

## IRS Proposed Regulations to Simplify Retirement Plan Distribution Rules

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Early in 2001, the Internal Revenue Service (IRS) issued proposed regulations that would simplify the calculations that individuals must make to determine their distributions from certain retirement plans. The regulations cover Individual Retirement Arrangements (IRA), retirement savings plans, and other similar accounts that include tax-deferred income. In general, these plans allow participants to defer tax on deposited funds until retirement age. Funds cannot be withdrawn prior to age 59½ without a penalty. However, funds must be withdrawn beginning at age 70½ so that the previously untaxed deposits plus interest are subject to tax over the remaining life expectancy of the participant. (These distribution rules apply to the portion of retirement accounts that is tax deferred; previously taxed deposits, such as those under a Roth IRA, are not subject to the required distribution rules.)

Prior to the new rules, plan participants were required to make irrevocable decisions about the future distribution of their funds at age 70½ on the basis of life expectancy and anticipated beneficiaries. The calculations tended to be complex, often requiring the assistance of financial advisors, and they were perceived as unreasonably restrictive.

According to the IRS, "The new proposed regulations simplify the rules by

- "Providing a simple, uniform table that all employees can use to determine the minimum distribution required during their lifetime. . . .
- "Permitting the required minimum distribution during the employee's lifetime to be calculated without regard to the beneficiary's age . . .
- "Permitting the beneficiary to be determined as late as the end of the year following the year of the employee's death. . . .
- "Permitting the calculation of post-death minimum distributions to take into account an employee's remaining life expectancy at the time of death, . . .

"These simplifications would also have the effect of reducing the required minimum distribution for the vast majority of employees."

The effective date of these new rules is for calendar years beginning on or after January 1, 2002, although the rules specifically state that taxpayers may rely on these proposed regulations for calendar year 2001.

Source: "Required Distributions from Retirement Plans," *Federal Register*, January 17, 2001, pp. 3928-54.