Fiscal Fitness

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RMDs Suspended for 2009—No Relief for 2008

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Most of you are painfully aware of the beating your investment portfolio took in 2008. Those of you older than 70 1/2 years with retirement accounts, such as traditional IRAs and 401(k)s, might have been hit harder than younger retirement account owners. This is because you were required to withdraw a minimum amount in 2008 (Required Minimum Distribution - RMD) from an account that already lost a good percentage of its value. For the 2008 RMDs, the prior year's ending value is used—values that may have been close to a peak. As an example, say your IRA is currently worth $60,000 but was worth $100,000 at the end of 2007. That $100,000 is the amount used to calculate your 2008 RMD.

Congress saw the irony of this and began to debate what could be done. Since this debate began late in the year, most investors had already taken their 2008 RMDs. So to make things easy, Congress simply suspended RMDs for 2009. This means you can leave the amount that you were required to withdraw in 2009 in your account. The idea is to give your portfolio a little more time to recoup some of those 2008 losses. You can still withdraw any amount you wish, but keep in mind all withdraws will be taxable. The 2009 RMD suspension also applies to inherited IRAs and inherited Roth IRAs. These provisions are easy enough to understand; however, with any tax changes, some parts of the new law are a little more complicated.

If you turned 70 1/2 years old in 2008, current tax law allows you to wait until April 1, 2009 to take your first RMD. This grace period only applies to your first RMD. Even though 2009 RMDs have been suspended, you will still be required to take your first RMD by April 1, 2009, if you haven't done so already, because this is considered a 2008 RMD. (2008 RMDs have not been suspended.)

An RMD tip: if you do not have enough cash to take your 2008 RMD, you do not have to sell a security at depressed levels to raise the necessary cash. You may do a transfer "in-kind." This involves transferring the stock (or other security) to a taxable account. The value of the stock you transfer must be equal to or greater than your RMD. As with any withdraws, the value you transfer is a taxable event.

When there are multiple beneficiaries of an IRA and significant age differences between each beneficiary, it's normally best to split the IRA into multiple IRAs, one for each beneficiary. This way each beneficiary could use their own life expectancy for RMD calculations, which allows more of a "stretch." Splitting the IRA must be done by the end of the year following the year of death. (The new law has no effect on the date of the split.) If the IRA owner died in 2008, beneficiaries have no RMD for 2009 but have until December of 2009 to split the IRA.

Rules for retirement accounts can be very complex. Don't lose thousands of dollars because of an error that is usually irrevocable. Talk to a financial advisor who can guide you through the process.