



## IRA UPDATE: JUNE 2012

### Key IRA Dates:

- Age 59 ½ penalty exception
  - Distributions from IRAs prior to age 59 ½ are subject to 10% early distribution penalty.
  - To avoid the penalty, you must actually reach your 59 ½ birthday, not the year in which you turn 59 ½.
  - You don't have to count actual days; same number day of the month applies.
    - For example, if you are born on January 1<sup>st</sup>, your 59 ½ birthday would be on July 1<sup>st</sup>.
- Age 55 Exception to the 10% early distribution penalty
  - Applies for distributions from employer plans when the employee terminates employment ***in the year*** they turn 55 or older. You don't have to actually reach age 55 when the termination occurs.
  - Applies to employer plans only, not IRAs.
  - If this applies, better to leave funds in the plan. Once rolled over to an IRA, the IRA rules apply and the distribution age becomes 59 ½.
- Age 70 ½ for Required Minimum Distributions (RMDs)
  - First distribution year is the calendar year which the IRA owner turns 70 ½.
  - First distribution can be delayed until April 1<sup>st</sup> of the following year (not April 15<sup>th</sup>)-
    - This is known as your "Required Beginning Date" or "RBD."
    - If delayed, two distributions would be required in the second year because the second year distribution would be due by 12/31 of the second year.
  - A distribution in the year of turning 70 ½ but before actually turning 70 ½ satisfies the RMD for the year.
  - Still working exception only applies to employer plans and only if the employee is not more than a 5% owner.
    - No still working exception for SEP and SIMPLE IRAs even though these are employer plans, they are still IRAs.
- One rollover per year rule
  - Referring to 60 day rollovers, not trustee to trustee (Direct) transfers.
  - Applies per 365 days, not a calendar year.
  - The once per year applies to an account that made or received the rollover.
    - Can do rollovers from other accounts. Each would have the 1 per 365 rule.
  - Violation is an unintended taxable distribution because the second distribution would be taxable as it cannot be rolled over
    - Potential to fix by rolling into a Roth IRA (Conversion) as a conversion does not count.
- 5 Year Clock for Roth IRA conversions
  - Penalty free distributions of Roth conversions can be made the sooner of actually turning 59 ½ or 5 full years.
  - The 5-year clock begins on January 1<sup>st</sup> of the year of the Roth Conversion.

- Example: You converted on December 1, 2007 however the clock starts retroactively on January 1, 2007.
- 5 Year Rule for Qualified (tax-free) Roth IRA Distributions
  - Must have the account open for a full 5 years AND be 59 ½.
  - The 5-year clock begins on January 1<sup>st</sup> of the year of the first contribution
    - Example: You contributed to a Roth IRA on 4/15/2012 for the 2011 tax year; your clock starts retroactively to January 1, 2011, not 2012.
- 5 Year Rule for 72 (t) payments
  - 72 (t) payments, AKA “A Series of Substantially Equal Periodic Payments” or “SOSEPP” is an exception to the 10% early distribution penalty which allow an IRA owner to access IRA funds prior to the attainment of age 59 ½ without penalty.
  - The 72 (t) schedule must last for the longer of 5 years or attainment of 59 ½.
    - Example: 72(t) is started at age 40, by 59 ½ more than 5 years have passed, the schedule can be stopped.
    - Example: 72 (t) begins at age 56 and thus remain in effect for full five years which is after age 59 ½.
  - Any modification of the schedule can result in penalties applied retroactively to the beginning of the payment schedule up until age 59 ½.
- Age 70 ½ for Spousal Beneficiaries of an IRA
  - Normally a Required Minimum Distribution (RMD) must come out of an inherited IRA by 12/31 of the year after the year of death of the IRA owner.
  - A spouse who is the sole beneficiary may delay receipt of these RMDs until the year the deceased spouse would have been age 70 ½.
  - A spousal beneficiary may rollover the inherited IRA to their own account, or treat the account as their own and delay RMDs until they reach 70 ½.

This is by no means an exhaustive list of IRA dates nor is all the detail for these dates indicated. You should be aware of these general dates as you approach them. If you have any questions about these IRA dates, give me a call and we'll discuss your situation.

Sincerely,

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