

# Pension Distributions Planner

v. 7.00

## Case 1: Minimum Distributions

*What happens under my current beneficiary designation?*

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

### Results:

The Plan Owner must begin his **Required Minimum Distributions** in the year 2020. If the plan grows at the rate of 5% annually, it will have a balance of \$207,892.83 and a first required distribution being \$7587.33. The life expectancy (divisor) for this calculation is from the new Uniform Lifetime Table and is 27.4.

| Year | Age | Balance      | Life Exp. | Distribution | Total Distributed |
|------|-----|--------------|-----------|--------------|-------------------|
| 2005 | 55  | \$100,000.00 | 29.6      | \$0.00       | \$0.00            |
| 2006 | 56  | \$105,000.00 | 28.7      | \$0.00       | \$0.00            |
| 2007 | 57  | \$110,250.00 | 27.9      | \$0.00       | \$0.00            |
| 2008 | 58  | \$115,762.50 | 27.0      | \$0.00       | \$0.00            |
| 2009 | 59  | \$121,550.63 | 26.1      | \$0.00       | \$0.00            |
| 2010 | 60  | \$127,628.16 | 25.2      | \$0.00       | \$0.00            |
| 2011 | 61  | \$134,009.57 | 24.4      | \$0.00       | \$0.00            |
| 2012 | 62  | \$140,710.05 | 23.5      | \$0.00       | \$0.00            |
| 2013 | 63  | \$147,745.55 | 22.7      | \$0.00       | \$0.00            |
| 2014 | 64  | \$155,132.83 | 21.8      | \$0.00       | \$0.00            |
| 2015 | 65  | \$162,889.47 | 21.0      | \$0.00       | \$0.00            |
| 2016 | 66  | \$171,033.94 | 20.2      | \$0.00       | \$0.00            |
| 2017 | 67  | \$179,585.64 | 19.4      | \$0.00       | \$0.00            |
| 2018 | 68  | \$188,564.92 | 18.6      | \$0.00       | \$0.00            |
| 2019 | 69  | \$197,993.17 | 17.8      | \$0.00       | \$0.00            |
| 2020 | 70  | \$207,892.83 | 27.4      | \$7,587.33   | \$7,587.33        |
| 2021 | 71  | \$210,320.78 | 26.5      | \$7,936.63   | \$15,523.96       |
| 2022 | 72  | \$212,503.36 | 25.6      | \$8,300.91   | \$23,824.87       |
| 2023 | 73  | \$214,412.57 | 24.7      | \$8,680.67   | \$32,505.54       |
| 2024 | 74  | \$216,018.50 | 23.8      | \$9,076.41   | \$41,581.95       |
| 2025 | 75  | \$217,289.19 | 22.9      | \$9,488.61   | \$51,070.56       |
| 2026 | 76  | \$218,190.61 | 22.0      | \$9,917.75   | \$60,988.31       |
| 2027 | 77  | \$218,686.50 | 21.2      | \$10,315.40  | \$71,303.71       |

## Case 2: Stretch IRA Spousal Rollover then Spouse Names Five Beneficiaries

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

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

**Owner's Year of Death:** Calculate (2033)

**Spouse's Year of Death:** Calculate (2041)

**Spousal Rollover:** Yes, at Owner's Death

**Beneficiaries of Spouse:** Jane born 1977; Janet born 1978; Jean born 1979; Jenn born 1980; Jerry born 1982

| Name     | Percentage | Birth Year |
|----------|------------|------------|
| 1. Jane  | 20.00%     | 1977       |
| 2. Janet | 20.00%     | 1978       |
| 3. Jean  | 20.00%     | 1979       |
| 4. Jenn  | 20.00%     | 1980       |
| 5. Jerry | 20.00%     | 1982       |

### Results:

The Plan Owner begins Required Minimum Distributions in 2020. The Plan Balance is \$207,892.83. The Required Minimum Distribution in year 2020 (assuming the plan grows at 5%) is \$7,587.33.

The Plan Owner's Death occurs in 2033. The Plan Balance is \$211,917.46. The Required Minimum Distribution is \$13,001.07 (indicated in red on the Summary Report).

The Plan is "rolled over to the Spouse" in year 2034. The Plan Balance is \$208,862.21. The Divisor is now her life expectancy of 17.9. Her first Required Minimum Distribution is \$11,668.28.

The spouse's death occurs in 2041. The Plan Balance is \$183,897.15. The 2041 Required Minimum Distribution is \$14,480.09.

The Plan is then "split" among the five beneficiaries beginning in year 2042. The distribution for each child is calculated using their Birth Year.

**Note:** This Plan is "Stretched" over the life expectancies of the surviving spouse and then the individual life expectancies of the children with the final distribution made to the youngest child in the year 2067. With a projected 5% annual growth rate, the plan distributes \$567,027.37 over the lives of all beneficiaries.

## Case 3: Inherited IRA – Five Beneficiaries

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

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

- 1) Enter the original (now deceased) Owner's and Beneficiary's birth dates (1/1/50 and 1/1/77) on the main input screen.
- 2) Check the check box labeled Assume Death Occurs.
- 3) Click the button labeled Benef. Info.
- 4) Click Entered Year for the owner, and enter the year of death (2005).
- 5) The Spousal Rollover" fields are grayed out because the Beneficiary was not the Spouse.

Under "Beneficiaries at Owner's Death" complete the names, percentage, and birth year of up to five beneficiaries. We entered: Jane, 20%, 1977 (is taken from the main screen); Janet, 20%, 1978; Jean, 20%, 1979; Jenn, 20%, 1980; and Jerry, 20%, 1982.

Click OK to close the Beneficiary Information window.

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

|  |  |
|--|--|
| First Year of Analysis:                                  | 2005   |
| Type of Plan:  | Normal   |
| Year of First Required Distrib:                          | 2006   |
| 12/31/2004 Plan Balance:                                 | \$100,000.00                                     |
| Expected Plan Growth:                                    | 5.0000%  |
| Is there a Designated Benef.?:                           | Yes  |
| Owner's Birth Date:                                      | 1/1/1950   |
| Beneficiary's Birth Date:                                | 1/1/1977   |
| Beneficiary is Spouse?:                                  | No   |
| <input checked="" type="checkbox"/> Assume Death Occurs: | <input checked="" type="checkbox"/> Benef. Info. |

| Beneficiary Information   |       |   |   |  |
|---|-------|---|---|--|
| <b>Owner's Year of Death</b>  |       | <b>Beneficiary's Year of Death</b>  |   |  |
| <input type="radio"/> No Death - Owner Survives Analysis<br><input type="radio"/> Calculated Year of Death (2033)<br><input checked="" type="radio"/> Entered Year 2005 |       | <input type="radio"/> No Death - Beneficiary Survives Analysis<br><input checked="" type="radio"/> Calculated Year of Death (2059)<br><input type="radio"/> Entered Year 2010 |   |  |
| <b>Spousal Rollover</b>   |       |   |   |  |
| Does the Spouse Rollover the Plan?: <input type="checkbox"/> Yes  |       |   |   |  |
| Year Spousal Rollover Occurs: <input type="text" value="2005"/>   |       |   |   |  |
| Recalc. Spouse's Life Exp. After Rollover?: <input type="checkbox"/> Yes  |       |   |   |  |
| Does the Spouse Name a Beneficiary?: <input type="checkbox"/> Yes   |       |   |   |  |
| <b>Beneficiaries At Owner's Death</b>   |       |   |   |  |
|   | Name  | Percentage  | Birth Year  | The first beneficiary is the same as the one entered on the main input screen of the program. If the plan is split at death among multiple beneficiaries, enter them here. |
| 1.  | Jane  | 20.00%  | 1977  |  |
| 2.  | Janet | 20.00%  | 1978  |  |
| 3.  | Jean  | 20.00%  | 1979  |  |
| 4.  | Jenn  | 20.00%  | 1980  |  |
| 5.  | Jerry | 20.00%  | 1982  |  |
| <input checked="" type="checkbox"/> Apply Separate Accounts Rule  |       |   | <input type="checkbox"/> Delay Separate Accounts 1 Year |  |
| <input checked="" type="checkbox"/> OK  |       | <input type="checkbox"/> Cancel   |   | <input type="checkbox"/> ? Help  |

### Inherited IRAs Calculations

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

### Results:

Because the Plan Owner was only 55 at his death, there were no Required Minimum Distributions being taken from the account.

View the Beneficiaries Report to see the annual distributions for each beneficiary:

Year 2006 Jane receives \$386.74 – over her life expectancy of 54.3, her total distributions are \$101,695.  
 Year 2006 Janet receives \$379.75 – over her life expectancy of 55.3, her total distributions are \$105,229.  
 Year 2006 Jean receives \$373.67 – over her life expectancy of 56.2, her total distributions are \$108,520.  
 Year 2006 Jenn receives \$367.13 – over her life expectancy of 57.2, her total distributions are \$112,321.  
 Year 2006 Jerry receives \$355.33 – over his life expectancy of 59.1, his total distributions are \$119,949.

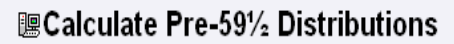
### Sample from the Beneficiaries Report:

| Year | Total Balance | Jane |          | Janet |          | Jean |          | Jenn |          | Jerry |          |
|------|---------------|------|----------|-------|----------|------|----------|------|----------|-------|----------|
|      |               | LE   | Distrib. | LE    | Distrib. | LE   | Distrib. | LE   | Distrib. | LE    | Distrib. |
| 2006 | \$105,000.00  | 54.3 | \$386.74 | 55.3  | \$379.75 | 56.2 | \$373.67 | 57.2 | \$367.13 | 59.1  | \$355.33 |
| 2007 | \$108,294.24  | 53.3 | \$406.08 | 54.3  | \$398.73 | 55.2 | \$392.35 | 56.2 | \$385.49 | 58.1  | \$373.10 |
| 2008 | \$111,655.42  | 52.3 | \$426.38 | 53.3  | \$418.67 | 54.2 | \$411.97 | 55.2 | \$404.76 | 57.1  | \$391.75 |
| 2009 | \$115,081.98  | 51.3 | \$447.70 | 52.3  | \$439.60 | 53.2 | \$432.56 | 54.2 | \$425.00 | 56.1  | \$411.34 |
| 2010 | \$118,572.08  | 50.3 | \$470.09 | 51.3  | \$461.58 | 52.2 | \$454.19 | 53.2 | \$446.25 | 55.1  | \$431.91 |
| 2011 | \$122,123.46  | 49.3 | \$493.59 | 50.3  | \$484.66 | 51.2 | \$476.90 | 52.2 | \$468.57 | 54.1  | \$453.50 |
| 2012 | \$125,733.56  | 48.3 | \$518.27 | 49.3  | \$508.90 | 50.2 | \$500.75 | 51.2 | \$491.99 | 53.1  | \$476.18 |

## Case 4: Pre-59½ Distributions

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

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



Enter the Starting Date: 1/2005

Enter the 1/2005 Balance: \$100,000

Owner's Birthdate: 1/1/1950

### New Feature: Recalculate Each Year?

Yes/No

Private Letter Rulings

Private Letter Rulings 200432021, 20043223 and 200432024 are supported.

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

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

The Goal Button results tell us the highest possible distribution for this case is \$6,200. We will use these results. Now we will apply the new Private Letter Rulings (mentioned above) by answering "Yes" to the "Recalculate Each Year".

| Starting Date (mm/yyyy): |     | Amortization Method |           | Comparison   |  | 2005 |  |
|--------------------------|-----|---------------------|-----------|--------------|--|------|--|
| Date                     | Age | Balance             | Life Exp. | Distribution |  |      |  |
| 2/2005                   | 55  | \$100,000.00        | 29.6      | \$6,200.75   |  |      |  |
| 2/2006                   | 56  | \$101,303.19        | 28.7      | \$6,377.24   |  |      |  |
| 2/2007                   | 57  | \$102,520.03        | 27.9      | \$6,545.87   |  |      |  |
| 2/2008                   | 58  | \$103,652.09        | 27.0      | \$6,730.26   |  |      |  |
| 2/2009                   | 59  | \$104,675.58        | 26.1      | \$6,918.68   |  |      |  |

Starting Date (mm/yyyy): 2/2005  
 Distribution Year: 2005  
 Distribution Frequency: Annual  
 Calculation Method: Rul. 2002-62 FAQ  
 Distribution Method: Amortization  
 Recalculate Each Year?: Yes  
 2/2005 Balance: \$100,000.00  
 Expected Plan Growth: 8.00%  
 Joint or Single Life Exp.?: Single  
 Owner's Birth Date: 1/1/1950  
 Use Maximum Interest Rate?: Yes  
 "Reasonable" Interest Rate: 4.53%  
 Use Uniform Lifetime Table?: No

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

All distributions after 2005 are estimates and will have to be recalculated based on each year's new interest rates and balance. This projection assumes distributions are recalculated in February of each year.

Pre-59½ Distributions

Starting Date (mm/yyyy): 1/2005  
 Distribution Year: 2005  
 Distribution Frequency: Annual  
 Calculation Method: Rev. Rul. 2002-62  
 Distribution Method: Annuitization  
 Recalculate Each Year?: No  
 1/2005 Balance: \$100,000.00  
 Expected Plan Growth: 8.00%  
 Joint or Single Life Exp.?: Single  
 Owner's Birth Date: 1/1/1950  
 Use Maximum Interest Rate?: Yes  
 "Reasonable" Interest Rate: 4.28%  
 Use Uniform Lifetime Table?: No

| Date   | Age | Balance      | Factor  | Distribution |
|--------|-----|--------------|---------|--------------|
| 1/2005 | 55  | \$100,000.00 | 16.8778 | \$5,924.94   |
| 1/2006 | 56  | \$101,601.06 | 16.8778 | \$5,924.94   |
| 1/2007 | 57  | \$103,330.21 | 16.8778 | \$5,924.94   |
| 1/2008 | 58  | \$105,197.69 | 16.8778 | \$5,924.94   |
| 1/2009 | 59  | \$107,214.57 | 16.8778 | \$5,924.94   |

Use Pre-59½ Distributions OK Print Goal Help

Leave this window and return to the program

Pre-59½ Assistant

What Distribution Would You Like?

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

As much as possible  
 A specific dollar amount each year

Calculated Yearly Distribution: \$6,200

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

Recalculating the Amortization Method in 2006 results in a higher distribution and uses the 28.7 life expectancy.

## Use the Maximum Interest Rate?

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

## Results:

- **Amortization Method** (your Plan Owner wanted to take out as much as he could.)
- "Reasonable Interest Rate" as defined under the Final regulations.
- **Side-by-side** comparisons of all three methods allowable.
- **Yearly report**; in our case, 2005

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

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

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

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

### Results:

**Distributions** can be reduced to \$3,378.38 for the year 2005.

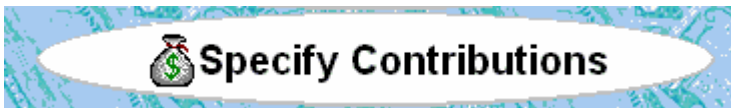
**Note:** Distributions calculated using the Minimum Distributions Method must be recalculated each year.

| Year   | Min. Dist. Method | Amortization Method | Annuitization Method |
|--------|-------------------|---------------------|----------------------|
| 2005   | \$3,378.38        | \$5,587.68          | \$5,720.50           |
| 2006   | \$3,534.94        | \$5,631.80          | \$5,755.57           |
| 2007   | \$3,685.08        | \$5,664.44          | \$5,789.09           |
| 2008   | \$3,855.00        | \$5,708.03          | \$5,820.92           |
| 2009   | \$4,032.24        | \$5,751.29          | \$5,851.02           |
| Total: | \$18,485.64       | \$28,343.24         | \$28,937.10          |

## Other Features



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



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

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