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# A Taxing Matter - Retirement -

Tax Exempt and Government Entities

Employee Plans

2012 Nationwide Tax Forums



6/15/2012



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# Distribution Restrictions

SEP

SIMPLE IRA

IRA

Roth IRA





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# 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





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# Hardship Distributions and Loan Taxation

## Hardship distributions

- No mandatory 20% withholding
- Subject to income tax
- 10% early distribution tax may apply
- May not be rolled over

## Taxable participant loans

- Upon separation from service
- Failure to make loan payments





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# In-Service Distributions

401(k) – may allow at age 59½

Profit-sharing – may allow after

- Reaching a fixed age, or
- A fixed period of time

Defined benefit and money purchase plans may allow

- At age 62
  - Even if normal retirement age is later





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# Types of Distributions at Retirement

Lump sum

Installments

Annuity





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# – Distributions – New Guidance Makes It Easier

Combination of lump sum and annuity

Longevity annuities

Transfer lump sum from 401(k) to  
same employer's DB plan to receive an  
annuity

Spousal protection





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# Easier to Offer Combination of Lump Sum and Annuity

## Before

- Required to use prescribed interest rates and mortality assumptions for both portions

## After

- Streamlined calculation
  - Lump sum portion – Use prescribed actuarial assumptions
  - Annuity portion - Use plan's stated conversion factors





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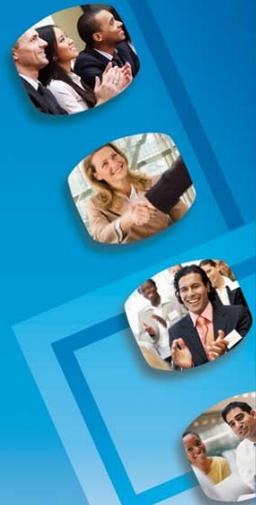
# Easier to Offer Longevity Annuities

Before

- Required minimum distribution obstacle

After

- Qualified Longevity Annuity
- If annuity costs  $\leq 25\%$  of account balance or, if less, \$100,000, and begins by age 85, it is disregarded in determining RMD





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# 401(k) used to Purchase Annuity from ER's DB Plan

Before

- Uncertainty if it was ok and what rules to follow

After

- Revenue Ruling 2012-4 provides a road map for offering this option to employees





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# Spousal Protection

Before

- Uncertainty of when and how spousal consent rules apply to deferred annuity investment options

After

- Revenue Ruling 2012-3





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# Contributing to a Retirement Plan after Retiring

## Different employer

- Can contribute to new employer's plan without consequence

## Same employer

- Could have payments suspended
- Also applies to retirees covered by an industry-wide multiemployer plan





# Contributions to an IRA after Retirement

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You must have earned income  
Traditional IRA

- Must be less than 70½

Roth IRA

- Can be any age, but
- There are income limits if a Roth IRA





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# When are Social Security Benefits Taxable?

1/2 Soc Sec benefit + all other income

Single or HOH – combined income

– \$25k to \$34k, up to 50% taxable

– Over \$34k, up to 85% taxable

Married filing joint – combined income

– \$32k to \$44k, up to 50% taxable

– Over \$44k, up to 85% taxable

Married filing separate – all taxable





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# \$32,000 in Combined Income, MFJ, 15% Bracket

Needs \$10,000 for trip to Hawaii

Withdraws \$12,000

– \$6,000 SS benefit now subject to tax

– \$18,000 x 15% = \$2,700 tax

– \$12,000 distribution nets:

$$\$12,000 - \$2,700 = \$9,300$$

Net Social Security benefits reduced by  
\$900





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# Working and Social Security Benefits

Permissible to work and receive SS

If under full retirement age

- Deduct \$1 for every \$2 earned above \$14,640

Year in which full retirement age reached

- Deduct \$1 for every \$3 earned above \$38,880

At full retirement age

- No limit





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# Social Security Strategies

Take it:

- Early
- At full SS retirement age
- At 70

Risk of outliving retirement savings





# Reporting Distributions on Form 1099-R

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9898  VOID  CORRECTED

PAYER'S name, street address, city, state, and ZIP code		1 Gross distribution \$	OMB No. 1545-0119 <b>2012</b> Form 1099-R		Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
		2a Taxable amount \$			
		2b Taxable amount not determined <input type="checkbox"/>	Total distribution <input type="checkbox"/>		Copy A For Internal Revenue Service Center File with Form 1096.
PAYER'S federal identification number	RECIPIENT'S identification number	3 Capital gain (included in box 2a) \$	4 Federal income tax withheld \$		
RECIPIENT'S name		5 Employee contributions /Designated Roth contributions or insurance premiums \$	6 Net unrealized appreciation in employer's securities \$		For Privacy Act and Paperwork Reduction Act Notice, see the 2012 General Instructions for Certain Information Returns.
Street address (including apt. no.)		7 Distribution code(s)	IRA/SEP/SIMPLE <input type="checkbox"/>	8 Other \$ %	
City, state, and ZIP code		9a Your percentage of total distribution %	9b Total employee contributions \$		
10 Amount allocable to IRR within 5 years \$	11 1st year of desig. Roth contrib.	12 State tax withheld \$	13 State/Payer's state no.	14 State distribution \$	
Account number (see instructions)		15 Local tax withheld \$	16 Name of locality	17 Local distribution \$	

Form 1099-R Cat. No. 14436Q

www.irs.gov/form1099r

Department of the Treasury - Internal Revenue Service

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# Common 1099-R Box 7 Codes

1 = early distribution, no exception

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





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# Trustee-to-Trustee Transfer

Generally not reported on 1099-R

Exceptions

- IRA recharacterization
- Roth IRA conversion
- Pension to IRA





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# Special Situations

## Required Minimum Distributions

- Still working at same employer
- Still working at a different employer
- Work beyond 70½ - Separate from service on 12/31/xx
  - When is RMD due?
- Started RMD, rehired
  - Can I stop RMD?
  - Retire again on 12/31/xx. When is RMD due?
- No longer 5% owner





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# Questions and Resources

- [www.irs.gov/retirement](http://www.irs.gov/retirement)
- [RetirementPlanQuestions@irs.gov](mailto:RetirementPlanQuestions@irs.gov)
- 877-829-5500
- Newsletters
- A Crash Course in Retirement Plan Contributions in 3D

