

Early Retirement Plan Distributions for Samuel Sample

Report produced May 21, 2002

Distribution Amount: Monthly = \$1,024.59, Annually = \$12,295.08 (72(t) using RMD method)

Federal tax law generally imposes a 10% penalty on withdrawals from most IRA plans made prior to age 59½. Exceptions to the tax penalty are specified in Section 72(t) of the Internal Revenue Code. Among these are “substantially equal periodic payments” made over the life or the life expectancy of the IRA owner and one or more other beneficiaries. The calculation below is based on the Required Minimum Distribution method, approved in IRC Section 72(t) and further described in IRS Regulation 1.401(a)(9), and it assumes that a distribution is taken on April 1, 2002.

Note that in the following calculations, the age of the oldest original beneficiary is the pertinent one. In this case, that is the spouse. Since this is the first year of withdrawals, the current year distribution amount is based on attained age. Using age 72 for the fund owner and age 60 for the oldest beneficiary, Table VI calls for a divisor of 25.8. Distributions are also limited by the Minimum Distribution Incidental Benefit rule, however, which in this case has a lower divisor. The final divisor has therefore been reset to 24.4. The prior year-end IRA balance of \$300,000.00 is then divided by this factor to determine the distribution amount for 2002.

The substantially equal payment for 2002 is therefore \$12,295.08.

It is important to note that to qualify for this exception, the substantially equal payments must continue to be distributed without a change in method until after the IRA owner reaches age 59½, or for five full years, if longer. If the payments are changed or discontinued before that time, the 10% penalty on all prior payments is reimposed with interest.

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Version 3.27Sample (2002)