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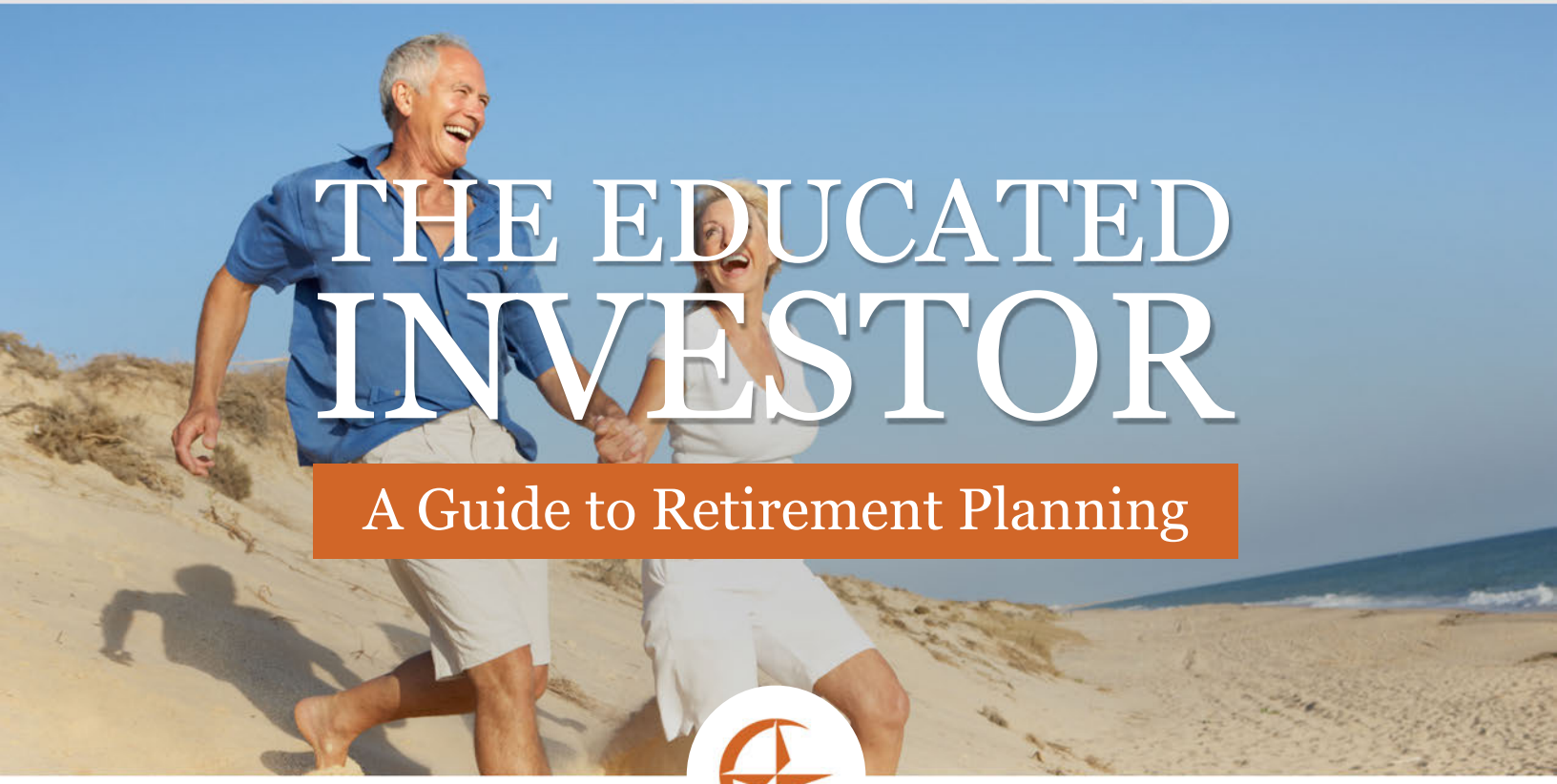
Householder Group
Estate & Retirement Specialists



THE EDUCATED INVESTOR

A Guide to Retirement Planning

FEATURED ARTICLE

Retirement Account Distributions After Age 70½

Minimum distributions from qualified retirement plans and IRAs are required to begin after age 70½. This article examines the options as well as the rules for required minimum distributions.

Many people begin withdrawing funds from qualified retirement accounts soon after they retire in order to provide annual retirement income. These withdrawals are discretionary in terms of timing and amount until the account holder reaches age 70½. After that, failure to withdraw the required minimum amount annually may result in substantial tax penalties.

For IRAs, individuals must begin taking minimum distributions no later than April 1 following the year in which they turn 70½. The same holds true for 401(k)s, with one exception. Distributions from a 401(k) can be delayed until later than age 70½ if the plan participant continues to be employed by the plan sponsor and does not own more than 5% of the company.

There are several other issues that plan participants may need to address when taking distributions from their retirement plans. For example, if distributions are taken all at once — in a lump sum — individuals born before 1937 qualify for special 10-year forward income tax averaging. In addition, plan participants may be eligible for a tax break if their lump-sum distribution is less than $70,000 and certain requirements are met. Besides lump-sum distributions, there are several other ways retirement assets can be removed from a qualified retirement plan — each with its own benefits and trade-offs. Thus, plan participants should consult a qualified tax advisor to ensure that all distribution options are explored.

Key Points

- Required Minimum Distributions During Your Lifetime
- Additional Considerations for Employer-Sponsored Plans
- Employer-Sponsored Retirement Plan Distribution Alternatives
- Lump-Sum Distributions
- Periodic Distributions
- Uniform Lifetime Table for Required Minimum Distributions

- Other Considerations
- Conclusion
- Points to Remember

If you have assets in a qualified retirement plan, such as a company-sponsored 401(k) plan or a traditional individual retirement account (IRA), you'll want to be aware of several rules that may apply to you when you take a distribution.

Required Minimum Distributions During Your Lifetime

Many people begin withdrawing funds from qualified retirement accounts soon after they retire in order to provide annual retirement income. These withdrawals are discretionary in terms of timing and amount until the account holder reaches age 70½. After that, failure to withdraw the required minimum amount annually may result in substantial tax penalties. Thus, it may be prudent to familiarize yourself with the minimum distribution requirements.

For traditional IRAs, individuals must generally begin taking required minimum distributions no later than April 1 following the year in which they turn 70½. The same generally holds true for 401(k)s and other qualified retirement plans. (Note that some plans may require plan participants to remove retirement assets at an earlier age.) However, required minimum distributions from a 401(k) can be delayed until retirement if the plan participant continues to be employed by the plan sponsor beyond age 70½ and does not own more than 5% of the company.

In accordance with IRS regulations, minimum distributions are determined using one standard table based on the IRA owner's/plan participant's age and his or her account balance. Thus, required minimum distributions generally are no longer tied to a named beneficiary. There is one exception, however.

IRA owners/plan participants who have a spousal beneficiary who is more than 10 years younger can base required minimum distributions on the joint life expectancy of the IRA owner/plan participant and spousal beneficiary.

These minimum required distribution rules do not apply to Roth IRAs. Thus, during your lifetime, you are not required to receive distributions from your Roth IRA.

Additional Considerations for Employer-Sponsored Plans

The table below is general in nature and not a complete discussion of the options, advantages, and disadvantages of various distribution options. For example, there are different types of annuities, each entailing unique features, risks, and expenses. Be sure to talk to a tax or financial advisor about your particular situation and the options that may be best for you.

Employer-Sponsored Retirement Plan Distribuition Alternatives[1]			
	Method	Advantages	Disadvantages
Annuity	A regular periodic payent, usually of a set amount, over the lifetime of the designated recipient. (Not available with some plans.)	Assurance of lifetime income; option of spreading over joint life expectancy of you and your spouse.[2]	Not generally indexed for inflation.
Periodic Payments	Installmen payments over a specific period, often 5 to 15 years.	Relatively large payments over a limited time.	Taxes may be due at highest rate.
Lump Sum	Full payment of the	Direct control of assets;	Current taxation at
IRA Rollover	A transfer of funds to a traditional IRA (or Roth IRA if attributable to Roth 401(k) contributions).	Direct control of assets; continued tax deferral on assets.	Additional rules and limitations.

In addition to required minimum distributions, removing money from an employer-sponsored retirement plan involves some other issues that need to be explored. Often, this may require the assistance of a tax or financial professional, who can evaluate the options available to you and analyze the tax consequences of various distribution options.

Lump-Sum Distributions

Retirees usually have the option of removing their retirement plan assets in one lump sum. Certain lump sums qualify for preferential tax treatment. To qualify, the payment of funds must meet requirements defined by the IRS:

- The entire amount of the employee's balance in employer-sponsored retirement plans must be paid in a single tax year.
- The amount must be paid after you turn 59½ or separate from service.
- You must have participated in the plan for five tax years.

A lump-sum distribution may qualify for preferential tax treatment if you were born before January 2, 1936. For instance, if you were born before January 2, 1936, you may qualify for 10-year forward income averaging on your lump-sum distribution, based on 1986 tax rates. With this option, the tax is calculated assuming the account balance is paid out in equal amounts over 10 years and taxed at the single taxpayer's rate. In addition, you may qualify for special 20% capital gains treatment on the pre-1974 portion of your lump sum.

If you qualify for forward income averaging, you may want to figure your tax liability with and without averaging to see which method will save you more. Keep in mind that the amounts received as distributions are generally taxed as ordinary income.

To the extent 10-year forward income averaging is available, the IRS also will give you a break (minimum distribution allowance) if your lump sum is less than $70,000. In such cases, taxes will only be due on a portion of the lump-sum distribution.

If you roll over all or part of an account into an IRA, you will not be able to elect forward income averaging on the distribution. Also, the rollover will not count as a distribution in meeting required minimum distribution amounts.

Periodic Distributions

If you choose to receive periodic payments that will extend past the year your turn age 70½, the amount must be at least as much as your required minimum distribution, to avoid penalties.

Uniform Lifetime Table for Required Minimum Distributions								
Age	70	75	80	85	90	95	100	105
	27.4	22.9	18.7	14.8	11.4	8.6	6.3	4.5

This table shows required minimum distribution periods for tax-deferred accounts for unmarried owners, married owners whose spouses are not more than 10 years younger than the account owner, and married owners whose spouses are not the sole beneficiaries of their accounts. Source: IRS Publication 590.

Other Considerations

If your plan's beneficiary is not your spouse, keep in mind that the IRS will limit the recognized age gap between you and a younger nonspousal beneficiary to 10 years for the purposes of calculating required minimum distributions during your lifetime.

Conclusion

There are several considerations to make regarding your retirement plan distributions, and the changing laws and numerous exceptions do not make the decision any easier. It is important to consult competent financial advisors to determine which option is best for your personal situation.

Points to Remember

1. Distributions from a 401(k) can be delayed until retirement if a plan participant is still employed by the plan sponsor beyond age 70½ and if the plan participant does not own more than 5% of the company.

2. After age 70½, failure to withdraw the required minimum amount annually may result in substantial tax penalties.

3. A lump-sum distribution may qualify for 10-year forward income averaging.

4. The IRS will give you a break (minimum distribution allowance) if your lump sum qualifies for 10-year forward averaging and is less than $70,000.

5. You may be able to accelerate or minimize the disbursement of your retirement assets by how you choose to calculate periodic payment time periods.

Source/Disclaimer:
1Speak to a tax or financial advisor about your alternatives before making a decision.
2Annuity guarantees are backed by the claims-paying ability of the issuing company.

Boost Your Borrowing Power by Boosting Your Credit Score

As an informed consumer, you can make yourself more attractive to lenders by taking steps to boost your credit score.

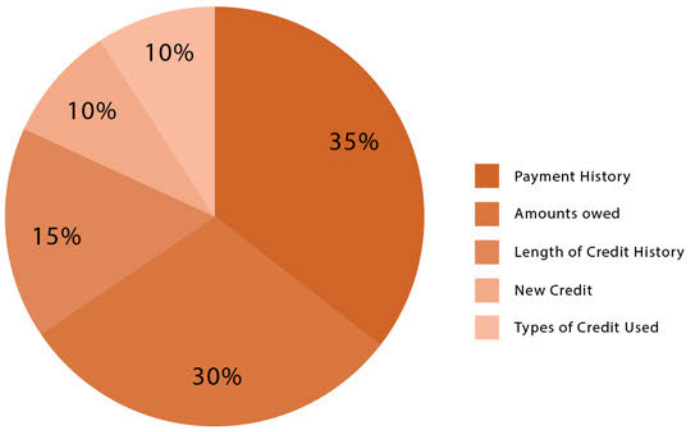
Bettering your credit score can make your financial life easier and more rewarding. Here's a guide.

Your credit score is a rating that lenders can use to gauge how likely you may be to repay debts on time. A typical credit score will range between 300 points and 850 points. Generally speaking, higher scores are presumed to represent lower risks -- the more attractive your score might be to a lender, the better the deals you may be offered. In other words, you can improve your position in the borrowing process by taking steps to boost your score.

Factors That Determine Your Credit Score

Credit scores are compiled by the three major credit reporting agencies -- Equifax, Experian, and TransUnion -- based on information provided by creditors. They generate scores using a proprietary formula that assigns weightings to the five main factors illustrated below: Your payment history, which is whether you have missed or been late with any credit payments (the fewer late or missed payments, the better); your utilization ratio, which is the amount you owe creditors compared with the amount of credit that is available to you (the lower the utilization, the better); the length of your credit history (how long various accounts have been open); the types of credit you use (the more diversified your credit resume is among car loans, mortgages, credit cards, etc., the better); and the amount of new credit on your record. As you can see in this chart, the most important factors in your score are generally the amounts you owe and the rate at which you repay your loans.

Relative Weights in the Credit Score Equation



Source/Disclaimer:
Sources: myFICO.com; Fair Isaac Corporation.

BLT Bites Recipe

Ingredients

* 16 to 20 cherry tomatoes
* 1 pound sliced bacon, cooked and crumbled
* 1/2 cup mayonnaise
* 1/3 cup chopped green onions
* 3 tablespoons grated Parmesan cheese
* 2 tablespoons snipped fresh parsley

Directions

1. Cut a thin slice off of each tomato top. Scoop out and discard pulp. Invert the tomatoes on a paper towel to drain.

2. In a small bowl, combine the remaining ingredients. Spoon into tomatoes. Refrigerate for several hours. Yield: 16-20 appetizer servings.

SOURCE: http://www.tasteofhome.com/

The Essential Checklist for Going Back to School

GATHER

Investigate your options, including conducting online research, talking to others who've gone back to college, and meeting with admissions counselors.
Ask about entrance requirements, such as letters of recommendations and test scores.
Meet with an admissions counselor to discuss tuition plans, financial aid and scholarships. Make sure to ask whether you're eligible for "life experience" credit.

PLAN & APPLY

Set a monthly household budget. Be sure to include tuition, books and college-related incidentals.
Submit state and federal financial aid and/or scholarship applications, if eligible and necessary.

SCHEDULE & ORGANIZE

Purchase a paper or electronic calendar. Block out anything and everything that's set in stone, including work hours, family commitments, social obligations and class time.
Decide how many hours a week you will need to study.
Schedule study time on your calendar—and then stick to the schedule.
Have a family meeting to talk about how going back to college will affect everyone.

BRUSH UP

Refresh your skills in areas where you need a little extra help, such as: studying, time management, technology, and taking tests

SOURCE:http://www.franklin.edu/blog/the-essential-checklist-for-going-back-to-college/