Required minimum distribution relief in the Worker, Retiree, and Employer Recovery Act of 2008

A recent tax law change promises to help give older Americans some much needed financial flexibility as they struggle to manage their finances during this difficult economic time. A key provision in the recently passed Worker, Retiree and Employer Recovery Act of 2008 is designed to help alleviate the financial burden facing seniors who have seen their retirement savings shrink dramatically. The new provision provides relief to senior citizens by allowing them to continue to keep money in retirement accounts that they are typically required by law to withdraw once they reach age 70 1/2. Here's a brief summary of this new provision:

As you know, the tax laws generally individuals with retirement accounts to make required withdrawals based on the size of their account and their age every year after age 70 1/2. This rule is intended to prevent wealthy individuals from using retirement accounts as a tax shelter. Any individual who fails to take a required minimum distribution (RMD) is heavily penalized by the IRS, which taxes the amount not withdrawn at 50%.

The new law suspends the required minimum distribution from retirement accounts in 2009. This waiver, which is available to everyone regardless of their total retirement account balances, applies to all defined-contribution plans, including 401(k), 403(b), 457(b), and IRA accounts. Suspending the mandatory withdrawal allows retirees to keep the money in their account if they choose, and possibly recover some of their losses.

The new law suspends RMD's from qualified retirement accounts for 2009 only. RMD's for 2008 are not waived by the new law.

Please keep in mind that this is only a summary of this new provision. If you would like to discuss this matter further, please do not hesitate to call.

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