Age 70 1/2 Required Minimum Distributions

If you are approaching age 70 1/2, we are writing to advise you about the required minimum distribution rules for many pension plan participants. You have some important decisions to make about distributions, if you have not already done so.

The required minimum distribution (RMD) rules limit the time period that funds may remain tax-deferred in qualified retirement plans. For those who can afford not to take distributions from their qualified retirement plans, it is tempting to put off taking them indefinitely so that the plan benefit can accumulate tax-free as long as possible. The minimum distribution requirements are designed to counter this temptation by requiring that distributions be made under very strict requirements.

Internal Revenue Code Sec. 401(a)(9) sets a mandatory date, called the "required beginning date," by which payments to a plan participant must start. A minimum payment must be made to the plan participant by the required beginning date.

Generally, the required beginning date for a plan participant who is a five percent owner is April 1 following the end of the year in which the participant reached age 70 1/2 regardless of whether the participant retired by the end of the year or not. The required beginning date for a plan participant (who is not a five percent owner) is April 1 following the end of the calendar year in which the latter of two events takes place: (1) the participant reaches age 70 1/2 **or** the participant retires.

You cannot delay receiving distributions beyond the required beginning date. You do, however, have some options about the form of distribution.

If you fail to take the RMD from your retirement plan, you will be subject to a 50 percent excise tax on the difference between the RMD amount and the amount that was actually distributed to you. For example, if you are required to take a distribution of $20,000 and you only took $10,000, you would be required to pay $5,000 in excise taxes. Consequently, you have to plan ahead and ensure that you will not be subject to this tax.

One further consideration if you are intending to give a portion of your wealth to charity: you can use your IRA as a tax free way to do so. Under the charitable giving provisions of the recently-passed *Pension Protection Act of 2006* , individuals aged 70 1/2 or older can distribute up to $100,000 of their IRA balance to charitable organizations without recognizing income. The distribution counts towards the required minimum distribution. Two caveats: the time to use this option in limited to 2006 and 2007 only; and, since it is tax free, you can't also take a charitable deduction.

If you have questions about your required minimum distributions, please contact our office at your convenience.