

## **ELIMINATE MINIMUM REQUIRED DISTRIBUTION (MRD) RULES FOR INDIVIDUAL RETIREMENT ACCOUNT OR ANNUITY (IRA) PLAN BALANCES OF \$75,000 OR LESS**

### **Current Law**

The MRD rules generally require participants in tax-favored retirement plans, including qualified plans under section 401(a), section 401(k) cash or deferred arrangements, section 403(a) annuity plans, section 403(b) programs for public schools and charitable organizations, eligible deferred compensation plans under section 457(b), Simplified Employee Pensions (SEPs), and SIMPLE plans, as well as owners of IRAs, to begin receiving distributions shortly after attaining age 70½. The rules also generally require that these retirement assets be distributed to the plan participant or IRA owner (or their spouses or other beneficiaries), in accordance with regulations, over their life or a period based on their life expectancy (or the joint lives or life expectancies of the participant/owner and beneficiary).<sup>13</sup> Roth IRAs are not subject to the MRD rules during the life of the Roth IRA holder, but the MRD rules do apply to Roth IRAs after the death of the holder.

If a participant or account owner fails to take, in part or in full, the minimum required distribution for a year by the applicable deadline, the amount not withdrawn is subject to a 50-percent excise tax.

### **Reasons for Change**

The MRD rules are designed largely to prevent taxpayers from deferring taxation of amounts that were accorded tax-favored treatment to provide financial security during retirement and instead leaving them to accumulate in tax-exempt arrangements for the benefit of their heirs. Therefore, in the case of taxpayers who have accumulated substantial tax-favored retirement assets, the MRD rules help ensure that tax-favored retirement benefits are in fact used for retirement. Under current law, however, millions of senior citizens with only modest tax-favored retirement benefits to fall back on during retirement also must calculate the annual amount of their minimum required distributions, even though they are highly unlikely to try to defer withdrawal and taxation of these benefits for estate planning purposes. In addition to simplifying tax compliance for these individuals, the proposal permits them greater flexibility in determining when and how rapidly to draw down their limited retirement savings.

### **Proposal**

The proposal would exempt an individual from the MRD requirements if the aggregate value of the individual's IRA<sup>14</sup> and tax-favored retirement plan accumulations does not exceed \$75,000

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<sup>13</sup> Participants in tax-favored retirement plans (excluding IRAs) other than owners of at least 5 percent of the business sponsoring the retirement plan may wait to begin distributions until the year of retirement, if that year is later than the year in which the participant reaches age 70 ½.

<sup>14</sup> While Roth IRAs are exempt from the pre-death MRD rules, amounts held in Roth IRAs would be taken into account in determining whether an individual's aggregate retirement accumulations exceed the \$75,000 threshold.

(indexed for inflation) on a measurement date. However, benefits under qualified defined benefit pension plans that have already begun to be paid in life annuity form (including any form of life annuity, such as a joint and survivor annuity, a single life annuity, or a life annuity with a term certain) would be excluded. The MRD requirements would phase in ratably for individuals with aggregate retirement benefits between \$75,000 and \$85,000. The initial measurement date for the dollar threshold would be the beginning of the calendar year in which the individual reaches age 70½ or, if earlier, in which the individual dies, with additional measurement dates only at the beginning of the calendar year immediately following any calendar year in which the individual's IRAs or plans receive contributions, rollovers, or transfers of amounts that were not previously taken into account.

The proposal would be effective for taxpayers attaining age 70½ on or after December 31, 2012.