

2009 Required Minimum Distribution Rules under the Worker, Retiree, and Employer Recovery Act of 2008

(February 13, 2009)

Frequently Asked Questions

Q. What is the Required Minimum Distribution rule for 2009?

A. The government passed the Worker, Retiree, and Employer Recovery Act of 2008 which includes a provision which suspends Required Minimum Distribution (RMD) Rules for 2009 for certain retirement plans and accounts. Under this provision, no minimum distributions are required for 2009 from individual retirement accounts (such as a Traditional IRA, Rollover IRA, SEP IRA and SIMPLE IRA) and certain employer-sponsored defined contribution retirement plans. This also applies to required minimum distributions for after-death distributions to beneficiaries from inherited retirement accounts such as an Inherited IRA (Beneficiary Distribution Account – BDA), Inherited Roth IRA and Inherited Retirement Plan Account.

Note: The suspension does not apply to tax-deferred annuities or defined benefit pension plans.

Q. What does this mean if I am an IRA owner?

A. Owners of a Traditional IRA, Rollover IRA, SEP IRA, or SIMPLE IRA will not be required to take RMDs for 2009 even if they are 70 ½ or older and would normally be required to take a RMD for 2009.

Q. What does this mean if I am a Roth IRA owner?

A. Roth IRAs are not subject to RMD rules during the lifetime of the original owner so there is no implication.

Q. What does this mean if I am 70½ or older and rolling over an employer sponsored retirement account to a Rollover IRA.?

A. No RMDs will be required from retirement plan accounts that are rolled over to IRAs in 2009. Normally, individuals who are 70½ and older must take a RMD before rolling over to an IRA. Because RMDs are suspended for 2009, you will not need to take the RMD before rolling over to an IRA.

Q. What does this mean if I am a beneficiary of an inherited retirement account?

A. Beneficiaries who have inherited a retirement account will not be required to take a 2009 RMD. Inherited retirement accounts include accounts such as an Inherited IRA or Inherited Roth IRA.

Q. What if I am taking RMDs from an inherited account using the five year rule?

A. If the five year rule applies to an account with respect to any decedent, under the provision, the five year period is determined without regard to calendar year 2009. Thus, for example, if the retirement account was inherited from an individual who died in 2007, under the provision, the five year period ends in 2013 instead of 2012.

Q. What if I am taking substantially equal periodic payments (SEPPs) under section 72(t) of the tax code based on my life expectancy; can I skip or reduce my 2009 payment?

A. No. Section 72(t) relates to exceptions on early withdrawals for individuals younger than 59 ½; the law suspending RMDs for 2009 applies to individuals over 70 ½ and beneficiaries of certain retirement accounts.

Q. What if I have been taking RMDs for several years, does the opportunity for suspension apply to me?

A. Yes. If you have reached your required beginning date (RBD) in a year prior to 2009, you would qualify for the temporary suspension in 2009.

Q. What if I reach my RBD for the first time in 2008, and I defer my 2008 RMD to 2009; does the first year payment qualify for the 2009 temporary suspension of the RMD?

A. Even though the first RMD payment was deferred to 2009, it is still considered a 2008 RMD and therefore must be taken by April 1, 2009 or be subject to the 50% tax penalty. However, you are not required to take your 2009 RMD.

Q. What if I reach my RBD for the first time in 2009 and as such can defer my 2009 RMD until no later than April 1, 2010, does the first year payment qualify for the 2009 temporary suspension of the RMD?

A. Yes, even though you can take your 2009 RMD by April 1, 2010, because it is a 2009 RMD, you can suspend it. You must take your second year RMD (2010 RMD) by December 31, 2010.

Q. What if I have already established a periodic distribution plan (also known as a Personal Withdrawal Service (PWS) plan) to take my annual RMD; how do I suspend the payment(s) scheduled for 2009?

A. Scheduled payments will continue to be made unless you proactively request a suspension. Mainstay Capital Management clients must contact us to suspend your 2009 scheduled payments.

Q. If I want to take my scheduled 2009 distributions, can I still do so?

A. Yes. While the requirement to take a distribution is suspended for 2009, you can always take distributions from the account.

Q. If I have already established a periodic distribution plan/PWS plan to take my RMDs and I need to take my 2009 scheduled distributions, how do I ensure that my payments will not be interrupted?

A. You do not need to do anything to continue taking scheduled payments.

Q. What if I need some income but want to take less than the RMD amount, can I choose to reduce the amount of the payment(s) scheduled for 2009?

A. Yes, you can elect to take less than the scheduled payment amount. Clients can contact us to reduce your 2009 scheduled payment amount.

Q. What if I have already taken or received a 2009 payment but don't want it?

A. Certain distributions already taken may be eligible for a 60 day rollover subject to existing IRA rollover rules (including, but not limited to: must be done within 60 days of receipt; cannot rollover more than once in a rolling twelve month period; distributions from non-spouse BDAs are not eligible for rollover, etc.):

- Distributions from a Traditional, Rollover, SEP or SIMPLE IRA may be rolled over to an IRA, or back to the originating account.
- Distributions from a retirement plan account may be rolled over to an IRA or back to the originating account.
- Distributions from an IRA BDA for a spouse beneficiary may be rolled over to an IRA in the name of the spouse beneficiary; they cannot be rolled back to the originating IRA BDA.
- Distributions from an Inherited Retirement Plan Account for a spouse beneficiary may be rollover over to an IRA in the name of the spouse beneficiary. They cannot be rolled back to the originating Inherited Retirement Plan Account.
- Distributions from an IRA BDA or a Retirement Plan BDA for a non-spouse beneficiary are not eligible to be rolled over.

Note: Distributions taken in 2009 that are 2008 RMDs are not eligible rollover distributions.

Q. What will happen for 2010 RMDs?

A. At this time, the suspension applies to 2009 only. Unless the law is extended to 2010, you will be required to resume your RMDs in 2010. We are not aware of any plans to extend the law to 2010.

Q. If I skip or reduce my scheduled 2009 payment, will my payment automatically resume in 2010 or will I have to provide instructions to resume payments?

A. Scheduled periodic distribution/PWS payments will automatically resume in 2010; you will not have to submit new instructions to resume payments in 2010.

Q. When I resume taking RMDs in 2010, how will the RMD be calculated?

A. The calculation formula for 2010 distributions will not change; the 2010 distribution will be calculated by taking the Dec 31, 2009 balance and dividing it by the remaining life expectancy (using either the uniform life expectancy or joint life expectancy table, as applicable).

Q. If I have an inherited retirement account, when I resume taking distributions in 2010 based on a life expectancy, how will the payment be calculated?

A. The calculation formula for 2010 distributions will not change; the 2010 distribution will be calculated by taking the December 31, 2009 balance and dividing it by the remaining life expectancy. (For spouse beneficiaries, the single life expectancy is re-determined each year; for non-spouse beneficiaries the original single life expectancy factor is reduced by one year for each year, to include 2009).

For further questions regarding the 2009 Required Minimum Distribution Rules call us toll-free at 1-866-444-6246 or send an email to mainstay@mainstaycapital.com.