



## Taking Money Out of Your IRA

Most of us think of IRAs and retirement plans as financial tools for asset accumulation. We often pay little attention to how funds can be withdrawn from the accounts until retirement. Here are some general rules on how funds coming out of IRA accounts are treated for income tax purposes. This discussion applies only to regular IRAs since "Roth IRAs" are treated very differently. You may want to consult your tax advisor for more details or to determine how specific rules would apply to you.

### **Distributions before age 59 ½**

The general rule is that funds withdrawn from an IRA qualified plan before age 59 ½ are subject to an additional tax of 10% on top of being reported as taxable income in the year taken. There are a few exceptions such as death and disability.

### **Distributions from age 59 ½ to age 70 ½**

Once you reach age 59 ½, you can then start withdrawing funds without penalty. You can withdraw any amount from zero to the entire amount in the IRA. Withdrawals you take are subject to income taxes. If you are still working or do not need the funds, you will probably leave them in the account and continue to earn tax-deferred returns as long as possible.

### **Distributions after age 70 ½**

After you reach age 70 ½, you must start taking distributions from your plan. This forced distribution concept was established to eliminate the possibility of someone accumulating huge amounts of money that continued to grow tax-deferred. The IRS has also established rules to force you to take a minimum amount each year. This is called the Required Minimum Distribution (RMD). However, for 2009 only, there is no minimum distribution requirement. There is a more detailed discussion of RMDs below. You can also take more than the minimum. Withdrawals you take are subject to income taxes.

### **Distributions at death**

The beneficiary designated as part of your IRA will determine whom the funds in your IRA pass to when you die. This transfer is not governed by your will. If you designate your estate as the beneficiary, funds would then be available to be distributed according to your will. This is also the case if you have no designated beneficiary. That distribution triggers the income taxation of the funds in the IRA.

If you designate your spouse or another person as the beneficiary, the IRA passes to that person "intact" without being subject to income taxes. A spouse may choose to treat the decedent's IRA as their own, and then be subject to the normal distribution requirements (pre-59 ½, 59 ½ to 70 ½ and after 70 ½). Non-spouse beneficiaries may not treat the IRA as their own – special distribution rules apply.

### **Required Minimum Distributions**

At age 70 ½, the IRS forces you to start taking withdrawals. However, for 2009 only, there is no minimum distribution requirement. The amount that must be withdrawn is based on the life expectancy tables provided by the IRS. The rules for determining how much you must take were simplified in early 2001. A uniform new life expectancy table was adopted and generally provide for smaller RMDs.

If you are currently required to take RMDs, you should consult your tax advisor to determine how the new rules apply and whether you should make changes in your distribution levels. These new rules took effect in 2002.

### **Summary**

Individual Retirement Accounts can be the foundation of a successful plan for a financially secure retirement. Tax deferral on the earnings and the new beneficial rules for required minimum distributions make these accounts even more attractive. Some of the rules are complex, especially concerning distributions, and a thorough discussion with your tax advisor can help you understand your options.