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*Analysis Focus:*

***72(t) Early Distribution***

**Analysis Prepared For :**

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**Joe & Susan Early**

**Analysis Prepared By :**

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***72(t) Sample***

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## 72(t) Early Distribution Analysis

### Important Disclosure....

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#### **Important information regarding computations**

This report contains very specific computations concerning the value of retirement assets today, the value of retirement assets in the future, and the taxes which may be assessed against these assets at any given point in time. These computations are based upon assumptions concerning the value of assets today, the rate at which assets will appreciate, life expectancies, and the rates for income and estate taxation. These assumptions are only a "best guess" and must be carefully reviewed to determine if they are reasonable. The actual values, life expectancies, rates of growth and tax rates may be significantly different from those illustrated. The actual taxes due may be significantly greater or smaller than those illustrated.

This report demonstrates a planning strategy for retirement assets that are potentially subject to income and estate taxes. There are a number of techniques, which are beyond the scope of this report. One or more of these techniques if appropriate, and if used in conjunction with the techniques explored herein, might reduce taxes below those illustrated by this program.

#### **Important information regarding the role of the attorney and the financial services professional in estate planning**

The software used to produce this report has been designed to assist the financial services professional in educating clients on important decisions that may affect their retirement assets. The role of the financial services professional is to help the client meet current and future financial needs through the use of life insurance, investments and other financial products. In order to determine the amount of these needs, the financial services professional must discuss with the client certain legal and tax planning concepts. Estate planning for retirement assets involves an in-depth analysis of financial and legal issues, which should be coordinated with the client's tax advisors. By using the software that produces this report, financial service professionals can illustrate various planning scenarios to assist the client and their tax advisors in establishing the most appropriate retirement distribution plan. Since this type of planning involves the application of technical tax laws to a client's unique situation, the client's tax advisors should be consulted in determining the suitability of any particular planning technique. This type of planning may involve the preparation of legal documents that only an attorney can implement.

## 72(t) Early Distribution Analysis

### Client Profile Summary

#### Analysis Info

72(t) Early Distribution Sample

Analysis Date 10/12/2004

#### Client Info :

Client Joe Early  
Date Of Birth 10/12/1954  
Age 12/31 50

#### Spouse Info :

Spouse Susan Early  
Date Of Birth 10/12/1959  
Age 12/31 45

#### Account(s) Information :

IRA Account IRA Account  
Balance - 10/12/2004 \$177,674  
72(t) Reasonable ROI 4.36%

#### Account(s) First Year Activity

IRA ROI 6.00%

#### Minimum Distribution Method:

Uniform Life Time Table

#### Amortization Method

Amortize Over 34.2 Years Single Life Expectancy

#### Annuitization Method

Annuity Factor 17.7674

#### Options & Flags :

72(t) ROI used only to establish initial amortization and annuity factors.

## 72(t) Early Distribution Analysis

### Multi-Year Comparison of 72(t) Early Distribution Methods

Age Client	Spouse Beneficiary	<u>Minimum Distribution Method</u>				<u>Amortization Method</u>			<u>Annuitization Method</u>		
		Lx	72(t) Distribution	Interest Earned	Ending IRA Balance	72(t) Distribution	Interest Earned	Ending IRA Balance	72(t) Distribution	Interest Earned	Ending IRA Balance
50	45	34.2	5,195	10,349	182,828	9,670	10,080	178,085	10,000	10,060	177,734
51	46	33.3	5,490	10,640	187,978	9,670	10,105	178,520	10,000	10,064	177,799
52	47	32.3	5,820	10,929	193,087	9,670	10,131	178,981	10,000	10,068	177,866
53	48	31.4	6,149	11,216	198,154	9,670	10,159	179,470	10,000	10,072	177,939
54	49	30.5	6,497	11,499	203,157	9,670	10,188	179,989	10,000	10,076	178,015
55	50	29.6	6,863	11,778	208,071	9,670	10,219	180,538	10,000	10,081	178,096
56	51	28.7	7,250	12,049	212,870	9,670	10,252	181,121	10,000	10,086	178,182
57	52	27.9	7,630	12,314	217,555	9,670	10,287	181,738	10,000	10,091	178,272
58	53	27.0	8,058	12,570	222,067	9,670	10,324	182,392	10,000	10,096	178,369
59	54	26.1	8,508	12,814	226,373	9,670	10,363	183,086	10,000	10,102	178,471
60	55	25.2	8,983	13,043	230,433	9,670	10,405	183,822	10,000	10,108	178,579
61	56	24.4	9,444	13,259	234,248	9,670	10,449	184,601	10,000	10,115	178,694
62	57	23.5	9,968	13,457	237,737	9,670	10,496	185,427	10,000	10,122	178,816
63	58	22.7	10,473	13,636	240,900	9,670	10,545	186,303	10,000	10,129	178,945
64	59	21.8	11,050	13,791	243,640	9,670	10,598	187,231	10,000	10,137	179,081
65	60	21.0	11,602	13,922	245,961	9,670	10,654	188,215	10,000	10,145	179,226
66	61	20.2	12,176	14,027	247,812	9,670	10,713	189,259	10,000	10,154	179,380
67	62	19.4	12,774	14,102	249,140	9,670	10,775	190,364	10,000	10,163	179,543
68	63	18.6	13,395	14,145	249,890	9,670	10,842	191,536	10,000	10,173	179,715
69	64	17.8	14,039	14,151	250,002	9,670	10,912	192,779	10,000	10,183	179,898
70	65	17.0	14,706	14,118	249,414	9,670	10,987	194,096	10,000	10,194	180,092
71	66	16.3	15,301	14,047	248,160	9,670	11,066	195,491	10,000	10,206	180,298
72	67	15.5	16,010	13,929	246,078	9,670	11,149	196,971	10,000	10,218	180,516
73	68	14.8	16,627	13,767	243,218	9,670	11,238	198,540	10,000	10,231	180,746
74	69	14.1	17,250	13,558	239,527	9,670	11,332	200,202	10,000	10,245	180,991
75	70	13.4	17,875	13,299	234,951	9,670	11,432	201,964	10,000	10,259	181,251
76	71	12.7	18,500	12,987	229,438	9,670	11,538	203,832	10,000	10,275	181,526
77	72	12.1	18,962	12,629	223,105	9,670	11,650	205,813	10,000	10,292	181,817
78	73	11.4	19,571	12,212	215,746	10,139	11,740	207,414	10,000	10,309	182,126
79	74	10.8	19,976	11,746	207,516	10,637	11,807	208,584	10,000	10,328	182,454

## 72(t) Early Distribution Analysis

### Multi-Year Comparison of 72(t) Early Distribution Methods

Age Client	Spouse Beneficiary	Lx	Minimum Distribution Method			Amortization Method			Annuitization Method		
			72(t) Distribution	Interest Earned	Ending IRA Balance	72(t) Distribution	Interest Earned	Ending IRA Balance	72(t) Distribution	Interest Earned	Ending IRA Balance
80	75	10.2	20,345	11,230	198,401	11,154	11,846	209,276	10,000	10,347	182,801
81	76	9.7	20,454	10,677	188,624	11,691	11,855	209,440	10,212	10,355	182,944
82	77	9.1	20,728	10,074	177,970	12,248	11,832	209,023	10,699	10,335	182,581
83	78	8.6	20,694	9,437	166,713	12,824	11,772	207,972	11,201	10,283	181,662
84	79	8.1	20,582	8,768	154,899	13,418	11,673	206,227	11,720	10,197	180,138
85	80	7.6	20,381	8,071	142,588	13,934	11,538	203,831	12,172	10,078	178,045
86	81	7.1	20,083	7,350	129,856	14,456	11,362	200,737	12,627	9,925	175,343
87	82	6.7	19,381	6,628	117,103	14,980	11,145	196,902	13,085	9,735	171,993
88	83	6.3	18,588	5,911	104,426	15,504	10,884	192,282	13,543	9,507	167,957
89	84	5.9	17,699	5,204	91,930	16,023	10,576	186,834	13,996	9,238	163,198
90	85	5.5	16,715	4,513	79,729	16,389	10,227	180,672	14,316	8,933	157,816
91	86	5.2	15,332	3,864	68,260	16,729	9,837	173,779	14,613	8,592	151,795
92	87	4.9	13,931	3,260	57,589	17,037	9,405	166,147	14,882	8,215	145,128
93	88	4.6	12,519	2,704	47,774	17,307	8,930	157,770	15,118	7,801	137,811
94	89	4.3	11,110	2,200	38,864	17,337	8,426	148,859	15,144	7,360	130,027
95	90	4.1	9,479	1,763	31,148	17,309	7,893	139,443	15,119	6,894	121,802
96	91	3.8	8,197	1,377	24,328	17,215	7,334	129,561	15,037	6,406	113,171
97	92	3.6	6,758	1,054	18,624	17,048	6,751	119,264	14,891	5,897	104,177
98	93	3.4	5,478	789	13,935	16,798	6,148	108,615	14,673	5,370	94,874
99	94	3.1	4,495	566	10,007	16,211	5,544	97,948	14,160	4,843	85,557
			<b>659,091</b>	<b>491,424</b>		<b>597,138</b>	<b>517,412</b>		<b>567,207</b>	<b>475,090</b>	

## 72(t) Early Distribution Analysis

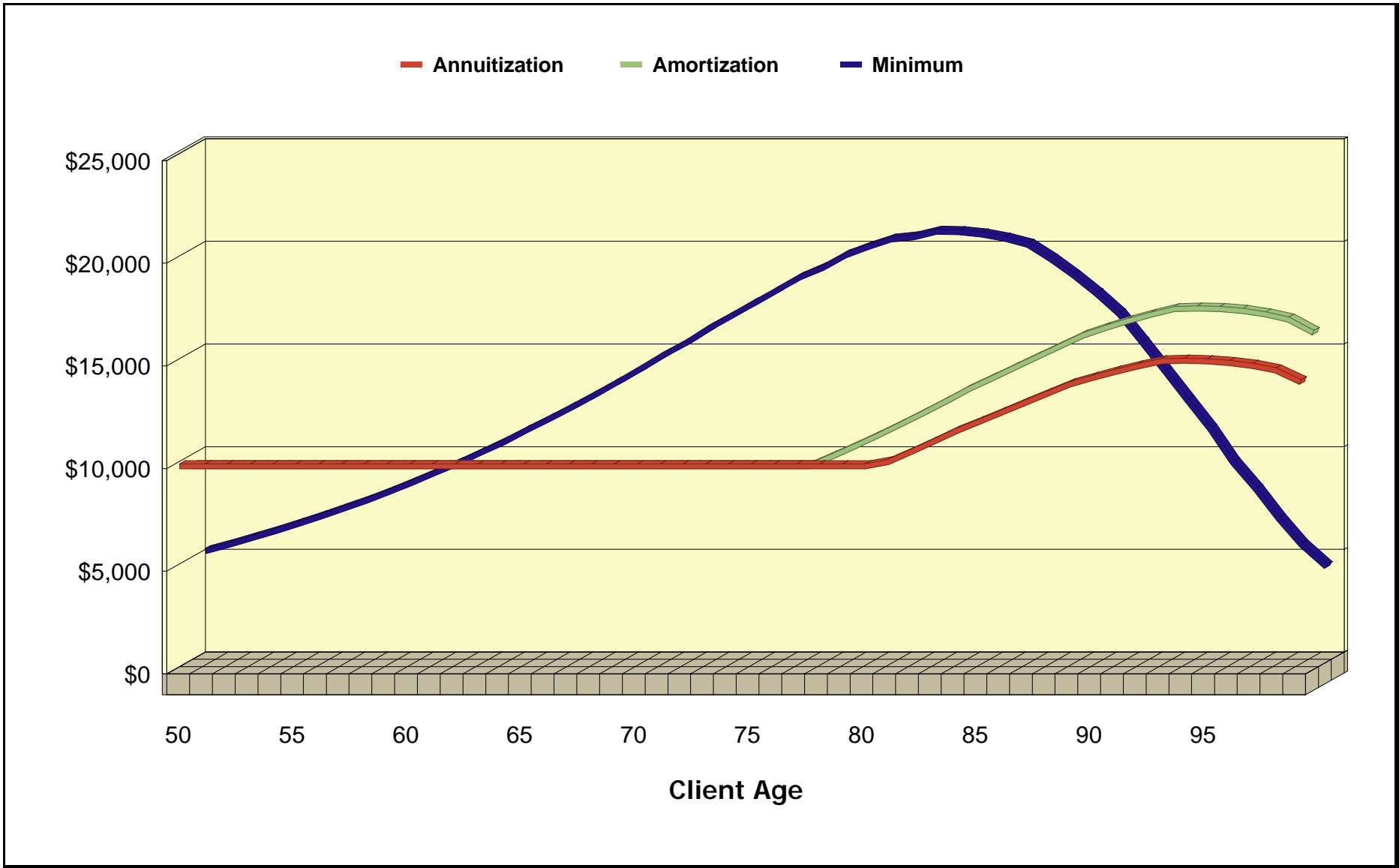
### Column Definitions

1. Client's Age	The client's current age.
2. Spouse's Age	The spouse's current age.
3. Life Expectancy	Life Expectancy based on published IRS tables.
4. Minimum Distribution Withdrawals	The annual amount that must be distributed by December 31 of each year from the IRAs used in this case. The distribution amount is determined using the minimum distribution method chosen and published IRS mortality tables.
5, 8, 11. Hypothetical Investment Earned on IRA Accounts	The hypothetical gross annual growth of IRA Accounts.
6, 9, 12. Ending IRA Balance	The IRAs Beginning Balance plus the cumulative Annual IRAs Earnings (5, 8, 11) minus the Minimum Distribution Required (4, 7, 10).
7. Amortization Withdrawals LX	The annual substantially equal amounts that must be distributed by December 31 of each year from the IRAs used in this case. The distribution amount is determined by one of three amortization methods: equal withdrawals over a single life expectancy, joint life expectancy, or a certain number of years.
10. Annuitization Withdrawals Ann. Fact. = [8.6818]	The annual amount that must be distributed by December 31 of each year from the IRAs used in this case. The distribution amount is determined by an annuity factor based on the client's age and a reasonable interest rate.

See Definitions For A More Detailed Explanation

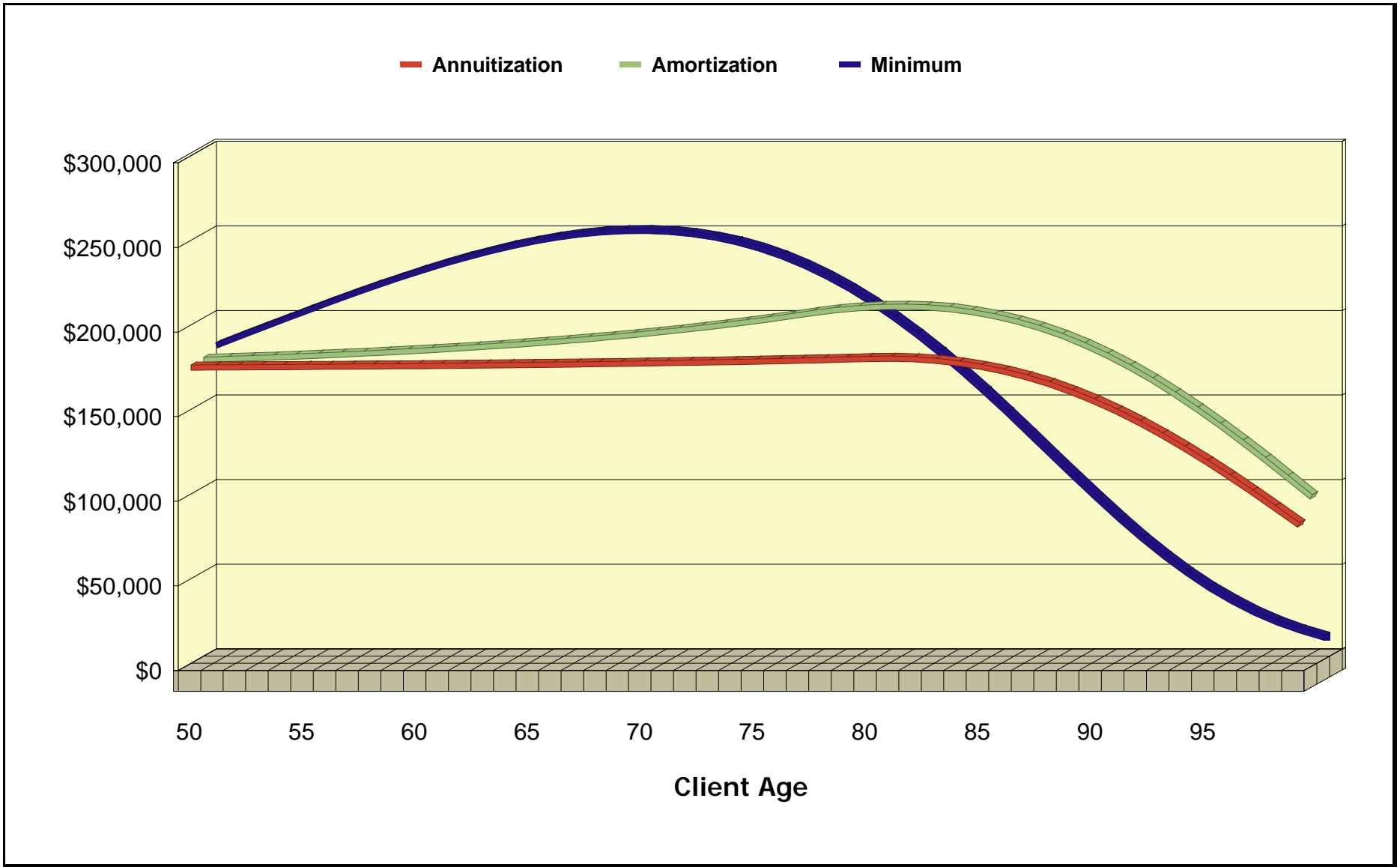
# 72(t) Early Distribution Analysis

## Annual Distribution Comparison



## 72(t) Early Distribution Analysis

### Annual IRA Account Balance Comparison



## 72(t) Early Distribution Analysis

### Questions & Answers

#### What is 72(t)?

*Tax laws tend to discourage distributions from tax favored accounts prior to retirement. Generally, a person under age 59 ½, receiving a distribution from a qualified retirement plan or IRA for reasons other than death or disability, will be subject to a ten-percent federal tax penalty. However, one can avoid the penalty if IRA distributions take the form of substantially equal periodic payments that qualify under Internal Revenue Code (IRC) Section 72(t)(2)(A)(iv). This section is usually referred to as "72(t)."*

#### What are Substantially Equal Periodic Payments?

Substantially equal periodic payments are a series of payments (not less frequently than annually) made for the life (or the life expectancy) of the account owner or joint lives (of life expectancy) of the account owner and beneficiary.

#### How long must Periodic Payments need to continue?

To be exempt from the ten-percent penalty tax on early distributions, the series of substantially equal periodic payments must continue unaltered from the date benefits begin until the later of five years or the account owner's attainment of age 59 1/2. In other words, both of these conditions must be met.

#### What happens if Payments are altered prior to end of the period?

If the periodic payments are altered (reduced, increased or stopped) prior to the later of five years from the date the payments begin or the account owner's attainment of age 59 ½ (except in cases of death or disability), then the ten-percent penalty tax on early distributions plus interest applies retroactively to all previous payments.

#### Do Payments need to continue after the specified period?

No. The series payments may be stopped, increased or decreased after the later of five years from the date substantially equal periodic payments begin or the account owner's attainment of age 59 1/2.

#### Do you need to consider the balances of all your IRA's when determining Substantially Equal Periodic Payments?

No. When determining the payment schedule, use the balance of the IRA from which the substantially equal periodic payments will be taken.

#### What Calculation Methods may be used?

Revenue Ruling 2002-62 provides three methods of calculating substantially equal period payments: the Minimum Distribution Method, the Level Income Amortized Method and the Level Annuity Method. The IRS indicates that the calculation methods described in Rev. Ruling 2002-62 do not represent the only methods that can qualify as substantially equal periodic payments. However, the IRS has not described alternative methods that qualify as substantially equal periodic payments. In the absence of a private letter ruling, the safe-harbor to use is one of the three methods described in Rev. Ruling 2002-62.

#### How are Payments Calculated under the Minimum Distribution Method?

Under the Minimum Distribution Method, the payment is based upon the life expectancy of the account owner, the joint life expectancy of the account owner and beneficiary, or a uniform lifetime table.

#### How are Payments Calculated under the Level Income Annuity Method?

Under the Level Income Annuity Method, the payment is calculated by dividing the account owner's account balance by an annuity factor derived using a reasonable interest rate on the date payments commence.

#### How are Payments Calculated under the Level Income Amortized Method?

Under the Level Income Amortized Method, payments are determined by amortizing the account owner's account balance at an interest rate that does not exceed a reasonable interest rate on the day payments commence. The amortization period is based upon the life expectancy of the account owner, the joint life expectancy of the account owner and beneficiary, or a uniform lifetime table.

#### What rate of interest should be used when calculating payments?

The IRS, in Revenue Ruling 2002-62, stated the interest rate that may be used cannot be more than 120 percent of the federal mid-term rate for either of the two months immediately preceding the month in which the distribution begins.

## **72(t) Early Distribution Analysis**

### **Definitions**

The Internal Revenue Code discourages early withdrawals of benefits by imposing a 10% penalty on taxable distributions from qualified retirement plans or IRAs before age 59 1/2, unless an exception applies.

Taking distributions in substantially equal periodic payments is an exception under IRC Sec. 72(t). The 10% penalty is not applicable to payments that are part of a series of substantially equal periodic payments (not less frequently than annually) made for the life (or life expectancy) of the IRA owner or the joint lives (or joint life expectancies) of an IRA owner and his/her designated beneficiary.

IRS Notice 89-25 indicates that three methods are available to determine the substantially equal payment amount.

### **Method 1 - Minimum Distribution under IRC Sec. 401 (a) (9).**

- \* See the Minimum Distribution Definitions.

### **Method 2 - Amortization based on:**

- \* The IRA owner's account balance.
- \* The life expectancy of the IRA owner or the life expectancy of the IRA owner and his/her designated beneficiary.
- \* A reasonable rate of interest on the date payments commence.

### **Method 3 - Annuitization based on:**

- \* The IRA owner's account balance.
- \* An annuity factor using a reasonable mortality table and a reasonable interest rate.

The substantially equal payments to the IRA owner must continue for a 5-year period or until the IRA owner attains 59 1/2, whichever is later. These payments may not be subsequently modified (other than reason of death or disability) before the close of at least a 5-year period beginning with the date of the first payment.

## 72(t) Early Distribution Analysis

### Terms & Definitions

*"Table 1" and "Table 2" are referred to in all the following definitions. They are life expectancy tables found in IRS Publication 590 and are the basis for calculating minimum distribution requirements from qualified retirement plans. Publication 590 can be obtained from any IRS office. In the year of distribution, reference will be made to attained ages on the last day of the distribution year and corresponding expected return multiples (life expectancy). If both an IRA account balance and a qualified plan (i.e., 401(a) or TSA) account balance exist, a minimum distribution must be taken from both the IRA account and the qualified plan accounts.*

#### **General Rule - Life Expectancy Table (formerly known as the MDIB Table)**

This is the table used during the account owner's life, except in cases where the owner is more than 10 years older than their spouse beneficiary. The general table provides a life expectancy factor for any given owner's age. These life expectancy factors are actually joint life expectancy factors derived from the joint life table, using the ages of two lives, the client's age and a second age 10 years younger than the client's.

#### **Recalculate Single Life Expectancy**

This option is used when the spouse has inherited an IRA, after the death of the owner, and while the spouse is still alive. This assumes that the spouse leaves the owner's account intact, i.e., the spouse does not take ownership of the account and retitle account in own name.

#### **Single Term Certain Life Expectancy**

This option is used after death of the spouse, in case of inherited IRA (i.e., not retitled), and after death of the owner when beneficiary is not the spouse. Life expectancy is read from Table 1 only in the first year of distribution to the non-owner. Years of life expectancy are then decreased by one in each subsequent year.

#### **Joint Recalculate Life Expectancy for Both Client and Beneficiary**

This option is used when the spouse is the named beneficiary, and the spouse is at least 10 years younger than the owner. Each year after the required beginning date, life expectancy will be read from Table 2 using the owner's and spouse's ages.

#### **Qualified Plans**

For this analysis, the term "qualified plans" includes Internal Revenue Code Section 401(a) plans (defined benefit, profit sharing, money purchase, etc.), 401(k) plans, 403(b) plans (TSAs), 408(a) plans (IRAs), 408(k) plans (SEP and SARSEP) and 408(p) plans (SIMPLE).