



NACHMAN NORWOOD & PARROTT
WEALTH MANAGEMENT CONSULTANCY

The Respite from Mandatory Distributions Expires in 2010

Those age 70-1/2 or older who have IRAs and/or employer sponsored retirement plans as well as those with Inherited IRAs enjoyed a brief reprieve from having to distribute required minimum distributions (RMDs) should know that in 2010, the respite is over.

Individuals who would usually be subject to receiving RMDs from IRAs, 401(k) and other qualified retirement accounts had earned a reprieve in 2009, thanks to the Worker, Retiree and Employer Recovery Act (WRERA). The WRERA allowed for a temporary waiver of the RMD rules requiring them to distribute funds from their retirement accounts for those 70 ½ and older or those with Inherited IRAs.

Now that we have entered a new year (2010), any employer sponsored retirement plan participant age 70 ½ or older must take distributions, beginning the year he or she reaches 70 ½ years of age or, if later, the year in which he or she retires. This delay is allowed only if the participant is not a 5% or more owner of the company and the plan allows the delay. However, any individual with a Traditional SEP and/or SIMPLE IRA should take their RMD by December 31 beginning the year you reach 70 ½. However, you may choose to delay that first RMD until April 1 the year following the year 70 ½ is obtained. If you delay that first year's distribution until the following year, you should note that you will have two distributions taxable in the same year – your first RMD and your second RMD, which must be taken by December 31. After your first distribution, annual RMDs must be taken each year by December 31.

Those with Inherited Traditional and/or Inherited Roth IRAs have RMDs due by December 31 of each year, beginning with the year following the IRA owner's year of death. Those who have inherited an employer sponsored plan have the ability to transfer these assets into an Inherited IRA. This must be done as a trustee-to-trustee transfer, rollovers are not allowed. Once in the inherited IRA the RMDs rules for distribution apply.

RMDs are minimum amounts that a retirement plan account owner must take annually, according to the Internal Revenue Service. The rationale for mandating distributions is that while the government allows taxpayers to defer taxes on retirement contributions, at some point the tax bill comes due. Ready or not, that point is age 70 ½ for IRA owners and plan participants. It is the year following the IRA owner's year of death for Inherited IRAs. Beginning in 2010, the waiver has expired and RMD requirements revert back to pre-2009 norms.

Generally, a RMD is calculated for each account by dividing the prior December 31st balance of that IRA or retirement plan account by a life expectancy factor that is available on the IRS Web site.

Although an account owner is ultimately responsible for calculating the amount of the RMD, your financial advisor can help you access the calculation or put you in touch with your IRA custodian or retirement plan administrator.

Nachman Norwood & Parrott does not render legal, accounting, or tax advice. Be sure to consult with your own tax and legal advisors before taking any action that may have tax consequences.

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