
Sherwood Investment Services
Financial Planning & Investment Management

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The Savvy Investor

IRA Distribution Rules

The IRS issued new rules January, 2001 that affect IRAs of anyone age 70.5 or older. This is an important rule change. The new rules were optional in 2002 and mandatory in 2003

The new rules reduce the mandatory amount that must be taken out of your IRA when you reach age 70.5. (Cleverly, this is called the Required Minimum Distribution, RMD.)

Here are some of the details.

Smaller Required Minimum Distributions

Every beneficiary (other than your spouse) is now treated as if they were ten years younger than the owner of the IRA. (Using a large age difference in the calculation is favorable.) If your spouse is your sole beneficiary, you can either use the table that assumes she is ten years younger than you, or an even more favorable joint-life table (which you would want to do if she is more than ten years younger than you).

Simplified Rules

Under the old rules, when you started taking withdrawals, you had to decide if you were going to use single or joint life expectancy. You also had to decide if you would use a term certain, re-calculation, or hybrid method of calculating the withdrawals. Further, if you named a person more than 10 years younger than you as a beneficiary, you could not take full advantage of the age difference to stretch out the payments. The biggest difference you could use was 10 years.

If all this sounds confusing, it was. **Now, under the new rules, all you need to figure out is if you will be using a single life expectancy (yours), or a joint life expectancy (yours and your spouse's).**

Finally

You gain more flexibility naming beneficiaries. Under the new rules, if your spouse dies first, you can choose a new beneficiary and use that person's life expectancy.

Please contact us and visit our web site www.Sherwood-Investments.com for independent investment advice on retirement strategies and for us to calculate your RMD.