LKRB Alert

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Littman Krooks Roth & Ball P.C.

Elder Law and Estate Planning

NEW RETIREMENT DISTRIBUTION RULES

The Internal Revenue Service has issued new proposed regulations pertaining to required minimum distributions for individuals with qualified retirement plans (such as 403(b) annuity contracts, 401(k) plans and Keogh plans) and traditional individual retirement accounts. The new rules simplify distribution computations and provide more flexibility in beneficiary planning. The regulations do not address Roth IRAs because Roth IRAs have no minimum distribution requirement. The new regulations should reduce the amount that must be withdrawn each year after an individual turns 70 1/2. The new regulations thus allow individuals to leave proceeds in tax-deferred accounts for longer periods of time.

Generally, the new regulations change the calculations that determine the minimum amount an individual is required to withdraw, starting at a person's required minimum distribution date. Typically, this occurs on April 1st of the year after the investor turns 70 1/2. Under the old rules, taxpayers had to choose among a variety of calculation methods, and some key decisions were irreversible, even if it turned out later that a different method would have been more advantageous. The person typically had to decide whether individual or joint life expectancy was being used as well as term certain, recalculation or MDIB tables. Under the new rules, there is only one (1) life-expectancy table that will be used for most people. The uniform table effectively assumes that required minimum distributions are taken over the joint life of the individual and a beneficiary who is ten years younger. This is the case whether or not there is any designated beneficiary and whether the beneficiary is younger or older than the individual. The table assumes people will live longer, thus making it more generous. The exception to this new rule is the case in which the individual's spouse is more than ten (10) years younger, in which case the old joint life expectancy table is used, which, under these circumstances, is more beneficial.

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The new rules also replace a complex and confusing set of regulations about what happens after the individual dies. Under the new rules, a decision will not have to be made regarding use of term certain or recalculation methods. This will avoid the undesirable results that could occur under the old rules if the recalculation method had been selected.

By simplifying the rules, the IRS now makes it possible for brokerage firms, fund companies and banks that offer IRAs to calculate investors' minimum required distributions. Those trustees will now be required to report required distributions to the IRS just as they report interest and dividend payments. The new regulations should enable the IRS to better monitor the minimum distribution requirements. IRA investors can choose to use the new rules now, even though technically they are just proposals, or they can continue to use the old rules this year. Investors in other types of plans will have to wait until next year unless their plan sponsor amends their rules sooner. For individuals turning 70 1/2 during the year 2001, it is advisable to run the distribution calculations under both sets of rules to determine which comes out with the best results.

Littman Krooks Roth & Ball P.C. offers legal services in several areas of law, including Estate and Tax planning, Public Benefits, Medicaid, Health Care, Guardianship, Estate Administration/Probate, and Trusts and Estates. Our offices are located conveniently in Midtown Manhattan at 655 Third Avenue, and in White Plains, New York at 81 Main Street.

You can now visit us on the internet at ***www.lkrb.com***. Our site contains articles of interest written by partners and associates of our firm, frequently asked questions regarding elder law and estate planning, and a host of additional resources on these topics.

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