At 70 1/2, withdrawal from qualified retirement accounts a must

401(k) ADVISER
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The rules that govern how we put money into our retirement accounts are pretty well known, but the rules for withdrawing it are a mystery to many.

One of the most important rules you need be aware of is that the Internal Revenue Service does not allow you to keep your savings in a retirement account indefinitely.

Age 70½ is the trigger when most people must begin making required minimum distributions, or RMDs, from their qualified retirement accounts.

The IRS established this rule to force savers who have taken advantage of the tax-deferred nature of these accounts to begin paying taxes by requiring them to withdraw money from these accounts. Failure to withdraw at least the minimum amount from your retirement account by the appropriate deadline is likely to result in an IRS-imposed tax penalty of up to 50% of the amount not withdrawn as required.

It's important to understand that this minimum distribution rule applies to virtually all tax-qualified employer-sponsored retirement accounts, both traditional and Roth, including 401(k), 403(b), profit-sharing and 457(b). It also applies to traditional individual retirement accounts as well as SEPs, SARSEPs and SIMPLE IRAs.

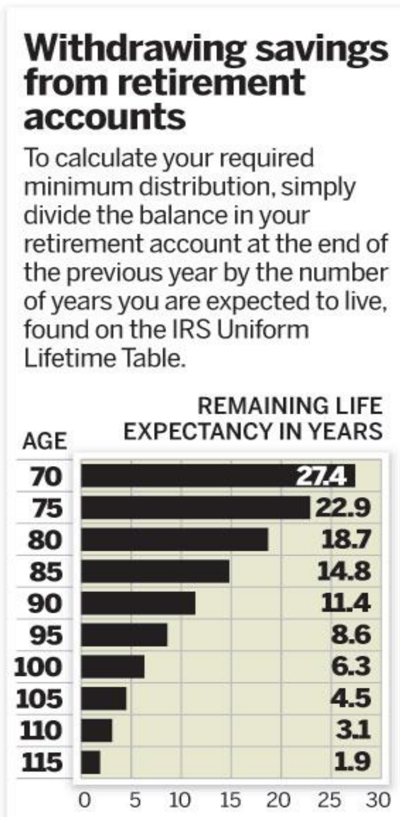
Exceptions to the required minimum distribution rule are few. One important exception is that, if you continue to work past age 70½, and are less than a 5% owner in the company you work for, then you are not required to take a RMD from your current employer's plan until you retire.

This exception does not apply to any former employer's plan or your IRA. The only type of tax-qualified retirement account, company-sponsored or individual, that is not subject to the required minimum distribution rule is a Roth IRA.

How much to withdraw?

Calculating your required minimum distribution is pretty straightforward. You simply divide the balance in your retirement account at the end of the prior year by the number of years you are expected to live, found on the IRS Uniform Lifetime Table.
You must take your minimum distribution no later than Dec. 31 of each calendar year, beginning with the year in which your reach 70½. You are given a three-month grace period, until April 1, for the first year.

Withdrawals taken before age 70½ do not count toward your first year's minimum distribution, just as amounts withdrawn from your retirement account in excess of your required minimum distribution may not be deducted against your next year's RMD.



Sample calculation for a retirement saver turning age 71 this year with a 401(k) balance of $50,000

Dec. 31 account value:	$50,000
IRS distribution in years:	÷ 26.50
Required minimum distribution:	= $1,886.79

For more information:
http://www.irs.gov/pub/irs-pdf/p590.pdf

Source: U.S. Treasury Journal Sentinel

Multiple accounts

Many retirement savers finish their working careers with multiple retirement accounts.

Perhaps you changed jobs a couple of times and never got around to combining the various 401(k) accounts you created over the years. There are also many who retire with employer 401(k) plan balances as well as one or more IRA.

When calculating your required minimum distribution from multiple retirement accounts, the rules are a little more complex.

The IRS allows you to combine all of your individual retirement accounts when calculating your required minimum distribution from your IRAs. You can even decide which IRA, or combination of IRAs, to pull your minimum distribution from.

However, the IRS does not allow you to combine any of your employer-sponsored accounts either with your IRAs or other employer-sponsored accounts when calculating the required minimum distribution due from each employer's plan.

Each employer's plan RMD must be treated independently of all other retirement assets.

Taxes on withdrawals

Required minimum distributions are generally taxed as ordinary income in the year they are withdrawn.

However, a minimum distribution from a Roth 401(k) or Roth 403(b) account is a nontaxable distribution, unless the account was established within five years of the RMD.

Another exception is a minimum distribution from an IRA that was partially funded with nondeductible contributions. In that case, some of your RMD will be exempt from further taxation.

Many retirement account custodians are good at reminding their customers when it's time to take a minimum distribution, but they are not required to do so.

In the end, you alone are responsible to make sure these distributions are made or face the stiff tax penalty that will result. If you are assisting parents with their finances, keeping track of their required minimum distributions should definitely be on your radar.

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