Distributions

The objective of the required minimum distribution rule is to ensure that the entire value of a traditional IRA or employer-sponsored qualified retirement plan account will be distributed over the IRA owner's/retired employee's life expectancy.

When Must Required Minimum Distributions Begin?

In the case of traditional IRAs, required minimum distributions must begin no later than April 1 of the year following the year in which you reach age 70-1/2 and must continue each year thereafter.

In the case of employer-sponsored qualified retirement plans, required minimum distributions must begin by April 1 of the year that follows the later of (1) the calendar year in which you reach age 70-1/2 or (2) the calendar year in which you retire from employment with the employer maintaining the plan (unless the plan requires that you begin receiving distributions by April 1 of the year that follows the year in which you reach age 70-1/2).

If you wait until the year following the year in which you reach age 70-1/2 or, in the case of a qualified retirement plan, retire from employment, you must receive a minimum distribution on behalf of the previous year by April 1 of the current year, and a minimum distribution on behalf of the current year by December 31 of that year.

How Are Required Minimum Distribution Amounts Calculated?

IRS regulations regarding required minimum distributions include a "Uniform Lifetime Table" with "Distribution Period Factors." The appropriate "Distribution Period Factor," based on your age in the distribution year, is divided into your account balance as of the previous December 31 in order to determine your required minimum distribution for the current tax year.

What Happens if Minimum Distribution Requirements Are Not Met?

The difference between the required minimum distribution you should have received and the lower amount you actually received is subject to a penalty tax of 50%...an outcome to be avoided! Financial institutions report IRA distributions to the IRS on Form 5498 and are required to indicate if the IRA is subject to required minimum distributions.

May I Withdraw More Than the Required Minimum Distribution?

Yes, although minimizing qualified plan and IRA distributions may result in substantial tax savings. Consult your financial advisor for a more in-depth analysis.

NOTE: The above discussion does not apply to non-deductible Roth IRAs, which are not subject to minimum distribution requirements.

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