



Retirement, Distribution & Estate Planning Software
by Clarity Software, LLC.

72(t) Early Distribution Analysis

Prepared For :

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Prepared By :

72(t) Sample

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72(t) Early Distribution Analysis

Important Disclosure

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 income 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

Analysis - Initial Data, Assumptions & Options

Analysis Info

Analysis Date : 10/12/2004
Description : 72(t) Early Distribution Sampl

Account Info As Of 10/12/2004

Balance : \$177,674.39
72(t) ROI : 4.36%
Projected ROI : 6.00%

Client Info

Client : Joe Early
DOB / Age : 10/12/1954 / 50

Spouse Info

Spouse : Susan
DOB / Age : 10/12/1959 / 45

Amortization Method

___ Amortize Over Single Life Expectancy (34.2 Years)	\$9,669.67
___ Amortize Over Joint Life Expectancy (43.2 Years)	\$8,818.43
___ Amortize Over Uniform Life Expectancy (46.5 Years)	\$8,605.90

Annuitization Method

___ Annuitize using IRS Mortality Table (Rev. Ruling 2002-62) Annuity Factor (17.7674)	\$10,000.00
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Required Minimum Distribution (RMD) Method

___ Single Life Expectancy Table (34.2 Years)	\$5,195.16
___ Joint Life Expectancy Table (43.2 Years)	\$4,112.83
___ Uniform Life Expectancy Table (46.5 Years)	\$3,820.95

Important Info Regarding the 72(t) Distribution Calculations

In performing the Substantially Equal Periodic Payment (SEPP) distribution calculations for the methods illustrated above, the following guidelines were used and should be followed :

- 1.) The calculations were performed consistent with Revenue Ruling 2002-62.
- 2.) SEPP distributions must be continued for a minimum of 5 years and until attaining the age of 59 ½.
- 3.) The Amortization and Annuitization Methods use 120% of the Federal-Mid Term interest rate in their calculation, are a fixed amount, and are independent of any future earnings and/or losses.
- 4.) If the Amortization or Annuitization Method is chosen there may be a one-time eligibility to switch to the RMD Method.
- 5.) If the RMD Method is chosen, the amount must be recalculated each year using the same life expectancy table.

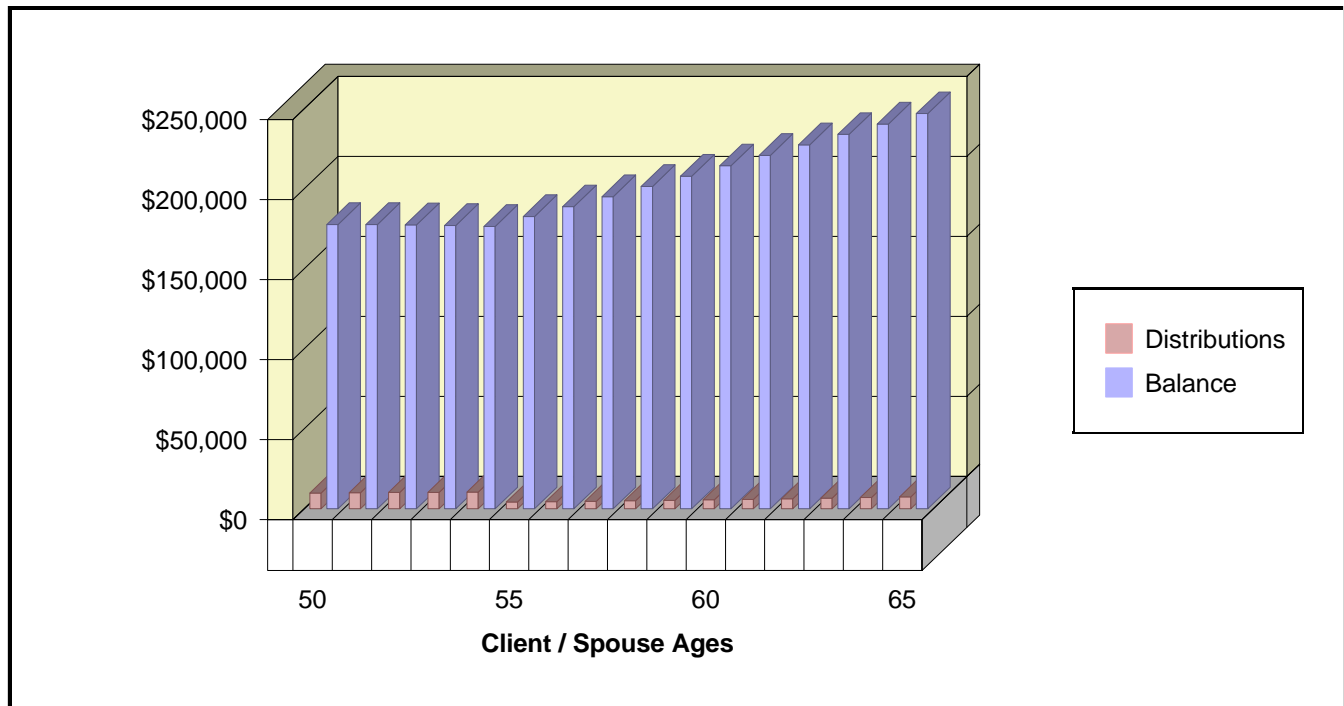
Please consult a tax practitioner if you have any questions or concerns regarding the SEPP distribution amounts illustrated above.

72(t) Early Distribution Analysis

Annuitization Distribution Ledger

Year	Age	Annuity Factor / LX	Annual 72(t) Distributions	Account Earnings	Pension / IRA Year End Balance
				Starting Balance ==>	\$177,674.39
2004	50	17.7674	\$10,000.00	\$10,060.46	\$177,734.85
Important Notice: Additional data below is hypothetical and should be reviewed yearly!					
2005	51	17.5408	10,133	10,056	177,658
2006	52	17.3077	10,265	10,044	177,437
2007	53	17.0682	10,396	10,022	177,064
2008	54	16.8220	10,526	9,992	176,531
2009	55	41.6	4,244	10,337	182,624
2010	56	40.7	4,487	10,688	188,825
2011	57	39.7	4,756	11,044	195,113
2012	58	38.7	5,042	11,404	201,476
2013	59	37.8	5,330	11,769	207,915
2014	60	36.8	5,650	12,136	214,401
2015	61	35.8	5,989	12,505	220,916
2016	62	34.9	6,330	12,875	227,462
2017	63	33.9	6,710	13,245	233,997
2018	64	33.0	7,091	13,614	240,520
2019	65	32.0	7,516	13,980	246,984
			114,463	183,773	

Distribution & Account Balance Graph



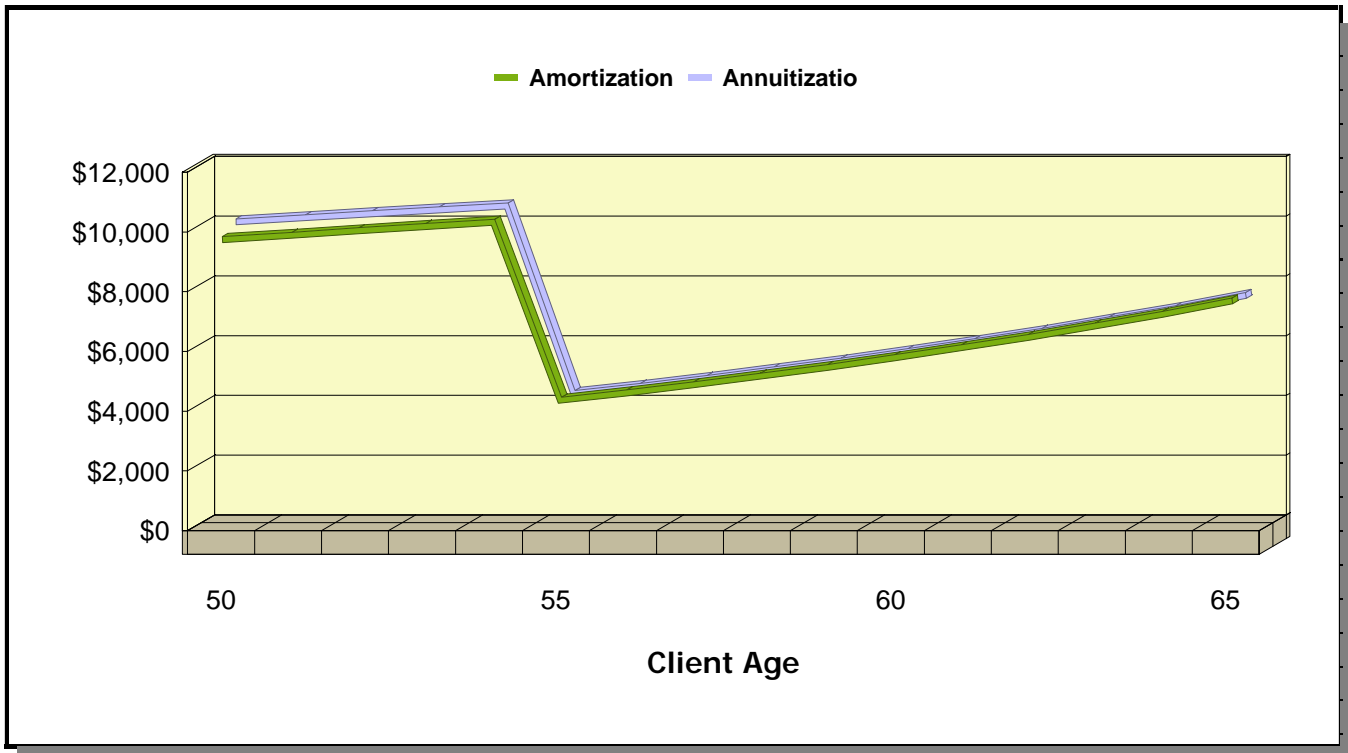
72(t) Early Distribution Analysis

Comparative Distribution Ledger

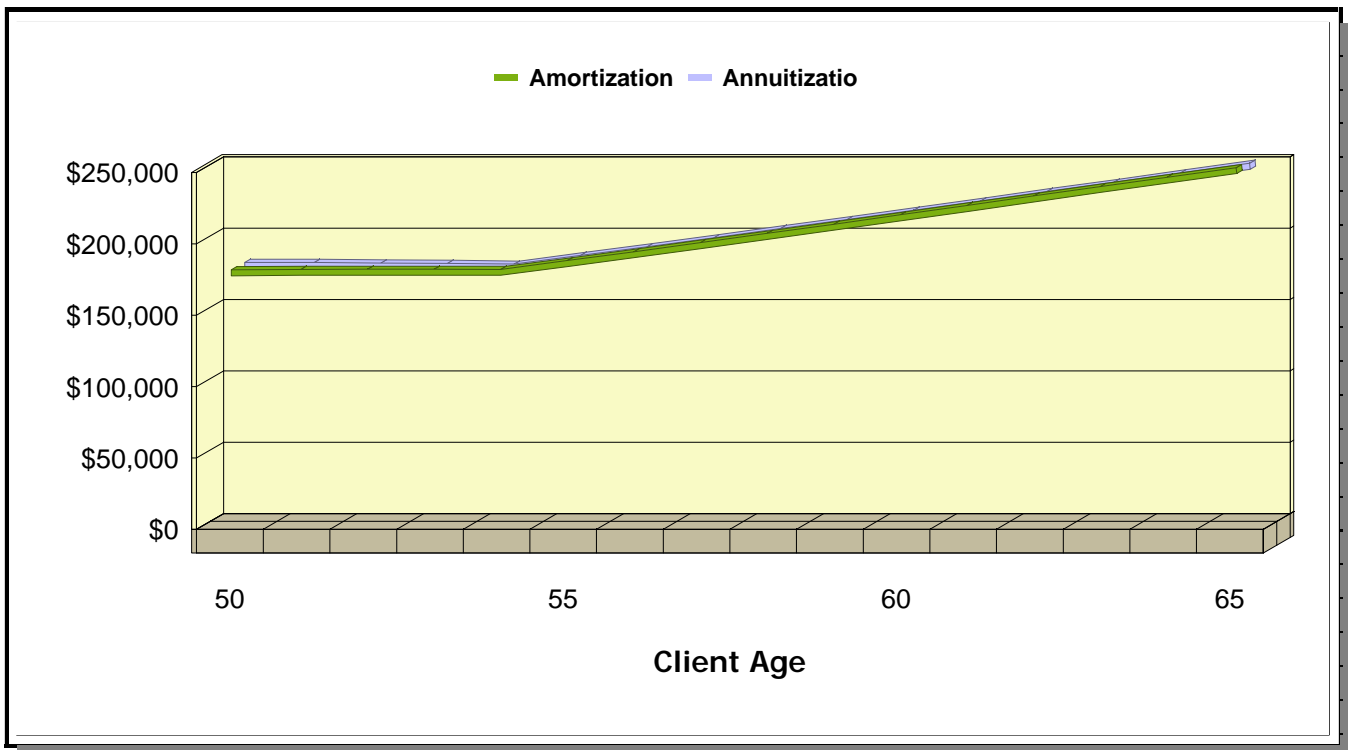
Age Client	Amortization Method			Pension / IRA Balance	Annuitization Method			Pension / IRA Balance
	Lx Factor	72(t) Distribution	Account Earnings		Annuity / LX Factor	72(t) Distribution	Account Earnings	
		Starting Balance ==>		\$177,674		Starting Balance ==>		\$177,674
50		\$9,670	\$10,080	\$178,085	17.7674	\$10,000	\$10,060	\$177,735
Important Notice: Additional data below is hypothetical and should be reviewed yearly!								
51		9,808	10,097	178,373	17.5408	10,133	10,056	177,658
52		9,962	10,105	178,516	17.3077	10,265	10,044	177,437
53		10,104	10,105	178,517	17.0682	10,396	10,022	177,064
54		10,246	10,096	178,367	16.8220	10,526	9,992	176,531
55	41.6	4,288	10,445	184,524	41.6	4,244	10,337	182,624
56	40.7	4,534	10,799	190,790	40.7	4,487	10,688	188,825
57	39.7	4,806	11,159	197,143	39.7	4,756	11,044	195,113
58	38.7	5,094	11,523	203,572	38.7	5,042	11,404	201,476
59	37.8	5,385	11,891	210,077	37.8	5,330	11,769	207,915
60	36.8	5,709	12,262	216,631	36.8	5,650	12,136	214,401
61	35.8	6,051	12,635	223,215	35.8	5,989	12,505	220,916
62	34.9	6,396	13,009	229,828	34.9	6,330	12,875	227,462
63	33.9	6,780	13,383	236,431	33.9	6,710	13,245	233,997
64	33.0	7,165	13,756	243,023	33.0	7,091	13,614	240,520
65	32.0	7,594	14,126	249,554	32.0	7,516	13,980	246,984
		113,591	185,470			114,463	183,773	

72(t) Early Distribution Analysis

Annual Distribution



Account Balance



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), usually referred to as "72(t)".

What are substantially equal periodic payments?

Substantially equal periodic payments (SEPP) 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 continue?

To be exempt from the ten-percent penalty tax on early distributions, the series of SEPP must continue unaltered from the date benefits begin until the later of five years or the account owner's attainment of age 59 ½. In other words, both of these conditions must be met.

What happens if payments are altered?

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. Exceptions to this rule may include a one-time switch to the RMD method as well and annual recalculations of the amortization or annuitization method.

Do payments need to continue after the period?

No. The series of payments may altered or stopped after the later of five years from the beginning data or the account owner's attainment of age 59 ½.

How is the balance determined? Do you have to use the total of all IRAs?

No. When determining the payment schedule, use the balance of the IRA from which the substantially equal periodic payments will be taken. And, in fact, a portion of an IRA may be segregated into a separate account so as to create a balance that yields a desired distribution amount.

Balance? Continued

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, 2004, 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, 2003 to July 15, 2004.

How is the interest rate determined?

The interest rate that may be used is any interest rate that is not 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. The monthly federal mid-term rates can be found on the IRS web site.

How are age or ages determined?

The age attained on the birth date in the year of distribution is to be used for the owner and/or beneficiary.

What Calculation Methods may be used?

Revenue Ruling 2002-62 provides three methods of calculating SEPP: the Minimum Distribution Method, the Level Income Amortized Method and the Level Annuity Method.

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 and the account balance.

How are payments calculated under the Level Income Annuity Method?

Under the Level Income Annuity Method, the payment is calculated by dividing the account balance by an annuity factor. The annuity factor is derived using the permitted interest rate, the attained age of the account owner and the mortality table in Revenue Ruling 2002-62.

How are payments calculated under the Level Income Amortized Method?

Under the Level Income Amortized Method, payments are determined by amortizing the account balance on the day payments commence at the permitted interest rate. 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.

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 pages 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.

Uniform Lifetime 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 re-title account in own name.

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 and spouse's ages.