

Required Minimum Distributions -- Notes On Proposed Regulations

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Overview

This pertains to proposed Treasury Regulations [§1.401(a)(9)-0 through 1.408-8] as printed in the Federal Register on 1/17/2001.

Terminology

DCY - Distribution Calendar Year

The Minimum Required Distribution for a DCY is determined, in part, by using the Benefit (balance) from the preceding December 31. Generally, the Minimum Required Distribution for a DCY must be made by December 31 of the DCY. In the case of the first DCY, the Minimum Required Distribution must be made by April 1 of the subsequent year.

E.g., the Minimum Required Distribution for DCY 2001, in general, would be made no later than December 31, 2001. However, if the employee turned 70½ in DCY 2001, the first required distribution must be made no later than April 1, 2002. The Benefit used to compute the Minimum Required Distribution would be the account balance on December 31, 2000.

MRD – Minimum Required Distribution

Benefit

The Benefit is simply the account balance on the December 31 before the DCY.

RBD – Required Beginning Date

This is April 1 after the calendar year when the employee turns 70½

Employee

The IRA owners as well as pension recipients are termed employees in the regulations and in this document.

Effective Date

These rules go into effect "...for calendar years beginning on or after January 1, 2002." However, they may be used "...for calendar years beginning on or after January 1, 2001." I think this means that the regulations go into effect for Distribution Calendar Year 2002, but you may use them for Distribution Calendar Year (DCY) 2001.

The way I read this, these new regulations would not apply the DCY 2000, even if the Required Beginning Date is 4/1/01. I am not 100% sure on this though.

When Employee Dies Before The RBD – Timing Of Distributions

[§1.401(a)(9)-3].

- One option is to distribute the account no later than the year that contains the 5th anniversary of the death. Thus, if employee died on 1/1/02, the distributions may be satisfied if made by 12/31/07.
- Another option for nonspouse beneficiaries would be to commence distributions "...on or before the end of the calendar year immediately following the calendar year in which the employee died. This rule also applies to the distribution of the entire remaining benefit if another individual is a designated beneficiary in addition to the employee's surviving spouse." Thus, if the employee died in 2001, distributions must begin in 2002.
- For spousal beneficiaries. The first distribution should be the later of
 1. On or before the end of the calendar year immediately following the calendar year in which the employee died; and
 2. "The end of the calendar year in which the employee would have attained age 70½" Thus, if the employee died in 1999, but would have turned 70½ in 2002, the spouse must make the first distribution from the employee's account no later than December 31, 2002. However, if the employee had lived, the RBD (and first required distribution) would have been April 1, 2003. [§1.401(a)(9)-3 A-3(a)].
- The surviving spouse dies before distributions have begun. Use the above rules, but use the surviving spouse's date of death instead of the employee's date of death.

Determination Of The Designated Beneficiary

The old proposed regulations indicated that the designated beneficiary must be specified by the RBD. The new proposed regulations [§1.401(a)(9)-4] states that "...the employee's designated beneficiary will be determined based on the beneficiaries designated as of the last day of the calendar year following the calendar year of the employee's death." This is a major simplification.

Determination Of Life Expectancy

During The Employee's Life

In general, the old MDIB table is the new life expectancy table, [§1.401(a)(9)-5 A-4].

If the spouse is the sole designated beneficiary, use the longer of the distribution period determined in accordance with the old MDIB rules or the joint life expectancy of the employee and spouse using the employee's and spouse's attained ages as of the employee's and the spouse's birthdays in the distribution calendar year. [§1.401(a)(9)-5 A-4(b)].

Employee Dies On Or After RBD

The life expectancy could be either –

1. Use the life expectancy of the designated beneficiary. For nonspouse beneficiaries, use that beneficiary's life expectancy in the year of the employee's death and subtract 1 from that for each subsequent year [§1.401(a)(9)-5 A-5(c)(1)]. For spousal beneficiaries, during the spouse's life time, look up the life expectancy for the spouse each year. After the spouse

has died, use the life expectancy in the year of the spouse's death, and subtract 1 from that for each subsequent year [§1.401(a)(9)-5 A-5(c)(2)]. It appears like Table V should be used here; or

2. If there is no designated beneficiary, use the employee's remaining life expectancy determined as if the employee were still alive for the year of death, and subtract by one for each subsequent year. [§1.401(a)(9)-5 A-5(c)(3)]. It looks like the year of death life expectancy should be determined by Table V.

Employee Dies Before RBD

Use the life expectancy of the designated beneficiary. For nonspouse beneficiaries, use that beneficiary's life expectancy in the year of the employee's death and subtract 1 from that for each subsequent year [§1.401(a)(9)-5 A-5(c)(1)]. For spousal beneficiaries, during the spouse's life time, look up the life expectancy for the spouse each year. After the spouse has died, use the life expectancy in the year of the spouse's death, and subtract 1 from that for each subsequent year. It looks like Table V should be used when a life expectancy needs to be determined by in the year of death for nonspouse beneficiaries, and each year for spousal beneficiaries. [§1.401(a)(9)-5 A-5(c)(2)].

Life Expectancies – General Rule

Use the same tables, Tables V and VI, as before these proposed regulations. [§1.401(a)(9)-6 A-5(a)].

Unanswered Issues

Effective Date

Can those with Required Beginning Dates of 4/1/01 use the new proposed regulations for that distribution? I think the answer is no.

Joint Life Expectancy

The term "joint life expectancy" is used in §1.401(a)(9)-5 A-4(b). I assume that Table VI is to be used to determine the life expectancy in the first DCY. For subsequent years, does one return to the table using the old Recalculation rules, or does one subtract one from each subsequent year using the old Non-Recalculation (sometimes called Term – Certain) method? I think the new proposed regulations indicate that Table VI should be used to determine the life expectancy each year. Thus, these life expectancies would be the same as the old proposed regulations joint with both recalculating each year.

Life Expectancy After The Employee's Death When There Is A Nonspouse Designated Beneficiary

For the year of death, use the nonspouse designated beneficiary's life expectancy [§1.401(a)(9)-5 A-5(c)(1)]. I am guessing that Table V would be used to determine that year's life expectancy.

Life Expectancy After The Employee's Death When There Is No Designated Beneficiary

§1.401(a)(9)-5 A-5(c)(3) indicates that in the year of death to use Table V.

Planning Points

2001 Distribution Calendar Year

Compute the Minimum Required Distribution using the old and new rules for DCY 2001. Use the computation that you prefer to use.

The MRD will be lower in most cases if the employee is alive.

The MRD, using the new proposed regulations, could easily be higher if the employee has died.

Possible Changes

There is a possibility that more recent mortality tables might be used in the determination of life expectancies. This might increase life expectancies longer than those in these proposed regulations.

Considering that President Bush may be more inclined to help those that might be interested in minimizing the Required Minimum Distributions, it would not surprise me if the new administration might modify these proposed regulations.