

New Required Minimum Distribution Rules

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New required minimum distribution regulations were finalized last week by the Treasury Department. The basic methods that were proposed in 2001 were maintained, but with many clarifications and even further simplifications. Among the most significant additions are new life expectancy tables, information on the reporting requirements for IRA custodians, and answers to several questions pertaining to distributions after the death of the participant.

The final rules generally take effect starting January 1, 2003. For 2002, participants can use either the 2001 proposed regs or the 2002 final regs. The distribution amounts will generally be slightly lower under the final rules. Generally, the minimum distribution requirements apply to qualified plans, IRAs, Section 403(b) annuities and certain Section 457 plans.

The following are some of the high points of the new regulations:

- Single and joint life expectancies are longer. For instance, under the uniform table that governs most lifetime distributions, the distribution period for participants at age 70 is increased from 26.2 to 27.4 years. The age 70 single life factor increased from 16.0 to 17.0 and the joint life expectancy for two individuals who are both age 70 increased from 20.6 to 21.8. These changes are the result of a directive by Congress in EGTRRA 2001 that the tables used for RMD calculations be amended to take into account the longer life expectancies indicated by the most recent census figures.
- The 2001 regs indicated a change of position by stating that a surviving spouse had to be the sole beneficiary of an IRA in order to treat the IRA as his or her own. Since this contradicted a number of private letter rulings, some commentators speculated that it was a mistake. But the new regs make it clear that the Treasury meant what it said, adding that the surviving spouse must "have an unlimited right to withdraw amounts from the IRA" and that if a trust is named as beneficiary, this requirement is not met, even if the spouse is sole beneficiary of the trust
- The regulations state that the new method can be used to calculate substantially equal periodic payments under Section 72(t).
- Marital status of participants will be determined as of January 1 each year. Thus, if the participant marries, or becomes widowed or divorced during the year, the change in status will not affect his distributions until the following year.
- Following the death of a participant, the date for determining the identity of the designated beneficiary will be September 30 (of the year after the year the decedent died) instead of December 31. This allows a 3-month period for calculating and making the required distribution by December 31.
- Under a transition rule, many beneficiaries who defaulted to the 5-year rule under the 1987 regs will be able to switch to a life expectancy payout. However, any missed distributions will have to be taken by the earlier of December 31, 2003 or the end of the fifth year following the decedent's death. This will be a great planning tool for some participants who missed the chance to stretch out distributions under the old rules.
- In calculating an individual's first distribution (generally due by April 1 of the year after he reaches age 70½), the account balance will no longer be reduced for distribution amounts received from January 1 to April 1.
- A new deadline has been added for the documentation requirement that applies when a trust is named as beneficiary. The documentation required under prior law must be provided by October 31 of the year after the decedent's death. (Since this deadline is new, a transition rule applies through 2003.)

- New reporting requirements that appeared in the 2001 regs for IRA custodians and trustees were clarified. Instead of being required to report to the IRS the amount of the individual's required distribution to the IRS (as was stated under the 2001 rules), IRA custodians will be required to identify each IRA for which a minimum distribution is required. However, the custodian will be required to calculate the individual's required distribution, upon a request by the individual.
- Regulations were issued in temporary and proposed form for annuity payouts from defined benefit plans, since these were not addressed in the 2001 regulations. Changes include an expanded number of options for providing increasing payments (such as cost of living adjustments).