INTERNAL REVENUE SERVICE
www.irs.gov

IRS News Release

Media Relations Office | Washington, D.C. | Tel. 202.622.4000
For Release: October 3, 2002 | Release No: IR-2002-104

IRS HELPS TAXPAYERS PRESERVE RETIREMENT SAVINGS BY ALLOWING A CHANGE TO PENSION DISTRIBUTION AMOUNTS

WASHINGTON -The Treasury Department and the Internal Revenue Service have released Revenue Ruling 2002-62 that will help taxpayers preserve their retirement savings when there is an unexpected drop in the value of their retirement savings. Some taxpayers began receiving fixed payments from their IRA or retirement plan based on the value of their account at the time they started receiving payments. Those taxpayers may now switch – without penalty -- to a method of determining the amount of their payments based on the value of their account as it changes from year to year.

"Taxpayers have worked hard to build their retirement savings. They shouldn't be penalized when the market is down," stated Pam Olson, Assistant Secretary for Tax Policy. "This change will help many taxpayers to preserve their retirement savings by allowing those individuals to slow their distributions down in the event of unexpected market downturns."

Generally, taxpayers are subject to an extra 10% tax (in addition to regular income tax) on amounts withdrawn from their IRAs or employer-sponsored individual account plans prior to reaching 59½. An exception to that tax is when a taxpayer takes distributions as part of a series of substantially equal periodic payments over the taxpayer's life expectancy or the joint life expectancies of taxpayer and beneficiary. The IRS issued guidance in 1989 (Q&A 12 of Notice 89-25) that provided three methods for satisfying the "substantially equal periodic payment" exception.

Two of the safe-harbor methods described in Notice 89-25 result in a fixed amount that is required to be distributed and could result in the premature depletion of the taxpayer's account in the event that the value of the assets in the account suffers a decline in market value. Revenue Ruling 2002-62 provides relief to taxpayers who selected one of these two methods by permitting them to change from a method for determining the payments under which the amount is fixed to the third method under the safe-harbor where the amount changes from year to year based on the value in the account from which the distributions are being made.

In addition to permitting a one-time switch in method, the revenue ruling:

- Clarifies how an individual can satisfy the permitted method that tracks the required minimum distribution rules of section 401(a)(9) in light of the recent finalization of regulations regarding those requirements;
- Provides guidance on what constitutes a reasonable rate of interest for determining payments to satisfy the substantially equal periodic payment rule; and
- Provides a choice of mortality tables that can be used in satisfying the permitted methods.

X X X