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Fact Sheet

Retirement Planning—Withdrawals From Individual Retirement Accounts

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During the years that you work, you will need to set money aside for retirement to support your lifestyle. If you set aside funds in an Individual Retirement Account (IRA), there are many rules regulating when and in what amounts funds must be withdrawn from your account. The following questions and answers discuss the rules for IRA withdrawals.

When must withdrawals from my IRA begin?

Once you are 59½ years of age, you can start withdrawing funds from your IRA without paying a 10 percent early withdrawal penalty. If you lose your job or have some other need for your tax-deferred savings before age 59½ and want to avoid the 10 percent penalty, you will have to spread out the payments from your IRA over your life expectancy or joint life expectancy with another. Additionally, you must receive a payment at least once a year.

You must start removing funds by April 1 of the year after you turn 70½ years old. For example, if your 70th birthday is September 13, 1994, you will turn 70½ on March 13, 1995. In this example, 1995 is the first year that a withdrawal must be made, however it may be delayed until April 1, 1996. The amount of the withdrawal is based on the amount in your IRA as of the year preceding the year when you must withdraw funds, which would be December 31, 1994, in the previous example. The second withdrawal must be made by December 31, 1996, based on the balance on December 31, 1995.

By waiting until April 1 of the year following when you turned 70½ to make your first withdrawal, you will have to make two withdrawals in 1 year. This will require that taxes be paid on both withdrawals for that year. It may also cause more of your Social Security benefits to be subject to income taxes or put you in the next higher tax bracket. If this happens, it would be less costly to take the first withdrawal the year you turn 70½ rather than April 1 of the following year.

Failure to make the required withdrawal results in a penalty of 50 percent of the amount of the missed withdrawal.

How much do I have to withdraw when I turn 70½ if I am single?

Once you turn 70½, your withdrawal is based on your life expectancy and the amount of money in your IRA. You can find condensed life expectancy divisors in IRS Publication 590, "Individual Retirement Arrangements (IRAs)," and complete sets of divisors in IRS Publication 890. You can order these publications from the U.S. Internal Revenue Service (IRS). Table 1 in this fact sheet provides an abbreviated version of Table I in Publication 590 for ages 70 through 90. First determine the age you will be in the year when the minimum distribution must be taken. Then find your life expectancy based on your age from Table 1. Your life expectancy becomes the divisor used to determine the amount you must withdraw. In the previous example, the distribution year is 1995, the age would be 71 that year. The single-life divisor at age 71 is 15.3. So if the IRA is worth $40,000, the

Table 1. Abbreviated IRS life expectancies for single individuals

Age	Life Expectancy (in years)
70	16.0
71	15.3
72	14.6
73	13.9
74	13.2
75	12.5
76	11.9
77	11.2
78	10.6
79	10.0
80	9.5
81	8.9
82	8.4
83	7.9
84	7.4
85	6.9
86	6.5
87	6.1
88	5.7
89	5.3
90	5.0

minimum distribution would be $2,614.38 ($40,000 ÷ 15.3).

Can I reduce the amount I must withdraw if I have a beneficiary?

Yes, but the amount you are able to withdraw depends on whether or not the beneficiary is your spouse.

Spousal beneficiary. You and your spouse can use a joint life expectancy, which is longer than a single life expectancy, to calculate your minimum withdrawal. Using the longer life expectancy allows your IRA to grow for a longer time. (Table II in IRS Publication 590 provides a condensed set of joint life expectancy divisors.) Table 2 in this fact sheet provides an abbreviated list of joint life expectancies. Following our previous example, if you are 71 and your spouse is 69, the divisor is 20.7 and the minimum distribution would be $1,932.37 (40,000 ÷ 20.7). You may recalculate your life expectancy each year using the multiples in Table 2 (age 72 and 70, 19.8), or you can reduce the original multiple by 1 (year) in each succeeding year (ages 72 and 70, 19.7; ages 73 and 71, 18.7). There are benefits to both methods. The first method (recalculating the amount each year) allows smaller withdrawals, making it unlikely that your IRA will be depleted before your death. This method also requires more work because the multiples (divisors) change each year. However, whenever you or your spouse dies, the survivor must then use the single life expectancy, which requires larger withdrawals. Additionally, if you both use the recalculation method, upon both of your deaths, the entire balance of the IRA must be distributed to your heirs before the end of the year following the year of the surviving spouse's death. On the other hand, if you use the alternative method (reducing the divisor by 1), the surviving spouse can continue to use this method after the other spouse's death.

Nonspousal beneficiary. When there is less than a 10-year age difference between you and your nonspousal beneficiary, the joint life expectancies presented in Table 2 may be used. However, you cannot recalculate your beneficiary's age. There are other rules if you name a nonspousal beneficiary who is 10 years or more younger than you, such as a child, grandchild, niece, or great nephew. In such cases you may need assistance from a tax specialist to make these calculations. You can also find directions and examples in IRS Publication 590. Additionally, you will need to check the requirements of your IRA to determine if you have a choice in which method to use for calculating life expectancy. If the IRA document does not provide you with an option, you will have to recalculate your life expectancy each year regardless of whom you name as your beneficiary. Once you choose a method, you can not change it. Finally, you receive no credit in future years if you withdraw more than the required minimum; you will still need to withdraw the minimum each year.

How are my IRA withdrawals taxed when I have made contributions that were not tax deductible?

Nontax-deductible contributions are not taxed when you withdraw them from your

Table 2. IRS joint life expectancies

	Your Beneficiary's Age									
Your Age	65	66	67	68	69	70	71	72	73	74
70	23.1	22.5	22.0	21.5	21.1	20.6	20.2	19.8	19.4	19.1
71	22.8	22.2	21.7	21.2	20.7	20.2	19.8	19.4	19.0	18.6
72	22.5	21.9	21.3	20.8	20.3	19.8	19.4	18.9	18.5	18.2
73	22.2	21.6	21.0	20.5	20.0	19.4	19.0	18.5	18.1	17.7
74	22.0	21.4	20.8	20.2	19.6	19.1	18.6	18.2	17.7	17.3
75	21.8	21.1	21.5	19.9	19.3	18.8	18.3	17.8	17.3	16.9
76	21.6	20.9	20.3	19.7	19.1	18.5	18.0	17.5	17.0	16.5
77	21.4	20.7	20.1	19.4	18.8	18.3	17.7	17.2	16.7	16.2
78	21.2	20.5	19.9	19.2	18.6	18.0	17.5	16.9	16.4	15.9
79	21.1	20.4	19.7	19.0	18.4	17.8	17.2	16.7	16.1	15.6
80	21.0	20.2	19.6	18.9	18.2	17.6	17.0	16.4	15.9	15.4

IRA because you have already paid the income taxes on them. Additionally, you cannot withdraw the all of the nontax-deductible contributions in a single year. Instead you must spread them over the lifetime of your total distributions (both tax-deductible and nontax-deductible). To determine the nontaxable portion, add all nontaxable deductions. Add together all withdrawals taken from your IRA during the year. Determine your IRA balance at the end of the year from which you made your withdrawals.

The formula to determine the nontaxable portion of your IRA withdrawal is your total nontax-deductible contributions divided by the sum of your total year-end IRA balance plus your total yearly withdrawal, multiplied by your total yearly withdrawal:

$$\text{Nontaxable portion} = \frac{\text{Total nontax-deductible contributions}}{\text{Total year-end IRA balance} + \text{Total yearly withdrawals}} \times \text{Total yearly withdrawals}$$

For example, Joe made $20,000 in nontax-deductible contributions throughout his working years. During the past year, he withdrew $10,000 from his IRA. At the end of the year, his IRA balance was $50,000. Using the formula above, he discovered that he can exclude $3,333.33 of his nontax-deductible contributions from his income taxes for that year. He will pay taxes on $6,666.67 of his $10,000 withdrawal.

$$\text{Nontaxable portion} = \frac{\$20{,}000 \times \$10{,}000}{\$50{,}000 + \$10{,}000} = \$3{,}333.33$$

$$\text{Taxable portion} = \$10{,}000.00 - \$3{,}333.33 = \$6{,}666.67$$

Keep all of your IRS 8606 forms that you have used to report your nontax-deductible IRA contributions. They are your proof that you made these contributions. Without the records, all of your contributions could be taxable.

What happens if I die before I start to make required withdrawals from my IRA?

The dispersal of your IRA funds will depend on whom you name as your beneficiary.

Spousal beneficiary. Your spouse may treat your IRA as if it were his or her own and roll it over into an IRA in his or her own name. The surviving spouse can start withdrawals as early as age $59\frac{1}{2}$ or as late as $70\frac{1}{2}$. Your spouse also can leave the IRA in your name and start withdrawals in the year you would have reached $70\frac{1}{2}$ if this produces a later withdrawal date (if your spouse is older than you). The spouse will pay income taxes on the amount withdrawn.

Nonspousal beneficiary. The IRA must be distributed to heirs by the end of the fifth year after the owner's death. For example, if the owner died on July 1, 1995, the IRA would have to be distributed and income taxes paid by December 31, 2000. Alternatively, the IRA can be distributed over the life expectancy of a named beneficiary with payments beginning by December 31 of the year following the owner's death. For example, if the owner dies in 1995, payments must begin by December 31, 1996. This type of IRA is often called an inherited IRA. As an inherited IRA, the account must remain in the name of the original owner. The beneficiary cannot make further contributions to the IRA. If the inherited IRA is rolled over into a new IRA, it must be opened in the name of the original owner. Payments will go to the beneficiary. The beneficiary will pay income taxes on the amount received.

What happens to my IRA if I die after withdrawals have begun?

Your beneficiary, even if it is your spouse, must continue withdrawals at the same rate you were using. If a joint life expectancy rate was recalculated, your beneficiary must use a single life expectancy. Should additional income be necessary, your beneficiary can take more than the minimum amount from the IRA. You can arrange for withdrawals that allow your beneficiary to withdraw only a set amount in any period. A spousal beneficiary may transfer the remaining balance to an IRA account in his or her own name.

What happens if there are funds remaining in my IRA after both my spouse and I die?

If you and your spouse die before the funds in your IRA are depleted and both of you were recalculating your life expectancies each year, the remainder of your IRA will be distributed to your heirs by December 31 of the year following the surviving spouse's death. If a large sum remains in your IRA at this time, the income tax owed could be substantial because the sum in the IRA will be added to the final income tax return that is filed in your name after your death. For information on how an estate is taxed after the owner's death, request Fact Sheet 421 "Estate Planning—Gift, Estate, and Inheritance Taxes" from your local Cooperative Extension Service office.

If you and your spouse die before the funds in your IRA are depleted and only your life expectancy has been recalculated (and not your spouse's), your beneficiary may continue to remove assets from your IRA based on the beneficiary's life expectancy. If neither of you nor your spouse recalculated your life expectancies (you and your spouse reduced your life expectancy at the time you started withdrawals by 1 year each year), your beneficiary can continue to remove funds from your IRA on the same schedule you were using. However, you will have to check with your IRA custodian to make sure you are not required to recalculate your age (or joint ages) each year.

Are taxes due on the new Roth IRAs?

No, withdrawals from Roth IRAs which become available in 1998 are not taxed upon withdrawal if funds remain in the account for at least 5 years and you have reached age 59½. Additionally, funds need not be withdrawn starting at age 70½. Contributions to these accounts come from after-tax income. Eligibility income ceilings start at $150,000 and phase out at $160,000 for couples and $95,000 phasing out $110,000 for singles. If you need money to buy a first home (up to $10,000 in expenses) or to pay college bills, you can remove the money you contributed first tax-free.

Conclusion

The rules for withdrawing funds from an IRA are complicated. Failure to withdraw the required amount requires payment of a penalty equal to 50 percent of the value of the missed withdrawal. You may require the assistance of a specialist, such as a certified public accountant (CPA), certified financial planner (CFP), or an attorney who specializes in taxes, to follow these rules. Fees paid to such experts should be less than the 50 percent penalty.

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