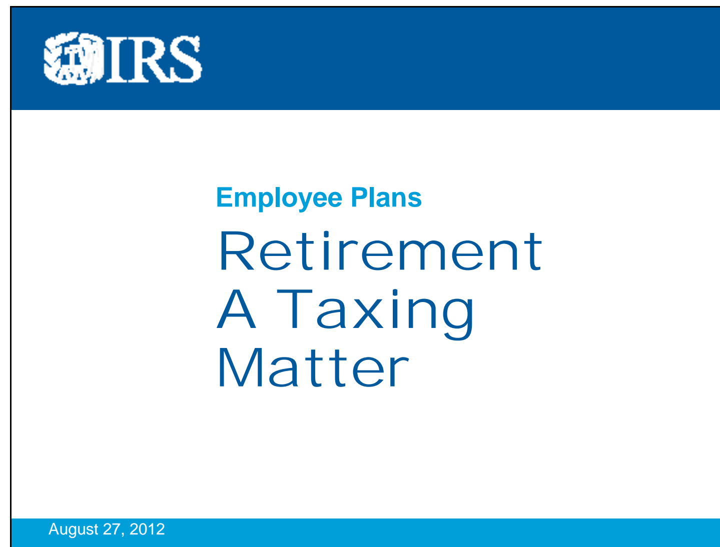
Slide 1



Give a quick review of your bio and what you do at the IRS.

Taxes are a fact of life. You can't even get away from them when you try to retire.

That's our focus today, the taxable issues that may affect your clients at retirement - such as

- types of distributions,
- what if you keep working after retirement,
- how distributions may affect the taxability of your Social Security,
- required minimum distributions
- the new lifetime income arrangements.

And, we're going to give you some insight on what all those codes on Form 1099-R mean….

Slide 2

IRS Distribution Restrictions

- SEP
- SIMPLE IRA
- IRA
- Roth IRA

When can you take a distribution from a SEP, SIMPLE IRA, regular or Roth IRA? At any time.

- You can still be employed, terminated, retired.
- SEPs, SIMPLE IRAs, and IRAs don't have any restrictions on when you can take a distribution.
- Once the employer deposits the contributions into your IRA, it has no control over that money.

For example, if my employer decides to contribute to our SEP plan and deposits $5,000 in my IRA:

- Once that money is deposited, I can go in and take it out immediately.
- I'll pay income tax on the distribution and, since I'm under age 59½, I'll also owe the 10% additional tax on early distributions unless I meet an exception.
- The exceptions to the 10% additional tax on early distributions are different for IRAs and retirement plans.
- We have a one-page cheat sheet on our website that lists all the exceptions for IRAs and retirement plans.

- This cheat sheet can help you keep those straight.

Bottom line, it's my IRA and I can take the money out at any time.

Same for a SIMPLE IRA. I can take that money out as soon as it's deposited in the IRA. The only issue is if the account is less than two-years-old, then a 25% additional tax on early distributions applies, unless I meet one of the exceptions.

You can take a distribution from Roth IRA accounts at any time; however, if you do and the Roth IRA that is less than five-years-old or if you're under age 59½, the earnings are taxable. So you'd lose the tax benefit a Roth IRA offers.

Slide 3

IRS Pre-Retirement Distributions

- Hardship distributions
  - Plans not required to allow for them
  - Immediate and heavy financial need
  - Limited to amount necessary to satisfy need
- Loans

Let's start by talking briefly about distributions before retirement. Illness, job loss, taking care of elderly family members can all cause financial hardship. Maybe you've had to tap into your retirement savings to get through one of those difficult times.

Certain 401(k) plans may - but are not required to - allow hardship distributions. If the plan document allows a hardship distribution,

- the distribution can only come from the participant's elective deferrals (excluding post 1988-earnings),
- It must be for an:
  - immediate and heavy financial need, and must be
  - limited to the amount necessary to satisfy that need.

A plan that provides for hardship distributions must provide the specific criteria used to make the determination of the hardship. Under IRS regulations, an employee is automatically considered to have an immediate and heavy financial need if the distribution is for:

- Medicals expenses previously incurred by the participant, or any dependents
- Cost to purchase a participant's principal residence
- Tuition payment and related educational fees such as room and board for the next 12 months for the participant, spouse, or dependents
- Necessary payment to prevent the participant from home eviction, foreclosure on the mortgage of the participant's principal residence
- Funeral expenses
- Certain expenses relating to the repair of damage to the participant's principal residence

The amount necessary to satisfy that need is the amount of the need, along with the taxes associated with the hardship distribution.

Consumer purchases, such as a new car are not considered an immediate and heavy financial need. If you owe your bookie $50,000 and he's threatening to break your legs if you don't pay, I'm not sure if that would be considered a hardship. But, if he breaks your legs, the medical expenses you incur could be grounds to receive a hardship distribution.

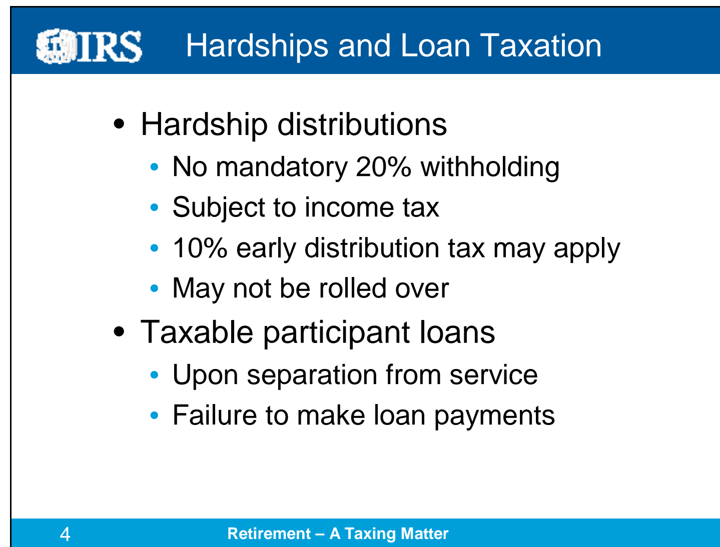
Hardship distributions are a permanent reduction of an account balance and cannot be repaid. They can have a devastating impact on a participant's retirement account.

Hardships are common in 401(k) plans because a 401(k) is not allowed to distribute any salary deferrals prior to age 59½ unless the participant terminates employment.

Loans aren't really distributions, but they do provide access to retirement savings. Loans are most common in 401(k) plans, but that's not a surprise since

most plans are 401(k)s these days. It’s very rare to see a loan in a defined benefit plan.

Slide 4



Hardship distributions are subject to immediate taxation.

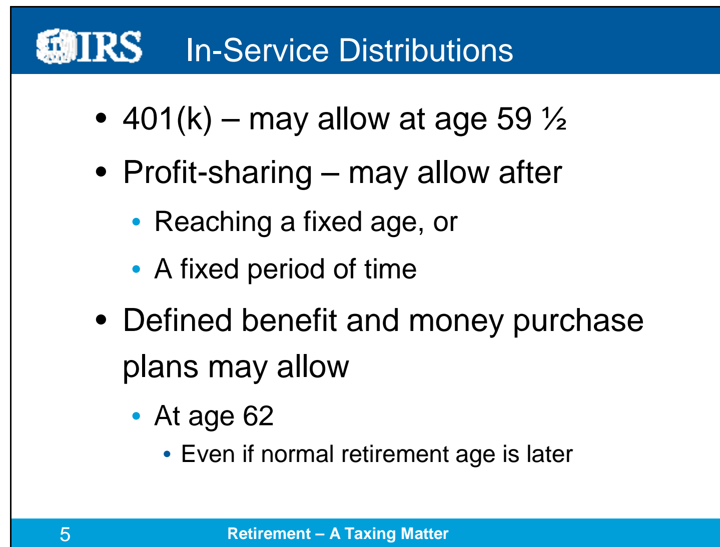
- They are not subject to the 20% federal income tax withholding, but are subject to income tax.
- If you're under age 59½ at the time of the distribution, the 10% additional early distribution tax applies unless you meet one of the exceptions.

On the last slide, we said that loans aren't really distributions, but they can turn into distributions. What happens if an employee has a participant loan and then quits, is fired or retires before the employee repays the loan? If a participant leaves his job and has an outstanding loan balance, the terms of the loan will likely require the outstanding loan balance to be paid in full immediately.

If the outstanding balance is not repaid, it becomes a "deemed distribution" and the loan balance is deducted from the employee's account balance. The deemed distribution - the outstanding loan - must be reported on Form 1099-R, showing code "L" in box 7. The outstanding balance must be included in the employee's gross income and may be subject to the 10% additional tax on early distributions.

What happens if you fail to make the required payments on a loan? The loan will go into default and will be treated as if it were distributed to you. A Form 1099-R will be issued reporting the loan balance as a taxable distribution. This distribution is not eligible for rollover to another plan or IRA and is subject to the 10% additional tax on early distributions.

Slide 5



An in-service distribution is when a participant, who is still employed by the plan sponsor, is allowed to take a distribution from the plan.

In-service withdrawals from 401(k) plans carry special restrictions. Pre-tax salary deferrals in these plans may not be distributed prior to the participant reaching age 59½, even if the plan's normal retirement age is less than 59½.

A profit-sharing plan may allow in-service withdrawals at any time.

- This can be after reaching a fixed age stated in the plan document.
- This could be:
    - the plan's normal retirement age,
    - an early retirement age, or
    - any age.

It could also be after a fixed period of time. However, the contribution must be at least two-years-old or the account must be at least five-years-old.

New rules under the Pension Protection Act allow defined benefit and money purchase pension plans to make in-service distributions after the participant reaches age 62, even if the plan's normal retirement age is later.

There are a couple important things to remember.

- If the plan document doesn't allow for in-service distributions, the plan cannot make in-service distributions.
    - It is not common to see plans that allow these in-service distributions; however, the trend is in that direction. In-service distributions are not likely to be found in a pre-approved prototype plan.
    - More employers are offering in-service distributions in their plans to give employees the opportunity to cut back their work schedules and draw from their retirement plan to make up the difference. Some call it a phased retirement.

Slide 6

Types of Distributions at Retirement

- Lump sum
- Installments
- Annuity

6 Retirement – A Taxing Matter

When you retire, the plan document will determine your choices for receiving your distribution. Some of the methods are lump sums, annuities and installments.

First, let's talk about lump sum distributions. They're the distribution of choice for most participants and my personal favorite. When I retire, I want to receive all my retirement funds in one large lump sum. I'm going to have it distributed to me in $100 bills and put them in a big stack on top of my dresser in the bedroom. I can watch the stack get smaller and smaller. I'll know exactly when my comfortable retirement is over.

In a profit-sharing or 401(k) plan, a lump sum payment is easily determined. It's the value of the participant's vested account balance. In a defined benefit plan, the lump sum is the present value of the participant's vested accrued benefit. A lump sum payment is taxable as ordinary income in the year it's received unless some of the contributions and earnings are because of after-tax or Roth contributions. A lump sum is subject to the 20% federal income tax withholding.

An installment payment is a periodic payment made for a specified period of time - for example, 7 years or 10 years. Installment payments are not guaranteed for a participant's lifetime, but instead the participant's account balance is distributed in a number of periodic payments. When these payments are complete, the participant will have received his entire account balance, and no more installment payments will be made.

If the participant dies before receiving all of his installment payments, the remaining payments will be paid to the participant's designated beneficiary. These types of distributions are taxed in the year received.

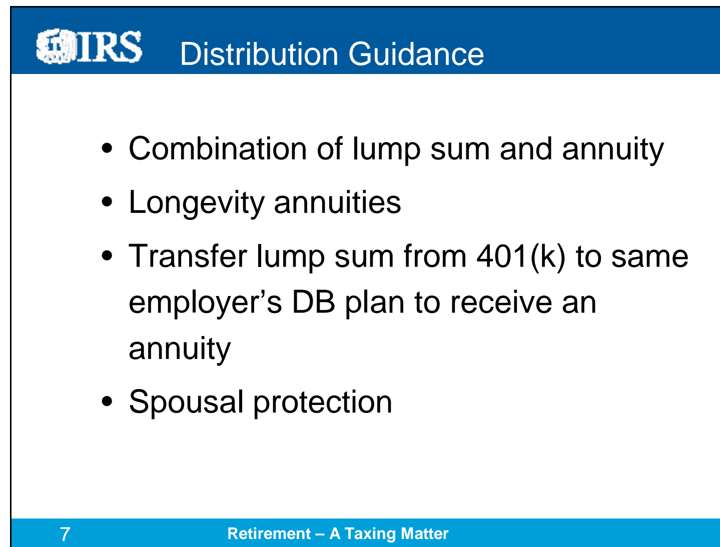
An annuity is a contract under which one party, typically an insurance company or trust, promises to make regular payments over a certain length of time and under certain conditions. The more common annuity contracts are:

- A life annuity - payments over the life of the retiree.
- Term certain - payments over the life of the retiree, with a guarantee of a certain number of payments, even if the annuitant dies.
- A joint and survivor annuity - payments over the retiree's life with a survivor benefit paid for the life of the spouse.

Annuity payments are fully taxable in the year received unless there is a basis in the contract.

If you have a basis, a cost to recover from your annuity, you can exclude part of each annuity payment from income as a recovery of your cost.

Slide 7



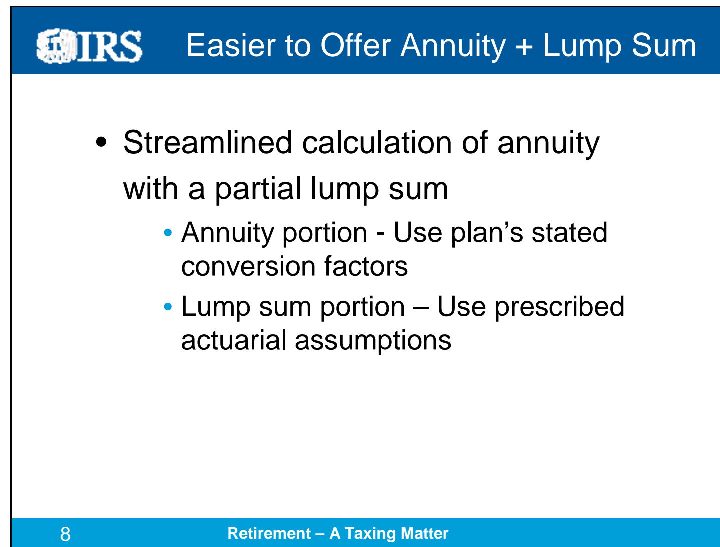
In his book, *Die Broke*, Stephen Pollan wrote, "The last check you write should be to the undertaker—and it should bounce." But how do you do this? How do you ensure that you have enough money, but not too much to get you through retirement? We know average life expectancies, but we still haven't figured out how long we'll live. Many retirees are exposed to the risk of either outliving their savings or unnecessarily limiting their spending in retirement because of their fear of outliving their savings.

Early this year, IRS issued a package of proposed regulations and rulings intending to make it easier for retirees to manage their savings, by allowing pension plans to offer workers a wider range of choices of how to receive their retirement benefits by–

- Making it easier to offer combination options that avoid an "all-or-nothing" choice. It offers individuals the option to take a portion of their plan benefit as an annuity, while taking the remainder in a lump-sum payment;

- Enabling employer plans and IRAs to offer an additional option in the form of a “longevity annuity” – which allow individuals to use a limited portion of their account balance to provide lifelong retirement income beginning at age 80 or 85. It helps to protect retirees from outliving their savings;
- Making clear that employees receiving lump-sum cash payouts from their employer’s 401(k) plan can transfer some or all of those amounts to the employer’s defined benefit pension plan (if the employer has one and is willing to allow this) to receive an annuity from that plan; and
- Clarifying the joint and survivor annuity and spousal consent rules when a defined contribution plan permits investment in a deferred annuity contract.

Slide 8



Several studies show that the majority of distributions from retirement plans are lump sum payments, even in a defined benefit plan where an annuity is the normal form of benefit. When given the option of having a large stack of money sitting in their bedroom or a much smaller monthly check, people choose the cash.

Wouldn't it be great if you could receive some of your benefit as a stream of income for life, to provide protection against the risk of outliving your savings, and the rest of your benefit as a lump sum that lets you take that dream trip, pay off your house, or just provides liquidity?

That is one of the goals of the proposed regulations. Under the old rules, where an optional form of benefit consisted of a split – partially a lump sum and partially an annuity, the value of each of these portions had to be determined using required interest rates and mortality assumptions. The new rules streamline the calculation of partial annuities. The interest rates and assumptions that the old rules required you to use are now only applied to the lump sum portion of the

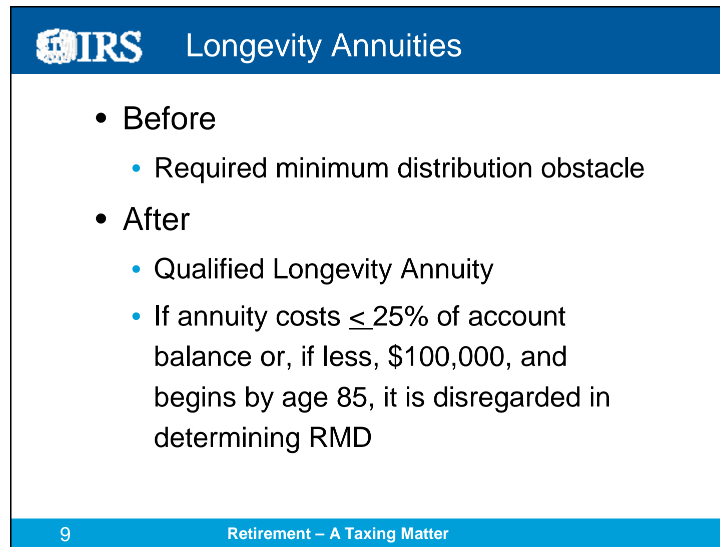
benefit. You now can use the plan’s regular conversion factors on the partial annuity.

Let’s look at an example:

Let’s say an employee elects to take 75% of his benefit as a partial annuity and the other 25% as a lump sum. The value of the partial annuity is simply 75% of the value of the full annuity and the partial lump sum is simply 25% of the previously calculated dollar amount of the full lump sum.

This simpler method of calculating partial annuities should lead to more plans offering a partial annuity with a partial lump sum, rather than putting participants in an “all or nothing” choice to take their entire plan benefit.

Slide 9



Employees typically prefer the liquidity and flexibility offered by a lump sum. The new proposed regulations will make it easier for defined contribution plans and IRAs to offer longevity annuity options - an income stream that begins at an advanced age, such as age 85, and continues as long as the individual lives. It's no longer an all or nothing approach.

Required minimum distribution rules require you to begin taking payouts from a qualified retirement plan or traditional IRA soon after reaching age 70 ½. Before the proposed regulations, you had to determine your required minimum distribution by dividing your entire account balance, including that future annuity, by your life expectancy.

Under the proposed regulations, an annuity that costs no more than 25 percent of the account balance or (if less) $100,000, and that will begin by age 85 is disregarded in determining required minimum distributions before the annuity begins.

Let's look at an example of how this might have played out.

Bill is age 65 and has $200,000 in his 401(k) account. The plan offers Bill an annuity that begins when Bill reaches age 85, and Bill wants to use a portion of his account balance to purchase the annuity.

Under the old rules required that the value of that annuity be counted in calculating the required minimum distribution each year before the annuity begins. That means that Bill would have to take a a larger minimum distribution each year. If Bill didn’t leave enough liquid assets in his account to cover those minimum distributions, he would have been unable to take the required distribution. To avoid this dilemma, longevity annuities were rarely part of the retirement planning for 401(k) plans and IRAs.

The new proposed regulations help open the 401(k) and IRA market to longevity annuities by giving special relief from the minimum distribution requirements.

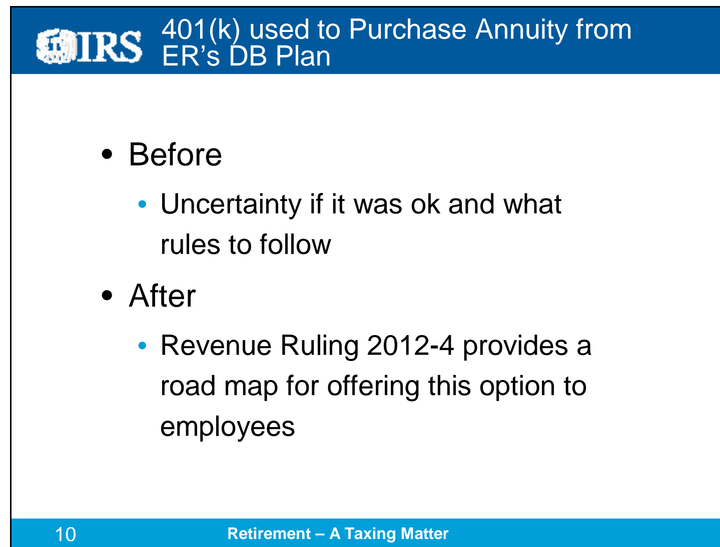
The longevity annuity would have to satisfy certain limits on cash-out options and death benefits to ensure that it’s used only to protect against the risk of outliving one’s assets and to make it as cost-effective as possible, leaving more in the individual’s account to live on before the annuity begins.

Retirees who use a portion of their retirement savings to purchase a longevity annuity would enjoy the security of knowing that they’ll have lifetime income from the annuity even if they live well beyond their life expectancy.

Let’s look at how this would affect Bill, from our earlier example - Bill decides to use $30,000 from his $200,000 401(k) account to buy a longevity annuity available under the plan that begins at age 85 and continues making regular payments of about $17,000 per year as long as he lives.

Since the value of the annuity would no longer count in determining required minimum distributions, it’s much more practical for Bill to take the longevity annuity option. Bill will satisfy the minimum distribution requirements from age 70 to age 85 without taking into account the value of the annuity. Beginning at age 85, Bill will rely on the annuity in addition to Social Security, any remaining amounts in his 401(k) account, and any additional resources he might have.

Slide 10



Although the number of employees covered by private-sector defined benefit pension plans has been declining, many employers still sponsor defined benefit, or DB, plans in addition to their 401(k) plans. As an alternative to offering lifetime income options to employees within the 401(k) plan, an employer could offer them low-cost annuities under its DB plan. However, employers weren't sure if it was permissible to transfer money from the 401(k) to the DB plan to provide the annuity.

Revenue Ruling 2012-4 makes clear how this annuity purchase can be done under the qualified plan rules if the employer is interested in offering it.

For an employer that sponsors both a 401(k) or other defined contribution plan, and a DB plan, the ruling provides a road map for offering employees the option of transferring, or "rolling over" some or all of their 401(k) plan payouts to the DB plan in exchange for an immediate annuity from the DB plan. The DB plan must convert the single-sum rollover amount to an annuity that's at least "actuarially equivalent" to the amount the plan received, using the same assumptions that are used to convert annuity benefits to lump sums.

Slide 11

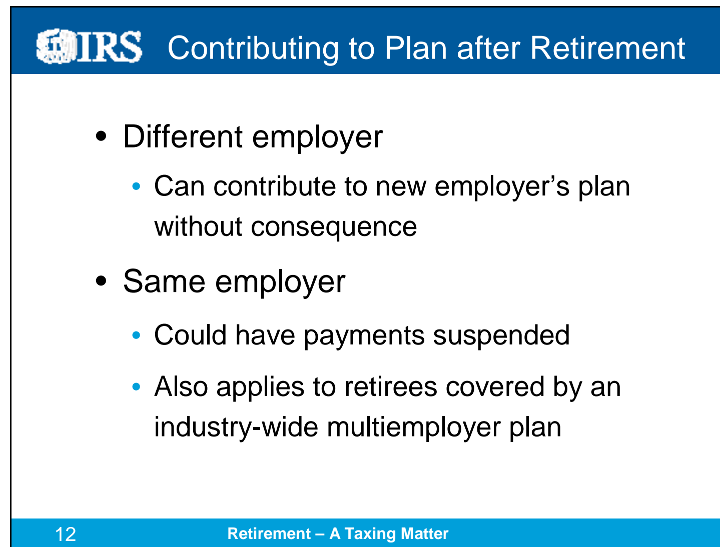
Spousal Protection

- Before
  - Uncertainty of when and how spousal consent rules apply to deferred annuity investment options
- After
  - Revenue Ruling 2012-3

There's a question about how the spousal consent rules apply to deferred annuities (including longevity annuities). This has made 401(k) or other defined contribution plan sponsors hesitant to include lifetime income options in their plans.

Revenue Ruling 2012-3 clarifies how the spousal consent rules apply when there is a deferred annuity investment option under a profit-sharing plan. It uses situations to show how the rules work under the different scenarios. You can expect more annuity options being offered in 401(k) and other defined contribution plans.

Slide 12



What if you are one of those unfortunate souls who thought you could retire, but then the economy told you otherwise? You found yourself back at work. How does that affect your retirement accounts?

Let's look at two different possibilities. The first is a situation where you find work with a different employer. Maybe you decide to become a greeter at the local Mega-Lo-Mart.

When you retire from one employer and then are hired by another employer, you're free to receive your retirement benefits from the first employer and work for someone else, or open your own business without penalty. You may simultaneously contribute to the retirement plan of the new employer and receive retirement benefits from the former employer.

A retiree that returns to work for the employer that's paying their pension benefits, may have their pension payments suspended.

If you are a retiree covered by a multiemployer pension plan, a plan often offered through an industry-wide union contract, you may also have your pension benefits suspended if you return to work for a different employer whose employees are covered by the same plan.

Slide 13

IRS Contributions to IRAs after Retirement

- You must have earned income
- Traditional IRA
  - Must be less than 70 ½
- Roth IRA
  - Can be any age, but
  - There are income limits if a Roth IRA

13 Retirement – A Taxing Matter

You must have earned income to contribute to a traditional or Roth IRA. This includes wages, salaries, tips, professional fees, bonuses, and other amounts received for providing personal services. It also includes commissions, self-employment income, nontaxable combat pay, military differential pay, and taxable alimony and separate maintenance payments.

Compensation, for purposes of contributing to a traditional IRA, does **not** include:

- Earnings and profits from property, such as rental income, interest income, and dividend income,
- Pension or annuity income,
- Deferred compensation,
- Income from a partnership for which you do not provide services that are a material income-producing factor,
- Conservation Reserve Program (CRP) payments, or
- Any amounts (other than combat pay) you exclude from income, such as foreign earned income and housing costs.

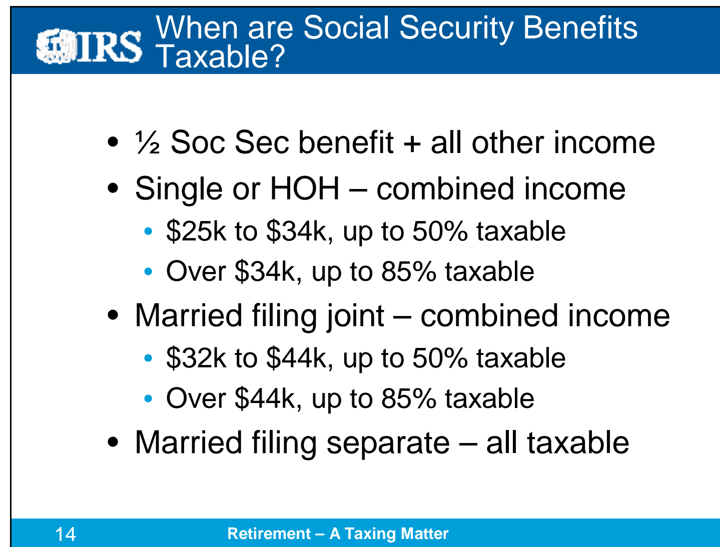
If your only income is pension or annuity income, then you won't be able to contribute to a traditional or Roth IRA.

You can open and make contributions to a traditional IRA if you or your spouse received taxable compensation during the year, and you weren't age 70½ by the end of the year.

Generally, you can contribute to a Roth IRA, no matter how old you are, if you have taxable compensation and your modified AGI is less than:

- $179,000 for married filing jointly or qualifying widow(er),
- $122,000 for single, head of household, or married filing separately and you didn't live with your spouse at any time during the year, and
- $10,000 for married filing separately and you lived with your spouse at any time during the year.

Slide 14



How much – if any – of your Social Security benefits are taxable depends on your total income and marital status.

You can do the following quick computation to figure your combined income to determine the taxability of Social Security benefits:

To figure your combined income, add one-half of your total Social Security benefits received to all other income, including any tax-exempt interest and other exclusions from income. All other income includes almost everything:

- *Long-Term and Short-term Capital Gains/Losses*
- *Dividends*
- *Taxable or Tax-Free Interest*
- *Pension Benefits*
- *IRA Distributions*
- *Roth IRA Distributions*
- *Other Taxable Income*
- *Wages*

• *Self-Employed Income/Loss*
• *Deductible IRA Contributions*

If you file a 1040 as an "individual" and your *combined income* from your calculation is between $25,000 and $34,000, you may have to pay income tax on up to 50% of your Social Security benefits, or if your combined income is more than $34,000, up to 85% of your benefits may be taxable.

If you file a joint return, and you and your spouse have a *combined income* that is:

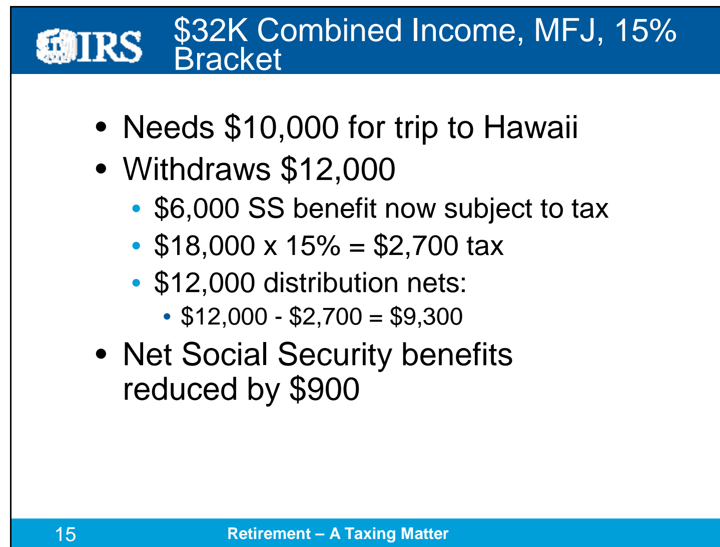
- between $32,000 and $44,000, you may have to pay income tax on up to 50% of your Social Security benefits, or
- more than $44,000, up to 85% of your benefits may be taxable.

If you're married and file a separate tax return, you probably will pay taxes on your Social Security benefits.

The amounts on this slide were set by Congress in 1983. They haven't changed in the nearly 30 years since then. Each year, more and more people become "eligible" to pay tax on their Social Security benefits.

For additional information on the taxability of Social Security benefits, see IRS Publication 915, *Social Security and Equivalent Railroad Retirement Benefits*.

Slide 15



I got a call from my Uncle Johnny the other day. He was born and raised in west Texas near Muleshoe. He's lived within about 75 miles of Muleshoe his entire life, except for the time spent in Vietnam as a soldier and the three years he spent living in Iran in the mid-70s. He wants to take his wife, their daughter, her husband and a couple grandkids to Hawaii this year. Muleshoe is just what you think it is – the exact opposite of Hawaii. So it's a great idea. For $10,000 he can make his dream happen - a week in Hawaii with his family. He wanted to run it by me to see what I thought, because he knew the extra distribution from his IRA would cause him a bit of a tax headache.

Uncle Johnny and his wife draw around $26,000 per year from Social Security. Their combined income for purposes of determining how much of their Social Security is subject to tax is $32,000. At $32,000, they have bumped right up against that lower limit for taxing Social Security, so none of their benefit is currently subject to federal income tax. They're in the 15% tax bracket.

The question is, how much will my Uncle Johnny need to take from his taxable IRA in order to net $10,000 for that trip? Let's see. A $10,000 distribution will

have $1,500 in tax at the 15% rate. That leaves $8,500. He'll need more. A $12,000 distribution nets him $10,200. That's just a little more than the amount he needs.

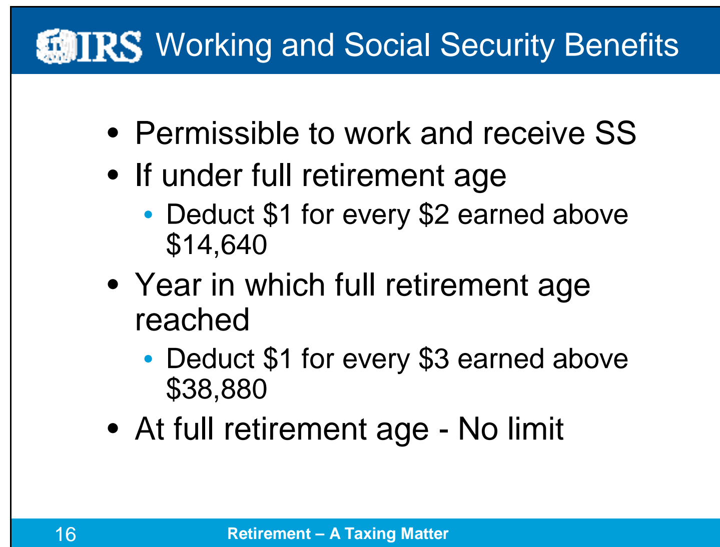
Problem is the $12,000 distribution causes my uncle to have more than $32,000 in combined income. So the distribution will cause a portion of his Social Security to be subject to tax. I'm going to pull out my trusty Pub 915 and figure out exactly how much. Let's see. Enter ½ of their $26,000 in Social Security… add that to their pension income…now add in the Hawaii distribution of $12,000…add this to that…subtract that is from this, this from what?…carry the one…take the square root of…

Okay, my calculation shows that my Uncle Johnny's $12,000 distribution causes $6,000 of his Social Security to be subject to tax. $6,000 times 15% is an extra $900 of tax. Instead of paying tax on $12,000, he is now paying tax on $18,000. The total tax bill on his $12,000 distribution is $18,000 x 15%, or $2,700 in tax. The $12,000 distribution would have a marginal tax rate of 22½% instead of 15% like we first thought.

And it would only net him $9,300.

The moral to the story? My Uncle Johnny gets to take his family to Hawaii, but the fact that his Social Security will be taxed because of this distribution means he will have less money to live on in the future.

Slide 16



As all of us baby boomers reach retirement age, something we've worked toward our entire lives, what's happening? We've found we like the security of having a job. Nearly half the people between 65 and 70 still have compensation from a job. The trend is to keep working, but not work so much; cut back a little, ease into that extra free time.

If you continue working while you receive Social Security retirement (or survivors) benefits, it could lead to a higher benefit in the future.

If you take Social Security early and continue working, your earnings will reduce your Social Security benefit payments only until you reach your full retirement age. At full retirement age, the Social Security Administration will recalculate your benefit to take into account the months when they reduced or withheld benefits because of your excess earnings.

SSA uses a formula to determine how much your benefit must be reduced:
If you are under full retirement age for the entire year, they deduct $1 from your benefit payments for every $2 you earn above $14,640 for 2012.

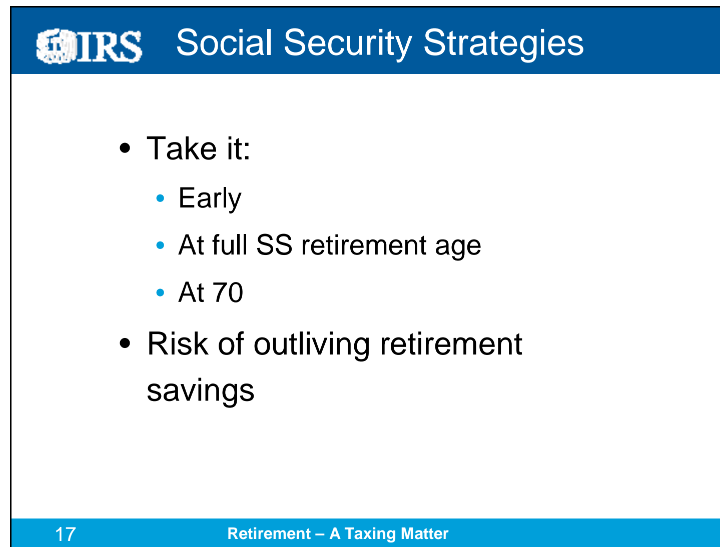
In the year you reach full retirement age, they deduct $1 in benefits for every $3 you earn above a different limit, but they only count earnings before the month you reach your full retirement age.

If you will reach full retirement age in 2012, the limit on your earnings for the months before full retirement age is $38,880. If you were born in 1946 or 1947, your full retirement age is 66 years.

Starting with the month you reach full retirement age, you can get your benefits with no limit on your earnings.

If you begin taking benefits at your full retirement age, you can choose to suspend the payments at anytime prior to reaching age 70. Whenever you choose to begin taking benefits again the suspended amounts will increase your recalculated benefit.

Slide 17



There are Social Security tax strategies to consider to maximize your retirement.

So when should you begin taking your Social Security? So many factors go into that decision:

- your health,
- your genetics,
- your employment situation.

Should you take it early? If you lost your job in 2010, became eligible for Social Security at age 62 in 2011, and haven't found work, a situation some of my friends found themselves in, maybe you consider starting Social Security early. If you do, then find work again, your Social Security payments will be reduced or eliminated. But you won't lose that benefit, it doesn't just disappear. It'll increase your benefit at full Social Security retirement.

One strategy people used in the past was to start Social Security at 62, then when they reached full retirement age, pay it all back to Social Security and start drawing their full payment. However, this is no longer an option. Under current

Social Security rules, you can only pay back one year's worth of early Social Security payments.

If you have bad health and bad genetics or good health and good genetics, when would you choose to start taking your benefit? My brother's wife is 60-years-old. Her mother and her grandmother are still with us. I've been to several of her family reunions and half the people there are older than 95. It might be a good decision for her to delay taking her Social Security to 70.

Why would she delay until age 70? For each year you put off taking Social Security, your monthly benefit grows around 6 – 8%, depending on your age and full retirement age. A benefit at age 70 is nearly double what you would have at age 62.

We all want to start taking Social Security so we can make sure we actually collect some of what we put in all these years. You have to get past the emotional aspect of wanting to get our share and make a sound decision taking into account all factors.

Retirees run the risk of running out of retirement savings and still be, well, alive. No one wants to live in poverty at any point in his or her life, but there's something especially sad about a destitute 85-year-old.

In doing research for this presentation, we ran across something very surprising. Several studies have shown that, in retirement, higher wealth individuals have a lower risk of running out of money, than lower wealth individuals. For those lower wealth individuals, Social Security represents a larger portion of their retirement resources. Delaying Social Security benefits may reduce that risk of outliving their retirement savings.

Slide 18

IRS Reporting Distributions on Form 1099-R

18 Retirement – A Taxing Matter

Form 1099-R is used to report distributions of $10 or more from retirement plans, IRAs, insurance contracts and IRA recharacterizations. Each type of distribution is identified by an alphanumeric code. For 2012, these codes are on pages 13 and 14 of the Form 1099-R Instructions

Let's look at an example.

Nancy separated from service when she was 37 and had a $10,000 account balance. She decided to take her distribution in a lump sum payment. Her net distribution was $8,000 because of the 20% mandatory withholding. Her Form 1099-R should show

Box 1, gross distribution – $10,000

Box 2a, taxable amount - $10,000

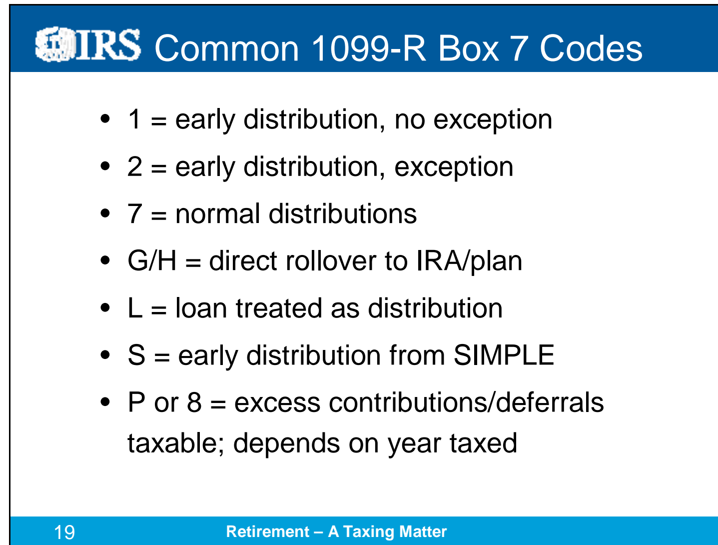
Box 2b, "Taxable amount not determined"

Box 4, Federal income tax withheld – $2,000

Box 7 - Code 1 (Early distribution, no known exception)

Box 2b, - “Taxable amount not determined.” That box seems to be checked on nearly every 1099-R I’ve seen. One good explanation is that the distribution could still be rolled over to another IRA. So the taxable amount cannot be determined.

Slide 19



Here are some common Box 7 Codes on Form 1099-R

1 = early distribution, no exception (usually under age 59½)

2 = early distribution, exception

7 = normal distributions

G/H = direct rollover to IRA/plan

L = loan treated as distribution

S = early distribution from SIMPLE

P or 8 = Excess contributions/deferrals taxable; depends on year taxed

Slide 20

Trustee-to-Trustee Transfer

- Generally not reported on 1099-R
- Exceptions
  - IRA recharacterization
  - Roth IRA conversion
  - Pension to IRA

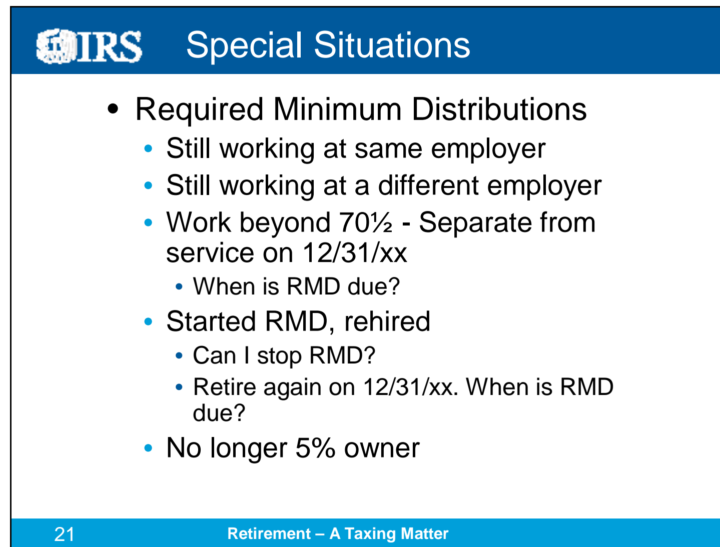
Generally, a trustee-to trustee transfer doesn't have to be reported if it does not involve any payments to the participant. However, the following types of distributions do require a Form 1099-R:

Roth IRA conversion - is a transfer, by rollover or other means, of an amount in a non-Roth IRA to a Roth IRA. Any converted amount is treated as a distribution from the non-Roth IRA and a rollover to the Roth IRA. It is a taxable distribution unless it's recharacterized. The trustee of the non-Roth IRA must report the conversion on Form 1099-R.

An IRA recharacterization – is normally when a IRA conversion is recharacterized, is transferred back, with earnings, to a non-Roth IRA. The trustee of the Roth IRA must report the recharacterization as a distribution on Form 1099-R.

A direct rollover is the direct payment of a distribution from a qualified plan, 403(b), or governmental 457(b) plan to a traditional IRA, Roth IRA, or other eligible retirement plan. This type of distribution must also be reported.

Slide 21



Distributions from your traditional or SIMPLE IRA must begin by April 1, following the year you turn age 70½.

For an RMD from an IRA, you can take the distribution from any or all of your IRA accounts. The amount you must distribute is based on your total IRA balances as of the prior December 31. Divide that balance by the number determined using the Publication 590 worksheet based on your age to determine the amount of the RMD each year.

RMDs from IRAs are required, no matter if you're still employed or not. The good news is that RMDs are not required from Roth IRA accounts.

RMDs are computed separately for each qualified retirement plan. If you're still employed by the employer sponsoring that plan, you don't have to begin taking RMDs unless you are considered a 5% owner.

If you're still working, but not at the employer where your account is held, you will be required to take RMDs.

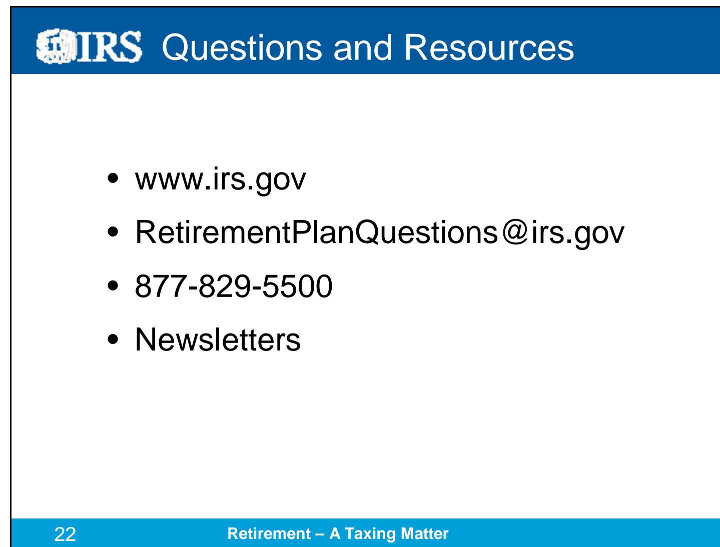
What if you've turned age 70½ and you separate from service from your employer on December 31, 2012? When is your RMD due? You must take an RMD for 2012. Since it's your first RMD from this plan, it's due by April 1, 2013.

What if you weren't employed at age 70½ and you began taking RMDs a couple of years ago, and then were rehired in 2012? You're still employed on December 31, 2012. Do you need to take an RMD for 2012, since you're back at work with that employer? No RMD is required for 2012. What happens if you now quit or retire from that job during 2013? Since you've already taken that first RMD, the 2013 RMD is due by December 31.

If you're still working and began taking RMDs but you're no longer a 5% owner for 2012, is an RMD required for 2012? The answer is no.

What if you have an RMD due, but you die. Must you take that RMD? The answer is yes.

Slide 22



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