THE RETIREMENT GROUP LLC
PARTNERS IN RETIREMENT

READY, SET, RETIRE

Taking income distributions during retirement

What's Inside

ASSESS YOUR NEEDS

INCOME WHEN YOU NEED IT

Choosing the right income distribution strategy for your retirement savings is so important today, especially when you consider that today's retirees can look forward to much longer retirements than ever before. In fact, about one out of every four 65 year-olds today will live past age 90, and one out of 10 will live past age 95[1]. Talk to your financial advisor today about developing a flexible income plan for your retirement years with the help of your individual retirement account (IRA).

[1] Source: Social Security Administration, 2017. Calculators: Life Expectancy. https://www.ssa.gov/planners/lifeexpectancy.html.

This material is not intended to replace the advice of a qualified professional. Before making any financial commitment regarding the issues discussed here, consult a professional advisor. Any statement contained in this communication (including any attachments) concerning U.S. tax matters was not intended or written to be used, and cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code. This communication was written to support the promotion or marketing of the transaction(s) or matter(s) addressed.

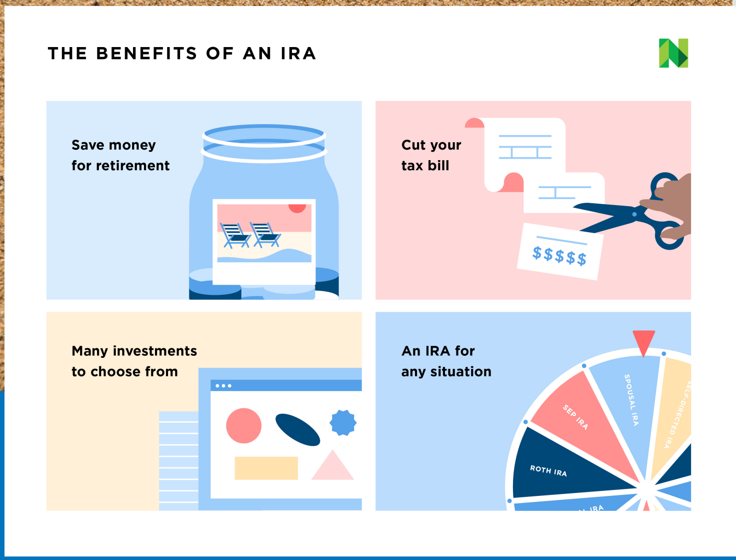
YOU WILL FIND ...

You will find that IRAs offer smart, flexible distribution strategies that can help you address financial needs in retirement, such as

- **receiving a regular stream of income**
- **keeping the balance** of your retirement savings potentially growing tax deferred
- **minimizing current taxes**
- **leaving a legacy**
- **avoiding IRS tax penalties** on income distributions taken during early retirement for an emergency or layoff

By taking time now to map out an income distribution plan, you will be working toward potentially increasing your retirement savings, helping to make your money last longer in retirement and leaving a legacy.

Source: https://www.google.com/url?q=https://www.nerdwallet.com/article/investing/learn-about-ira-accounts&sa=D&ust=1572891342303000&usg=AFQjCNGWkTqP-X1AWIJZCSt6X70zObMlUg



CONSIDER YOUR OPTIONS

INCOME DISTRIBUTION OPTIONS AND RMDs

What is the most efficient way to take my retirement income?

If you are like many Americans today, your retirement assets may consist of several retirement accounts — IRAs, 401(k)s, taxable accounts, and others. You may want to consider meeting your income needs in retirement by first drawing down taxable accounts rather than tax-deferred accounts. This may help your retirement assets last longer as they continue to potentially grow tax deferred, as the example to the right shows. You will also need to plan to take the required minimum distributions (RMDs) from any employer-sponsored retirement plans and traditional or Rollover IRA accounts. That's because the IRS requires that you begin taking distributions from these types of accounts when you reach age 70½. If you do not, the IRS may assess a 50% penalty on the amount you should have taken.

Two flexible distribution options for your IRA

When you need to draw on your IRA for income or take your RMDs, you will find two flexible options. Please note that distributions from your IRA are subject to income taxes and may be subject to penalties and other conditions depending on your age.

- **Partial withdrawals.** Withdraw any amount from your IRA at any time. If you are age 70½ or over, you will have to take at least enough from one or more IRAs to meet your annual RMD.
- **Systematic withdrawal plans.** Structure regular, automatic withdrawals from your IRA; choose the amount and frequency to meet your retirement income needs. If you are under age 59½, you may be subject to a 10% early withdrawal penalty unless your withdrawal plan meets Code Section 72(t) rules discussed on page 6.

Your tax advisor can help you understand distribution options, determine RMD requirements, calculate RMDs, and set up a systematic withdrawal plan.

Neither FSC nor its representatives provide tax or legal advice. Please consult your attorney or tax advisor for answers to your specific questions.

Create a tax-efficient income plan

Take a look at the different income distribution choices Sharon and Bill selected in this hypothetical example. Then take a look at the outcome 15 years later. By relying on taxable assets first and drawing on IRA assets only for the required RMDs, Bill depleted much less of his retirement assets. That's because the assets in his IRA were able to grow longer tax deferred.

Tax-deferred growth has its advantages

- Both investors are age 70½ and need to take RMDs from their IRAs.
- Both investors have $500,000 in an IRA and $200,000 in a taxable account.
- To meet annual retirement income needs, both need to take $30,000 in after-tax income.
- They start taking withdrawals on December 31 and continue to do so for 15 years.

Assumptions: 6% annual rate of return, compounded annually, on all accounts and a flat 35% combined federal and state income flat tax.

Earnings in the taxable accounts were taxed each year. This tax was paid by netting the tax against its respective earnings and therefore was not included in the gross distribution calculations needed to reach an after-tax income of $30,000.

Distributions from the IRAs were taxed in the year they were distributed. Taxes on the IRA distributions were paid by grossing up the distribution amounts from the IRAs or taxable accounts as applicable. RMDs were calculated using the Uniform Lifetime Table under the 2002 IRS final regulations and were taken starting in the year each investor turned 70½. All distributions were taken on December 31 of each year.

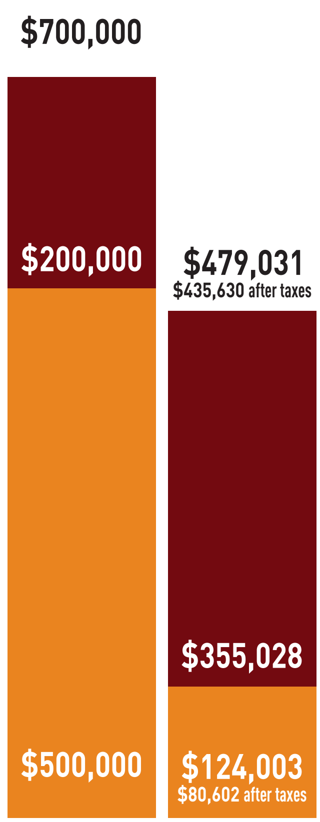
Hypothetical results are for illustrative purposes only and are not meant to represent the future performance of product. Rates of return will vary over time, particularly for long-term investments. There is no guarantee the selected rate of return can be achieved.

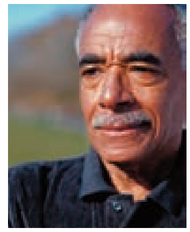
The principal value and investment return of investment products will fluctuate with changes in market conditions, and shares, when redeemed, may be worth more or less than their original cost. Taxes are due upon withdrawal from the tax-deferred account.

Keep in mind that all investments carry a certain amount of risk including the possible loss of the principal amount invested.

Taxable account
IRA account

Sharon takes $46,154 annually from the IRA to yield $30,000.





Bill takes only the required minimum distribution from his IRA annually. He draws from his taxable account to make up the difference.

15 years later Bill has $215,800 more ($51,327 after taxes) than Sharon.

Note: Refer to the bottom of page 3 (Create a tax-efficient income plan) details of Rate of Return and RMDs. This is a mathematical hypothetical design to show the impacts of taxation on based on which accounts are tapped for income first in retirement. The returns are not related to any specific investment. Your actual experience will be different. Investing involves risk, including the possible loss of principal

CONSIDER YOUR OPTIONS

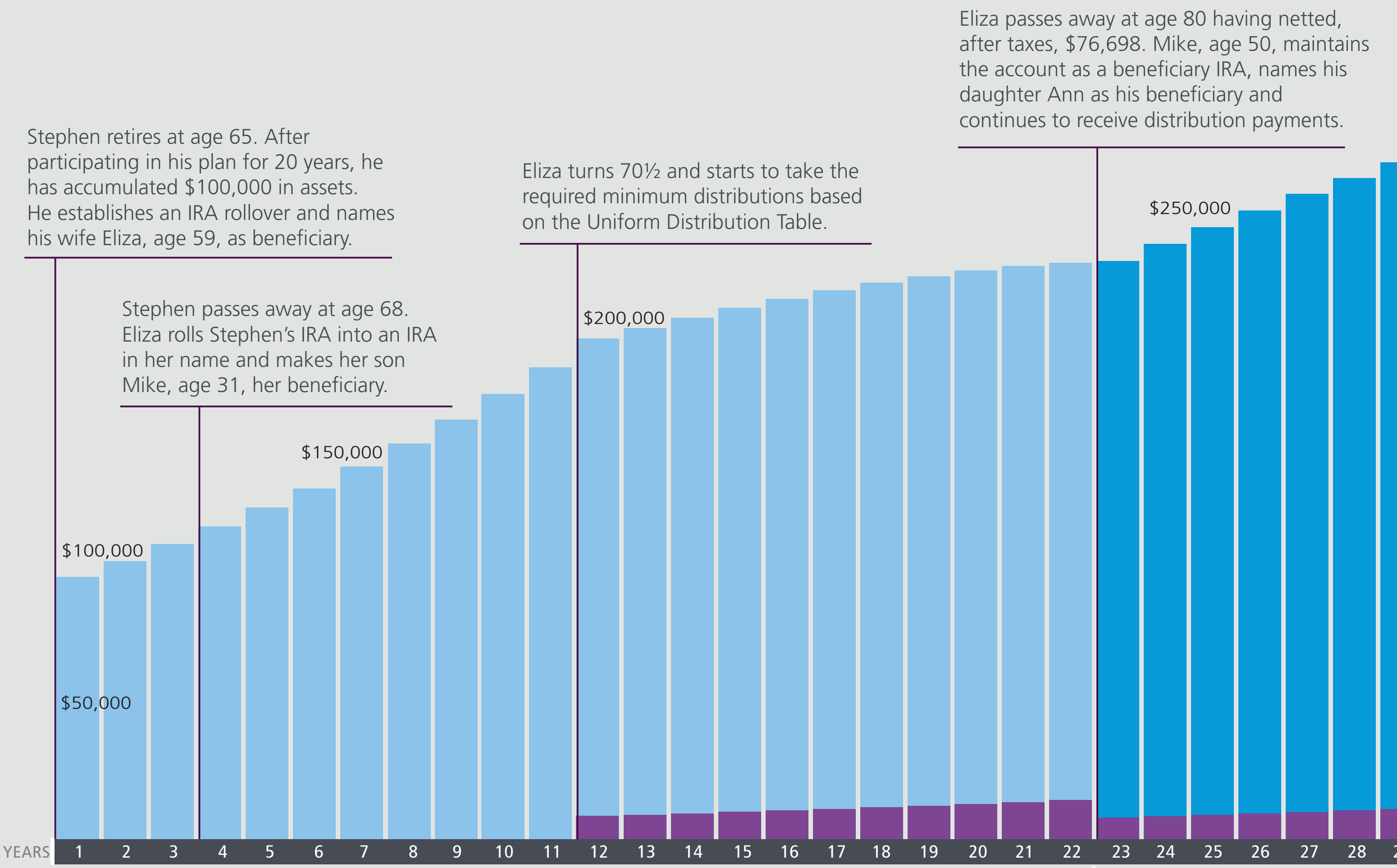
LEGACY PLANNING WITH A STRETCH IRA

Can I use my IRA to leave a legacy for my family?

The Stretch IRA is a simple strategy that can help stretch out IRA distributions across generations. Designed for investors who will not need all of the money for their own retirement needs, it allows the designated beneficiary to take distributions over his or her own life expectancy. This minimizes current income taxes and keeps more assets potentially growing in a tax-deferred account.

How the Stretch IRA works

The named beneficiaries, who are usually younger than the original IRA owner, may be able to take distributions based on their own life expectancies. This can potentially lower annual income tax liability and allows assets to remain growing tax deferred in the IRA. The younger the beneficiary, the longer the IRA assets have the potential to grow tax deferred, as this hypothetical example shows.



FIRST GENERATION

INVESTMENT PHASE
WITHDRAWAL PHASE

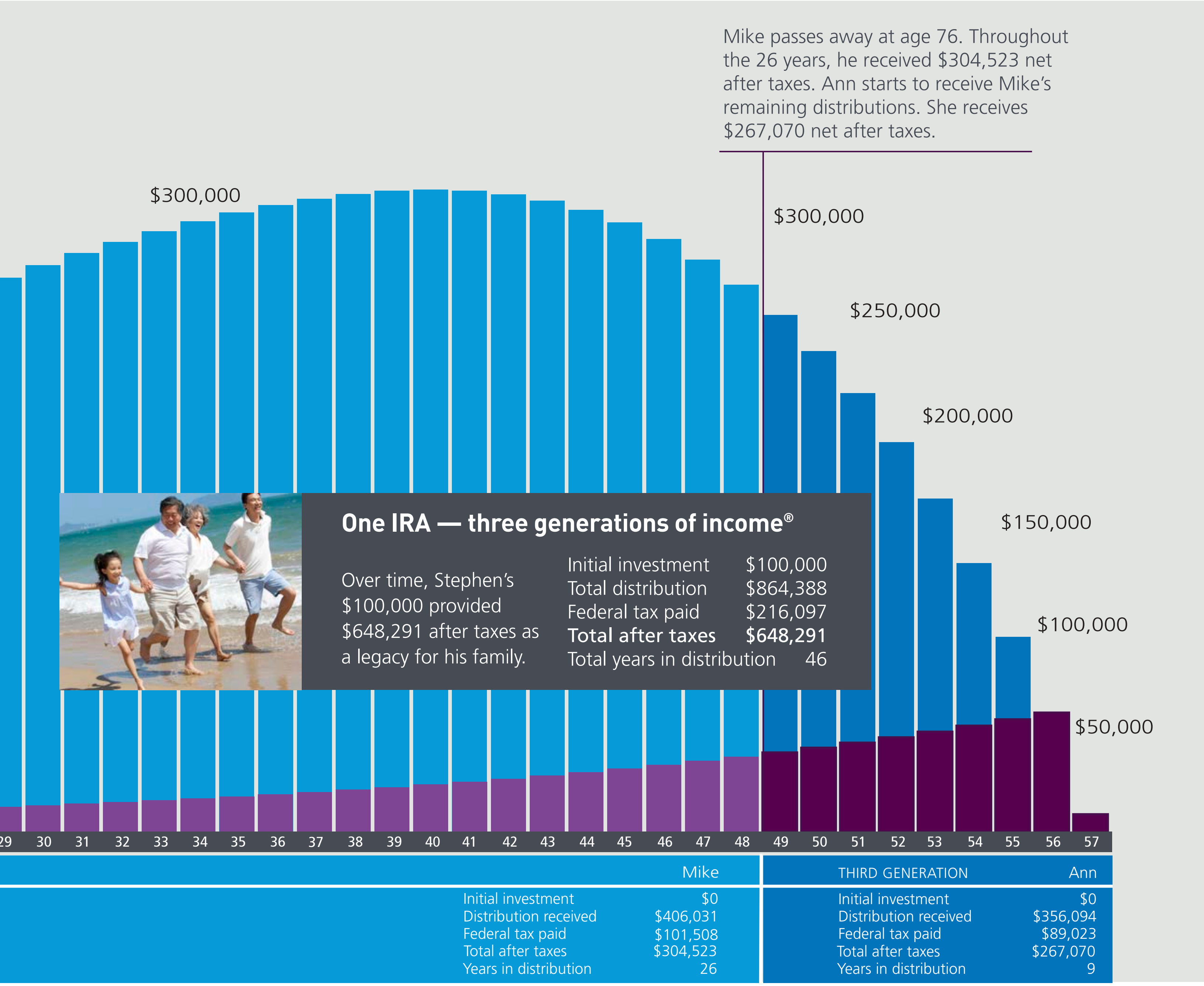
	Stephen	Eliza
Initial investment	$100,000	$0
Distribution received	$0	$102,264
Federal tax paid	$0	$25,566
Total after taxes	$0	$76,698
Years in distribution	0	11

SECOND GENERATION

Assumptions:
- 6% annual return on account
- 25% federal tax rate

Hypothetical results are for illustrative purposes only and are not intended to represent the future performance of any investment product, nor does it reflect the volatility with the investment markets. Your results will be different and likely lower than the amounts shown. Rates of return will vary over time, particularly for long-term investments. There is no guarantee the selected rate of return can be achieved. Investments will fluctuate and may be worth more or less than their original value. Keep in mind this illustration is based on a 57-year time period and current tax laws. It is unlikely that the current tax laws will remain in effect for the entire period.

Stretch IRA's are designed for investors that will not need the money to fund their retirement. Investors should be aware that changes in tax laws and IRS Rules may adversely impact the use of the stretch IRA strategy. Typically, strategies that involved the use of stretch IRAs assume that investors take only the smallest from the stretch IRA as required by the current tax laws beginning at age 70 1/2.



CONSIDER YOUR OPTIONS

EARLY DISTRIBUTIONS FROM RETIREMENT ACCOUNTS

What if I want to take withdrawals from my retirement accounts before age 59½?

Sometimes we are faced with circumstances that lead us to turn to our retirement accounts for an income stream before the government sees fit. Perhaps you're considering early retirement, lost your job, have an emergency need for income or another reason for planning to take early retirement distributions.

You can take money out of an IRA whenever you want, but be warned: if you're under age 59½, it could cost you. If you withdraw any money from a traditional IRA and don't qualify for one of the exceptions, you'll be hit with a 10% penalty on the amount withdrawn, plus the regular income tax you'll owe on your withdrawal. Roth IRAs offer a bit more flexibility: generally, contributions can be withdrawn penalty-free at any time, as long as you don't withdraw any earnings on your investments.[2]

[2] Conversions could be subject to the early distribution penalty if withdrawn within five years of conversion.

[3] Certain exceptions may be made; please see your tax advisor.

What if I don't meet any of the exceptions mentioned? Is there any other way to access my retirement money without penalty?

Yes, there's a penalty exception for "Substantially Equal Periodic Payments" (SEPP) as permitted under Internal Revenue Code Section 72(t), which stipulates that funds may be withdrawn penalty free from an IRA at any age prior to age 59½, while still protecting remaining assets from current taxes and preserving the tax-deferred status of earnings.

To qualify for this treatment, the withdrawal must be part of a series of substantially equal periodic payments to you, on which you will need to pay ordinary income taxes but not the 10% "excise tax" on any premature distribution.

How Substantially Equal Periodic Payments work

IRS Code Section 72(t) provides the following:

- Withdrawals must be made at least annually for five years or until age 59½, whichever is later. For example, if you start withdrawals at age 56, the earliest you can stop or change your distribution formula is age 61.
- The withdrawal amount is based on one of three standard IRS formulas: life expectancy, annuity or amortization. Once you choose a formula, you will use it as long as your withdrawals continue.[3] Changes in the formula or dollar amount may trigger a 10% federal tax penalty on all you have withdrawn. However, if you initially choose the amortization or annuity formula, you have a one-time option to switch to the life expectancy formula without incurring penalties.
- After the required withdrawal period, you may stop or change the withdrawals. Once you reach age 70½, distributions are required.

Exceptions to the 10% penalty

The 10% penalty does not apply in cases of death or disability (as defined by the IRS). You can also escape the 10% tax penalty if you're withdrawing the money from an IRA for a few specific reasons, including paying for

- college expenses for you, your spouse, your children or your grandchildren
- nondeductible unreimbursed medical expenses
- a first-time home purchase (up to $10,000)

Keep in mind, however, that each of these exceptions comes with its own exceptions, requirements and specific rules — and some exceptions apply only to IRAs and others apply only to qualified employer plans.

- **Roth IRA contributions.** Withdrawals from a Roth IRA come out in a specific order. Your contributions come out first, followed by conversions and lastly earnings. Contributions are always tax and penalty free on withdrawal. Money you transfer to a Roth from another retirement account is not subject to the penalty if the conversion is over five years old.

- **Separation from service.** If you separate from service after January 1 of the year you turn 55, there is no longer a penalty for that employer's 401(k) or other qualified plan.[4] The reason you separate doesn't matter. It could be a layoff, job change or retirement. The exemption from the penalty will apply whether distributions are partial or full, one-time or a series. Consider whether you need to take any money out before you decide to roll the money into a new plan or IRA.

  Keep in mind that there are advantages and disadvantages to an IRA rollover depending on the investment options, services, fees and expenses, withdrawal options, required minimum distributions, tax treatment and your unique financial needs and retirement goals. Your advisor can assist in determining if a rollover is appropriate for you.

- **Inherited accounts.** Inherited accounts are never subject to the early distribution penalty but do have required minimum distributions. If you are the beneficiary of a retirement account, talk to your financial or tax advisor about when you need to start distributions. If you inherit an IRA from your spouse, you can elect to treat it as your own. If you do, it is no longer an inherited account. If you are under age 59½, you may want to leave it as an inherited account until you reach age 59½ to avoid the 10% penalty tax on any withdrawals.

Keep in mind that this is not a complete list of the exceptions. If you need to take withdrawals early and don't qualify for any of these exceptions, talk to you financial advisor. Most important, talk to your financial or tax advisor *before* taking withdrawals.

[4] If you are rehired by the same company, this exemption no longer applies.

TAKE ACTION

THREE STEPS

STEP 1. Talk to your financial advisor today

Start your conversation with these simple questions about your retirement income needs:

- What is the most efficient way for me to take my retirement income?
- Can I use my IRA to leave a legacy for my family?
- How can I draw income from my IRA and avoid IRS early-withdrawal penalties?

Your financial advisor can help you develop an income distribution plan tailored to your specific financial needs, goals, and risk tolerance in retirement.

STEP 2. Organize your retirement savings

Your financial advisor will also analyze your current retirement savings. He or she will suggest the best ways for you to consolidate retirement plan assets — and to build a solid asset allocation strategy — so you can organize your retirement savings.

STEP 3. Document your beneficiaries

Make sure you designate your primary and contingent beneficiaries on all of your IRA accounts. Once you have made the designation, be sure that the IRA trustee or custodian receives proper documentation of it. If not, your assets could end up going to your estate or some other unintended beneficiary.

To speak with an advisor, call The Retirement Group today!

Source Materials

Contributions for IRA's
U.S. Department of the Treasury. Internal Revenue Service. (2018). Publication 590-A: Contributions to Individual Retirement Arrangements (IRAs) (Cat. No. 66302J).

Distributions from IRA's
U.S. Department of the Treasury. Internal Revenue Service. (2018). Publication 590-B: Distributions from Individual Retirement Arrangements (IRAs) (Cat. No. 66303U).

Access and Participation to Employer Sponsored Retirement Plans
"National Compensation Survey: Employee Benefits in the United States, March 2018," Bureau of Labor Statistics, U.S. Department of Labor.

72(t) Publication
Employee Plans, Rev. Rul. 72t, 2002-62 I.R.B., Internal Revenue Service, U.S. Department of the Treasury.

Pension and Annuity Income
U.S. Department of the Treasury. Internal Revenue Service. (2018). Publication 575: Pension and Annuity Income (Cat. No. 151428).

Fee and Expense Disclosure
"Fiduciary Requirements for Disclosure in Participant-Directed Individual Account Plans," 29 C.F.R. 2550, 2010., Employee Benefits Security Administration, U.S. Department of Labor

Additional resources...

These financial resrouces were chosen specifically to answer all your retirement questions

Choosing a Financial Advisor

Retiremtent Income Planning for Ages 50-65

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