

Taking Money Out of Retirement Plans

15th Edition

**Twila Slesnick, PhD, Enrolled Agent
& Attorney John C. Suttle, CPA**

Table of Contents

Chapter 1 – Types of Retirement Plans	1
Learning Objectives	1
Introduction.....	1
Qualified Plans	3
Profit-Sharing Plans	3
Stock Bonus Plans.....	4
Money Purchase Pension Plans.....	4
Employee Stock Ownership Plans (ESOPs)	5
Defined Benefit Plans	5
Target Benefit Plans	5
Plans for Self-Employed People (Keoghs).....	6
Individual Retirement Accounts	6
Traditional Contributory IRAs	6
Rollover IRAs.....	7
Simplified Employee Pensions	7
SIMPLE IRAs.....	7
Roth IRAs	8
Almost-Qualified Plans.....	8
Qualified Annuity Plans.....	9
Tax-Deferred Annuities	9
Nonqualified Plans.....	9
Review Questions.....	11
Review Answers	13
Chapter 2 – An Overview of Tax Rules	15
Learning Objectives	15
Introduction.....	15
Taxation Fundamentals.....	15
Defer the Payment of Tax	15
Pay Tax at the Lowest Rate	17
Avoid Tax Penalties	17
General Income Tax Rules for Retirement Plans	18
Distributions Are Taxable Immediately	18
Your Basis Is Not Taxable.....	18
You Don't Have to Withdraw Cash	19
You May Not Claim Losses	20
Divorce or Inheritance Doesn't Change the Basic Tax Rules	20
Income Tax on Qualified Plans and Qualified Annuities.....	20
Options for Paying Taxes at Retirement.....	20
Options for Paying Taxes Before Retirement.....	28
Options for Paying Taxes on Inherited Plans.....	28
Options for Paying Taxes on Qualified Plans Received at Divorce.....	30
Withholding Money to Pay Taxes	31
Loans From Qualified Plans	34
Hardship Distributions From Qualified Plans	35
Special Income Tax Rules for Tax-Deferred Annuities	36
Special Income Tax Rules for IRAs.....	37
Ordinary Income Tax Applies	37
Rollover Allowed	37
Qualified Charitable Distribution	39
Averaging and Capital Gain Treatment Not Allowed	39
Special Rules at Divorce or Separation	40
Mandatory Withholding Doesn't Apply	40
Loans Not Allowed	40

Table of Contents

Hardship Distributions Not Allowed	40
How Penalties Can Guide Planning.....	40
Review Questions.....	43
Review Answers	45
Chapter 3 – Early Distributions: Taking Your Money Out Before the Law Allows.....	47
Learning Objectives	47
Introduction.....	47
Exceptions to the Early Distribution Tax	47
Age 59½.....	49
Death.....	50
Disability.....	50
Substantially Equal Periodic Payments.....	51
Leaving Your Job After Age 55.....	51
Qualified Reservist Distribution	52
Dividends From ESOPs	52
Medical Expenses.....	52
QDRO Payments.....	53
Federal Tax Levy.....	53
Refunds.....	53
Birth or Adoption Distributions.....	53
Calculating the Tax	54
Reporting the Tax	54
Special Rules for IRAs	60
Rules Applicable to All IRAs Except Roth IRAs	61
One Rule Applicable Only to SIMPLE IRAs	63
Review Questions.....	64
Review Answers	65
Chapter 4 – Substantially Equal Periodic Payments.....	67
Learning Objectives	67
Introduction.....	67
Computing Periodic Payments	68
Method One: Required Minimum Distribution	69
Method Two: Fixed Amortization	70
Method Three: Fixed Annuitization	72
Implementing and Reporting Your Decision.....	73
Modifying the Payments.....	75
The No-Modification Rule.....	75
Exceptions to the No-Modification Rule	75
Penalties for Breaking the No-Modification Rule	76
Review Questions.....	78
Review Answers	79
Chapter 5 – Required Distributions: Taking Money Out When You Have To.....	81
Learning Objectives	81
Introduction.....	81
Required Distributions During Your Lifetime	82
Death Before Required Beginning Date.....	82
Death After Required Beginning Date	84
Special Rules for Tax-Deferred Annuities	84
Special Rules for Roth IRAs.....	85
Penalty	85
Innocent Blunders.....	85
Chronic Errors	86
Ineligible Rollovers.....	86
Excess Contributions	88

Table of Contents

Reporting the Penalty	88
Waiver.....	89
Terms of the Waiver.....	89
Requesting a Waiver.....	89
Review Questions.....	91
Review Answers	93
Chapter 6 – Required Distributions During Your Lifetime.....	95
Learning Objectives	95
Introduction.....	95
Required Beginning Date	96
First Year.....	96
Second Year and Beyond	97
Computing the Required Amount	97
Determining the Account Balance	97
Determining the Applicable Distribution Period.....	98
Computing the Required Distribution.....	99
Special Aggregation Rule for IRAs and TDAs.....	100
Reporting Distributions From IRAs	100
Designating a Beneficiary	100
Definition of Designated Beneficiary.....	101
Multiple Beneficiaries	103
Special Rules for Annuities	104
Form of Payment	104
Required Beginning Date	105
Starting Early	105
Young Beneficiaries	105
Divorce or Separation	106
Separate Account	106
No Separate Account.....	107
Income Taxes and Penalties.....	107
Rollovers	107
Review Questions.....	109
Review Answers	110
Chapter 7 – Distributions to Your Beneficiary If You Die Before Age 72	113
Learning Objectives	113
Introduction.....	113
Determining the Designated Beneficiary.....	113
Eligible Designated Beneficiaries	114
Deadline for Determining Designated Beneficiary.....	114
Changing Beneficiaries Before the Deadline	114
Distribution Methods	115
Ten-Year Rule	115
Life Expectancy Rule	115
Five-Year Rule.....	116
Rollover.....	116
Effect of the Retirement Plan's Rules	116
Designated Beneficiary	117
Ten-Year Rule	117
Rollover	117
Convert to a Roth IRA.....	117
Death of Nonspouse Designated Beneficiary	118
Eligible Designated Beneficiary	119
Surviving Spouse.....	119
Life Expectancy Rule	120
Rollover	121

Table of Contents

Convert to Roth IRA.....	122
Death of Spouse Beneficiary	122
Other Eligible Designated Beneficiaries.....	123
Life Expectancy Rule for Nonspouse Eligible Designated Beneficiary.....	123
Death of Nonspouse Eligible Designated Beneficiary	124
Special Rules for Minor Child.....	124
No Designated Beneficiary.....	125
Five-Year Rule.....	125
No Life Expectancy Rule.....	125
Multiple Beneficiaries, Separate Accounts.....	125
Multiple Beneficiaries, One Account.....	126
Multiple Designated Beneficiaries, None Eligible	126
Multiple Designated Beneficiaries, Some Eligible	126
Multiple Designated Beneficiaries, All Eligible.....	126
Splitting Accounts After Death.....	127
When a Spouse Is One of the Beneficiaries	128
Designated and Nondesignated Beneficiaries	129
Trust Beneficiary.....	129
Nonspouse Beneficiary of Trust	129
Spouse Beneficiary of Trust	130
Multiple Beneficiaries of Trust	130
Trust Beneficiary and Spousal Rollovers	131
Estate as Beneficiary	131
Annuities.....	132
Ten-Year Rule	132
Life Expectancy Rule	132
Divorce or Separation	133
Separate Account	133
No Separate Account.....	133
Reporting Distributions From IRAs	134
Review Questions.....	135
Review Answers	136
Chapter 8 – Distributions to Your Beneficiary If You Die After Age 72	139
Learning Objectives	139
Introduction.....	139
Administrative Details	139
Name on the Account	139
Timing of Distributions	140
Beneficiaries.....	140
Reporting Distributions.....	140
Distribution Methods	141
Ten-Year Rule	141
Life Expectancy Rule	141
As-Rapidly Rule.....	142
Rollover.....	142
Designated Beneficiary	142
Ten-Year Rule	143
As-Rapidly Rule.....	143
Rollover.....	144
Convert to a Roth IRA.....	144
Death of Nonspouse Designated Beneficiary	145
Eligible Designated Beneficiary	145
Surviving Spouse.....	146
Year of Death	146
Second Year and Beyond	146
Rollover.....	147

Table of Contents

Convert to a Roth IRA.....	149
Death of Spouse Beneficiary.....	149
Other Eligible Designated Beneficiaries.....	149
No Designated Beneficiary.....	151
Multiple Beneficiaries, Separate Accounts.....	151
Multiple Beneficiaries, One Account.....	151
Determining the Designated Beneficiary.....	151
Splitting Accounts	152
When a Spouse Is One of the Beneficiaries	152
Trust Beneficiary.....	153
Nonspouse Beneficiary of Trust	153
Spouse Beneficiary of Trust	153
Multiple Beneficiaries of Trust	153
Trust Beneficiary and Spousal Rollovers	154
Estate as Beneficiary	155
Annuities.....	155
Ten-Year Rule	155
Life Expectancy Rule	155
Irrevocable Annuity.....	155
Divorce or Separation	155
Review Questions.....	157
Review Answers	158
Chapter 9 – Roth IRAs	159
Learning Objectives	159
Introduction.....	159
Taxation of Distributions.....	160
Distribution of Nondeductible Contributions.....	161
Distribution of Investment Returns.....	161
Conversions and Rollovers	163
Correcting Errors: Recharacterizing	165
Early Distribution Tax.....	166
Qualified Distributions	166
Nonqualified Distributions	166
Ordering of Distributions	167
Required Distributions.....	168
During Your Lifetime	168
After Your Death, Before Your RBD	168
After Your Death, After Your RBD	169
Review Questions.....	170
Review Answers	171
Chapter 10 – Roth 401(k) Plans.....	173
Learning Objectives	173
Introduction.....	173
Taxation of Distributions.....	174
Distribution of After-Tax Amounts.....	174
Distribution of Pretax Earnings.....	174
Conversions and Rollovers	175
Early Distribution Tax.....	176
Qualified Distributions	176
Nonqualified Distributions	176
Ordering of Distributions	177
Required Distributions.....	177
Required Distributions During Your Lifetime	177
Required Distributions After Your Death.....	177

Table of Contents

Review Questions.....	178
Review Answers	179
Glossary.....	181
Appendix A – IRS Forms, Notices, and Schedules	185
Appendix B – Life Expectancy Tables.....	191
Appendix C – Life Expectancy Tables for 2022 and Later	213
Index	235