

# Pension Distributions Calculator

v. 8.01

## Case 1: Minimum Distributions

*What happens under my current beneficiary designation?*

Assume that a client (the Plan Owner) born on January 1, 1950 has named his spouse, who was born on January 1, 1953, as his beneficiary. The Plan Balance is \$100,000; expected growth is 5%.

### Results:

The Plan Owner must begin his **Required Minimum Distributions** in the year 2020. If the plan grows at the rate of 5% annually, it will have a balance of \$197,993.17 and a first required distribution being \$7,226.03. The life expectancy (divisor) for this calculation is from the new Uniform Lifetime Table and is 27.4.

Year	Age	Balance	Exp.	Distribution	Total Distributed
2006	56	\$100,000.00	28.7	\$0.00	\$0.00
2007	57	\$105,000.00	27.9	\$0.00	\$0.00
2008	58	\$110,250.00	27.0	\$0.00	\$0.00
2009	59	\$115,762.50	26.1	\$0.00	\$0.00
2010	60	\$121,550.63	25.2	\$0.00	\$0.00
2011	61	\$127,628.16	24.4	\$0.00	\$0.00
2012	62	\$134,009.57	23.5	\$0.00	\$0.00
2013	63	\$140,710.05	22.7	\$0.00	\$0.00
2014	64	\$147,745.55	21.8	\$0.00	\$0.00
2015	65	\$155,132.83	21.0	\$0.00	\$0.00
2016	66	\$162,889.47	20.2	\$0.00	\$0.00
2017	67	\$171,033.94	19.4	\$0.00	\$0.00
2018	68	\$179,585.64	18.6	\$0.00	\$0.00
2019	69	\$188,564.92	17.8	\$0.00	\$0.00
2020	70	\$197,993.17	27.4	\$7,226.03	\$7,226.03
2021	71	\$200,305.50	26.5	\$7,558.70	\$14,784.73
2022	72	\$202,384.14	25.6	\$7,905.63	\$22,690.36
2023	73	\$204,202.44	24.7	\$8,267.31	\$30,957.67
2024	74	\$205,731.89	23.8	\$8,644.20	\$39,601.87
2025	75	\$206,942.07	22.9	\$9,036.77	\$48,638.64
2026	76	\$207,800.57	22.0	\$9,445.48	\$58,084.12

## Case 2: Stretch IRA Spousal Rollover then Spouse Names Beneficiary

*The Plan Owner would like to know what options are available to provide for his wife and then his beneficiary upon his death.*

Using the same steps as in Case 1, click on "Assume Death Occurs" to see this pop-up screen.

**Assume Owner Dies:** "Yes"; Check "Use Life Expectancy" (2033)

**Assume Beneficiary Dies:** "Yes", Check "Use Jt Life Expectancy" (2041)

**Assume Spouse Rollover:** "Yes", Check at "Owner's Death"

**Does Spouse Name a Beneficiary:** "Yes", Complete Birth Year: "1977"

### Results:

The Plan Owner begins Required Minimum Distributions in 2020. The Plan Balance is \$197,993.17. The Required Minimum Distribution in year 2020 (assuming the plan grows at 5%) is \$7,226.03.

The Plan Owner's Death occurs in 2033. The Plan Balance is \$201,826.15. The Required Minimum Distribution is \$12,381.97 (indicated in red on the Summary Report).

The Plan is "rolled over to the Spouse" in year 2034. The Plan Balance is \$198,916.39. The Divisor is now her life expectancy of 17.9. Her first Required Minimum Distribution is \$11,112.65.

The spouse's death occurs in 2041. The Plan Balance is \$175,140.14. The 2041 Required Minimum Distribution is \$13,790.56.

The distribution for the Spouse's Beneficiary is calculated using the Beneficiary's attained age in the year following the death of the spouse and is from the Single Life Tables.

**Note:** With a projected 5% annual growth rate, the plan distributes a total of \$524,009.51.

**NOTE: Pension Distribution Planner handles up to five beneficiaries. You may upgrade by contacting Brentmark at 1-800-879-6665.**

## Case 3: Inherited IRA

### How do I Use the Pension Distributions Planner to calculate the distributions for an Inherited IRA?

To calculate the distribution for an inherited IRA, perform these simple steps:

- 1) Enter the original (now deceased) Owner's and Beneficiary's birth dates (1/1/50 and 1/1/77) on the main input screen.
- 2) Check the check box labeled Assume Death Occurs.
- 3) Click the button labeled Benef. Info.
- 4) Assume Owner Dies, "Yes" and enter the year of death (2006).
- 5) Assume Beneficiary Dies, "Yes", and Click "Use Jt. Life Expectancy".

First Year of Analysis:	2006
Type of Plan:	Normal
Year of First Required Distrib:	2006
12/31/2005 Plan Balance:	\$100,000.00
Expected Plan Growth:	5.0000%
Is there a Designated Benef.?:	Yes
Owner's Birth Date:	1/1/1950
Beneficiary's Birth Date:	1/1/1977
Beneficiary is Spouse?:	No
<input checked="" type="checkbox"/> Assume Death Occurs:	<input type="checkbox"/> Benef. Info

Beneficiary Information	
<b>Death Assumptions</b>	
Assume Owner Dies?:	Yes → Year of Death: 2006 ( <input type="checkbox"/> Use Life Expectancy)
Assume Beneficiary Dies?:	Yes → Year of Death: 2059 ( <input checked="" type="checkbox"/> Use Jt. Life Expectancy)
<input checked="" type="checkbox"/> OK	<input type="checkbox"/> Cancel <span style="float: right;"><input type="button" value="Help"/></span>

Click OK to close the Beneficiary Information window.

The distributions for an inherited IRA are dependent on the year the owner passed away. Therefore, it's important to enter the information for the original owner and when that owner died.

### Inherited IRAs Calculations

For Nonspousal Beneficiaries, Inherited IRAs are distributed over a fixed period of years. This term (often called a "term certain") is calculated based on the life expectancy of the Beneficiary in the year after the Owner died.

### **Results:**

Because the Plan Owner was only 56 at his death, there were no Required Minimum Distributions being taken from the account.

### Sample Summary Report:

Summary					
Year	Age	Balance	Life Exp.	Distribution	Total Distributed
2006	56	\$100,000.00	28.7	\$0.00	\$0.00
2007	30	\$105,000.00	53.3	\$1,969.98	\$1,969.98
2008	31	\$108,181.52	52.3	\$2,068.48	\$4,038.46
2009	32	\$111,418.69	51.3	\$2,171.90	\$6,210.36
2010	33	\$114,709.13	50.3	\$2,280.50	\$8,490.86
2011	34	\$118,050.06	49.3	\$2,394.52	\$10,885.38
2012	35	\$121,438.32	48.3	\$2,514.25	\$13,399.63
2013	36	\$124,870.27	47.3	\$2,639.96	\$16,039.59
2014	37	\$128,341.83	46.3	\$2,771.96	\$18,811.55
2015	38	\$131,848.36	45.3	\$2,910.56	\$21,722.11

## Case 4: Pre-59½ Distributions

Assuming the same facts as in Case 1, the Plan Owner would like to know how to take the maximum amount of money from his Plan.

From the main screen, click the Calculate **Pre-59½ Distributions** button.

Calculate Pre-59½ Distributions

Enter the Starting Date: 1/2006  
 Enter the 1/2005 Balance: \$100,000  
 Owner's Birthdate: 1/1/1950

### New Feature: Recalculate Each Year?

Yes/No

Private Letter Rulings

Private Letter Rulings 200432021, 20043223 and 200432024 are supported.

Answer "YES" to illustrate an annual recalculation of distributions for the annuity factor and amortization methods in cases after 2003.

When done, select the **Goal** button.

Starting Date (mm/yyyy):	2/2006	Amortization Method	Comparison	2006
Distribution Year:	2006	Date	Age	Balance
Distribution Frequency:	Annual	2/2006	56	\$100,000.00
Calculation Method:	Rul. 2002-62 FAQ	2/2007	57	\$97,697.46
Distribution Method:	Amortization	2/2008	58	\$95,279.79
Recalculate Each Year (PLR)?:	No	2/2009	59	\$92,741.24
2/2006 Balance:	\$100,000.00	2/2010	60	\$90,075.76
Expected Plan Growth:	5.00%			
Joint or Single Life Exp.?:	Single			
Owner's Birth Date:	1/1/1950			
Use Maximum Interest Rate?:	Yes			
"Reasonable" Interest Rate:	5.43%			
Use Uniform Lifetime Table?:	No			

Use Pre-59½ Distributions    OK    Print    Goal    Help

The Goal Button results tell us the highest possible distribution for this case is \$6,954. We will use these results. Now we will apply the new Private Letter Rulings (mentioned above) by answering "Yes" to the "Recalculate Each Year".

Starting Date (mm/yyyy):	2/2006	Amortization Method	Comparison	2006
Distribution Year:	2006	Date	Age	Balance
Distribution Frequency:	Annual	2/2006	56	\$100,000.00
Calculation Method:	Rul. 2002-62 FAQ	2/2007	57	\$97,697.46
Distribution Method:	Amortization	2/2008	58	\$95,360.32
Recalculate Each Year (PLR)?:	Yes	2/2009	59	\$92,975.70
2/2006 Balance:	\$100,000.00	2/2010	60	\$90,541.78
Expected Plan Growth:	5.00%			
Joint or Single Life Exp.?:	Single			
Owner's Birth Date:	1/1/1950			
Use Maximum Interest Rate?:	Yes			
"Reasonable" Interest Rate:	5.43%			
Use Uniform Lifetime Table?:	No			

Although this calculation method has been used in a prior IRS Letter Ruling, such rulings cannot be cited as technical authority. Until the IRS issues formal approval of this calculation method, only a new Letter Ruling can guarantee its applicability.

All distributions after 2006 are estimates and will have to be recalculated based on each year's new interest rates and balance. This projection assumes distributions are recalculated in February of each year.

Use Pre-59½ Distributions    OK    Print    Goal    Help

Pre-59½ Assistant

What Distribution Would You Like?

How much would you like to have distributed out of the plan?

- As much as possible
- A specific dollar amount each year

Calculated Yearly Distribution: \$6,954

In this case, the amortization method results in the highest possible distribution. The Uniform Table is not used because its longer life expectancies would only result in a smaller distribution.

Recalculating the Amortization Method in 2006 results in using a 28.7 life expectancy.

## Use the Maximum Interest Rate?

Rev. Rul. 2002-62 defines the maximum "reasonable interest rate" to be the highest applicable federal midterm rate of the two months prior to the first distribution. Answering yes to this question causes the program to fill in the "reasonable interest rate" automatically. If no federal midterm rate has been entered the program displays a message and the **Use Maximum Interest Rate** input is set to **No**.

## Results:

- **Amortization Method** (your Plan Owner wanted to take out as much as he could.)
- "Reasonable Interest Rate" as defined under the Final regulations.
- **Side-by-side** comparisons of all three methods allowable.
- **Recalculating the Amortization Method.**
- **Yearly report**; in our case, 2006.

## Case 5: Switch to Minimum Distributions Method for Pre-59½ Distributions

*How can I reduce the pre-59½ amounts I am currently taking from my Plan?*

Rev. Ruling 2002-62 allows a One-Time Switch to Minimum Distributions Method.

The software allows you to illustrate this switch. Enter the date the client started taking distributions as the **Starting date** and the year of the switch as the **Distribution Year**. Select **Switch: Min. Dist.** as the **Distribution Method**. The illustration will start in **Distribution Year**, illustrating the **Minimum Distributions Method** from that year through the end of the calculations.

### Results:

**Distributions** can be reduced to \$3,484.32 for the year 2006.

**Note:** Distributions calculated using the Minimum Distributions Method must be recalculated each year.

Starting Date (mm/yyyy):	1/2003	<b>Min. Distributions Method</b>	Comparison	2006		
Distribution Year:	2006	<u>Date</u>	<u>Age</u>	<u>Balance</u>	<u>Life Exp.</u>	<u>Distribution</u>
Distribution Frequency:	Annual	1/2006	56	\$100,000.00	28.7	\$3,484.32
Calculation Method:	Rev. Rul. 2002-62	1/2007	57	\$101,341.46	27.9	\$3,632.31
Distribution Method:	Switch: Min. Dist.	1/2008	58	\$102,594.61	27.0	\$3,799.80
		1/2009	59	\$103,734.55	26.1	\$3,974.50
Recalculate Each Year (PLR)?:	Yes	Although this calculation method has been used in a prior IRS Letter Ruling, such rulings cannot be cited as technical authority. Until the IRS issues formal approval of this calculation method, only a new Letter Ruling can guarantee its applicability.				
1/2006 Balance:	\$100,000.00	All distributions after 2006 are estimates and will have to be recalculated based on each year's new interest rates and balance. This projection assumes distributions are recalculated in January of each year.				
Expected Plan Growth:	5.00%					
Joint or Single Life Exp.?:	Single					
Owner's Birth Date:	1/1/1950					
Use Maximum Interest Rate?:	Yes					
"Reasonable" Interest Rate:	3.98%					
Use Uniform Lifetime Table?:	No					
<input checked="" type="checkbox"/> Use Pre-59½ Distributions		<input checked="" type="button" value="OK"/>		<input type="button" value="Print"/>		<input type="button" value="Help"/>

## Other Features



**Specify Distributions** – After reviewing the **Required Minimum Distributions**, if your client says, “I can’t live on that amount,” simply click on **Specify Distributions**. Use the **Enter Desired Plan Distributions** window to enter desired distributions for the analysis. The program will use the higher of the entered desired distributions or the Required Minimum Distributions. You could model the analysis so the entire fund is distributed in one year or over a period of years. The window allows you to enter up to five distribution amounts for any period of years.



**Specify Contributions** – What happens if your client continues to contribute to his plan? Click on **Specify Contributions**. Use the **Enter Contributions to the Qualified Plan** window to enter any contributions to the plan. This feature lets you illustrate money accumulating in the plan prior to required distributions. The window allows you to enter up to five contribution amounts for any period of years.

© 2006, Brentmark Software, Inc., All rights reserved.

# Brentmark

S O F T W A R E

SERVING PLANNING PROFESSIONALS SINCE 1985

3505 Lake Lynda Dr., Ste. 212  
Orlando, FL 32817-8327  
Phone: 1-800-879-6665  
Fax: (407) 306-6107  
sales@brentmark.com  
www.brentmark.com