AMBRECHT & ASSOCIATES
MEMORANDUM

To: Clients and Friends

Date: June 7, 2001

Re: New "Required Distribution" Rules for Retirement Plans

Introduction: IRS Issues New Distribution Rules for Retirement Plans

The IRS has issued new rules that make major changes in how "Minimum Required Distributions" are calculated. These changes potentially affect everyone <u>who is now taking</u> required distributions from an IRA or other retirement plan. This includes most individuals who are over age 70 ½, as well as individuals who have inherited an IRA or retirement plan from someone else.

The changes are almost all good. The necessary calculations for the required distributions have become simpler, and the new methods of calculation produce smaller required distributions for most people.

As with any major tax change, it will take a while before the IRS has sorted out all the questions. In fact, even as you read this memorandum, some of the reported information contained herein may be in the process of being revised. We will do our best to keep our clients informed of any further changes, but if you own an IRA or retirement plan, please contact us if you have any questions.

Effect on IRA Owners Now Over Age 70 ½

If you are age 70 ½ or older, and you own an IRA, then, as you may know, you are required to take a distribution from that IRA every year. You probably know how to calculate your 2001 required distribution, using the old rules. You are entitled to switch to the new rules for your 2001 required distribution if the new rules give you a more favorable result (i.e., a smaller required distribution).

Under the new rules, everyone uses a new "Uniform Table" to calculate his or her required distributions, except as provided in the paragraph below. The Uniform Table is reproduced at the end of this memorandum (along with an explanation of how to use it).

With the new rules, it no longer matters (for purposes of calculating your lifetime distributions) who is named as your beneficiary. There is, however, one exception. That exception is the situation where the sole beneficiary of your IRA is your spouse, and your spouse is more than ten years younger than you. If this situation applies to you, then you calculate your distributions using the "joint and survivor life expectancy" of you and your spouse. This will produce an even smaller required distribution than the calculation determined using the Uniform Table.

The rule changes described above do not affect Roth IRAs, because there are no required distributions during an life from a Roth IRA.

Other Kinds of Retirement Plans

The paragraphs above describe how the new rules apply to required distributions from IRAs.

The answers aren't quite so simple for distributions from other types of retirement plans. For example, the IRS did not say when it issued the new rules when 403(b) plan retirees will be able to use the new rules.

401(k) plans, pension plans, Keogh plans and other "qualified retirement plans" may switch to the new rules in 2001, but it appears that the choice is up to the plan, not the individual receiving benefits from the plan. Until the model amendment is integrated into such plans, it appears that distributions must be made from such plans based on the old rules under the 1987 regulations and not under the new rules under the new proposed regulations.

If the IRS sticks to its announced timetable, everyone will have to switch to the new rules in 2002 for all types of retirement plans.

Effect on Beneficiaries Now Holding Inherited IRAs

There are also changes in how beneficiaries who have inherited IRAs and other retirement plans are to calculate their required distributions from those inherited plans. However, the IRS has not yet clarified when, if, or how these changes will be applied to IRAs and retirement plans inherited from individuals who died before the year 2001. For now, we would advise any individuals holding such inherited plans to consider delaying their 2001 distribution until the impact of the new rules is clear. However, please contact us before the end of 2001 if you have yet to take a distribution from such plan for 2001.

Improved Estate Planning Choices for Older Individuals

The new rules expand estate planning opportunities for individuals who are approaching or who have already attained age 70 ½. Here are two examples:

The old rules made it difficult for a person age 70 ½ or older to leave retirement benefits to charity. Basically, the rules penalized individuals who chose to leave benefits to charity after age 70 ½ (by forcing them to take larger distributions from the plan during life). The new rules remove this disincentive to leave money to charity. Under the new rules, leaving retirement benefits to charity does not cause accelerated distributions during life.

The new rules also make it easier for older clients to take advantage of the "stretch IRA" concept. The tax rules for many years have permitted the long-term tax-deferred pay-out of retirement benefits to younger generation beneficiaries (such as grandchildren) after the death of the original IRA owner. However, the old rules made it difficult for individuals over age 70 ½ to achieve that result. Basically, the old rules said that unless you named a younger generation individual as your beneficiary *when you turned age 70 ½* (and at all times thereafter) your heirs could never take advantage of the stretch IRA.

The new rules remove this obstacle. Under the new rules, whoever you designate as your beneficiary can enjoy a deferred pay-out of the IRA <u>over his or her life expectancy</u>, <u>regardless of when you named him or her as your beneficiary</u>. It no longer matters whether you named some other individual as beneficiary of your IRA back when you turned age 70 ½.

What To Do Now

If you are currently eligible to take distributions from your IRA and you are taking such amounts in excess of the required minimum distributions amount in order to pay for living expenses, you should disregard the suggestions below and take the distribution for 2001. If you are using your IRA solely as an estate planning vehicle and are only taking the minimum required distributions amount, here are the steps we recommend at this time:

- If you are currently taking required distributions from your IRA or other retirement plan, we would recommend not taking your required distribution for 2001 until you have checked out whether the new rules are available to you and provide you with a more favorable result. Please contact Lorraine Clark in our office with any questions you may have.

- If you are taking distributions, as a beneficiary, from a retirement plan or IRA you inherited from a deceased individual, we recommend not taking your 2001 distribution until you have checked out whether the new rules are available to your 2001 distribution and if so, how. Once again, please contact Lorraine Clark in our office with any questions you may have.

- If you are past age 70 ½, and have been constrained in your choice of a beneficiary for your retirement plan because of the restrictions imposed by the old rules, contact us to review your estate plan including your beneficiary choice.

- Finally, if you are younger than age 70 ½, and you are not taking distributions from any inherited retirement plan, the new rules, for now, have no effect on you; so pass this notice along to an older friend or relative!

The Uniform Table, as discussed earlier in this memorandum, and the instructions regarding how to use it appear on the next page.

The "Uniform Table"

Table for Determining Applicable Divisor					
Age	*Applicable Divisor*	*Age*	*Applicable Divisor*	*Age*	*Applicable Divisor*
70	26.2	86	13.1	102	5.0
71	25.3	87	12.4	103	4.7
72	24.4	88	11.8	104	4.4
73	23.5	89	11.1	105	4.1
74	22.7	90	10.5	106	3.8
75	21.8	91	9.9	107	3.6
76	20.9	92	9.4	108	3.3
77	20.1	93	8.8	109	3.1
78	19.2	94	8.3	110	2.8
79	18.4	95	7.8	111	2.6
80	17.6	96	7.3	112	2.4
81	16.8	97	6.9	113	2.2
82	16.0	98	6.5	114	2.0
83	15.3	99	6.1	115+	1.8
84	14.5	100	5.7		
85	138	101	5.3		

Under the new Proposed Regulations, the above Uniform Table may be used by all IRA owners <u>who have reached age 70 ½</u> to determine their annual required minimum distributions for 2001 and later years. For each "Distribution Year" (i.e., a year for which distribution is required), determine:

(A) the account balance of the IRA as of the preceding calendar year end;

(B) the participant's age on his or her birthday in the Distribution Year; and

(C) the "applicable divisor" for that age from the above table.

(A) divided by (C) equals the minimum required distribution for the Distribution Year. (In the age 71 ½ Distribution Year, first reduce the (A) number by the amount of any required distribution for the age 70 ½ year that had not been taken out by the end of that year.)

This table does not apply to beneficiaries of a deceased IRA owner; or if the sole beneficiary of the IRA is the participant's spouse who is more than 10 years younger than the participant.