

Pension Distributions Calculator

Software and User Manual (version 6.10)

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Chapter 1

Introducing the Program

Welcome to the Pension Distributions Calculator

The Pension Distributions Calculator calculates the minimum distributions required after a plan owner reaches age 70½. The program also calculates the substantially equal periodic payments that plan owners need if they are making pre-59½ distributions. For each calculation, data is entered separately. You can apply any minimum distribution method, including the Hybrid method and all three pre-59½ methods. To make the calculations more realistic, you can enter a limited number of distributions for living expenses and a limited number of contributions to the fund. Also, you can enter the assumed dates of death for the owner and beneficiary, and you can indicate when and if a spousal rollover occurs.

The program projects fund balances into the future, so you can forecast future distribution requirements. You can view a distributions report illustrating the plan balance, life expectancies, and minimum distributions. Also, view a plan balance graph that shows the fund balance as it changes over time or a graph that displays the annual distribution amount.

The program makes two calculations: Minimum Distributions and Pre-59 ½ Distributions.

Installation

Getting started with the Pension Distributions Calculator is easy. Before you install the program, be sure that you're running a Windows 95 or later operating system. The Pension Distributions Calculator does not run on Windows 3.1 or earlier operating systems.

Installing the Program

Insert the disk into the disk drive.

On the Windows Taskbar, click the Start button.

On the Start menu, click Run. The Run dialog box appears. In the Open box, A:\setup.EXE should appear. If it doesn't, type A:\setup.EXE.

Click OK.

The setup program begins. Follow the instructions in the setup program.

Uninstalling the Program

1. On the Windows Taskbar, click the **Start** button.
2. Point to **Settings** and click **Control Panel**. The Control Panel window appears.
3. Click **Add/Remove Programs**. The Add/Remove Program Properties dialog box appears.
4. Use the scrollbar to find the Pension Distributions Calculator. When you find it, click the program title. Notice that the **Add/Remove** button is now functional.
5. Click the **Add/Remove** button.
6. The uninstall program begins. Follow the instruction in the uninstall program.

What Do I See on the Screen?

When you run the program, the Pension Distributions Calculator window opens. Following are brief descriptions of what you see.

Title Bar

The title bar appears in the top of the window. It contains the following information:

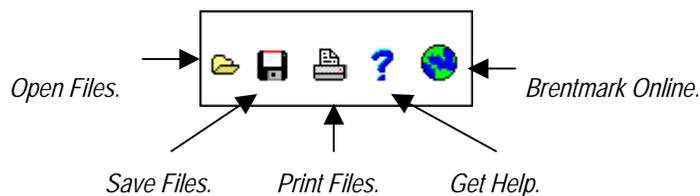
- Program Title
- Program version number
- File name (if the file has been saved)

Menu Bar

The Menu bar is below the title bar. The Menu bar contains three menus that you use to make program commands.

Toolbar

The toolbar is below the menu bar. The toolbar contains graphics that you click to execute frequently used program commands. You can use these graphics instead of using the related Menu bar commands.



Data Entry Section

A data entry section appears in the left side of the window. Use this section to calculate minimum distributions.

Command Buttons

Three command buttons appear below the data entry section. Use these to enter additional distributions, contributions, and dates-of-death information.

Display Area

The right side of the window is the display area. Here, you can view graphs or reports that display the results of the calculations.

Hint Line

The Hint Line displays short commands to help you with data entry. As you move the pointer across buttons, input boxes, and other areas of the window, the Hint Line displays different commands.

Shortcut Keys

Use the function keys for frequently used commands:

- F1 Access the Help system.
- F2 Save files.
- F3 Open files.
- F6 Print reports.
- F7 Create a new file.

Chapter 2

Working with Files

Frequently Used Procedures

Refer to this chapter to view instructions for procedures that you'll frequently use when working with files.

Create a New File

7. On the **File** menu, click **New**. The program clears all previous data entry and resets the program's default values.

Open an Existing File

8. 1. On the **File** menu click **Open**. Or on the **toolbar**, click the **Open** graphic. The **Open** dialog box appears.
9. 2. In the **File** name box, enter the name of the file and the proper extension. Be sure you have selected the proper drive and folder that contain your file.

Reopen File

10. On the **File** menu, click **Reopen File**. A list of files you've worked on recently will appear. Select the name of the file you wish to reopen.

Save a File

11. 1. On the **File** menu, click **Save**. Or on the **toolbar**, click the **Save** graphic.
12. 2. If the file has not been saved previously, the **Save As** dialog box appears.
13. 3. In the **File name** box, type a name for the file. The program automatically adds **.PDC** extension to the file name.
14. 4. Select the drive and folder in which to save the file.

Save an Existing File (Save As)

15. Open an existing file or create a new file.

16. On the **File** menu, click **Save As**. Or on the **toolbar**, click the **Save** graphic. The **Save As** dialog box appears.
17. In the **File** name box, enter a name for the new file. The program automatically adds the proper extension to the file name.
18. Select the drive and folder in which you want to save the file.

Access the Print Report Window

- On the **File** menu, click **Print**.

Set up a Printer

19. 1. On the **File** menu, click **Print Setup**. The **Print Setup** dialog box appears.
20. 2. For help with setting up a printer, click **?** in the **Print Setup** dialog box.

Exit the Program

21. 1. On the **File** menu, click **Exit**. A Warning appears.
22. 2. To save your data and create a file, click **Yes**. The **Save As** dialog box appears.
23. 3. Save the file.
24. 4. To close the program without saving your data, click **No**. To continue running the program, click **Cancel**.

Options Menu

Click **Specify Distributions** to enter additional distributions.

Click **Additional Contributions** to add contributions.

Clicking **Pre-59 ½ Distributions** on the Options menu is the same as clicking the Calculate Pre-59 ½ Distributions button.

AFR Rates: The AFR Manager stores a list of available rates starting from January 1989 through the present month. The rates are needed for a number of calculations in the program (e.g., Charitable Remainder Annuity Trust or Grantor Retained Annuity Trust).

The Applicable Federal Mid-Term 120% Annual Rate changes monthly and is reported in *The Wall Street Journal*. (See the Federal Interest Rates in the Money and Investing section of the *Journal*, generally between the 18th and 23rd of the preceding month.) This rate can often be found earlier on Brentmark's web site at <http://www.brentmark.com/AFRs.htm>.

Note: If a §7520 Rate entry field shows 30%, the AFR table must be updated. Thirty percent is the default value that appears when there is not a current AFR available for the chosen Transfer Date. Download or manually update your AFR table.

Update the AFR Manager

There are two ways to update the AFR Manager: use the Download Latest AFRs button or click the button with the world image on it.

Download Latest AFRs button

1. Click the Download Latest AFRs button. A confirmation window appears.
2. Click Yes. The rates will download into the program.

Note: If you have internet access through a commercial proprietary service (e.g., AOL, Compuserve, Prodigy) you must establish a connection before selecting this option from the menu. If you are connected through a network or a cable modem, your internet connection is already established.

World image button

1. Click the button with the world image on it. The following options are available:
 - Download AFR Rate
 - Go to AFR Web Page
2. If you select Download AFR Rate:
 - a. A confirmation window appears.
 - b. Click Yes. The rates will download into the program.
3. If you select Go to AFR Web Page:
 - a. You are automatically connected to the AFR Rates page on Brentmark's web site.
 - b. View or manually enter the rates into the AFR Manager.

Click **Take Distributions at End of Year** to distribute required minimum distributions at the end of the year. By default, all fund activity takes place at the beginning of the year. This includes required minimum distributions and any additional distributions. If you prefer, you can have all fund distributions occur at the end of the year.

Click **Report Options** to format your reports.

Click **16 Color Display** to view the program in 16 colors.

Click **File Location** to select the folder where the data will be located. Then click the Browse button to view your available drives and choose the default file location. Click the title of the report or graph to view it.

Chapter 3

Calculating Minimum Distributions

Minimum Distributions

To calculate required minimum distributions, you'll enter data in the portion of the program pictured here. By default, all fund activity takes place at the beginning of the year. This includes required minimum distributions, any additional distributions, and any contributions. To make all distributions from qualified plans occur at the end of the year, on the Options menu, click Take Distributions at End of Year.

First Year of Analysis:	<input type="text" value="2002"/>
Type of Plan:	<input type="text" value="Normal"/>
Year of First Required Distrib:	<input type="text" value="2000"/>
12/31/2001 Plan Balance:	<input type="text" value="\$100,000.00"/>
Expected Plan Growth:	<input type="text" value="8.0000%"/>
Is there a Designated Benef.?:	<input type="text" value="Yes"/>
Owner's Birth Date:	<input type="text" value="1/1/1930"/>
Beneficiary's Birth Date:	<input type="text" value="1/1/1935"/>
Beneficiary is Spouse?:	<input type="text" value="Yes"/>
<input checked="" type="checkbox"/> Assume Death Occurs	<input type="text" value="Benef. Info."/>
Minimum Distributions Options	
2002 Rules:	<input type="text" value="2002 Final Regs"/>
2001 Rules:	<input type="text" value="2001 Prop. Regs"/>
<input type="checkbox"/> Recalculate Owner's Life Exp.	
<input type="checkbox"/> Recalculate Beneficiary's Life Exp.	

 Specify Distributions

 Specify Contributions

Minimum Distributions Calculation: Table of Inputs

Input	Description
Type of Plan	Select the type of qualified plan. For details on the types of plans that the program considers qualified, see Chapter 11, <i>Reference Material</i> .
Expected Plan Growth	Enter the expected annual percent increase of the plan.
Is there a Designated Beneficiary?	Select whether there is a designated beneficiary by clicking yes or no.
Owner's Birth Date	Enter the plan Owner's Birth Date in month/day/year format. If an owner's birth date is before 1917, the program displays a warning in the Hint Line. The minimum distributions rules for owners with birth dates prior to 1917 are more complex and may be different than the current rules. Therefore the program bases its calculations on minimum distributions rules after 1917 (see Proposed Treas. Reg. Sec.1.408-8 for IRAs and 1.401(a)(9) for Qualified Plans).
Beneficiary's Birth Date	Enter the Beneficiary's Birth Date in month/day/year format. The program uses the beneficiary's birth date to determine joint life expectancy factors as well as a single life expectancy for the beneficiary.
Assume Death Occurs	Click Assume Death Occurs and the Benef. Info button to enter Assumed Dates of Death and Spousal Rollover information. <i>Note</i> <i>To include a spousal rollover, you need to click the Assume Death(s) Occur(s) check box. Then click the Benef. Info button.</i>

Chapter 4

Including Dates of Death and Spousal Rollovers

Use the Beneficiary Info Used After Owner's Death dialog box to handle the death of either the plan owner, the beneficiary or both. Also, for cases in which the plan owner dies, you can indicate when a spousal rollover will occur. To enter dates of death and spousal rollovers, click Assume Death Occurs check box and the Benef. Info button in the Main window.

Enter Assumed Date of Death for Owner:

No Death - Owner Survives Analysis
 Calculated Year of Death (2027)
 Entered Year

Enter Assumed Date of Death for Beneficiary:

No Death - Beneficiary Survives Analysis
 Calculated Year of Death (2034)
 Entered Year

Enter Spousal Rollover Information:

No Rollover
 Rollover Occurs at Death of Owner
 Entered Year

Enter Spouse's Beneficiary:

Spouse has a Designated Beneficiary
 Spouse's Beneficiary's Birth Date:
 Recalculate Spouse's Life Exp. After the Rollover

Input	Description
No Death	Click to indicate that the Owner or Beneficiary does not die during the analysis.
Calculated Year of Death	Click to have the program calculate the year of death based upon the birth dates.
Entered Year	Click to enter a specific year of death for the Owner or Beneficiary.
No Rollover	Click to indicate that the spouse distributes the plan upon the owner's death.

Spousal Rollover Information

Input	Description
No Death	Click to indicate that the spouse does not die during the analysis.
Calculated Year	Click to have the program calculate the year of death based on birth dates.
Entered Year	Click to enter a specific year of death for the Owner or Beneficiary.
Spouse's Beneficiary's Birth Date	Enter the birth date for the heir.
Recalculate Spouse's Life Expectancy after Rollover	Click to use a recalculation method for determining the spouse's minimum distributions.

Chapter 5

Calculating Pre-59½ Distributions

Pre-59½ Distributions Calculator

Starting Date (mm/yyyy):	<input type="text" value="1/2002"/>
Distribution Year:	<input type="text" value="2002"/>
Use Rev. Rul. 2002-62?:	<input type="text" value="Yes"/>
Distribution Method:	<input type="text" value="Annuitization"/>
1/2002 Balance:	<input type="text" value="\$100,000"/>
Expected Plan Growth:	<input type="text" value="8.00%"/>
Distribution Frequency:	<input type="text" value="Annual"/>
Joint or Single Life Exp.?:	<input type="text" value="Single"/>
Owner's Birth Date:	<input type="text" value="1/1/1945"/>
"Reasonable" Interest Rate:	<input type="text" value="7.00%"/> 
Use Uniform Lifetime Table?:	<input type="text" value="No"/>

Use the Pre-59½ Distributions Calculator to calculate the “substantially equal periodic payments” that plan owners need to make in order to avoid the 10% penalty for early distributions. We’ve divided this process into three steps. To access the Pre-59 ½ Distributions Calculator, click Pre-59½ on the toolbar. The Pre-59½ distributions screen shows only those inputs that are relevant to the current case. If the input is irrelevant to the case, the input field will disappear. Enter information in order (from top to bottom).

Input	Description
Starting Date:	Enter the first year that the plan owner needs the Pre-59½ Distribution. When the Distribution Frequency is Semiannual, Quarterly, or Monthly, the Starting Date determines the date of the pre-50 ½ distribution.
Distribution Year:	For most cases, this input should be the same as the year of the Starting Date. However, if your client started taking Pre-59½ Distributions in a previous year, you can use this input to calculate the distributions for the current year. Set the Starting Date to be when Distributions started, and enter the current year as the Distribution Year.
Use Rev Rule 2002-62?	Answer yes or no. See “Revenue Rule 2002-62” in Chapter 11, Reference Materials).
Distribution Method:	There are three methods for calculating early distributions: Minimum Distributions, Amortization, and Annuity Factor (see the IRS Notice 89-25 in Chapter 11, Reference Materials.)

- Calculation Method:** Pre-2002, for most cases, select IRS Notice 89-25. Private Letter Rulings (among them 9531039, 9010075, and 9241063) illustrate an annual recalculation of distributions for the annuity factor and amortization methods. More specifically, in years after the first year, the distributions are recalculated using the balance as of the beginning of each year. If you wish to see the distributions calculated using the methodology of the Letter Rulings, select “Private Letter Rulings” for the choice. The program includes disclaimer language on all reports that use the method of the Private Letter Rulings. These Letter Rulings deal with cases involving the start of new qualifying distributions. They do not deal with cases involving distributions that have already commenced.
- Plan Balance:** Enter the value of all assets in the plan. The Minimum Distributions rules require that you enter the balance of the plan as of December 31 of the year preceding the first year of analysis. After the first year, the Private Letter Rulings also use the 12/31 plan balance to calculate distributions. This input is enabled only when it is relevant to the calculations. When Rev. Rule 2002-62 applies, the minimum distributions method is calculated using the balance as of the first distribution in each year.
- Expected Plan Growth:** Enter the expected annual growth of the plan. This rate is not used to calculate the distributions but is just used for projections.
- Distribution Frequency:** Select a Distribution Frequency. Plan owners can make pre-59½ distributions Annually, Semiannual, Quarterly, or Monthly. Depending on the Distribution Frequency, the Plan Balance is calculated differently. For example, if the Distribution Frequency is Annual, the growth is compounded only once each year. If it is Semiannual, compounding occurs twice. If it is Quarterly, compounding occurs four times each year. If it is Monthly, then compounding occurs every month.
- Joint/Single Life Exp.:** Select whether to base the calculation of distributions on a single or a joint life expectancy.
- Birth Dates:** Enter the owner’s birth date and the beneficiary’s birth date in month/day/year format. The beneficiary’s birth date is used to determine joint life expectancy factors.

- “Reasonable” Interest Rate: If the Distribution Method is Annuity Factor or Amortization, enter a “Reasonable” Interest Rate (see Chapter 11, *Reference Material*). To create a Comparison Report, you need to enter a Reasonable Interest Rate.
- Use Uniform Life Table: If the owner is still alive, the life expectancy is taken straight from the Uniform Lifetime Table. Simply find the owner’s age on the table (it covers ages 70 through 115), and use the life expectancy listed. For this situation, the only change caused by the 2002 final regulations was to update the numbers in the Uniform Lifetime Table.
- Annuity Factor Table: If the Distribution Method is Annuitization Factor, select the Mortality Table (or details, see Chapter 11, *Reference Material*) that the program will use to calculate annuity factor. To create a Comparison Report, you need to choose an Annuity Factor Table.

Chapter 6

Including Contributions & Additional Distributions

Contributions

Use the Enter Contributions to the Qualified Plan dialog box to enter contributions to an analysis. For example, many employers contribute to employee retirement funds. To enter contributions, click the Specify Contributions button in the Main window.

	Annual Amount	Growth Rate	First Year	Last Year
1.	\$0	0.0000%	2000	2000
2.	\$0	0.0000%	2000	2000
3.	\$0	0.0000%	2000	2000
4.	\$0	0.0000%	2000	2000
5.	\$0	0.0000%	2000	2000

Enter Contributions to Qualified Plan box

Input	Description
Annual Amount	Enter the annual amount of each contribution.
Growth Rate	Enter the annual percent increase of the contribution.
First Year	Enter the first year that the contribution is needed.
Last Year	Enter the last year that the contribution is needed.

Note

*These contributions are added to the fund at the beginning of each year, just after the distribution amount is withdrawn. Generally, additional contributions **cannot** be made after the required beginning date.*

Distributions

Use the Enter Desired Plan Distributions dialog box to enter additional distributions to an analysis. For example, your clients might make distributions to other assets or use distributions for living expenses. You can model the analysis so the entire fund is distributed in one year or over a period of years.

By default, all fund activity takes place at the beginning of the year. This includes required minimum distributions and any additional distributions. To make all fund distributions occur at the end of the year, on the Options menu, click Take Distributions at End of Year.

To enter distributions, click the Specify Distributions button in the Main window.

	Annual Amount	Growth Rate	First Year	Last Year
1.	\$0	0.0000%	2000	2000
2.	\$0	0.0000%	2000	2000
3.	\$0	0.0000%	2000	2000
4.	\$0	0.0000%	2000	2000
5.	\$0	0.0000%	2000	2000

26.

Note

The program uses these distributions whenever they are greater than the calculated minimum distribution. The program will not allow the distributions to drop below the calculated minimum. The program always distributes at least the required minimum distribution, so don't worry if the distribution is too small. If you enter a distribution that is larger than the fund balance, the program distributes the balance.

Enter Desired Plan Distributions box

Input	Description
Annual Amount	Enter the annual amount of each contribution.
Growth Rate	Enter the annual percent increase of the contribution.
First Year	Enter the first year that the distribution is needed.
Last Year	Enter the first year that the distribution is needed.

Chapter 7

Viewing Results

Reports

The program displays calculation results in four reports and two graphs:

- Distributions Report
- Distributions Graph
- Plan Balance Graph
- Pre-59½ Distributions Report
- Pre-59½ Comparison Report

Viewing Reports and Graphs

On the toolbar, click

- View Report—to view the Distributions Report.
- Plan Balance Fund—to view the Plan Balance Graph.
- Distributions—to view the Distributions Graph.

Note

When viewing the graphs, the x-axis represents years, and the y-axis represents the plan balance in dollars. If you select Use Pre-59½ Distributions, the graphs include these calculations.

Current Year Report

The Current Year Report simply prints the current year and the distribution amount. You can only print this report.

Distributions Report

The Distributions Report displays the following information:

Column	Description
Year	This column lists each year that the program calculates a distribution. By default the program displays years of death in red. You can change the color in the Report Options window.
Age	This column lists the owner's age in each year. Even if the owner is dead, the owner's age appears in this column.
Plan Balance	<p>This column lists the total amount of money in the owner's qualified plan in each year. To calculate the Plan Balance for each year, the program uses the following formula:</p> $(\text{Current Plan Balance}) * (1 + \text{Expected Plan Growth}) - (\text{Calculated Distribution}) + (\text{Contributions})$ <p>When you use the Pre-59½ Distributions, the results of these calculations appear in every report. However, the report that appears in the Main window displays results with growth that has been compounded annually. Therefore, results that appear in the Main window and the Pre-59½ Distributions window may have different balances.</p>
Life Expectancy Factor	This column lists the life expectancy factors that the program uses to calculate the minimum distribution. To calculate the life expectancy factors, the program uses the ages of the Owner and/or the Beneficiary and applies them to the minimum distribution rules.
Distribution	This column lists the distributions in each year. This includes any distributions you enter in the Enter Desired Plan Distributions box and the minimum distribution in each year. To calculate the minimum distribution amount, the program divides the Plan Balance by the Life Expectancy factor. If you have included Pre-59½ Distributions, the annual Pre-59½ Distribution appears in this column.

Contribution	This column lists the total contributions in each year. If you have not specified contributions, the column does not appear.
--------------	--

Pre-59½ Distributions Report

When you use the Pre-59½ Distributions, the results of these calculations appear in every report. However, the report that appears in the Main window displays results with growth that has been compounded annually. Therefore, results that appear in the Main window and the Pre-59½ Distributions window may have different balances.

Pre-59½ Distributions have to last for 5 years and must be paid until the plan owner reaches age 59½. Usually, this results in distributions being made for a portion of the year that the owner reaches age 59½. For example, if distributions are taken quarterly, and the plan owner turns age 59½ in February 2010, only the first distribution has to be in 2010. If distributions occur at the end of each quarter, no distribution would have to be made in 2010 (assuming that five years worth of distributions have already been taken).

Column	Description
Year	This column lists each year that the program calculates a distribution.
Age	This column lists the owner's age in each year. This column only appears when the Distribution Frequency is Annual.
Month	This column appears when the Distribution Frequency is anything other than Annual. The column displays the month in which each distribution occurs.
Plan Balance	This column lists the total amount of money in the owner's plan in each year. Depending on the Distribution Frequency, the Plan Balance is calculated differently. For example, if the Distribution Frequency is Annual, the growth is compounded once per year. If it is Semiannual, compounding occurs twice. If it is Quarterly, compounding occurs four times per year. And if it is Monthly, compounding occurs every month.
Life Expectancy Factor	If you select the Minimum Distribution method, this

column lists the life expectancy factors that are used to calculate the minimum distribution. To calculate the life expectancy factors, the program uses the ages of the Owner and/or the Beneficiary applies them to the minimum distribution rules.

If you select the Amortization method, the column also lists a life expectancy factor. The program amortizes the plan balance over the life expectancy to arrive at the annual distribution.

If you select the Annuity Factor method, this column displays the annuity factor from the Mortality Table that you choose.

Distribution Amount

This column lists the minimum distribution in each year. To calculate the minimum distribution amount, the program divides the Plan Balance by the Life Expectancy factor.

Pre-59½ Comparison Report

The Pre-59½ Comparison report compares the dollar amount of annual distributions for each of the three Distribution Methods. In order to create the Pre-59½ Comparison, you need to enter a “Reasonable” Interest Rate, and you need to select a Mortality Table, no matter which Distribution Method you use.

View the Pre-59½ Comparison Report

27. On the **toolbar**, click **Pre-59½**.
28. In the Pre-59½ Distributions Calculator window, click the **Comparison** tab.

Chapter 8

Printing Reports & Graphs

Print Report Window

Use the Print Report window to select reports and graphs for printing and to select printing options (for more printing options, see Report Options window). Also from the Print Report window, you can save a report as a Text or Spreadsheet file. Before printing, be sure that your printer is set up and that you've formatted your printed reports in the Report Options window.

Set up a Printer

29. On the **File** menu, click **Print Setup**. The **Print Setup** dialog box appears.
30. For help with setting up a printer, click **?** in the **Print Setup** dialog box.

Access the Print Report Window

There are three ways to access the Print Report dialog box.

- On the **toolbar**, click the **Print** graphic.
- On the **File** menu, click **Print**.
- In the Pre 59^{1/2} Distributions window, click the **Print** button.

Preview a Report

- In the Print window, click Print Preview. In the Print Preview window, click Zoom to magnify the view.

Print a Report

31. On the **File** menu click **Print**. Or on the **toolbar**, click the **Print** graphic. The **Print Report** window opens.
32. Click the reports and graphs that you want to print.
33. Select printing options.
34. Click the **Print Report** button.

35. For more printing options, click the **Report Options** button.

Print to File

On the File menu click Print. Or on the toolbar, click the Print graphic. The Print Report window opens.

Click the Print to File button. The Print to File window opens.

Select from one of four file types, which you can edit or send as e-mail attachments:

Text file: saves the file with a .txt extension, which can be opened in any word processor

Spreadsheet file: saves the file with a WK1 extension, which can be opened in Excel, Lotus, or Quattro Pro

HTML: saves the file with an .html extension, which is used most commonly on the Internet but can be read by most word processors

DOC: if you have Microsoft Word 97 or later, saves the file with a .doc extension, which can be opened in Word

4. Click the **Create File** button. The Save As window opens. Enter a file name and specify a directory to which the file should be saved.

Chapter 9

Formatting Reports

Report Options Window

Use the Report Options window to format your reports and graphs for printing. The Report Options window allows you to create headings, format text and layout, and include other options for printing. All report options are automatically saved, so the next time you run the program, you don't have to reformat your reports.

Access the Report Options Window

There are two ways to access the Report Options window:

- On the **Options** menu, click **Report Options**.
- In the **Print Report** window, click the **Report Options** button.

Create a Heading for a Report

36. In the **Report Options** window, click the **Heading** box.
37. Type the text that you want to display at the top of your printed report.

Format Page Margin

- Under the **Page Margins** heading in the Report Options window, enter the **Top**, **Bottom**, **Left**, and **Right** page margins (in inches).

Format the Text of a Report

38. Under the **Fonts** heading in the Report Options window, click the text you want to format. The **Font** dialog box appears.
39. Select the **Font**, **Style**, **Size**, and **Effects** to apply to the text and click **OK**.
40. Notice that the description of the text in the Report Options window has changed.

Print for Windows NT

- Under the **Select Printing Options** heading in the Report Options window, click **NT-Style Printing**.

Print the Date and Time

There are two ways to include the date and time on printed reports:

- In the Print Report window, click the **Date** and **Time** check boxes.
- Under the **Select Printing Options** heading in the Report Options window, click the **Print Date** and **Print Time** check boxes.

Select the Number of Copies to Print

41. Access the Print Report window.
42. In the **Number of Copies** box, enter the number of selected reports that you want to print.

Print Page Numbers

There are two ways to include page numbers on printed reports:

- In the Print Report Window, click the **Page Numbers** check box.
- Under the **Select Printing Options** heading in the Report Options window, click the **Print Page Numbers** check box.

Chapter 10

Getting Help

If you need help, it's easy to find. Click the question mark wherever it appears in the program and a Help topic appears for the window in which you are working. Also, use the Help menu, and if you still need help, Brentmark provides technical support.

Help Menu

Use the Help menu to access the Help system, learn how to use Help, or view information about this product and other Brentmark products.

Help System

The program provides a complete Help system, so you can get help whenever you need it. Just click the question mark that appears in the top right corner of every data entry section. Use the Help system's table of contents to view Help topics by category or search the Help index for specific terms.

Technical Support

Technical Support is available by telephone, fax, e-mail, or postal mail. If you have questions concerning program calculations, please have a list of your exact data entry values available when contacting us.

Telephone

Assistance by telephone is available Monday through Friday between 9:00 AM and 6:00 PM Eastern Standard Time at (407) 306-6160.

Fax

For assistance by fax, send your fax to (407) 306-6107.

E-mail

For assistance via e-mail, send your remarks to support@brentmark.com.

Postal Mail

For assistance by postal mail, write to:

Brentmark Software, Inc.
3505 Lake Lynda Drive, Suite 212
Orlando, FL 32817-8327

In your correspondence, please include the following information:

- The name to which the program is registered.
- A contact phone number.
- The program name and version number.
- Your system configuration.
- A sample printout or description of the problem.
- A list of any error messages that have appeared.

Brentmark on the Web

- On the **toolbar**, click the **globe** graphic to access Brentmark's website.

Chapter 11

Reference Material

To keep procedures short and free of lengthy discussions, this manual refers to the following material. The material is listed alphabetically.

Beneficiary

If plan owners designate a beneficiary, the minimum distribution rules allow plan owners to withdraw retirement plan funds over the joint life expectancies of the plan owner and the beneficiary. When you include a beneficiary in your analyses, the program uses joint life expectancy factors based on the ages of the plan owner and beneficiary. Generally, the term beneficiary refers to an individual. If the beneficiary is the spouse of a Roth IRA owner, the annual election to recalculate the beneficiary's single life expectancy after the required beginning date is available.

For non-spousal beneficiaries, the life expectancy is calculated once, and it is reduced by one for each year after the required beginning date. Non-spousal beneficiaries have additional limitations placed on their calculated distributions:

- A non-spousal beneficiary is not permitted to recalculate his or her life expectancy in each year.
- For minimum distributions, non-spousal distribution calculations are subject to the MDIB requirements.

The program automatically handles both of these additional limitations for you. If there is more than one person named as the beneficiary (for example, children of the plan owner), the age of the beneficiary with the shortest life expectancy must be used to calculate the joint life expectancy.

If a charity or the plan owner's estate is named as the beneficiary, there is no "designated beneficiary," and funds must be withdrawn over the plan owner's life expectancy. A trust can also be named as the beneficiary. In such cases, the life expectancy of the trust's beneficiary can be used to calculate the joint life expectancy. If the trust does not meet the following rules, then only the life expectancy of the plan owner may be used to calculate distributions:

- Trusts must be valid under state law (or would be valid under state law if it had a trust corpus).
- Trusts must be irrevocable as of the required beginning date.
- Trusts must benefit an individual or a specified class of individuals so that the life expectancy can be determined.

- Trusts must be copied, and a copy must be given to the plan administrator by the required beginning date.

IRS Notice 89-25

Excerpts from IRS Notice 89-25, 1989-1 C.B. 662

Q-11: Does the 10-percent tax under section 72(t) apply to amounts that are included in a plan participant's gross income pursuant to section 72(m)(3)?

A-11: No. Section 72(m)(3) provides generally that employer contributions and trust income that are treated under regulations as having been applied to the purchase of life insurance protection for a plan participant must be included in the participant's gross income. However, such an amount is not treated as a distribution for purposes of section 72(t).

Q-12: In the case of an IRA or individual account plan, what constitutes a series of substantially equal periodic payments for purposes of section 72(t)(2)(A)(iv)?

A-12: Section 72(t)(1) imposes an additional tax of 10 percent on the portion of early distributions from qualified retirement plans (including IRAs) includable in gross income. However, section 72(t)(2)(A)(iv) provides that this tax shall not apply to distributions which are part of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the employee or the joint lives (or joint life expectancies) of the employee and beneficiary. Section 72(t)(4) provides that, if the series of periodic payments is subsequently modified within five years of the date of the first payment, or, if later, age 59½, the exception to the 10 percent tax under section 72(t)(2)(A)(iv) does not apply, and the taxpayer's tax for the year of modification shall be increased by an amount, determined under regulations, which (but for the 72(t)(2)(A)(iv) exception) would have been imposed, plus interest.

Payments will be considered to be substantially equal periodic payments within the meaning of section 72(t)(2)(A)(iv) if they are made according to one of the methods set forth below.

Payments shall be treated as satisfying section 72(t)(2)(A)(iv) if the annual payment is determined using a method that would be acceptable for purposes of calculating the minimum distribution required under section 401(a)(9). For this purpose, the payment may be determined based on the life expectancy of the employee or the joint life and last survivor expectancy of the employee and beneficiary.

Payments will also be treated as substantially equal periodic payments within the meaning of section 72(t)(2)(A)(iv) if the amount to be distributed annually is determined by amortizing the taxpayer's account balance over a number of years equal to the life expectancy of the account owner or the joint life and last survivor expectancy of the account owner and beneficiary (with life expectancies determined in accordance with

proposed section 1.401(a)(9)-1 of the regulations) at an interest rate that does not exceed a reasonable interest rate on the date payments commence. For example, a 50 year old individual with a life expectancy of 33.1, having an account balance of \$100,000, and assuming an interest rate of 8 percent, could satisfy section 72(t)(2)(A)(iv) by distributing \$8,679 annually, derived by amortizing \$100,000 over 33.1 years at 8 percent interest.

Finally, payments will be treated as substantially equal periodic payments if the amount to be distributed annually is determined by dividing the taxpayer's account balance by an annuity factor (the present value of an annuity of \$1 per year beginning at the taxpayer's age attained in the first distribution year and continuing for the life of the taxpayer) with such annuity factor derived using a reasonable mortality table and using an interest rate that does not exceed a reasonable interest rate on the date payments commence. If substantially equal monthly payments are being determined the taxpayer's account balance would be divided by an annuity factor equal to the present value of an annuity of \$1 per month beginning at the taxpayer's age attained in the first distribution year and continuing for the life of the taxpayer. For example, if the annuity factor for a \$1 per year annuity for an individual who is 50 years old is 11.109 (assuming an interest rate of 8 percent and using the UP-1984 Mortality Table), an individual with a \$100,000 account balance would receive an annual distribution of \$9,002 ($\$100,000/11.109 = \$9,002$).

Minimum Distribution Incidental Benefit (MDIB)

Non-spousal distributions will be subjected to the Minimum Distribution Incidental Benefit (MDIB) requirement (see IRC Proposed Treas. Reg. §1.401(A)(9)-2). The MDIB requirement states that any distribution occurring after the required beginning date must be less than the distribution that was calculated by dividing the balance of the plan by the MDIB Table divisor found in IRC Proposed Treas. Reg. §1.401 (a)(9)-2, Q-4. Generally, when the non-spousal beneficiary is more than ten years younger than the plan owner, the MDIB is triggered and results in a joint life expectancy factor, regardless of the actual age of the non-spousal beneficiary. Thus, during the lifetime of the plan owner but after the plan owner reaches age 70½, there is no difference in the minimum distribution payout amount, regardless of whether the non-spousal beneficiary is 15 or 30 years younger than the plan owner is.

The program always removes the MDIB limitation after the plan owner's death. Authority for Removal of MDIB after the death of the plan owner is found in IRS Publication 590 and IRC Proposed Treas. Reg. §1.401(a)(9)-2, Q&A Q-3. If the owner made an appropriate election before the required beginning date, a joint term certain method will be used after the plan owner's death (rather than just a single life term certain for the beneficiary in cases where the owner was using a recalc method).

Minimum Distributions Options

Required Minimum Distributions: Calculations under the Final Regulations

After more than a decade of proposed regulations, final minimum distribution regulations were published on April 17, 2002. These new rules are based primarily on the proposed regulations of 2001, but they do add some new calculation wrinkles to consider.

As with the 2001 proposed regulations, the final regulations keep the basic calculation intact. Each year, the distribution is calculated by dividing the previous year's ending balance by a life expectancy number. The calculation complexity lies in determining the life expectancy number.

Here's how the new rules work:

Situation 1: Owner still alive

If the owner is still alive, the life expectancy is taken straight from the Uniform Lifetime Table. Simply find the owner's age on the table (it covers ages 70 through 115), and use the life expectancy listed. For this situation, the only change caused by the 2002 final regulations was to update the numbers in the Uniform Lifetime Table.

Prior to 2001, the Uniform Lifetime Table was known as the MDIB table, and was used only for nonspousal beneficiaries. Now, it is used whenever the owner is alive, making the distribution calculation very straightforward. There is only one exception to this rule: cases involving spousal beneficiaries who are more than ten years younger than the owner. In that case, the joint life expectancy of the owner and spouse is used. Once the owner dies, this exception no longer applies, and Situation 4 (see below) applies.

Situation 2: Owner dies with no beneficiary

In the year of death, the minimum distribution is still calculated according to Situation 1 (above). It's only in the years after the owner's death that this situation applies.

If the owner dies before the required beginning date, and there is no beneficiary alive as of the owner's death, the five year rule applies—all the money has to be distributed within five years of the year the owner died.

If the owner dies on or after the required beginning date, and there is no beneficiary alive as of the date of death, distributions after the owner's death are taken over a term based on the owner's life expectancy in the year of death. This calculation is easier than it sounds. For the year after death, subtract one from the owner's single life expectancy in the year of death. As each year passes, reduce the life expectancy by one. For example, if the owner died in 2003, the distribution in 2004 would be based on the owner's 2003 life expectancy minus one.

The new life expectancy tables used by the 2002 final regulations add some complexity to cases where the owner has already died. If distributions are being taken under this scenario, the length of the term has to be recalculated using the 2002 single life expectancy table. For example, if a plan owner died in 1995, the 2003 distribution would be based on the owner's life expectancy (using the new table) in 1995 reduced by 8.

Under the 2001 proposed regulations, the beneficiary had to be alive as of 12/31 of the year following the owner's death to be considered valid. Under the 2002 regulations, the beneficiary only has to be alive when the owner dies to be considered.

Situation 3: Owner dies with nonspousal beneficiary

In the year of death, the minimum distribution is still calculated according to Situation 1 (above). It's only in the years after the owner's death that this situation applies.

When the owner dies with a nonspousal beneficiary, a term certain distribution period is established based on the designated beneficiary's single life expectancy in the year after the owner's death. Unlike Situation 2, in this case the term is based on a life expectancy calculated in the year after the owner's death, rather than the year of death. For example, if the owner died in 2003, the life expectancy used as the divisor in 2004 would be the beneficiary's single life expectancy in 2004. In 2005, the divisor used would be 2004's number minus 1. The life expectancy in the year after death is, of course, calculated using the new single life expectancy table, and, as with Situation 2, an existing term certain would have to be recalculated using the new table.

The 2002 final regulations add another wrinkle to those situations when the owner died on or after the required beginning date. In these situations, the life expectancy used is the greater of the one calculated using the "no beneficiary" case (situation 2), and the one resulting from the calculation described in the previous paragraph. This can get a little confusing, because the "no beneficiary" case starts with a term calculated in the year of death, while the nonspousal beneficiary's term certain starts the year after the owner's death.

Situation 4: Owner dies with spousal beneficiary

In the year of death, the minimum distribution is still calculated according to Situation 1 (above). It's only in the years after the owner's death that this situation applies.

When the owner dies with a spousal beneficiary, the spouse gets special treatment. In this case, the distributions are based on the spouse's single life expectancy recalculated each year after the owner's death. If the owner dies prior to the calendar year in which he would have reached age 70½, the spouse does not have to start taking distributions until that year. Upon the spouse's death, the distributions become term certain, with the term set to the spouse's life expectancy in the year of death. This works the same as the old term certain method, with the life expectancy being reduced by one for each year that passes after the spouse's death.

As with situation 3, the 2002 final regulations add more complexity. For cases where the client dies on or after the required beginning date, the life expectancy used is the greater of the one calculated using the “no beneficiary” case (situation 2), and the one resulting from the calculation described in the previous paragraph.

When do these apply?

In 2002, there is the option of using either the pre-2001 proposed regulations (with all their calculation and recalculation options), the 2001 proposed regulations, and the 2002 final regulations. After 2002, only the 2002 final regulations may be used.

The 2002 final regulations added more than just a new mortality table to these calculations. They also added complexity. When all the different situations listed above are taken together, they represent a fairly complicated set of calculations that have to be correctly performed to make sure you calculate the correct distribution for your clients.

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Calculating Required Minimum Distributions using the 2001 Proposed Regulations:

The regulations released on 1/11/2001 radically changed the way minimum distributions have to be calculated. They eliminated a lot of complexity reduced the number of decisions made by a plan owner. These regulations eliminated the old recalculation options. There is no "hybrid method" or "joint term certain method." However, the new methodology does still have some similarities to the old. For example, the distribution is still calculated by dividing the previous year's balance by a life expectancy number.

Here's how it works:

Situation 1: Owner still alive

If the owner is still alive, the distributions are based on the divisor found in the MDIB table for owner's age. The MDIB table is a published table of joint life expectancies for an owner and a beneficiary who is ten years younger than the owner. It simplifies the calculation to only using the owner's age. No beneficiary information is needed, and no recalculation options are available. There is only one exception to this rule – for cases involving spousal beneficiaries that are more than ten years younger than the owner.

Situation 2: Owner dies with nonspousal beneficiary

When the owner dies with a nonspousal beneficiary, a term certain distribution period is established, based on the designated beneficiary's single life expectancy in the year after the owner's death. As with the old term certain method, this life expectancy is simply reduced by one for each year after it is calculated.

Situation 3: Owner dies with no beneficiary

This is the only situation where the owner's required beginning date is relevant. If the owner dies before the required beginning date, and there is no beneficiary alive as of 12/31 of the year following the owner's death, the five year rule applies – all the money has to be distributed within the next five years.

If the owner dies after the required beginning date, and there is no beneficiary alive as of 12/31 of the year following the owner's death, the distributions are taken out over a term based on the owner's life expectancy in the year of death. Once again, this works the same as the old term certain method, with the life expectancy being reduced by one for each year that passes after the owner's death.

Situation 4: Owner dies with spousal beneficiary

When the owner dies with a spousal beneficiary, the spouse gets special treatment. In this case, required distributions are generally based on the spouse's single life expectancy in each year after the owner's death.

If the owner dies prior to the calendar year in which he would have reached age 70½, the spouse does not have to start taking distributions until that year. However, if the owner dies before 12/31 of the calendar year in which he would have reached age 70½ and the spouse also dies before 12/31 of the calendar year in which the original owner would have reached age 70½, then the second-to-die spouse is treated as the new owner with the rules of Situation 2 being applied if the second-to-die spouse has a designated beneficiary or Situation 3 if there is no designated beneficiary.

If the spouse dies after the year in which the original owner would have turned 70½, the distributions become term certain, with the term set to the spouse's life expectancy in the year of death. Again, this works the same as the old term certain method, with the life expectancy being reduced by one for each year that passes after the spouse's death.

Situation 5: Owner dies and a spousal rollover

When the owner dies with a spousal beneficiary, the spouse has the option of doing a spousal rollover with the spouse becoming the new owner. In such a case, the rules of Situation 1 apply after the spouse becomes the new owner.

Situation 6: The Exception to Situation 1

The exception to situation 1 is when there is a spousal beneficiary who is more than 10 years younger than the owner. In this case, the life expectancy used while the owner is alive is the joint life expectancy of the owner and spouse, recalculated in each year. Once the owner dies, the exception no longer applies, and the distribution is handled according to the situations described above.

1987 Proposed Regulations (Pre-2001 Rules)

If the plan owner has not named a beneficiary

If the plan owner has not named a beneficiary, then there are two methods for determining the plan owner's life expectancy each year: Term Certain method or Recalculation method. Use the Recalculate Owner's Life Exp. check box to determine the method:

- Term Certain method—Clear the Recalculate Owner's Life Exp. check box. The program uses Table V to determine the owner's life expectancy in for the Required Beginning Date (first year that distributions are required). Thereafter, the program subtracts one from the life expectancy each year.
- Recalculation method—Click the Recalculate Owner's Life Exp. check box. The program uses Table V to determine the life expectancy each year.

If the plan owner has named a beneficiary

Plan owners and beneficiaries have the ability to recalculate their life expectancies annually (see Note). If the plan owner has named a beneficiary, then there are actually four methods of recalculating life expectancies each year. Use the Recalculate Owner's Life Exp. and the Recalculate Beneficiary's Life Exp. check boxes to determine the method:

Joint Recalculation method—Click both check boxes. Both life expectancies are recalculated. The program uses Table VI to determine the minimum distribution from the life expectancies.

Joint Term Certain method—Clear both check boxes. Neither life expectancy is recalculated. Both the owner and the beneficiary use the term certain method. Both life expectancies decrease by 1 annually.

Hybrid method—Only click Recalculate Owner's Life Exp. The owner's life expectancy is recalculated and the beneficiary uses the term certain method. Using the beneficiary's deemed age ((determined using single life Table V) and the owner's actual age, the program uses joint life Table VI to determine the minimum distribution. Many planners recommend this method when the plan owner is older than the beneficiary.

Hybrid method—Only click Recalculate Beneficiary's Life Exp. The beneficiary's life expectancy is recalculated, and the owner uses the term certain method. Using the owner's deemed age (determined using single life Table V) and the beneficiary's actual age, the program uses joint life Table VI to determine the minimum distribution. Planners recommend this variant when the beneficiary is older than the plan owner.

Mortality Table

The program offers the 90CM Table, the §1.72 (1983 table listed in IRS Regulations §1.72-7(c)(1)(iii)), the UP-1984, and the 80CNSMT (1980 table from IRS publication 1457). The example in IRS Notice 89-25, 1989-1 C.B. 662 uses the UP-1984 Mortality Table. As of May 1, 1999, the IRS released the 90CM mortality table. This table replaces the older 80CNSMT. Between May 1, 1999, and June 30, 1999, you can use either the 80CNSMT or the 90CM. After June 30, 1999, do not use the 80CNSMT (REG-103851-99).

Note

Brentmark has permission to use the UP-1984 Table Copyright(c) 1976 Conference of Consulting Actuaries, All Rights Reserved.

Reasonable Interest Rate

A so-called “reasonable” interest rate is required when using the Amortization or Annuity Factor methods to compute a pre-59½ plan distribution that avoids the 10% penalty for early distributions. The program limits you to entering a rate no higher than the Afirs for the previous two months.

Prior to 2002, see IRS Notice 89-25, 1989-1 C.B. 662, Q&A 11 and 12. In various letter rulings, the IRS has accepted use of the 120% Annual Long-Term Applicable Federal Rate for the month in which distributions start. Some commentators read some of the rulings as saying that you should use 120% of the Annual Long-Term Rate, which is slightly different. However, the difference may be seen as de minimus. If you judge this rate to be appropriate, it may be used in the Pension Distributions Calculator. Letter Rulings cannot be used as binding authority for IRS positions. Since the IRS has not issued any rulings other than Letter Rulings on the topic of "reasonable" interest rates for pre-59½ distributions, there is no binding authority on this topic.

These rates are posted on Brentmark’s web site, <http://www.brentmark.com>.

Type of Plan

The program calculates required minimum distributions for the following types of pension plans:

- Corporate and self-employed pension, profit sharing and stock bonus plans qualified under IRC Sec. 401(a) (includes Keogh or H.R. 10 plans, 401(k) plans, and employee stock ownership plans or ESOPs),
- Individual Retirement Accounts (IRAs) under IRC Sec. 408(a),
- Simplified Employee Plans (SEPs) under IRC Sec. 408(k), and

- Tax-sheltered annuities (except for account balances existing on 12/31/86 if kept separate for accounting purposes) under IRC Sec. 403(b). The Pension Distributions Calculator classifies retirement plans into three groups:

When calculating minimum distributions, you need to select a Type of Plan. Following are descriptions of the choices that the program provides.

Normal

This is the most common selection if the plan owner is retiring on or before age 70, and the plan is not a Roth IRA.

Roth IRA

The Roth IRA was created by the Taxpayer Relief Act of 1997. There are no required distributions until the year after the plan owner dies. The required beginning date of minimum distributions from a Roth IRA is the year after the owner's death. At that point, the minimum distributions are calculated based on the beneficiary's single life expectancy.

If the beneficiary is the Roth IRA owner's spouse, the election to recalculate the beneficiary's single life expectancy each year after the required beginning date is available. For nonspousal beneficiaries, the life expectancy is calculated once and reduced by one for each year after the required beginning date.

<5% Owner

Use this selection if the owner is planning to retire after age 70½ and owns no more than 5% of a company with a plan that is not an IRA. If the plan owner owns no more than 5% of a company with a pension plan that is not an IRA, the required minimum distributions are delayed until the retirement year.

Rev. Rul. 2002-62; 2002-42 IRB 1 (3 Oct 2002)

Part I

Section 72.--Annuities; Certain Proceeds of Endowment and Life Insurance Contracts

SECTION 1. PURPOSE AND BACKGROUND

.01 The purpose of this revenue ruling is to modify the provisions of Q&A-12 of Notice 89-25, 1989-1 C.B. 662, which provides guidance on what constitutes a series of substantially equal periodic payments within the meaning of § 72(t)(2)(A)(iv) of the Internal Revenue Code from an individual account under a qualified retirement plan.

Section 72(t) provides for an additional income tax on early withdrawals from qualified retirement plans (as defined in § 4974(c)). Section 4974(c) provides, in part, that the term “qualified retirement plan” means (1) a plan described in § 401 (including a trust exempt from tax under § 501(a)), (2) an annuity plan described in § 403(a), (3) a tax-sheltered annuity arrangement described in § 403(b), (4) an individual retirement account described in § 408(a), or (5) an individual retirement annuity described in § 408(b).

.02 (a) Section 72(t)(1) provides that if an employee or IRA owner receives any amount from a qualified retirement plan before attaining age 59½, the employee’s or IRA owner’s income tax is increased by an amount equal to 10-percent of the amount that is includible in the gross income unless one of the exceptions in § 72(t)(2) applies.

(b) Section 72(t)(2)(A)(iv) provides, in part, that if distributions are part of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the employee or the joint lives (or joint life expectancy) of the employee and beneficiary, the tax described in § 72(t)(1) will not be applicable. Pursuant to § 72(t)(5), in the case of distributions from an IRA, the IRA owner is substituted for the employee for purposes of applying this exception.

(c) Section 72(t)(4) provides that if the series of substantially equal periodic payments that is otherwise excepted from the 10-percent tax is subsequently modified (other than by reason of death or disability) within a 5-year period beginning on the date of the first payment, or, if later, age 59½, the exception to the 10-percent tax does not apply, and the taxpayer’s tax for the year of modification shall be increased by an amount which, but for the exception, would have been imposed, plus interest for the deferral period.

(d) Q&A-12 of Notice 89-25 sets forth three methods for determining whether payments to individuals from their IRAs or, if they have separated from service, from their qualified retirement plans constitute a series of substantially equal periodic payments for purposes of § 72(t)(2)(A)(iv).

(e) Final Income Tax Regulations that were published in the April 17, 2002, issue of the **Federal Register** under § 401(a)(9) provide new life expectancy tables for determining required minimum distributions.

SECTION 2. METHODS

.01 *General rule.* Payments are considered to be substantially equal periodic payments within the meaning of § 72(t)(2)(A)(iv) if they are made in accordance with one of the three calculations described in paragraphs (a) – (c) of this subsection (which is comprised of the three methods described in Q&A-12 of Notice 89-25).

(a) *The required minimum distribution method.* The annual payment for each year is determined by dividing the account balance for that year by the number from the chosen life expectancy table for that year. Under this method, the account balance, the number from the chosen life expectancy table and the resulting annual payments are redetermined for each year. If this method is chosen, there will not be deemed to be a modification in the series of substantially equal periodic payments, even if the amount of payments

changes from year to year, provided there is not a change to another method of determining the payments.

(b) *The fixed amortization method.* The annual payment for each year is determined by amortizing in level amounts the account balance over a specified number of years determined using the chosen life expectancy table and the chosen interest rate. Under this method, the account balance, the number from the chosen life expectancy table and the resulting annual payment are determined once for the first distribution year and the annual payment is the same amount in each succeeding year.

(c) *The fixed annuitization method.* The annual payment for each year is determined by dividing the account balance by an annuity factor that is the present value of an annuity of \$1 per year beginning at the taxpayer's age and continuing for the life of the taxpayer (or the joint lives of the individual and beneficiary). The annuity factor is derived using the mortality table in Appendix B and using the chosen interest rate. Under this method, the account balance, the annuity factor, the chosen interest rate and the resulting annual payment are determined once for the first distribution year and the annual payment is the same amount in each succeeding year.

.02 *Other rules.* The following rules apply for purposes of this section.

(a) *Life expectancy tables.* The life expectancy tables that can be used to determine distribution periods are: (1) the uniform lifetime table in Appendix A, or (2) the single life expectancy table in § 1.401(a)(9)-9, Q&A-1 of the Income Tax Regulations or (3) the joint and last survivor table in § 1.401(a)(9)-9, Q&A-3. The number that is used for a distribution year is the number shown from the table for the employee's (or IRA owner's) age on his or her birthday in that year. If the joint and survivor table is being used, the age of the beneficiary on the beneficiary's birthday in the year is also used. In the case of the required minimum distribution method, the same life expectancy table that is used for the first distribution year must be used in each following year. Thus, if the taxpayer uses the single life expectancy table for the required minimum distribution method in the first distribution year, the same table must be used in subsequent distribution years.

(b) *Beneficiary under joint tables.* If the joint life and last survivor table in § 1.401(a)(9)-9, Q&A-3, is used, the survivor must be the actual beneficiary of the employee with respect to the account for the year of the distribution. If there is more than one beneficiary, the identity and age of the beneficiary used for purposes of each of the methods described in section 2.01 are determined under the rules for determining the designated beneficiary for purposes of § 401(a)(9). The beneficiary is determined for a year as of January 1 of the year, without regard to changes in the beneficiary in that year or beneficiary determinations in prior years. For example, if a taxpayer starts distributions from an IRA in 2003 at age 50 and a 25-year-old and 55-year-old are beneficiaries on January 1, the 55-year-old is the designated beneficiary and the number for the taxpayer from the joint and last survivor tables (age 50 and age 55) would be 38.3, even though later in 2003 the 55-year-old is eliminated as a beneficiary. However, if that beneficiary is eliminated or dies in 2003, under the required minimum distribution

method, that individual would not be taken into account in future years. If, in any year there is no beneficiary, the single life expectancy table is used for that year.

(c) *Interest rates.* The interest rate that may be used is any interest rate that is not more than 120 percent of the federal mid-term rate (determined in accordance with § 1274(d) for either of the two months immediately preceding the month in which the distribution begins). The revenue rulings that contain the § 1274(d) federal mid-term rates may be found at www.irs.gov/tax_regs/fedrates.html.

(d) *Account balance.* The account balance that is used to determine payments must be determined in a reasonable manner based on the facts and circumstances. For example, for an IRA with daily valuations that made its first distribution on July 15, 2003, it would be reasonable to determine the yearly account balance when using the required minimum distribution method based on the value of the IRA from December 31, 2002 to July 15, 2003. For subsequent years, under the required minimum distribution method, it would be reasonable to use the value either on the December 31 of the prior year or on a date within a reasonable period before that year's distribution.

(e) *Changes to account balance.* Under all three methods, substantially equal periodic payments are calculated with respect to an account balance as of the first valuation date selected in paragraph (d) above. Thus, a modification to the series of payments will occur if, after such date, there is (i) any addition to the account balance other than gains or losses, (ii) any nontaxable transfer of a portion of the account balance to another retirement plan, or (iii) a rollover by the taxpayer of the amount received resulting in such amount not being taxable.

.03 *Special rules.* The special rules described below may be applicable.

(a) *Complete depletion of assets.* If, as a result of following an acceptable method of determining substantially equal periodic payments, an individual's assets in an individual account plan or an IRA are exhausted, the individual will not be subject to additional income tax under § 72(t)(1) as a result of not receiving substantially equal periodic payments and the resulting cessation of payments will not be treated as a modification of the series of payments.

(b) *One-time change to required minimum distribution method.* An individual who begins distributions in a year using either the fixed amortization method or the fixed annuitization method may in any subsequent year switch to the required minimum distribution method to determine the payment for the year of the switch and all subsequent years and the change in method will not be treated as a modification within the meaning of § 72(t)(4). Once a change is made under this paragraph, the required minimum distribution method must be followed in all subsequent years. Any subsequent change will be a modification for purposes of § 72(t)(4).

SECTION 3. EFFECTIVE DATE AND TRANSITIONAL RULES

The guidance in this revenue ruling replaces the guidance in Q&A-12 of Notice 89-25 for any series of payments commencing on or after January 1, 2003, and may be

used for distributions commencing in 2002. If a series of payments commenced in a year prior to 2003 that satisfied § 72(t)(2)(A)(iv), the method of calculating the payments in the series is permitted to be changed at any time to the required minimum distribution method described in section 2.01(a) of this guidance, including use of a different life expectancy table.

SECTION 4. EFFECT ON OTHER DOCUMENTS

Q&A-12 of Notice 89-25 is modified.

SECTION 5. REQUEST FOR COMMENTS

The Service and Treasury invite comments with respect to the guidance provided in this revenue ruling. Comments should reference Rev. Rul. 2002-62.

Comments may be submitted to CC:ITA:RU (Rev. Rul. 2002-62, room 5226, Internal Revenue Service, POB 7604 Ben Franklin Station, Washington, DC 20044. Comments may be hand delivered between the hours of 8:30 a.m. and 5 p.m. Monday to Friday to: CC:ITA:RU (Rev. Rul. 2002-62), Courier's Desk, Internal Revenue Service, 1111 Constitution Avenue NW., Washington, D.C. Alternatively, comments may be submitted via the Internet at Notice.Comments@irsounsel.treas.gov. All comments will be available for public inspection and copying.

Drafting Information

The principal author of this revenue ruling is Michael Rubin of the Employee Plans, Tax Exempt and Government Entities Division. For further information regarding this revenue ruling, please contact Mr. Rubin at 1-202-283-9888 (not a toll-free number).

Discussion of Revenue Ruling 2002-62

Revenue Ruling 2002-62 is more than just a minor refinement of the way substantially equal periodic payments are calculated. It has made significant changes to all three method and clarifies some previously questionable areas. Unfortunately, it still leaves a lot of gray areas.

As a brief refresher, IRS Notice 89-25 established three ways of calculating “substantially equal periodic payments” to avoid the 10% penalty on early withdrawals from qualified retirement plans. Rev. Rul. 2002-62 replaces the guidance of IRS Notice 89-25.

The first of the three methods, “the required minimum distribution method,” allows for distributions to be calculated in the same manner that minimum distributions are calculated. Since these distributions are almost always calculated using the Uniform

Lifetime Table, the Revenue Ruling extended the beginning of this table to include all ages from 10 through 115. The single life expectancy table and joint life expectancy tables may still be used as well. The calculation is the same as it was prior to the ruling, requiring the distribution to be recalculated each year based on the life expectancy, but now the Uniform Lifetime Table is available in addition to the single and joint life expectancy tables. It's worth noting that once a life expectancy table is selected, it must be used for the duration of the distributions.

The second of the three methods, "the fixed amortization method," has been little changed by the ruling. The distribution amount is still calculated just once, based on amortizing the plan balance over the applicable life expectancy. The only change the Revenue Ruling made was to give the plan owner the choice of three life expectancy tables: single, joint, or the Uniform Lifetime Table.

The third of the three methods, "the fixed annuitization method," requires the distributions to be calculated through the use of an annuity factor. Prior to Revenue Ruling 2002-62, this annuity factor had to be calculated from a "reasonable mortality table." Now, only the mortality table from the Ruling can be used. As with the amortization method, the distribution is calculated only once and that distribution amount is used throughout the distribution period.

These three methods are all basically the same as they were previously, with slightly different details to the calculations. The biggest change implemented by Revenue Ruling 2002-62 came in the form of a clarification. Previously, the "reasonable interest rate" required by IRS Notice 89-25 was generally assumed to mean the 120% annual long-term rate. The Ruling establishes that the 120% federal mid-term interest rate is the maximum allowable interest rate for the calculation. Decreasing the allowable rate by that much (in October 2002, a difference of 1.73%) significantly decreases the distributions allowed under the amortization and annuitization distribution methods.

Revenue Ruling 2002-62 also eliminates the possibility of recalculating distributions when using either the amortization or annuitization distribution methods. Recalculating these distributions had started to become popular after it was allowed in a couple letter rulings, but the Rev. Rul. 2002-62 makes it clear that only the minimum distribution method can be recalculated. It does allow for plan owners to switch to that method, allowing some relief for people whose plans are losing money.

Another interesting change made by the Revenue Ruling is that distributions must now be calculated for distributions that are occurring right away. The Ruling sets the maximum allowable interest rate to be the higher of the mid-term rates from the two months prior to the first distribution. Obviously, this means that we cannot do a calculation in 2002 for a 2003 distribution, because there's no way to know what the maximum rate is.

Unfortunately, Revenue Ruling 2002-62 speaks only in terms of annual distributions. It does nothing to clear up the question of distributions that are taken more frequently than annual. Should monthly distributions be calculated by just dividing the annual distribution by 12? Maybe. Annuity factors typically account for frequency of

distributions, so it would seem that the calculation of the distribution amount under the annuitization method should do so. Amortization schedules always account for frequency of payments as well: paying a mortgage monthly versus paying it annually results in a different annual payment amount. Of the three methods, the minimum distributions method seems like the only one where the frequency of distributions would have no affect on the annual distribution amount. Revenue Ruling 2002-62 does not address this issue at all, however.

Private Letter Rulings

Private Letter Rulings (among them: 9531039, 9010075, and 9241063) illustrate an annual recalculation of distributions for the annuity factor and amortization methods. More specifically, in years after the first year, the distributions are recalculated using the balance as of the beginning of each year. If you wish to see the distributions calculated using the methodology of the Letter Rulings, select "Private Letter Rulings" for the choice. The program includes disclaimer language on all reports that use the method of the Private Letter Rulings.

LTR 9010075

Date: December 14, 1989

Refer Reply to: E:EP:R:7

LEGEND:

Individual A = * * *

Individual B = * * *

Dear * * *

This is in response to a letter from Individual A's authorized representative dated August 17, 1989, as supplemented by a letter dated October 9, 1989, in which Individual A's representative requested a private letter ruling on his behalf regarding the income tax consequences of proposed distributions from Individual A's individual retirement account ("IRA").

You have submitted the following representations of fact:

Individual A established an IRA with funds rolled over from distributions from retirement plans qualified under section 401(a) of the Internal Revenue Code. Individual A desires to institute periodic distributions from his IRA which would be part of a series of substantially equal periodic payments (not less frequently than annually) made over the joint life expectancies of Individual A and Individual B, his wife.

An assumed interest rate would be based on the federal long-term interest rate published and in effect as of June 1, 1989. Table VI of section 1.72-9 of the Income Tax Regulations will be used for purposes of initially computing the life expectancy of Individual A and Individual B, who is the designated beneficiary of the IRA account, based on the attained ages of Individuals A and B as of July 1, 1989.

Distributions in a given year would be in monthly installments intended to amortize the entire balance of the individual retirement account in uniform monthly installments over the joint life expectancy as initially determined on July 3, 1989, at the assumed interest rate, based on an amortization schedule as set forth in the "Loan Payments Handbook" published by Computo Facts, 209 Shepherd Avenue East, Willow Dale, Ontario, Canada M2N 5W2. Withdrawals would be made in equal monthly installments throughout each calendar year. During calendar year 1989, the monthly installments for the short calendar year would equal a proportionate part of an entire year's distributions.

The fair market value of the IRA would initially be determined on July 1, 1989, and would be redetermined as of December 31st of each year. The monthly periodic distributions from the IRA for the following year would then be adjusted solely to reflect the change in the fair market value of the IRA as of that December 31st. In each calendar year after 1989, the monthly installments would be adjusted by reducing the life expectancy by one year, and by adjusting the fair market value of the IRA as the December 31st of the immediately preceding year.

Based on the foregoing, Individual A requests, through his authorized representative, a ruling that the method of distribution described hereinabove will qualify as a series of substantially equal periodic payments (not less frequently than annually) made for the joint life expectancy of Individual A and his designated beneficiary, within the meaning of section 72(t)(2)(A)(iv) of the Code.

Section 72(t)(1) of the Code states that if any taxpayer receives any amount from a qualified retirement plan (as defined in section 4974(c) of the Code), the taxpayer's tax for the taxable year in which such amount is received shall be increased by an amount equal to 10 percent of the portion of such amount which is includible in gross income.

Section 4974(c) of the Code defines the term "qualified retirement plan" to include an individual retirement account described in section 408(a) of the Code.

Section 72(t)(2) of the Code provides that the additional income tax imposed by section 72(t)(1) shall not apply to distributions enumerated therein. With specific reference to the distribution method at issue in this ruling request, section 72(t)(2)(a)(iv) provides that this tax shall not apply to distributions which are part of a series of substantially equal

periodic payments (not less frequently than annually) made for the life (or life expectancy) of the employee or the joint lives (or joint life expectancies) of the employee and his designated beneficiary.

Notice 89-25, 1989-12 I.R.B. 68, March 20, 1989, Q&A 12, provides 3 methods by which a series of distributions may satisfy the substantially equal periodic payments exception of section 72(t)(2)(A)(iv) of the Code. The payment methods described in Notice 89-25 are intended to serve as examples of substantially equal periodic payments and are not the only distribution methods which will satisfy the requirements of section 72(t)(2)(A)(iv) of the Code.

Individual A's proposed method of distribution is consistent with the guidelines set forth in Notice 89-25. Accordingly, we conclude that distributions in accordance with that method will qualify as being part of a series of substantially equal periodic payments (not less frequently than annually) made for the joint life expectancy of Individual A and his designated beneficiary, within the meaning of section 72(t)(2)(A)(iv) of the Code.

This ruling is based on the assumption that distributions from the IRA will not be modified from the method of distribution described hereinabove in violation of section 72(t)(4) of the Code.

A copy of this ruling is being sent to your authorized representative pursuant to a power of attorney on file in this office.

Sincerely yours,

Joyce E. Floyd

Chief, Employee Plans

Rulings Branch

Enclosures:

Deleted Copy

Notice of Intention to Disclose

Deputy Assistant Chief Counsel

LTR 9241063

Date: July 16, 1992

Refer Reply to: E:EP:PA

In re: * * *

Dear * * *

This letter is in response to your request, in a letter dated May 8, 1990, for a ruling letter as to whether certain proposed distributions from Plan L to Participant G are part of a series of substantially equal periodic payments and are therefore not subject to the 10% additional tax imposed on early distributions under Internal Revenue Code (I.R.C.) section 72(t). This ruling replaces the prior ruling for this taxpayer dated June 7, 1991 (PLR 9135060).

According to the information received Taxpayer W was incorporated from December 1, 1972 to December 31, 1989 as a Professional Corporation with one employee, Participant G. Effective December 1, 1972, Plan L was established and during its existence had only one participant, Participant G. Plan L was amended effective November 1, 1984 to cease any future allocations under the Plan. Participant G retired from employment with Taxpayer W in November 1988 at the age of 50. Participant G's date of birth is January 5, 1938. Plan L has been an ongoing plan since the amendment to cease allocations and Forms 5500 for the Plan have been filed for all subsequent plan years. Participant G would like to begin receiving distributions from Plan L with the annual distribution amount to be determined by amortizing his account balance over the number of years equal to his life expectancy (obtained from Table V in the Income Tax Regulations (Tres. Reg.) section 1.72-9) at an assumed interest rate of earnings equal to the Long Term Federal Rate used for purposes of I.R.C. section 1288(b). The annual amount would be distributed as a single payment on January 1.

I.R.C. section 402(a) provides that the amount actually distributed to any distributee by any employees' trust described in I.R.C. section 401(a) shall be taxable to him, in the year in which so distributed under I.R.C. section 72.

I.R.C. section 72 provides rules for the taxation of amounts received as annuities, endowments, or life insurance contracts and distributions from qualified plans.

I.R.C. section 72(t)(1) provides for the imposition of an additional 10% tax on early distributions from qualified plans, including IRAs. The additional tax is imposed on that portion of the distribution which is includible in gross income. I.R.C. section 72(t)(2)(A)(iv) provides that I.R.C. section 72(t)(1) shall not apply to distributions made to an employee which are part of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the employee or the joint lives (or joint life expectancies) of such employee and his beneficiary.

I.R.C. section 72(t)(4) provides that the 10% tax of I.R.C. section 72(t) will apply if the series of payments is subsequently modified (other than by reason of death or disability) before the later of (1) the close of the 5-year period beginning with the date of the first payment, and (2) the employee's attainment of age 59-1/2. In such a case, the taxpayer's tax for the first taxable year in which such modification occurs shall be increased by an

amount determined under regulations, equal to the tax which would have been imposed except for the I.R.C. section 72(t)(2)(A)(iv) exception, plus interest for the deferral period.

Tres. Reg. section 1.72-9 provides tables that are to be used in connection with computations under I.R.C. section 72 and the regulations thereunder. Included in this section are tables giving life expectancies for one life (Table V) and joint life and last survivor expectancies for two lives (Table VI).

The proposed method for determining periodic annual payments is to determine an annual payment as of January 1 of the distribution year by amortizing the account balance under the Plan as of December 31 of the prior year over a number of years equal to the life expectancy of Participant G determined as follows: For the initial distribution, the life expectancy is to be that stated in Table V of Tres. Reg. section 1.72-9 using the participant's age as of January 1 of the initial distribution year. In subsequent distribution years, the life expectancy shall be one year less than the prior year's life expectancy. The assumed interest rate of return used to compute the annual payments is equal to the Federal Long-Term Rate (compounded annually) which is used for purposes of I.R.C. section 1288(b) and which is in effect for December of the prior year. The annual distribution amount will be recalculated each year in the same manner using the applicable interest rate and life expectancy. The life expectancy and the interest rate used are such that they do not result in the circumvention of the requirements of I.R.C. section 72(t)(2)(A)(iv) and I.R.C. section 72(t)(4) (through the use of an unreasonably high interest rate or an unreasonable life expectancy).

Accordingly, we conclude that the proposed method (as modified) of determining periodic payments results in substantially equal periodic payments within the meaning of I.R.C. section 72(t)(2)(A)(iv). Accordingly, such payments will not be subject to the additional tax of I.R.C. section 72(t) unless I.R.C. section 72(t)(4) requires that the tax be paid.

Sincerely yours,

James E. Holland, Jr.

Chief, Pension Actuarial Branch

Date: May 1, 1992

LTR 9531039

Date: May 10, 1995

Refer Reply to: CP:E:EP:A:2

In re: * * *

Dear * * *

This letter is in response to your request, dated November 29, 1993, for a ruling on behalf of Taxpayer M as to whether certain proposed distributions from two individual retirement accounts (IRAs) owned by Taxpayer M are part of a series of substantially equal periodic payments and are therefore not subject to the 10% additional tax imposed under section 72(t) of the Internal Revenue Code (Code) on early distributions. The original request was modified by a letter faxed to our office on May 9, 1994, and in telephone calls with our office in the following ways: the methodology and assumptions used to calculate the annuity factor were changed; the year in which the stream of payments will commence was changed to 1995; and the account balance to be used for calculating payments was modified.

According to the facts, Taxpayer M, born on March 16, 1940, is the owner of two IRAs, IRA 1 and IRA 2. Assets held in one of the two IRAs are, periodically, transferred to the other of the two IRAs. Taxpayer M would like to start receiving annual payments from these two IRAs in 1995. The two IRAs will be aggregated for purposes of calculating an annual distribution amount, and the distribution amount will be taken out of IRA 1 or IRA 2 or both IRA 1 and IRA 2. The annual distribution amount for 1995 will be calculated by dividing the total aggregated account balance as of December 31, 1994, of IRAs 1 and 2 by an annuity factor. The annuity factor will be calculated using commutation functions based on the UP-1984 Mortality Table, Taxpayer M's age attained in 1995, and an interest assumption equal to the annually compounded Mid-Term Applicable Federal Rate used for purposes of section 1274(d) of the Code in effect on January 1, 1995. Annual distribution amounts for subsequent years will be calculated in a similar manner by dividing the aggregated account balance of IRA 1 and IRA 2 as of December 31 of the prior year by an annuity factor, calculated using commutation functions based on the UP-1984 Mortality Table, the age attained in the distribution year, and an interest assumption equal to the annually compounded Mid-Term Applicable Federal Rate in effect on January 1 of the distribution year.

Section 408(d) of the Internal Revenue Code provides that amounts paid or distributed out of an individual retirement plan must be included in gross income by the payee or distributee in the manner provided under section 72 of the Code.

Section 72 of the Internal Revenue Code provides rules for determining how amounts received as annuities, endowments, or life insurance contracts and distributions from qualified plans are to be taxed.

Section 72(t) of the Internal Revenue Code was added to the Code by the Tax Reform Act of 1986 (TRA '86), effective generally for taxable years beginning after December 31, 1986. Section 72(t)(1) provides for the imposition of an additional 10% tax on early distributions from qualified plans, including IRAs. The additional tax is imposed on that portion of the distribution which is includible in gross income.

Section 72(t)(2)(A)(iv) of the Code provides that section 72(t)(1) shall not apply to distributions which are part of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the employee or the joint lives (or joint life expectancies) of such employee and his beneficiary.

Section 72(t)(4) of the Code imposes the additional limitation on distributions excepted from the 10% tax by section 72(t)(2)(A)(iv) that if the series of payments is subsequently modified (other than by reason of death or disability) before the later of (1) the close of the 5-year period beginning with the date of the first payment, and (2) the employee's attainment of age 59-1/2, then the taxpayer's tax for the first taxable year in which such modification occurs shall be increased by an amount determined under regulations, equal to the tax which would have been imposed except for the section 72(t)(2)(A)(iv) exception, plus interest for the deferral period.

Notice 89-25 was published on March 20, 1989, and provided guidance, in the form of questions and answers, on certain provisions of the Tax Reform Act of 1986 (TRA '86). In the absence of regulations on section 72(t) of the Code, this notice provided guidance with respect to the exception to the tax on premature distributions provided under section 72(t)(2)(A)(iv). Q&A-12 of Notice 89-25 provides three methods for determining substantially equal periodic payments for purposes of section 72(t)(2)(A)(iv) of the Code. Two of these methods involve the use of an interest rate assumption which must be an interest rate that does not exceed a reasonable interest rate on the date payments commence.

The method proposed by Taxpayer M in the ruling request, as modified, for determining annual periodic payments is to calculate an annual distribution amount for 1995 by dividing the sum of the account balances of IRA 1 and IRA 2 as of December 31, 1994, by an annuity factor which is the present value of a one dollar per year life annuity commencing at age 55. The annuity factor is calculated using Taxpayer M's age attained in 1995 and commutation functions derived from the UP-1984 Mortality Table where the assumed interest rate of earnings is equal to the annually compounded Mid-Term Applicable Federal Rate (used for purposes of Code section 1274(d)) in effect on January 1, 1995, rounded to the nearest whole or half percent. Thus, the annuity factor used in calculating the 1995 distribution amount is calculated using a commencement age of 55 and commutation functions based on the UP-1984 Mortality Table where an interest rate of earnings equal to 8 percent (7.92 percent, rounded to 8.0 percent) is assumed. The

annual distribution amount will be paid from IRA 1 or IRA 2 or from both IRA 1 and IRA 2.

Under the proposed method, as modified, the annual distribution amount will be recalculated each year by dividing the total aggregated account balance of IRAs 1 and 2 as of December 31 of the prior year by an annuity factor which is the present value of a one dollar per year life annuity commencing at the age attained in the distribution year. The annuity factor will be calculated using the age attained by Taxpayer M in the distribution year and commutation functions derived from the UP-1984 Mortality Table where the assumed interest rate of earnings is equal to the annually compounded Mid-Term Applicable Federal Rate (used for purposes of Code section 1274(d)) in effect on January 1 of the distribution year, rounded to the nearest whole or half percent.

The mortality table and the interest rate used are such that they do not result in the circumvention of the requirements of sections 72(t)(2)(A)(iv) and 72(t)(4) of the Code (through the use of an unreasonable high interest rate or an unreasonable mortality table).

We conclude that the proposed method (as modified) of determining periodic payments satisfies one of the methods described in Notice 89-25 and results in substantially equal periodic payments within the meaning of section 72(t)(2)(A)(iv) of the Code, and such payments will not be subject to the additional tax of section 72(t) unless the requirements of section 72(t)(4) are not met.

Sincerely yours,

Kathryn Marticello

Chief, Actuarial Branch 2

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