Grace Global Alliance

An Independent Association of Christian Churches & Ministers

Required Minimum Distributions
Tax Year 2017

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June 20, 2017

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Ensuring that Uncle Sam Gets His Due

The benefits of retirement accounts such as a traditional IRA or a 401(k) are two-fold:

- Tax-deductible contributions allow individuals to reduce the size of their current tax burden while they are saving for retirement – which effectively lets them save more.
- Tax-deferred growth inside these accounts allows funds to accumulate without concern for an annual tax bill on that growth.

When It's Time to Pay Taxes

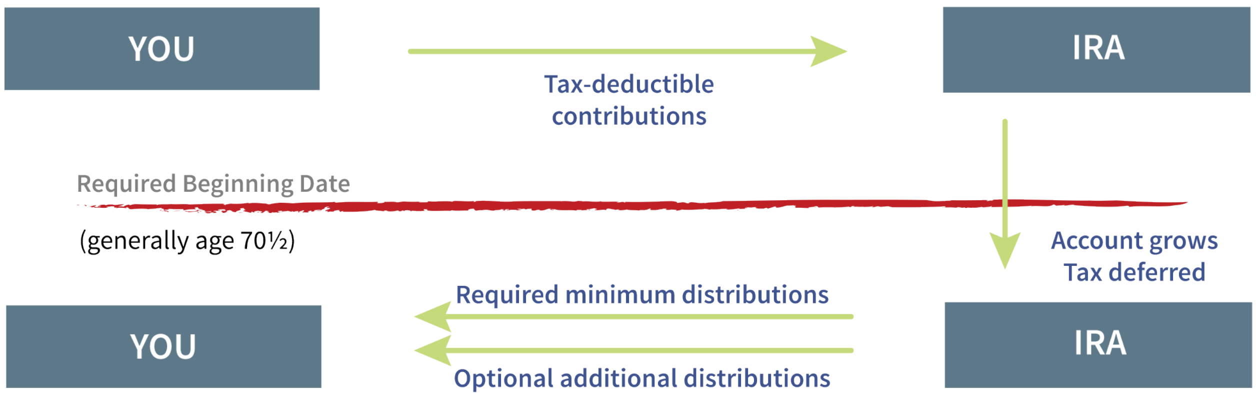
Eventually, however, the government must be paid. The tax benefits of these accounts are provided for one purpose: to help individuals save for retirement. Once an individual reaches retirement age, these same rules now dictate that the funds must be used for retirement purposes and the taxes that have been deferred must be paid.

What does this mean? It means that federal income tax law requires that a minimum amount of money must be withdrawn (distributed) from these accounts each year, starting at a specific age, known as the “required beginning date” (generally age 70½). The amount to be distributed is determined by a special calculation that, in essence, takes the total amount in the account and divides it by the number of years the individual is expected to live. When the required minimum distribution amount is received, it is included as taxable income to the individual and Uncle Sam will, finally, get paid. If an account owner does not make distributions that are large enough, or if distributions are not made at all, a penalty tax of 50% of the amount that should have been distributed is generally due.[1]

But, one bit of good news is that the amount remaining in the account continues to grow tax deferred.

[1] This is federal income tax law. State or local income tax law may differ.

The Basics of Required Minimum Distributions



Required Minimum Distributions

Lifetime Distributions from IRAs and Qualified Plans

Both traditional IRAs[1] and qualified retirement plans enjoy significant federal tax benefits.[2] Contributions are generally tax deductible and growth inside an account is tax-deferred. Federal law requires that certain amounts be paid out, generally beginning with the year an account owner turns age 70½. Funds become taxable when distributed.

- **Required minimum distributions (RMD):** These are the specified, minimum withdrawals that an account owner must make. The account owner is free to take larger amounts if desired.
- **Required beginning date:** This is the date by which an account owner must begin to make his or her required minimum distributions.
- **Penalty tax:** If an account owner does not make distributions that are large enough, or if distributions are not made at all, a penalty tax of 50% of the amount that should have been distributed is generally due.

Item	Traditional IRAs[3]	Qualified Plans
Required beginning date	By April 1 of the year following the year you attain age 70½.	By April 1 of the year following the later of (a) the year you reach age 70½, or (b) the year you retire. More than 5% owners must begin to receive distributions by April 1 of the year following the year they reach age 70½.
Initial distributions	If a required first withdrawal for 2016 is made by April 1, 2017, the required distribution for 2017 must be made by December 31, 2017. In effect there are two taxable distributions made in 2017. Each year thereafter, a distribution is required on or before December 31.	

[1] For required minimum distribution purposes "traditional IRAs" include SIMPLE IRAs and SEP IRAs. Roth IRAs are subject to different rules.

[2] This discussion concerns federal law only. State or local law may vary.

[3] The rules described here are for annual account withdrawals made from either an Individual Retirement Account or Individual Retirement Annuity. RMDs for annuity payments from Individual Retirement Annuities are subject to special rules. See Treasury Decision 9130, 2004 ARD 227-4. November 23, 2004.

Item	Traditional IRAs[1]	Qualified Plans
More than one IRA or qualified retirement plan	If an individual has more than one IRA, the required minimum distribution must be determined for each IRA. However, the total required distribution may be made from any one or a combination of the IRAs. The IRAs may not be aggregated with employer-sponsored qualified retirement plans.	Generally, each plan must make its own separate required minimum distribution.
Other	The minimum distribution rules do not apply to Roth IRAs during the owner's lifetime.	Qualified plans include TSA 403(b), Keogh, 401(k), SIMPLE 401(k), and pension and profit sharing plans.

Calculating Required Minimum Distributions[2]

The actual amount that must be distributed each year is determined using:

- The balance in the account as of the previous December 31, and;
- The age of the account owner (and spouse, if married) at the end of the year.

The required minimum distribution is calculated by dividing the account balance by a theoretical life span taken from life expectancy tables provided by the Internal Revenue Service (IRS). The life expectancy table used will vary depending on the age of the account owner and, if married, his or her spouse. An individual's marital status is determined as of January 1 of the calendar year.

Single owner/spouse no more than 10 years younger: An IRA owner, age 75, has $100,000 in an IRA as of December 31 of the prior year. The required minimum distribution for the current year would be $4,366.81, ($100,000 divided by 22.9). The divisor of 22.9 is taken from the Uniform Lifetime Table for an individual age 75. The calculation is the same for a single individual or a married individual with a spouse no more than 10 years younger than the IRA owner.

[1] The rules described here are for annual account withdrawals made from either an Individual Retirement Account or Individual Retirement Annuity. RMDs for annuity payments from Individual Retirement Annuities are subject to special rules. See Treasury Decision 9130, 2004 ARD 227-4. November 23, 2004.

[2] The rules reviewed here are those contained in the final regulations issued by the Treasury Department on April 16, 2002, in Treasury Decision 8987.

Spouse more than 10 Years Younger[1]: If the participant's spouse is more than 10 years younger than the participant, the minimum distribution factor used in calculating the required minimum distribution is found in the Joint and Last Survivor Table.

An IRA owner, age 75, has $100,000 in the IRA as of December 31 of the prior year. His wife is age 63. The required minimum distribution would be $4,115.23, $100,000 divided by 24.3, the Joint and Last Survivor Table factor for an owner age 75 and a spouse age 63.

Seek Professional Guidance

Given the complex and frequently changing nature of tax law, individuals faced with the need to make required distributions from IRAs or qualified retirement plans should seek the guidance of qualified professionals.

[1] The spouse must be the sole beneficiary of the account.

Retirement Plan Distributions Before Age 59½

Federal law[1] provides significant income tax benefits to the various types of employer-sponsored and individual retirement plans. Contributions may be tax-deductible and growth inside an account is tax-deferred. The purpose of these tax breaks is to encourage and reward saving for retirement.

If funds are taken out of an account before an owner reaches age 59½, however, the distribution is viewed as being "early" and a 10% penalty[2] is applied to that portion of the distribution which is includable in gross income. The extra 10% penalty, plus the ordinary income tax, can make the total tax burden on such distributions painfully high.

How Bad Is The Tax "Bite"?

Assume that an individual who is in the 25% federal income tax bracket takes a withdrawal of $10,000 from his 401(k) plan. How much will he pay in taxes on that distribution?

Initial amount withdrawn:	$10,000
Less: federal income tax @25%	- 2,500
Less: 10% penalty tax:	- 1,000
= **Net after taxes:**	**$6,500**

Our hypothetical taxpayer must surrender 35% of the amount initially withdrawn just to pay federal income taxes. If state or local law also taxes such distributions, the total cost would be even higher.

What Types Of Retirement Plans Are Subject To The 10% Penalty?

Two types of retirement plans[3] are subject to the 10% penalty for early withdrawal:

- **Qualified plans:** Include "qualified" defined contribution retirement plans such as IRC Sec. 401(k) plans, IRC Sec. 403(b) plans and IRC Sec. 403(b) annuity contracts, IRC Sec.

[1] The discussion here concerns federal income tax law. State or local law may differ.

[2] Distributions before age 59½ from SIMPLE IRA plans made within the first two years of participation are subject to a 25% penalty, rather than a 10% penalty, subject to the exceptions discussed here. If a premature distribution from a SIMPLE IRA is made after two years of participation, the 10% penalty applies, subject to the exceptions.

[3] Life insurance policies considered to be "modified endowment contracts" and commercially purchased individual annuities are also subject to a 10% penalty, in certain situations.

403(a) annuity plans, SIMPLE 401(k) plans, and Profit Sharing and Money Purchase plans. Distributions from IRC Sec. 457 plans are generally not subject to the 10% penalty.

- **Individual retirement plans:** Include traditional IRAs, Roth IRAs, individual retirement annuities, Simplified Employee Pension (SEP) IRAs, and SIMPLE IRA plans.

Possible Exceptions to the 10% Penalty Tax

The table below lists the major exceptions to the 10% penalty tax:

General Description	Applicable To Qualified Plans?	Applicable To IRAs?
Separation from service after age 55. Distributions made to an employee after separating from service after reaching age 55.[1]	Yes	No
Qualified Domestic Relations Order (QDRO). Distributions made to an alternate payee, such as in a divorce.	Yes	No
Death or disability. Distributions made due to the death or disability of the account owner.	Yes	Yes
Substantially equal periodic payments. Distributions that are part of a series of substantially equal periodic payments made over the life (or life expectancy) of the taxpayer or made over the joint life (or joint life expectancies) of the taxpayer and a beneficiary.	Yes	Yes
Medical expenses. Distributions made to pay for deductible medical expenses. Only the portion that exceeds 10.0% of AGI (or 7.5% for certain taxpayers) is exempt from the 10% penalty.[2]	Yes	Yes

[1] In the case of certain public safety officials, an exception applies to distributions made after separating from service after age 50.

[2] This exception is tied to the amount allowable as a deduction for unreimbursed medical expenses. Beginning in 2013, the threshold for the federal Schedule A itemized deduction for unreimbursed medical expenses generally increased from 7.5% to 10.0% of Adjusted Gross Income (AGI). However, for tax years 2013-2016, if either a taxpayer or spouse is age 65 before the end of the year, the threshold will remain at 7.5% of AGI.

Retirement Plan Distributions Before Age 59½

General Description	Applicable To Qualified Plans?	Applicable To IRAs?
Higher education expenses. Distributions made to pay for “qualified higher education expenses” for the taxpayer, spouse, child, or grandchild. The expenses must be incurred in the year of distribution and generally include tuition, fees, books, supplies and equipment required for attendance at an eligible educational institution.	No	Yes
First-time homebuyer. Distributions of up to $10,000 to buy, build, or rebuild a first home. A “first-time homebuyer” is someone who had no ownership in a principal residence in the two years prior to buying the new home. The funds must be used within 120 days of receipt.	No	Yes
Unemployed health insurance premiums. Distributions made to certain unemployed individuals to pay for health insurance premiums. The individual must have lost a job and generally must have received unemployment compensation for at least 12 weeks because of the job loss.	No	Yes
Qualified reservist. Distributions made to a military reservist called to active duty for more than 179 days (or indefinitely) after September 11, 2001. Such distributions may be repaid within two years after the end of active duty.	Yes	Yes
Transfer to a Health Savings Account (HSA). A once-in-a-lifetime distribution of amounts in a traditional or Roth IRA, in a direct, trustee-to-trustee transfer. The distribution is limited to the maximum amount for the year that could otherwise be contributed to the HSA and deducted.	No	Yes
IRS levy on the account. Distributions made to satisfy an IRS levy on the account.	Yes	Yes
Qualified rollover. Generally, a transfer of funds from one IRA or qualified plan to an eligible recipient IRA or qualified plan are exempt.	Yes	Yes
Correct excess contributions. Generally, distributions made to correct excess contributions, either by the account owner, the employer, or both are exempt.	Yes	Yes

General Description	Applicable To Qualified Plans?	Applicable To IRAs?
Phased retirement for certain federal employees. An exception applies to pension annuity payments and composite retirement annuity payments paid to certain federal employees participating in a phased retirement program.	Certain federal employees only.	No

Seek Professional Guidance

The income tax treatment of distributions from employer-sponsored and individual retirement plans is complex and often confusing. Given the potentially heavy cost of such withdrawals, individuals considering taking funds from a retirement plan before reaching age 59½ are strongly advised to first seek the guidance of a Certified Public Accountant (CPA), IRS enrolled agent (EA), or other competent professional.

Required Minimum Distributions After Death

Spousal Beneficiary

Funds in both traditional IRAs[1] and qualified retirement plans may not be kept inside these tax-deferred accounts indefinitely. Under federal law the money must eventually be distributed, and then taxed, through yearly "Required Minimum Distributions," or RMDs.[2]

The death of an account owner does not eliminate this requirement. However, the manner in which the assets must be distributed post-death will vary, depending primarily on:

- **Death before or after the required beginning date:** During life, an account owner must generally begin distributions no later than April 1 of the year following the year he or she reaches age 70½. This is known as the "Required Beginning Date," or RBD.[3]
- **Who inherits the assets:** The law mandates different required minimum distribution schedules depending on who inherits the assets in an account.

Surviving Spouse Required Minimum Distributions

If the surviving spouse is the sole designated beneficiary, or if there is no designated beneficiary, at a minimum the funds must be distributed as shown in the tables below:

Owner Dies Before The Required Beginning Date

Situation	Distribution Requirement	Example
Rollover Account to Survivor's Name	The surviving spouse becomes the owner, with RMDs being taken under the normal "during lifetime" rules. No withdrawals are required until the surviving spouse reaches age 70½.	Assume that Kate's husband Jake dies in 2017 at age 67. Kate is age 65. Kate rolls the account over into her own name. Kate will not be required to take a distribution from the account until April 1 of the year after the year she reaches age 70½.

[1] For required minimum distribution purposes, the term "traditional IRA" also includes SIMPLE IRAs and SEP IRAs. Roth IRAs are subject to different rules.

[2] This discussion concerns federal income tax law. State or local law may vary.

[3] The RBD for qualified plan participants is April 1 of the year following the later of (a) the year the participant reaches age 70½, or (b) the year he or she retires. More than 5% owners must begin to receive distributions by April 1 of the year following the year they reach age 70½.

Required Minimum Distributions After Death

Situation	Distribution Requirement	Example
Leave Account in Deceased Spouse's Name – Surviving Spouse is Designated Beneficiary	RMDs for the beneficiary-spouse must begin by the later of: (a) 12/31 of the year the owner would have turned age 70½ had he or she lived, or (b) 12/31 of the year after the year of death. Distributions are made over the survivor's life expectancy.	Assume that Jake dies in 2017 at age 67. Kate is then age 65. Also assume that Jake would have reached age 70½ in 2020. Kate must take her first RMD by 12/31/20. This RMD is calculated by dividing the account balance on 12/31/19 by Kate's life expectancy (from the Single Life Table) for her age in 2020. If Kate turns 68 in 2020, this value is 18.6. For later years, her life expectancy is determined using her attained age in each year.
No Designated Beneficiary, the Owner's Estate, a Charity, or a Non-Qualifying Trust	The entire amount must be distributed by the end of the fifth year after the year the owner dies.	Jake dies on 01/01/17, at age 68, leaving his IRA to his estate. The entire IRA balance must be distributed by 12/31/22.

Owner Dies After The Required Beginning Date

Situation	Distribution Requirement	Example
Rollover Account to Survivor's Name	A RMD must be made for the deceased owner for the year of death. The surviving spouse then becomes the owner, with RMDs being taken under the normal "during lifetime" rules. No withdrawals are required until the surviving spouse reaches age 70½.	Assume that Kate's husband Jake dies in 2017 at age 72. Kate is age 65. A distribution must be made for Jake for 2017. Since Kate is not more than 10 years younger than Jake, the life expectancy from the Uniform Lifetime Table is used.[1] The RMD is calculated by dividing the account balance on 12/31/16 by 25.6, the distribution period for a 72 year old account owner. After taking Jake's RMD for 2017, Kate can then roll the account into her own name and delay further distributions until April 1 of the year after the year she reaches 70½.

[1] If Kate were more than 10 years younger than Jake, the factor shown on the Joint and Last Survivor Table would be used.

Required Minimum Distributions After Death

Situation	Distribution Requirement	Example
Leave Account in Deceased Spouse's Name – Surviving Spouse is Designated Beneficiary	A RMD must be made for the deceased owner for the year of death. RMDs for the beneficiary-spouse must begin by 12/31 of the year after the year of death, with distributions made over the survivor's life expectancy.	Assume Jake dies in 2017 at age 72. Kate is age 65. A distribution must be made for Jake for 2017, as discussed above. Distributions for Kate must begin by 12/31/18 based on her attained age in 2018. Assuming that Kate will turn 66 in 2018, the RMD for 2018 would be calculated by dividing the account balance on 12/31/17 by Kate's life expectancy (from the Single Life Table) of 20.2. For 2019, the RMD would be calculated by dividing the account balance as of 12/31/18 by Kate's 2019 life expectancy, at age 67, of 19.4.
No Designated Beneficiary, the Owner's Estate, a Charity, or a Non-Qualifying Trust	A RMD must be made for the deceased owner for the year of death. Thereafter, RMDs are based on the owner's theoretical life expectancy in the year of death.	Jake dies in 2017, at age 75, leaving his IRA entirely to charity. A RMD must be made for him for 2017, using his age 75 life expectancy (from the Uniform Lifetime Table) of 22.9. For later years, Jake's life expectancy in the year of his death (from the Single Life Table), reduced by one for each subsequent year, is used to calculate the RMD. For 2018, Jake's life expectancy would be 12.4, (his 2017 life expectancy at age 75 of 13.4-1). For 2019 the life expectancy used would be 11.4, (12.4-1).

Other Distribution Options

Funds in an inherited IRA or qualified retirement plan may also be distributed as a single lump-sum or as periodic or occasional distributions which withdraw the money at a rate faster than the RMDs required by federal tax law. However, such accelerated distributions will subject the funds to current income tax more quickly than will the RMD withdrawals.

Post-Mortem Distribution Planning

IRAs and qualified plans allow an account owner to name a beneficiary or beneficiaries to receive the account proceeds should the owner die. From this pool of potential inheritors, IRS regulations require that the individual or group of individuals who will ultimately receive the funds, the "designated beneficiaries," be identified by September 30 of the year following the year of death. This time delay allows for a certain amount of post-death estate and income tax planning by "removing" a potential beneficiary through either a qualified disclaimer, a cash distribution, or by dividing the IRA or qualified plan into separate accounts.[1] The life expectancies of those beneficiaries who remain as of September 30 are then used to determine the RMDs for the years after death.

Entities without a measurable life span, such as the owner's estate, a charity, or a trust that does not meet certain IRS requirements, are not considered to be "designated beneficiaries" for RMD purposes. While such beneficiaries may inherit the funds in an account, distributions to these entities are generally made on less favorable terms.

Spousal Rollover

In order to roll the account into the name of the surviving spouse, the survivor must be the sole beneficiary and have an unlimited right to withdraw amounts from the account. If the spouse is not the sole beneficiary of an account at the time of the account owner's death, this requirement can be met by having other beneficiaries disclaim their interests on a timely basis. The surviving spouse could later name those individuals as beneficiaries of his or her own IRA.

The election to roll the account into the surviving spouse's name may be made at any time after the owner's death.

Trusts

In order for the beneficiaries of a trust to qualify as a "designated beneficiaries," the trust must meet certain requirements:

- The trust must be valid under state law;
- The trust must be irrevocable or will, under its terms, become irrevocable upon the death of the account owner;
- The beneficiaries of the trust must be identifiable from the trust document; and
- Certain documents must be provided to the plan administrator.[2]

Distributions to the trust are made over the theoretical life expectancy of the beneficiary. If there is more than one beneficiary, distributions are made over the theoretical life expectancy of the oldest beneficiary.

[1] Any separate accounts must generally be established by December 31 of the year following the year of the account owner's death.

[2] Generally, this must occur by October 31 of the year following the year of death.

If a trust does not meet these requirements, consideration should be given to reforming the trust, assigning or disclaiming an interest in the trust, cashing-out certain beneficiaries, or separating interests in the trust.

Other Points

- **Marital status:** An account owner's marital status for the entire calendar year is determined as of January 1, even if the account owner and/or spouse die or divorce during the year.
- **Distributions from employer-sponsored qualified plans:** Post-death payments to beneficiaries of qualified plans are typically based on the individual provisions of a particular plan. A lump-sum distribution is perhaps the most frequently encountered option. A surviving spouse who takes a lump-sum distribution from a qualified plan has 60 days to move the funds tax-free into an IRA rollover.

Roth IRAs

Roth IRAs do not have a lifetime distribution requirements. Because of this, a Roth IRA owner is always viewed as having died before the RBD. Post-death distributions from Roth IRAs are thus governed by the "death before RBD" rules.

Seek Professional Guidance

The body of law and regulation surrounding required minimum distributions is complex and often confusing. Further, the failure to correctly distribute the required amounts from an IRA or qualified plan can result in a federal excise tax of 50% of the amount that should have been distributed. Individual state or local law may also provide penalties.

The advice and guidance of qualified professionals is strongly recommended.

Required Minimum Distributions After Death

Non-Spouse Beneficiaries

Funds in both traditional IRAs[1] and qualified retirement plans may not be kept inside these tax-deferred accounts indefinitely. Under federal law the money must eventually be distributed, and then taxed, through yearly "Required Minimum Distributions," or RMDs.[2]

The death of an account owner does not eliminate this requirement. However, the manner in which the assets must be distributed post-death will vary, depending primarily on:

- **Death before or after required beginning date:** During life, an account owner must generally begin distributions no later than April 1 of the year following the year he or she reaches age 70½. This is known as the "required beginning date," or RBD.[3]
- **Who inherits the assets:** The law mandates different required minimum distribution schedules depending on who inherits the assets in an account.

Non-Spouse Beneficiary Required Minimum Distributions

Owner Dies Before The Required Beginning Date

Situation	Distribution Requirement	Example
Individual Beneficiary	RMDs for the beneficiary must begin by 12/31 of the year after the year of death. Distributions are made over the beneficiary's life expectancy.	Paul dies in 2017 at age 67, leaving his IRA to his daughter Paulette, age 42. Paulette must begin to take RMDs by 12/31/18, using her age in 2018 of 43. The RMD for 2018 would be calculated by dividing the account balance on 12/31/17 by Paulette's age-43 life expectancy (from the Single Life Table) of 40.7.[4]

[1] For required minimum distribution purposes, the term "traditional IRA" also includes SIMPLE IRAs and SEP IRAs. Roth IRAs are subject to different rules.

[2] This discussion concerns federal income tax law. State or local law may vary.

[3] The RBD for qualified plan participants is April 1 of the year following the later of (a) the year the participant reaches age 70½, or (b) the year he or she retires. More than 5% owners must begin to receive distributions by April 1 of the year following the year they reach age 70½.

[4] The life expectancy factor is reduced by one for each year after the year of the first required distribution.

Required Minimum Distributions After Death

Situation	Distribution Requirement	Example
Multiple Beneficiaries (Assumes that the account is not divided into separate shares.)	RMDs for the beneficiaries must begin by 12/31 of the year after the year of death. Distributions are made over the oldest beneficiary's life expectancy.	Paul dies in 2017 at age 67, leaving his IRA to his brother Bob, age 76, and his daughter Paulette, age 42. RMDs to them must begin by 12/31/18 and must be made over Bob's life expectancy as of his birthday in the year after Paul's death. The RMD for 2018 would be calculated by dividing the account balance on 12/31/17 by Bob's 2018 (Single Life Table) life expectancy, for age 77, of 12.1.[1]
No Designated Beneficiary, the Estate, a Charity, or a Non-Qualifying Trust	The entire amount must be distributed by the end of the fifth year after the year the owner dies.	Paul dies on 01/01/17, at age 68, leaving his IRA to his estate. The entire IRA balance must be distributed by 12/31/22.

Owner Dies After The Required Beginning Date

Situation	Distribution Requirement	Example
Individual Beneficiary	A RMD must be made for the deceased owner for the year of death. RMDs for the beneficiary must begin by 12/31 of the year after the year of death. Distributions are made over the longer of the owner's theoretical life expectancy, or the beneficiary's life expectancy.	Paul dies in 2017 at age 72, leaving his IRA to his older brother Bob, age 76. Because Paul has already passed his RBD, a distribution must be made for him for 2017. The RMD for 2017 is determined by dividing the account balance as of 12/31/16 by 25.6, the life expectancy (from the Uniform Lifetime Table) for a 72-year-old account owner. For 2018 and later years, the RMDs are calculated using the longer of the Single Life Table life expectancy for Paul in the year of his death, reduced by one (age 72 =15.5-1=14.5) or Bob's life expectancy in the year after Paul's death (age 77=12.1). In this case, Paul's theoretical life expectancy is greater. The RMD for 2018 is calculated by dividing the account balance as of 12/31/17 by 14.5.[1]

[1] The life expectancy factor is reduced by one for each year after the year of the first required distribution.

Required Minimum Distributions After Death

Situation	Distribution Requirement	Example
Multiple Beneficiaries (Assumes that the account is not divided into separate shares.)	A RMD must be made for the deceased owner for the year of death. RMDs for the beneficiaries must begin by 12/31 of the year after the year of death, with distributions over the longer of the owner's theoretical life expectancy or the oldest beneficiary's life expectancy.	Paul dies in 2017 at age 72, leaving his IRA to his son Peter, age 46, and his daughter Paulette, age 42. Because Paul has already passed his RBD, a distribution for 2017 must be made for him. This distribution is calculated by dividing the account balance as of 12/31/16 by 25.6, the life expectancy (from the Uniform Lifetime Table) for a 72 year old. For 2018 and later years, the RMDs are calculated using the longer of the Single Life Table life expectancy for Paul in the year of his death, reduced by one (age 72=15.5-1=14.5) or Peter's life expectancy (he's older than Paulette) in the year after Paul's death (age 47=37.0). In this case, Peter's life expectancy is the greater. The RMD for 2018 is calculated by dividing the account balance as of 12/31/17 by 37.0.[1]
No Designated Beneficiary, the Estate, a Charity, or a Non-Qualifying Trust	A RMD must be made for the deceased owner for the year of death. Thereafter, RMDs are based on the owner's theoretical life expectancy in the year of death.	Paul dies in 2017, at age 75, leaving his IRA entirely to charity. A RMD must be made for him for 2017, calculated using his age 75 life expectancy (from the Uniform Lifetime Table) of 22.9. For 2018 and later years, Paul's life expectancy in the year of his death (from the Single Life Table), reduced by one for each subsequent year, is used to calculate the RMD. For 2018, Paul's life expectancy would be 12.4, (his 2017 life expectancy at age 75 of 13.4-1).[1]

Other Distribution Options

Funds in an inherited IRA or qualified retirement plan may also be distributed as a single lump-sum or as periodic or occasional distributions which withdraw the money at a rate faster than the RMDs required by federal tax law. However, such accelerated distributions will subject the funds to current income tax more quickly than will the RMD withdrawals.

Post-Mortem Distribution Planning

IRAs and qualified plans allow an account owner to name a beneficiary or beneficiaries to receive the account proceeds should the owner die. From this pool of potential inheritors, IRS regulations require that the individual or group of individuals who will ultimately receive

[1] The life expectancy factor is reduced by one for each year after the year of the first required distribution.

the funds, the "designated beneficiaries," be identified by September 30 of the year following the year of death.

This time delay allows for a certain amount of post-death estate and income tax planning by "removing" a potential beneficiary through either a qualified disclaimer, a cash distribution, or by dividing the IRA or qualified plan into separate accounts. Any separate accounts must generally be established by December 31 of the year following the year of the account owner's death. The life expectancies of those beneficiaries who remain on September 30 are then used to determine the RMDs for the years after death.

Entities without a measurable life span, such as the owner's estate, a charity, or a trust that does not meet certain IRS requirements, are not considered to be "designated beneficiaries" for RMD purposes. While such beneficiaries may inherit the funds in the account, distributions to these entities are generally made on less favorable terms.

Trusts

In order for the beneficiaries of a trust to qualify as "designated beneficiaries," the trust must meet certain requirements:

- The trust must be valid under state law;
- The trust must be irrevocable or will, under its terms, become irrevocable upon the death of the account owner;
- The beneficiaries of the trust must be identifiable from the trust document; and
- Certain documents must be provided to the plan administrator.[1]

Distributions to the trust are made over the theoretical life expectancy of the beneficiary. If there is more than one beneficiary, distributions are made over the theoretical life expectancy of the oldest beneficiary.

If a trust does not meet these requirements, consideration should be given to reforming the trust, assigning or disclaiming an interest in the trust, cashing-out certain beneficiaries, or separating interests in the trust.

[1] Generally, this must occur by October 31 of the year following the year of death.

Other Points

- **Distributions from employer-sponsored qualified plans:** Post-death payments to beneficiaries of qualified plans are typically based on the individual provisions of a particular plan. A lump-sum distribution, with its heavy, immediate taxation, is perhaps the most frequently encountered option.

  The Pension Protection Act of 2006, effective for distributions after December 31, 2006, provides for a direct trustee-to-trustee transfer from a qualified plan to an IRA specifically designed to receive retirement assets inherited by a non-spouse beneficiary. The non-spouse beneficiary is not treated as the owner of the rolled-over assets and the assets may not be rolled-over to another account. Required minimum distributions are made from the "inherited IRA" in accordance with the normal rules applicable to non-spouse beneficiaries.

  Such an after-death transfer has the same result as if the decedent had moved the assets in his or her qualified plan into an IRA rollover prior to death.

Roth IRAs

Roth IRAs do not have a lifetime distribution requirements. Because of this, a Roth IRA owner is always viewed as having died before the RBD. Post-death distributions from Roth IRAs are thus governed by the "death before RBD" rules.

Seek Professional Guidance

The body of law and regulation surrounding required minimum distributions is complex and often confusing. Further, the failure to correctly distribute the required amounts from an IRA or qualified plan can result in a federal excise tax of 50% of the amount that should have been distributed. Individual state or local law may also provide penalties.

The advice and guidance of qualified professionals is strongly recommended.

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