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FINANCIAL DESIGN CENTER

Planning, Managing, and Protecting Your Financial Independence™

How Much Should You Withdraw From Your IRA in 2009?

On December 23, 2008, while many of us were doing last-minute Christmas shopping, President Bush signed H.R. 7327, the "Worker Retiree and Employer Recovery Act of 2008" AKA the Pension Act.

One of the key provisions of the Act is the waiver of the need to take qualified plan and IRA required minimum distributions, or "RMD's," in 2009.

RMD Rules

Under the RMD rules, participants in "qualified plans" and IRAs are generally required to begin taking distributions from their retirement accounts no later than April 1st of the year after they turn age 70-1/2.

The RMD for each year is generally determined by dividing the account balance on the last day of the preceding year by a specified IRS uniform lifetime table factor.

RMD's must be taken by December 31st each year. A 50% excise tax is assessed on the amount of any RMD not taken. Roth IRAs are not subject to the RMD rules during the Roth IRA owner's lifetime.

2009 Window of Opportunity

Many individuals over 70-1/2 have RMD plans in place whereby their RMD is automatically calculated by the financial institutions at which their retirement accounts are held. A distribution of the RMD less applicable income tax withholding is typically made on a specified date each year.

With the passage of the Pension Act, retirement plan and IRA account owners have the ability to reduce, or potentially forego, distributions in 2009.

This is a potential double bonus since (a) distributions from retirement plan assets are fully taxable as ordinary income, and (b) assets that are not distributed continue to enjoy tax-deferred growth associated with retirement plans.

As a result of reducing ones taxable income by taking smaller, or no, retirement plan distributions, three other indirect tax saving opportunities become potentially available in 2009, depending upon the amount of ones total gross income:

1. Reduced taxation of social security benefits
2. Increased deductible medical and miscellaneous expenses
3. Greater total itemized deductions as a result of reduced exposure to the itemized deduction "phase-out" rule

Key Variables

So how much should you take from your retirement investment accounts in 2009? The answer to this question depends on an analysis of the following six variables as applicable to your situation:

1. Total projected cash needs
2. Deductibility of expenses
3. Sources and amounts of projected income, including taxation of same
4. Nonretirement investment assets
5. Retirement investment assets
6. Federal and state income tax bracket

Generally speaking, the more income and availability of nonretirement account assets relative to your projected cash needs, the less dependent you should be upon taking distributions from your retirement plan assets.

In addition, to the extent that you can defer non-deductible cash needs from 2009 to 2010, this may in turn enable you to minimize taxable retirement plan withdrawals in 2009.

Tax Planning is Critical

Tax planning is critical in 2009 for individuals normally subject to the RMD rules. In certain situations, greater, vs. less, retirement account distributions may actually be preferable.

For instance, if you have sizeable out-of-pocket medical expenses such as uninsured nursing care, your retirement account distributions may not increase your overall tax liability.

Conclusion

While only a one-year event, if you are at least 70-1/2, the Pension Act presents a unique opportunity to extend the lifetime of your investment assets.

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