72(t) Early Distribution Analysis

Prepared For :

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Prepared By :

Advanced Markets

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72(t) SEPP 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.

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Analysis - Initial Data, Assumptions & Options

Analysis Info

Analysis Date	: 09/22/2014
Description	: 72t Multi-Year

Account Info As Of 09/22/2014

Balance	: $100,000.00
72(t) ROI	: 1.60%
Projected ROI	: 4.00%

Client Info

Client	: Tom Sample
DOB / Age	: 09/22/1964 / 50

Spouse Info

Spouse	: Susan
DOB / Age	: 09/22/1969 / 45

Amortization Method

___	Amortize Over Single Life Expectancy (34.2 Years)	$3,759.19
___	Amortize Over Joint Life Expectancy (43.2 Years)	$3,173.23
___	Amortize Over Uniform Life Expectancy (46.5 Years)	$3,016.96

Annuitization Method

___	Annuitize using IRS Mortality Table (Rev. Ruling 2002-62) Annuity Factor (26.2944)	$3,803.09

Required Minimum Distribution (RMD) Method

___	Single Life Expectancy Table (34.2 Years)	$2,923.98
___	Joint Life Expectancy Table (43.2 Years)	$2,314.81
___	Uniform Life Expectancy Table (46.5 Years)	$2,150.54

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.

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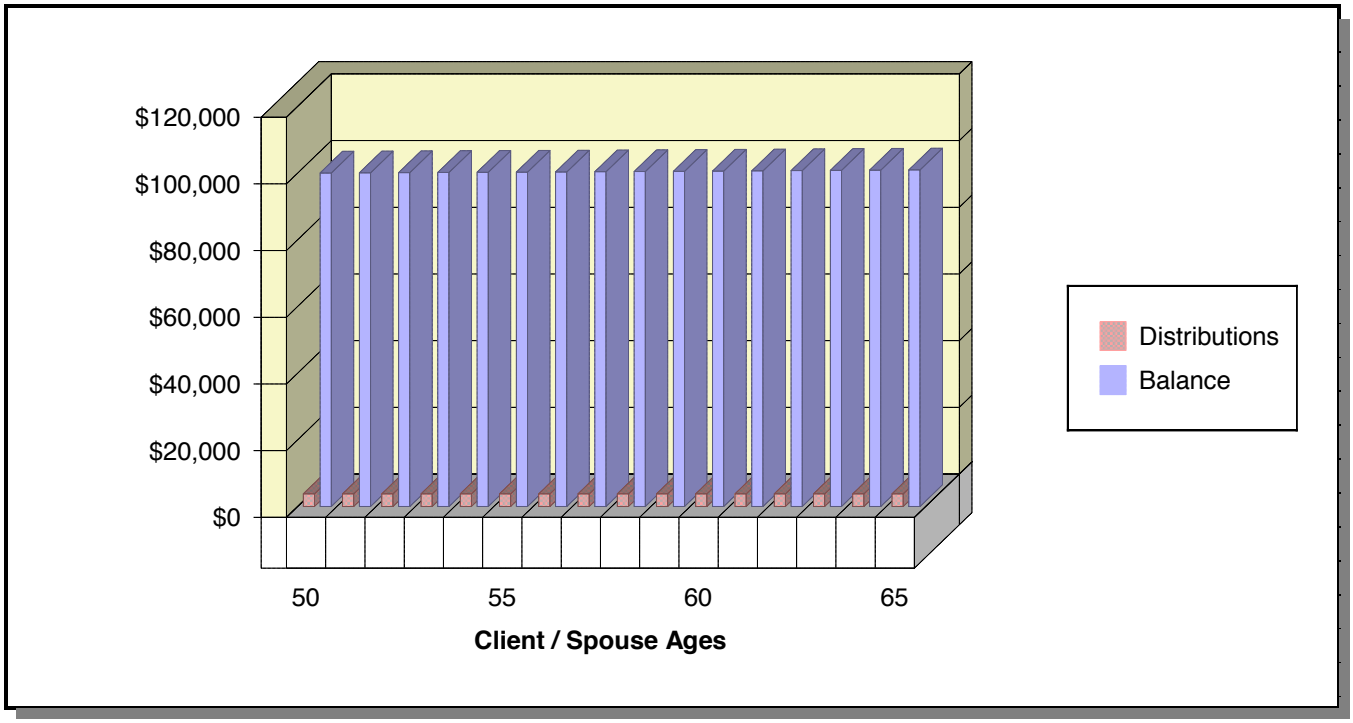
Annuitization Distribution Ledger

Year	Age	Annual 72(t) Distributions	Account Earnings	Pension / IRA Year End Balance
			Starting Balance ==>	$100,000.00
2014	50	$3,803.09	$3,847.88	$100,044.78

Important Notice: Additional data below is hypothetical and should be reviewed yearly!

2015	51	3,803	3,850	100,091
2016	52	3,803	3,852	100,140
2017	53	3,803	3,853	100,190
2018	54	3,803	3,855	100,243
2019	55	3,803	3,858	100,297
2020	56	3,803	3,860	100,354
2021	57	3,803	3,862	100,413
2022	58	3,803	3,864	100,474
2023	59	3,803	3,867	100,538
2024	60	3,803	3,869	100,604
2025	61	3,803	3,872	100,673
2026	62	3,803	3,875	100,745
2027	63	3,803	3,878	100,819
2028	64	3,803	3,881	100,897
2029	65	3,803	3,884	100,977
		60,850	**61,827**	

Distribution & Account Balance Graph



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Comparative Distribution Ledger

	Amortization Method			Annuitization Method				RMD Method		
Age Client	72(t) Distr.	Account Earnings	Pension / IRA Balance	72(t) Distr.	Account Earnings	Pension / IRA Balance	Lx	72(t) Distr.	Account Earnings	Pension / IRA Balance
	Starting Balances ==>		$100,000		==>	$100,000			==>	$100,000
50	$3,759	$3,850	$100,090	$3,803	$3,848	$100,045	34.2	$2,924	$3,883	$100,959

Important Notice: Additional data below is hypothetical and should be reviewed yearly!

51	3,759	3,853	100,185	3,803	3,850	100,091	33.3	3,032	3,917	101,844
52	3,759	3,857	100,282	3,803	3,852	100,140	32.3	3,153	3,948	102,639
53	3,759	3,861	100,384	3,803	3,853	100,190	31.4	3,269	3,975	103,345
54	3,759	3,865	100,490	3,803	3,855	100,243	30.5	3,388	3,998	103,955
55	3,759	3,869	100,600	3,803	3,858	100,297	29.6	3,512	4,018	104,461
56	3,759	3,874	100,714	3,803	3,860	100,354	28.7	3,640	4,033	104,854
57	3,759	3,878	100,833	3,803	3,862	100,413	27.9	3,758	4,044	105,139
58	3,759	3,883	100,957	3,803	3,864	100,474	27.0	3,894	4,050	105,295
59	3,759	3,888	101,086	3,803	3,867	100,538	26.1	4,034	4,050	105,311
60	3,759	3,893	101,220	3,803	3,869	100,604	25.2	4,179	4,045	105,177
61	3,759	3,898	101,359	3,803	3,872	100,673	24.4	4,311	4,035	104,902
62	3,759	3,904	101,504	3,803	3,875	100,745	23.5	4,464	4,018	104,455
63	3,759	3,910	101,654	3,803	3,878	100,819	22.7	4,602	3,994	103,848
64	3,759	3,916	101,811	3,803	3,881	100,897	21.8	4,764	3,963	103,048
65	3,759	3,922	101,974	3,803	3,884	100,977	21.0	4,907	3,926	102,066
	60,147	**62,121**		**60,850**	**61,827**			**61,830**	**63,896**	

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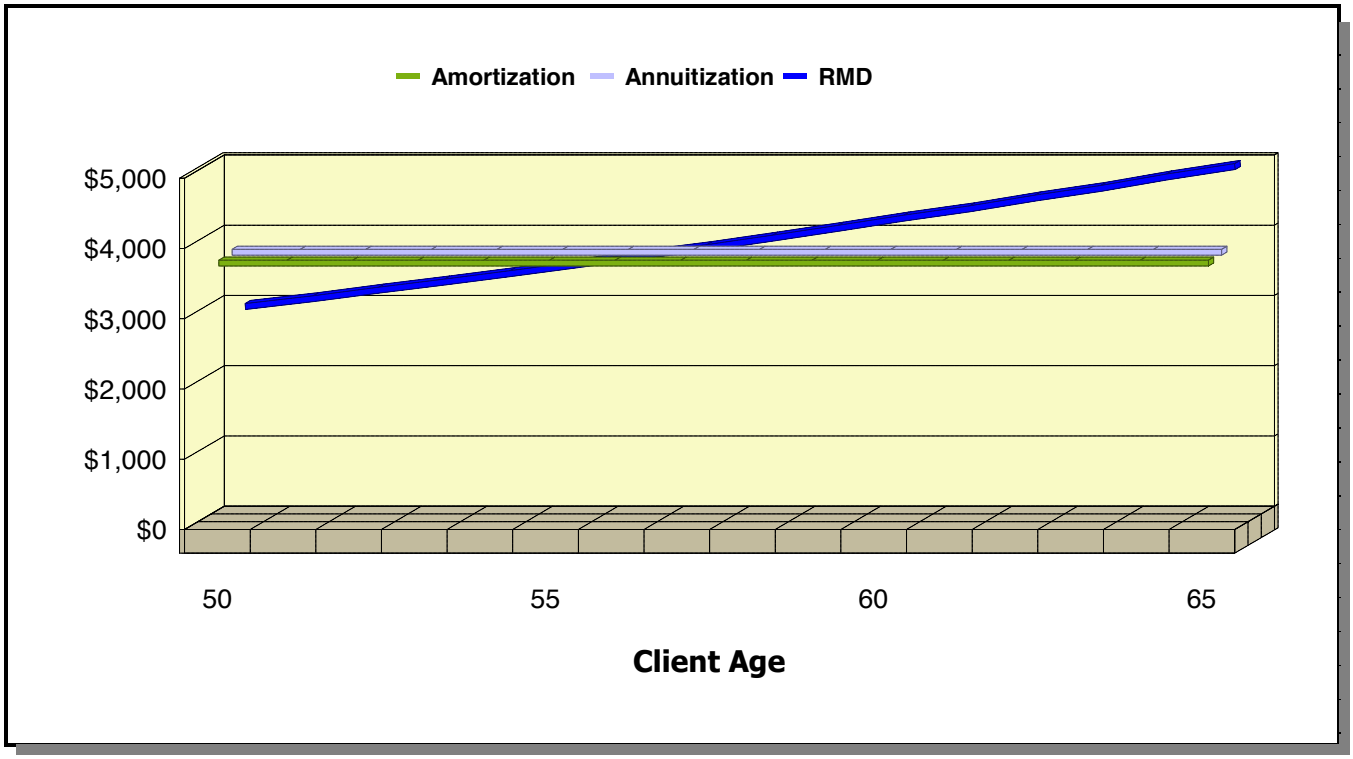
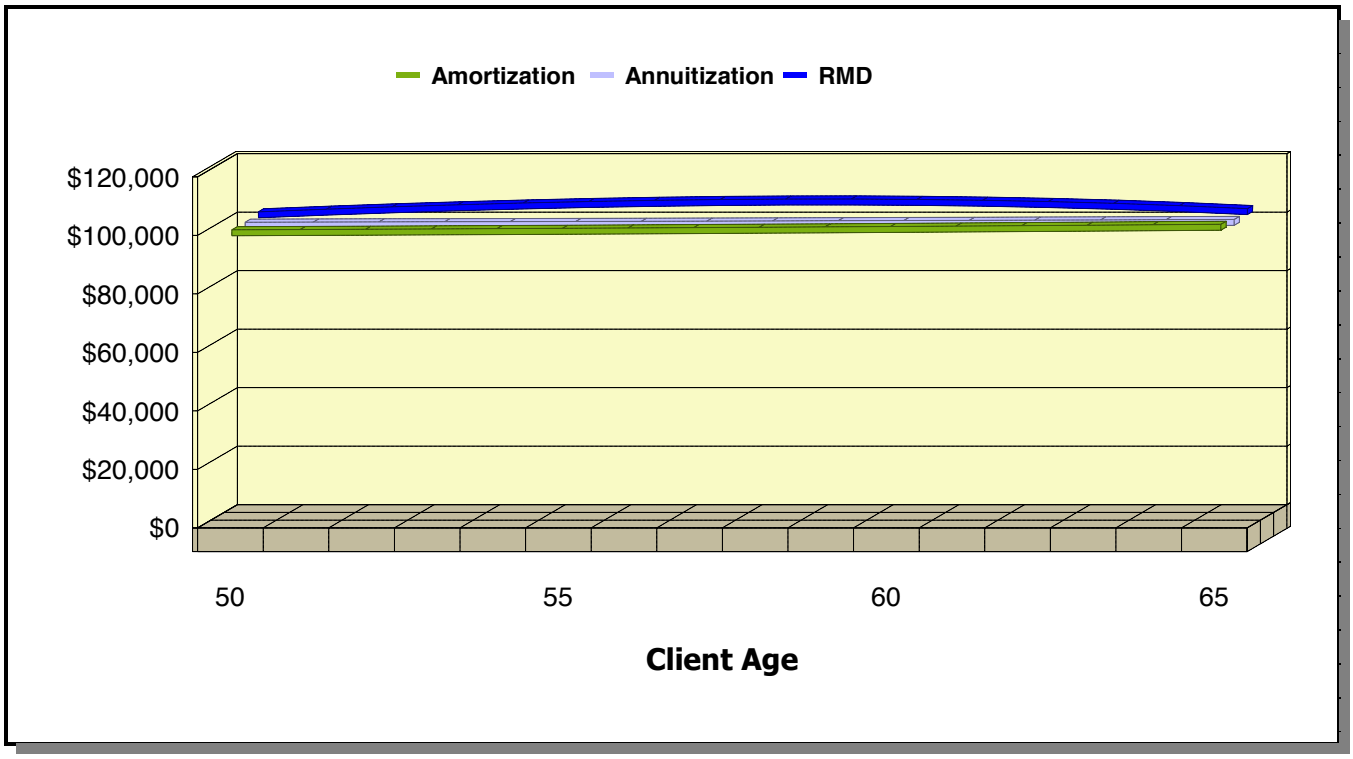
Annual Distribution



Account Balance



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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 be 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.

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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.

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