



Required Minimum Distributions

Winter 2009

One Year Moratorium

Required minimum distributions (RMDs) apply to accounts such as 401(k)s, 403(b)s and IRAs for owners who have reached age 70 ½ or who have inherited such an account. Owners of such accounts suffered a double whammy in 2008.

Not only did their portfolio values drop significantly between October 2007 and December 2008, but they were forced to take a distribution based upon the value as of December 31, 2007. For example, a 78-year-old investor is required to withdraw—and pay tax on—approximately 5% (actually 4.926%) of the value of all such accounts. If the account value was \$1,000,000 on December 31, 2007, the RMD would have been \$49,261.08. By the time the withdrawal took place (withdrawal may occur at any time during the following year) the account may have had a value of \$700,000—resulting in a withdrawal amounting to 7%. Moreover, the account owner may then have been forced to sell exceptionally devalued securities just to satisfy the RMD.

In September, when this inequity became apparent, there was talk of providing some sort of relief to apply in 2008. But that would have resulted in a multitude of administrative complications, particularly for taxpayers who had already made their withdrawals.

On December 23, 2008, President Bush signed into law the Worker, Retiree and Employer Recovery act of 2008. Among the law's provisions is a suspension of RMDs for 2009. An account owner's first withdrawal is required to be made by April 1st of the year following the year in which she turns 70 ½. All subsequent years have December 31st as the deadline: meaning, ordinarily, if you wait until April for your first withdrawal, you will have to take two withdrawals in one year.

So, if you turned 70 ½ in 2008, you will still be required to take your 2008 distribution by April 1 of this year, but your next RMD will be for the year 2010. Likewise, if you turn 70 ½ this year, your first RMD will be for the year 2010. The suspension also applies if you are the beneficiary of an inherited IRA, for which RMDs generally begin in the year after the death of the owner.

IRA owners who are subject to RMDs typically plan for a certain amount of liquidity in their accounts, such as maintaining a cash balance, to fund their anticipated withdrawals. Inasmuch as money market accounts are currently yielding close to zero, and the next RMD isn't until December of 2010, it might be wise to hold the necessary funds in CDs or a short-term bond fund.

Summary:

If you received the double whammy of taking a required minimum distribution (RMD) on an account such as an IRA *and* seeing that account lose significant value—help is on the way. RMDs have been suspended for 2009.

Plus, see what else may impact your 2009 tax planning in the [2009 Tax Numbers](#) from our "Planning Tools."