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A Comprehensive Look at Intricate RMD Issues

by William C. Grossman, QPA

Required minimum distributions (RMDs) under Code Section 401(a)(9) have seen a number of changes over the years—from the very complex required minimum distribution days of the 1987 proposed regulations that had the force of final regulations until roughly 2003, to the regulations issued April 17, 2002.

From the old male/female joint life expectancy tables to the current uniform lifetime table, RMDs may seem simpler. Don't let these changes fool you. RMDs are still a specialized area with its own depth of rules, rule exceptions and special buzzwords and acronyms. This article will cover a broad range of topics related to RMDs.

Excise Tax on Underpayment of RMD

A participant or beneficiary who does not receive a full RMD for a distribution calendar year is subject to an excise tax of 50% on the underpayment under Code Section 4974. For example, the RMD is calculated to be \$3,200 for 2008. The participant receives only \$2,000. The underpayment (*i.e.*, \$1,200) is subject to the 50% penalty—not the entire RMD of \$3,200. So, a penalty of \$600 is to be added to the individual's taxes due for 2008. The \$1,200 is still to be withdrawn, subject to income taxes (assuming the entire distribution consists of pre-tax funds). Due to its significance to this subject, the applicable Section 4974 is presented in its entirety at right.



Internal Revenue Code Section 4974

(a) General rule

If the amount distributed during the taxable year of the payee under any qualified retirement plan or any eligible deferred compensation plan (as defined in Section 457 (b)) is less than the minimum required distribution for such taxable year, there is hereby imposed a tax equal to 50 percent of the amount by which such minimum required distribution exceeds the actual amount distributed during the taxable year. The tax imposed by this section shall be paid by the payee.

(b) Minimum required distribution

For purposes of this section, the term "minimum required distribution" means the minimum amount required to be distributed during a taxable year under Section 401(a)(9), 403(b)(10), 408(a)(6), 408(b)(3), or 457(d) (2), as the case may be, as determined under regulations prescribed by the Secretary.

(c) Qualified retirement plan

For purposes of this section, the term "qualified retirement plan" means:

- (1) A plan described under Section 401(a) which includes a trust exempt from tax under Section 501(a),
- (2) An annuity plan described in Section 403(a),
- (3) An annuity contract described in Section 403(b),
- (4) An individual retirement account described in Section 408(a), or
- (5) An individual retirement annuity described in Section 408(b).

(d) Waiver of tax in certain cases

If the taxpayer establishes, to the satisfaction of the Secretary, that:

- (1) The shortfall described in subsection (a) in the amount distributed during any taxable year was due to reasonable error, and
- (2) Reasonable steps are taken to remedy the shortfall, the Secretary may waive the tax imposed by subsection (a) for the taxable year.

Asking for Waiver of the 50% Penalty Due to Reasonable Cause

Regarding payment of the 50% penalty, the Form 5329 must be completed and attached to the individual's tax return. If there has been a reasonable error that was the cause of the failure to take the RMD, the individual may ask for the penalty to be waived due to the reasonable error. Below is the Form 5329 Instruction section on applying for the waiver of the penalty.

Individual Waiver Method

The IRS can waive part or all of this tax if you show that any shortfall in the amount of distributions was due to reasonable error and you are taking appropriate steps to remedy the shortfall. If you believe you qualify for this relief, attach a statement of explanation and file Form 5329 as follows.

- Complete lines 50 and 51 as instructed.
- Enter "RC" and the amount you want waived in parentheses on the dotted line next to line 52. Subtract this amount from the total shortfall you figured without regard to the waiver, and enter the result on line 52.
- Complete line 53 as instructed. You must pay any tax due that is reported on line 53.

The IRS will review the information you provide and decide whether to grant your request for a waiver.

Automatic Waiver for Certain Beneficiaries

If the individual is the sole beneficiary of participant's benefit or of a separate share, and the amounts are payable under the life expectancy method and a payment is missed during the first five years, the excise taxes are waived if the total death benefit is paid under the five year rule.

Example:

- Participant dies in 2010 and son is sole beneficiary.
- Son chooses life expectancy method early in 2011.
- MRD of \$10,000 taken for 2011.
- MRD of \$12,000 taken for 2012.
- MRD of \$14,000 for 2013 not taken.

If the son takes the total balance out by December 31, 2015, then there is no excise tax on the missed MRD in 2013.

Correcting RMD Failures Using EPCRS

Code Section 401(a)(9) is a qualification requirement that all qualified plans must meet by distributing RMDs. If the full RMD is not distributed, then there is a 50% penalty based on the amount of the RMD that was not distributed. The 50% penalty for missed RMD is on the participant. Complying with the required minimum distribution process is complex. The IRS recognizes the complexity of the RMD process and has seen the frequency of missed RMDs. Thus, the IRS added a reduced fee correction method to EPCRS in Rev. Proc. 2006-27.

There are many reasons that an RMD may be missed. For example: The employee's date of birth may be incorrect on the system; the employee's data may have been lost in an implementation, merger and/or acquisition; the list of the group to become age 70 ½ may have been created incorrectly, etc.

The required beginning date (RBD) is also complex. Is the employee retired or not? What is the definition of RBD in the document? Is the RBD being administered correctly? Is this the first employee to ever attain RBD in this plan and does the employer realize it?

EPCRS Procedure to Correct Missed RMDs

Rev. Proc. 2008-50, Section 12.02

The IRS EPCRS procedure for missed RMDs (originally added in Rev. Proc. 2006-27 EPCRS) states that **if there are 50 or less RMDs missed**, the *Voluntary Compliance Program (VCP) fee is \$500, regardless of the number of participants in the plan. This reduced fee is available for plans that file with the IRS under VCP and provided that this is the only error for which the plan is being filed under VCP.*

EPCRS Permits the Plan Sponsor to Apply for Waiver of 50% Penalty [Section 6.09(2)]

EPCRS (RP 2008-50, page 38) does not automatically waive the 50% penalty when the employer files under VCP. As part of VCP or Audit CAP in appropriate cases, the IRS may waive the (§4974) 50% excise tax applicable to plan participants. Note that the waiver is not available under the self-correction program (SCP).

Under Audit CAP, the plan sponsor must make a specific request for waiver of §4974 excise tax and provide an explanation supporting the request. The IRS will review the request/explanation and, if appropriate as part of CAP, the waiver will be in the compliance statement or closing agreement.

Under VCP, the plan sponsor, as part of VCP submission, must request the waiver of the §4974 excise tax. This relief may be accomplished under the VCP streamline filing Schedule 8 by checking Part III, Box A which states: "The Applicant requests relief with regard to excise taxes under §4974." Where anyone subject to excise tax is either an owner-employee as defined in §401(c)(3) or a 10% owner of a corporation, then the plan sponsor must provide a written explanation to support the request. The waiver eliminates the need for relief to be requested individually by each affected participant. *If VCP is not used to waive the excise tax, then each affected individual is responsible for his or her own 50% penalty and must file Form 5329, unless there is a reasonable error, then complete the procedure described above.*

EPCRS Section 11.02(h) (Page 55)

If the plan failed to make RMDs and proposes to correct such failure using the method described above (in Appendix A, section .06), then the plan sponsor should submit Appendix F, Schedule 8 (which is on the last two pages) with the VCP application. (Note that the correction must include earnings.)

Correction Includes Distribution of Missed RMDs Plus Earnings

EPCRS Appendix A, Section .06 (Page 74-75)

In a defined contribution plan, the permitted correction method is to distribute the missed RMDs with earnings from the date of the failure to the date of the distribution. If more than one year's RMD has been missed, the amount required to be distributed for each year starting when the initial failure occurred is to be determined by dividing the adjusted account balance on the applicable valuation date by the applicable distribution period.

For this purpose, "adjusted account balance" means the "actual account balance," determined in accordance with §1.401(a)(9)-5 Q&A-3, reduced by the amount of the total missed minimum distributions for prior years. Q&A3 states that the balance to use is the value on the preceding December 31 for the applicable year's RMD. However, if the last valuation was before December 31, then adjust for contributions and/or distributions after the valuation date until December 31.

Correction of Missed DC RMD Plus Earnings— Example:

A plan missed an individual's RMDs for 2005, 2006 and 2007.

The missed RMD for 2005 would be calculated:

$$\mathbf{12-31-04 \text{ balance } \$100,000/25.6 \text{ (age 72)} = \mathbf{3906.25^*}}$$

The missed RMD for 2006 would be calculated:

$$\mathbf{12-31-05 \text{ balance } \$108,000-3906.25/24.7 \text{ (age 73)} = \mathbf{\$4,214.32^*}}$$

The missed RMD for 2007 would be calculated:

$$\mathbf{12-31-06 \text{ balance } \$115,000-3906.25-4214.32/23.8 \text{ (age 74)} = \mathbf{\$4,490.73^*}}$$

* Gains/Losses to be calculated and distributed on each RMD amount from date it should have been distributed until distribution date.

In a defined benefit plan, the permitted correction method is to distribute the missed required minimum distributions, plus an interest payment representing the loss of use of such amounts.

Required Beginning Date (RBD) Issues

The RBD is April 1 after the year age 70 ½ is reached for IRAs, 5% owners, non-5% owners retired before age 70 ½. RBD is April 1 after the year of retirement for non-5% owners who continue to work after the year age 70 ½ is attained.

5% Owner Issues

In the determination of who is a 5% owner, the stock attribution rules of Code Section 318(a) apply. For example, an individual is deemed to own stock owned by his or her: spouse, parents, children (including adopted) and grandchildren.

If the individual stops being a 5% owner after RBD, the RMDs must be continued because the individual was a 5% owner on RBD.

If the individual is still working and was not a 5% owner at RBD but becomes a 5% owner after RBD, RMDs do not have to begin until after the individual retires, because the individual was not a 5% owner on April 1 of the year after age 70 ½ was reached. Thus, the individual is still treated as non-5% owner as the rules only deal with those who are 5% owners in the year age 70 ½ is attained. The status as 5% owner or non-5% owner locks-in as of April 1 after the year age 70 ½ is reached.

TEFRA 242(b) Election

The Tax Equity and Fiscal Responsibility Act of 2002 (TEFRA) contained changes to the RBD and permitted individuals who filed a TEFRA 242(b) election which had to be signed by

Code Section 401(a)(9) is a qualification requirement that all qualified plans must meet by distributing RMDs.

December 31, 1983 to remain under the old rule. The election was available for both 5% owners and non-5% owners. The election delayed RBD until severance of employment after age 70 ½. Some firms had all their employees make the election.

Example of Existing 242(b) Election

Consider a one-person plan with an 84-year-old doctor who had never taken RMDs. He was still working. The doctor had timely filed a TEFRA 242(b) election, so although he is a 5% owner, he never retired and thus never reached RBD. Note that if there is a revocation of the TEFRA 242(b) election, the individual must make up missed payments!

Permitted Delay in RBD

Regulations list two events permitting delay of RBD. One is for an annuity payment from an insurance company involved in state insurer delinquency program; the other is if the individual is in the midst of the 18-month QDRO period.

Plans Subject to the Qualified Joint and Survivor Annuity Rules

For plans subject to spousal consent requirements, spousal consent is required for RMDs. Typically, a blanket spousal consent is acceptable (*i.e.*, one spousal consent for all future).

RBD in a Qualified Plan Involves the Plan Document Defining RBD

A document may define RBD in accordance with the regulations, permitting non-5% owners who work after age 70 ½ to wait until retiring before reaching RBD. A plan document may also define RBD as April 1 after the year age 70 ½ is reached for all individuals.

Working Non-5% Owner Request to Simulate RMD at Age 70 ½

A plan defines RBD for a non-5% owner as later of the April 1 after the year age 70 ½ is attained or after the year of retirement. At age 70 ½, a working non-5% owner wants an RMD, but he will not reach RBD until after retirement. The Solution: the plan has a provision for in-service at age 70 ½ and thus can make a “simulated RMD payment.”

Calculate a simulated RMD amount using the prior 12/31 Fair Market Value (FMV) and the applicable divisor from the uniform lifetime table (unless there is a young spouse, then use the joint life table). Note that though the amount paid is the same amount as the RMD would have been, it is not an RMD. As an in-service distribution, this “simulated RMD” is an eligible rollover distribution, subject to 20% mandatory federal income tax withholding.

It would seem much simpler to administer a qualified plan with the RBD set at April 1 after age 70 ½ for all participants. However, to change the plan back to this after it has had the provision permitting non-5% owners who work beyond age 70 ½ to wait until retirement would be viewed as a Section 411(d)(6) cutback.

2009 Waiver Issues and the 2010 RMDs

The market plunge in 2008 negatively impacted participants in required minimum distribution status. The 2008 RMDs calculated using the high December 31, 2007 values and distributed at year end 2008 from much lower valued assets forced individuals to “sell low” when taking their 2008 RMD.

On December 23, 2008, WRERA waived 2009 RMDs for both participants and beneficiaries in defined contribution plans, 403(b), Governmental 457(b) and IRAs. It did not waive them for defined benefit plans or tax-exempt 457(b) plans. Note that IRAs with QTIP trusts should also not have waived the RMD.

The passage of WRERA on December 23, 2008 provided no time for large institutions/employers paying thousands of RMDs in monthly installments to contact and provide options to participants before the next monthly RMD installment on January 31, 2009. Thus, large institutions generally decided to continue making the RMD monthly installment payments in 2009 while seeking IRS guidance.

WRERA Created Rules for Amounts Distributed as an RMD for 2009

The RMD amount is eligible for rollover.

- No mandatory 20% withholding between 01/01/09 to 12/31/09.
- Those attaining age 70 ½ in 2009 taking RMD amount 01/01/10 to 04/01/10 were subject to the 20% mandatory withholding.
- No 402(f) notice requirement on 2009 RMD amount, though recommended to be provided.
- Voluntary tax withholding applies, but may be waived.
- Otherwise, a 10% federal tax withholding will generally apply.
- 60-day period for a participant rollover, or, if plan permits, by direct rollover.
- Plan permitted, but not required, to offer direct rollover option on the 2009 RMD amount.

Those Attaining Age 70 ½ in 2008:

Those participants attaining age 70 ½ in 2008 and thus whose first distribution calendar year was 2008 must still take their 2008 minimum by April 1, 2009. They can skip the 2009 amount due by December 31, 2009, but must recommence payment by December 31, 2010.

Those Attaining Age 70 ½ in 2009:

Those participants attaining age 70 ½ in 2009 need not take a minimum for that year. However, they must take a minimum for 2010 by December 31, 2010. They do not get until April 1, 2011, because their first distribution calendar year was actually 2009 not 2010.

Notice 2009-82 Issued September 24, 2009

This notice stated that affected plans remain in operational compliance regardless of if they paid or if they didn't pay RMDs between January 1, 2009 and November 30, 2009, or if it had made a direct rollover of an RMD amount in 2009.

The IRS extended the period to roll over RMDs received in 2009 until November 30, 2009, even if after 60 days of receipt. Although for IRAs, only one distribution per IRA will be eligible for this rollover relief due to the one-IRA-rollover-per-year rule.

Beneficiary Deadlines Extended by 2009 Waiver

The start date for life expectancy payouts for a participant who died in 2008 extended from end of 2009 to the end of 2010, including non-spouse beneficiary rollover.

Five-year Rule (Only for Death Before RBD)

The five-year rule calls for all funds to be distributed by the end of the fifth year after the year in which participant passed. This rule:

- May be a plan requirement;
- May be chosen by beneficiary, if plan permits; or
- May be required due to there being no designated beneficiary.

Do not count the year 2009 as part of the five years. Thus, there is an extension to six years in certain cases.

Example:

The participant died May 4, 2004. Under the five-year rule, count five years after the year the participant died (2005, 2006, 2007, 2008, 2009) and the deadline would be December 31, 2009. However, in this example, WRERA extends this deadline to the end of 2010 because we do not count 2009.

Participant Dies In:	5-year Period Ends	Not Counting 2009, 5-year Period Ends
2003	2008	2008
2004	2009	2010
2005	2010	2011
2006	2011	2012
2007	2012	2013
2008	2013	2014
2009	2014	2015
2010	2015	2015

The five-year rule extension affects 2009 to 2015 deadlines:

- Do not count 2009 as part of the five-year period.
- Affects participant deaths between 2004 and 2009.

Two Sample Plan Amendments Were Issued As Part of Notice 2009-82

One notice stops 2009 RMDs while the other permits RMDs; each permits the participant to elect otherwise. Each amendment was designed to be used by a custom or a pre-approved plan sponsor. The IRS stated that using their sample plan amendments (including necessary modifications) will not affect plan reliance on the written plan document's IRS approval letter. Both sample amendments also provide direct rollover of 2009 RMD option that plan sponsors can choose to offer. Plan sponsors must adopt the amendment no later than the last day of the first plan year beginning on or after January 1, 2011 (January 1, 2012, for governmental plans).

2010 RMDs for Participants

There has been no RMD waiver for 2010. RMDs are to be resumed for 2010. For those who were age 70 ½ prior to 2009 or in 2009, the RMD for the 2010 distribution calendar year RMD must be made by December 31, 2010. Note that there is no April 1, 2011 grace period for those who attained age 70 ½ in 2009. For those attaining age 70 ½ in 2010, the 2010 distribution calendar year RMD must be paid by April 1, 2011.

For all the above, use December 31, 2009 FMV to calculate 2010 RMDs and use the age on the individual's birthday in 2010 for uniform lifetime table (or joint life table for "trophy" couples).

For beneficiaries of participants who died in 2008 starting life expectancy payments in 2010, use the age on birthday in 2010 to calculate on single life table, then reduce that by one in subsequent years.

Moving Assets after the Age of 70 ½**RMD Not Eligible for Rollover**

RMD payments are not eligible for rollover! The first distribution that occurs in any distribution calendar year is considered to be the RMD and, thus, may not be rolled over. If the participant wants to make a rollover out of a qualified plan, the RMD may not be rolled over.

Example 1:

John reached RBD in an earlier year. At age 72, John takes a lump sum of \$50,000 from his 401(k) plan. If the RMD amount is \$1,953 (\$50,000/25.6), of the \$50,000 lump sum distribution: \$9,609 mandatory withholding (\$48,047 x 20%).

- \$1,953 John keeps as RMD.
- \$38,438 paid in cash to John.
- \$48,047 is eligible for rollover (if John can come up with the \$9,609 withheld).

Example 2:

Instead, John asks for a lump sum by direct rollover to IRA.

- \$1,953 paid to John as RMD.
- \$48,047 direct rollover to IRA.

Why Are RMDs Not Eligible Rollover Distributions?

There are several reasons. First, Code Section 401(a)(31) does not permit RMDs to be rolled over as they are not eligible rollover distributions. Second, Code Section 401(a)(9) requires every qualified plan to pay the RMD. Why else? The money needs to be taxed. Further, if an RMD was rolled over, there is no way under the RMD regulations for the institution that received an RMD as a rollover to include it in the RMD calculation for that distribution calendar year.

The regulations call for the RMD to be calculated using the preceding December 31 value. The institution with the December 31 FMV is responsible for the RMD. The institution receiving the rollover is not responsible for calculating the RMD on funds not held on prior December 31.

Exception: “Outstanding Rollover” Participant Rollover

An “Outstanding Rollover” is an exception to the rule of an institution receiving the rollover not being responsible for RMD until funds on deposit in that firm on December 31. This generally involves an IRA-to-IRA participant rollover transaction, though it may be a qualified plan to IRA participant rollover transaction also.

Example:

- IRA owner takes distribution of \$90,000 on December 1, 2010; \$8,200 is RMD for 2010.
- IRA owner deposits \$81,800 in new IRA on January 12, 2011 (within 60 days).
- Receiving institution must verify if 2011 RMD was received (or not rolled in with the rollover amount) by the IRA owner prior to the January 12 rollover.
 - If not, then the receiving institution must pay 2011 RMD based on the “outstanding rollover” amount of \$81,800 as if it had been on deposit December 31, 2010.

Handling an Improper Rollover of RMD**IRA Recipient Plan**

The RMD amount should be distributed as an excess IRA contribution before tax filing deadline. This treatment also avoids the 6% excess contribution penalty on amounts above the IRA traditional contribution limit. Note that if the individual is age 70 ½ or older, traditional IRA contributions may no longer be made.

Qualified Plan as Recipient Plan

If the RMD is rolled into a qualified plan as recipient, the RMD amount must be treated as an after-tax amount. If the plan does not accept after-tax contributions, the RMD amount will have to be returned, plus earnings, as a corrective distribution.

Rollover of IRA to Qualified Plan after Age 70 ½: Rev. Rul. 2004-12

The following scenario demonstrates the rule:

Fact Set

A traditional IRA owner is still working and is also a non-5% owner who participates in his employer’s 401(k) plan.

The Employer 401(k) Plan:

- Accepts rollovers from all IRAs.
- Permits non-5% owners to defer RBD until the later of April 1 following year of age 70 ½ or actual retirement.

Traditional IRA Owner Rolls Traditional IRA into 401(k)

Since rollover occurred after IRA RBD, the IRA’s RMD for the year is paid to the IRA owner. The balance above the RMD for the year is rolled to the 401(k). The RBD for the funds rolled in from the traditional IRA is deferred until April 1 after retirement.

Designated Roth 401(k) and Roth IRA

Roth IRA is not subject to RMD at age 70 ½.

Designated Roth 401(k) is subject to RMD rules due to Code Section 401(a)(9). However, in a 401(k) with designated Roth, the RMD may be taken from just non-Roth account assets until the designated Roth is a qualified distribution amount, although the designated Roth must be included in the calculation of the RMD. Further, the *participant can opt to have the RMD amount taken from just the designated Roth account once funds are qualified distribution, until they are exhausted.*

Is there a Way to Avoid Designated Roth RMD Payments?

Yes. Directly roll the designated Roth to a Roth IRA. If age 70 ½ or older, the RMD for the year must be taken at the time of the rollover, but thereafter, as part of Roth IRA, there are no RMDs.

Beware of the five-year clock on Roth IRA. The five-year clock rules are different if the funds are moved from a designated Roth 401(k) account to a Roth IRA. The Roth IRA has a separate tracking period and the years in the Roth 401(k) will not apply to the Roth IRA.

Rollover to Roth IRA*Example 1:*

Michelle leaves employment at age 68 in 2010. She had deferred into her Roth 401(k) for 2006 and 2010. She rolls her money to a **new** Roth IRA in 2010. The five-year clock starts over again in 2010 in Roth IRA!

Example 2:

Raquel leaves employment at age 72 in 2010. She had deferred into her Roth 401(k) for 2006 and 2010. She rolls her money to a Roth IRA in 2010, less the RMD. She had opened the Roth IRA in 1999. *The five-year clock on the amount rolled into the Roth IRA has been satisfied as it picks up the Roth IRA clock, which started in 1999!*

Note: If the designated Roth dollars are a “qualified distribution,” then they are considered “basis” when entering the IRA. (This event cannot happen for the first time until 2011.) If a qualified distribution is rolled into a new Roth IRA, earnings made by a new Roth IRA (after the qualified distribution is rolled in) must wait five years to be tax-free.

Level Amortized Payment RMD Method

Another method of calculating RMDs is the level amortization method. It is seldom chosen because for roughly the first half of the years of payment, the RMD payment amount is substantially more than the amount calculated by the method of dividing the preceding December 31 value by the Uniform Lifetime Table’s applicable divisor. Nonetheless, since this method is available in the regulations, it will be presented here. The level payments are calculated by using the Uniform Lifetime Table’s time period at age 70 or 71 (as applicable) and choosing an assumed interest rate for the entire period and running these factors through an amortization program. These programs are readily available on the Internet.

Since the goal of most individuals who attain age 70 ½ and who do not need these funds is to take as small an amount as possible, the level amortization method is not chosen because it provides a substantially larger distribution.

Level Amortized Payments Example:

Balance: \$500,000
Interest rate assumption: 10%
Payout period at age 71: 26 years
Annual level amortized amount: \$49,618
Fractional method = \$500,000/26.5 = \$18,867.92

Calculating RMD for an Off-calendar Plan Year

Retirement plans with off-calendar years present unique issues for calculating the RMD. Such plans are required to determine the previous year’s December 31 account values. This information is readily determinable in a daily valuation plan. However, according to Treasury Regulation §1.401(a)(9)-5, Q&A-3(b), a balance forward plan must determine the account value based on the most recent plan valuation that occurred before December 31 of the prior year and making adjustments for any transactions (contributions or distributions) that actually occurred after the valuation date through December 31 of that year. There is no adjustment for any amounts contributed after December 31.

Example:

Assume that a balance forward 401(k) plan has a plan year ending June 30. The account value as of December 31, 2010 of a participant attaining age 70 ½ in 2011 is calculated in the following manner. First, obtain the June 30, 2010 valuation value and add all 401(k) deferrals made by the participant from July 1, 2010 through and including December 31, 2010. In addition, add any employer allocations made after June 30, 2010 and before January 1, 2011. From this amount subtract any distributions taken after June 30, 2010 but before January 1, 2011.

A participant has a June 30, 2010 account value of \$62,500. The participant then made deferrals of \$3,000 from July 1 through December 31, 2010. The employer contributed \$2,000

in employer contributions to the participant’s account during the same time period. These amounts were accrued before June 30, but were deposited after. The participant took distributions of \$500 on November 15, 2010, and \$1,000 on January 12, 2011. The value of the participant’s account as of December 31, 2010 is \$67,000 determined as follows:

\$ 62,500	Value on June 30, 2010
+ \$ 3,000	Deferrals made from July 1, 2010 to December 31, 2010
+ \$ 2,000	Employer allocations to participant July 1, 2010 to December 31, 2010
- \$ 500	Distribution taken on November 15, 2010
\$ 67,000	Account value as of December 31, 2010

The RMD is then calculated using the \$67,000 account value. The distribution made on January 12, 2011 is disregarded because it occurred after the end of the distribution valuation year. This distribution will be reflected in the 2011 minimum which is based on the December 31, 2010 account balance, which is calculated in the same method as above.

Resources


IRA Reporting Requirements: Notice 2002-27

The IRS goal was to increase compliance. A report is required to be sent to the IRA owner by January 31 of each year that either states that an RMD distribution is due and provides the RMD amount or offers to calculate the RMD amount. This report is to be sent to the IRS but does not need to include the RMD amount. This reporting requirement applies to any VDEC IRA or deemed IRA in a qualified plan.

Life Expectancy Tables: IRS Publication 590

- Uniform Lifetime Table (starting at 70)
- Single Life Table for Beneficiaries
- Joint Life Tables for “trophy spouse”

Regulations

- RMD Final Regs. for DC, IRA, 403(b) and 457(b) issued April 17, 2002.
- Effective for 2003, could have been used for 2002, amendment required by end of 2003.
- 2001 Proposed Regs. Optional Use in 2001 and/or 2002.
- 1987 Proposed Regs. with force of Final Regs. In use from 1987 to 2002 for DC and DB.
- DB RMD Final Regs. issued in 2004. Ended account balance method of calculating and required annuitization method.
- Generally, effective in 2004.
- Required amendment for pre-approved plans by the DB EGTRRA document deadline of April 30, 2012. 



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