Retirement Plan Distributions
Learn About …

- When you can take distributions from a retirement plan
- Enhanced distribution options in federally declared disaster areas
- Required minimum distributions from your retirement plan and IRA
- Required distributions to beneficiaries after death
- How tax reform affected retirement plans
  - Employees that terminate with outstanding loan balance
  - Recharacterizing Roth conversions
When Can You Take a Distribution?
IRAs and IRA-based Plans

• Traditional IRA or SEP-IRA
  – Distributions can be taken at any time
    • 10% additional tax on early distributions (prior to attaining age 59 ½)
• SIMPLE IRA plan
  – Distributions can be taken at any time
    • If account is 2 years old or more, 10% additional tax on early distributions
    • If account is less than 2 years old, 25% additional tax on early distributions
• Roth IRA
  – Distributions can be taken at any time
    • If prior to 59 ½ or if Roth IRA is less than 5 years old, earnings are taxable
When Can You Take a Distribution?
Qualified Retirement Plans

- Distributions on retirement
- Distributions on another distributable event
- Hardship withdrawals
- Loans
Distributions at Retirement

Qualified Retirement Plans

- When do benefits begin
- How do I receive my benefits
- Taxes and withholding
Distributions before Retirement
Qualified Plans

• 401(k) – may allow
  – at age 59 ½, death, disability, severance, hardship

• Profit-sharing plan – may allow after
  – Reaching a fixed age, or fixed period of time

• Defined benefit and money purchase plans may allow after
  – Retiring or reaching retirement age
  – At age 62, even if normal retirement age is later

• Plan loans and hardship distributions
Plan Loans

• Loan requirements
  – Plans are not required to allow loans
  – Must be bona fide loan
  – Max: Lesser of 50% of vested account balance, or $50,000
  – Reasonable interest rate
  – Substantially equal payments
  – Generally, must be paid within 5 years
Plan Loans

- Taxable participant loans
  - Failure to make loan payments
  - Upon separation from service
    - Due date of tax return plus extensions to rollover outstanding loan balance
  - 10% early distribution tax may apply
Hardship Distributions

• Plans that allow for salary deferrals may (but not required to) permit hardship distributions
• Immediate and heavy financial need
• Limited to amount necessary to satisfy need
• Taxing hardship distributions
  – No mandatory 20% withholding
  – Subject to income tax
  – 10% early distribution tax may apply
  – May not be rolled over
Hardship Distribution Changes

• Changes to hardship distribution rules for 2019
  – repealed the 6-month suspension of elective deferrals
  – QNECs & QMACs and earnings now available as a hardship distribution
  – No longer required to take available plan loans first

• Proposed regulation for hardships
  – revises standards governing when a distribution can be made on account of hardship
  – permits hardship distributions to participants seeking to repair a primary residence, even if that repair would not otherwise qualify for a casualty loss deduction
Disaster Relief – Retirement Plans

• Affected plan participants may be able to
  – avoid the 10-percent additional tax on early distributions
  – include qualified disaster distributions in income over three years
  – repay distributions within three years
  – borrow more funds as a plan loan
  – repay plan loans over a longer period

• Use IRS.gov/disaster to help determine which disasters are eligible for this relief
Required Minimum Distributions

• Required Beginning Date – Age 70½
  – Calculation: Publication 590-B, chapter 1

• RMD from an IRA, SIMPLE IRA, SEP IRA
  – Take from one to satisfy all IRA RMD requirements

• RMD from a retirement plan
  – Must take separate RMD from each plan
  – An RMD not properly taken from a plan may cause qualification issue for plan as well as excise tax for account owner

• Qualified charitable distributions from IRA
RMD - Special Situations

- Still working at same employer
- Still working, but 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
Distributions After Death

- Joint & survivor or other annuity
- Take a lump sum distribution from plan
- Transfer assets to your own IRA
  - Only available to spouse
- Transfer assets to an inherited IRA
- Transfer assets to estate
Lump Sum Distribution Options

- All the assets are distributed to the beneficiary
- No 10% early distribution tax, even if deceased or beneficiary is under 59 1/2
- The distribution is subject to
  - ordinary income tax
  - mandatory 20% withholding
Designated Beneficiary is Spouse IRA in Spouse’s Name

- Surviving spouse must be sole designated beneficiary
- Distributions prior to 59 ½ are subject to 10% early distribution tax
- IRA is treated as your own IRA
- IRA is eligible for conversion to Roth IRA
- Deceased account holder’s RMD must be made prior to the rollover
- After rollover, RMD based on age of surviving spouse
Designated Beneficiary - “Any Person”
Inherited IRA

- *Jane Doe as beneficiary of John Doe*

- Two payout options:
  - Payments, based on single life expectancy of beneficiary, must begin by end of year following year of death, or
  - All assets must be fully distributed by the end of the fifth year following year of death

- Account holder over 70 ½
Account Holder Death
No Designated Beneficiary

• What if:
  – designated beneficiary died prior to account holder’s death
  – the beneficiary forms are lost
• Deceased’s account becomes part of the estate
• Estate is not an individual and has different distribution requirements
Beneficiary Not an Individual
Estate, Charity

• Account owner dies on or after RBD
  – Account balance can be distributed based on the
    life expectancy listed for owner’s age as of birthday
    during year of death

• Account owner dies before RBD
  – Entire account balance must be distributed by the
    end of the fifth year following the year of the
    owner’s death
  – No distribution is required before that fifth year
Designated Beneficiary Dies

• After death of original account holder, but prior to the September 30 date
• During the period after they started taking payments
  – Goes to beneficiary’s beneficiary
  – Payments must continue based on original beneficiary’s life expectancy
  – And so on
• Doris the spouse
Correcting Plan Mistakes

- IRS Voluntary Compliance Programs
  - Self-Correction Program
  - Voluntary Correction Program
  - Audit CAP

- Recently expanded SCP to cover some loan failures and plan document failures

- IRS.gov/FixMyPlan
Tax Reform Changes Affecting Retirement Plans

• Plan participants that terminate employment with an outstanding loan balance
  – Generally have loan balance offset against distribution
  – Now have until the due date of their tax return (plus extensions) to rollover the loan offset

• Recharacterizations of Roth conversions no longer allowed
Questions and Resources

• IRS.gov/retirement
• Sign up for Employee Plans News, our retirement plan newsletter