

## Retirees: No Withdrawals Required for 2009

On December 23, 2008, former President George W. Bush signed into law the Worker, Retiree, and Employer Recovery Act of 2008, a measure that affects the retirement accounts of individuals age 70½ or older. For the 2009 tax year only, the Act suspended the requirement to take annual withdrawals, also known as required minimum distributions (RMDs), from retirement accounts such as 401(k) plans, 403(b) plans and traditional IRAs.

The law was enacted to prevent retirees from being forced into taking withdrawals from retirement accounts that had declined in value as a result of the current bear market in stocks. Taking withdrawals during a bear market can lock in losses that are difficult to make up in subsequent years. Since RMDs are taxable, taking them from a shrinking portfolio was construed by some observers as a double blow. Although there are no guarantees, many observers believed that permitting retirees to forego withdrawals, at least for one year, could provide an opportunity for nest eggs to recover in the event of a stock market upturn.

Historically, the amount of the distribution has been based on the account balance as of December 31 of the prior tax year and the account holder's life expectancy. Tables detailing life expectancy at various ages are available in Internal Revenue Service Publication 590. Account owners were required to begin RMDs by April 1 of the year after they turned age 70½. The Act covers the 2009 tax year only and currently, retirees are required to resume RMDs for the 2010 tax year. Note that the Act does not affect Roth 401(k)s or Roth IRAs because RMDs are not required from these accounts.

### A Look at the Details

If you began RMDs in prior tax years or anticipated starting in 2009, you may want to be aware of the following:

- RMDs for 2008 are not affected. If you were required to take a distribution for the 2008 tax year and were planning to delay your withdrawal until April 1, 2009, you still are required to take this distribution.<sup>1</sup> The account balance as of December 31, 2007, the prior tax year, is used to calculate the withdrawal.
- Individuals turning 70½ in 2009 may delay their first distribution until December 31, 2010. Their first RMD, normally required by April 1, 2010, is waived by the Act. However, an RMD for the 2010 tax year still is required. Following the initial RMD, annual withdrawals typically must be completed by December 31 of the tax year.
- Nonspousal beneficiaries who inherited retirement accounts and are taking distributions over a five-year period may suspend their withdrawal for 2009 and resume withdrawals for 2010. Because of the one-year hiatus, the Act permits these beneficiaries to extend withdrawals over a six-year period rather than a five-year period.<sup>2</sup>

### Tax Issues

The one-year moratorium on RMDs means that retirees who forego their distributions for 2009 are not paying taxes on the amount that would have been withdrawn. Assets within a qualified retirement account typically are not taxed until withdrawal during retirement, when they are taxed at then-current rates. Because of this tax benefit, if you need to take withdrawals from your portfolio for living expenses, you may want to consider tapping a taxable account during 2009.

Your tax professional can help you understand the rules that govern IRAs. You may want to monitor developments in this area in the event of additional rule changes affecting 2010 and beyond.

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<sup>1</sup> Source: "Congress Revises Retirement-Fund Rules," *The Wall Street Journal*, January 4, 2009.

<sup>2</sup> Source: Retirement News for Employers, Internal Revenue Service, January 2009.  
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