

Ask the Advisor

“When must I begin drawing from my IRA?”

Barry in Dover



You must begin taking your **Required Minimum Distribution (RMD)** from your Traditional IRA, Rollover IRA, SEP IRA or SIMPLE IRA by April 1st, not April 15th, in the year following the year that you turn 70.5.

So, if you turn 70 on or before June 30th of this year, you will need to begin distributions by April 1st of **2012**. If you turn 70 on July 1st or **later, you can wait until 2013**.

Your second distribution must be taken by December 31st following the year you turn 70.5. So, if you wait until the year following the year you turn 70.5 to take your first distribution you will end up taking two taxable distributions in one year.

If you want to spread your distributions over two years and you turn 70.5 this year, don't delay your first distribution until April 1st of next year, instead take it by December 31st of this year and take your second distribution by December 31st of 2012.

If this all sounds confusing, that's because it is, just be sure you don't miss taking a distribution.

The penalty for not taking a distribution is 50% of what you should have taken but didn't... plus tax. *Ouch!*

You can, of course, begin drawing at 59.5 without penalty, but still with tax.

You can even begin drawing before 59.5 without penalty, but with tax, under the Substantially Equal Periodic Payment (SEPP) exception, but the withdrawals must meet IRS guidelines and last for five years or until you reach 59.5. This isn't a line of credit. Once turned on, the faucet cannot be turned off.

The Roth IRA and the new Roth 401(k)/403(b) have no required minimum distributions. Traditional 401(k)s and 403(b)s are subject to required minimum distributions, same as outlined above, but are not eligible for the SEPP exception.

Once your RMD has been met, from where should you draw? Generally, you want to draw on taxable accounts first (savings and taxable investment accounts), then on tax-deferred accounts (Traditional IRA, Rollover IRA, SEP IRA, SIMPLE IRA, Traditional 401(k) / 403(b)), and finally tax free accounts (Roth IRA and Roth 401(k)/403(b)).

However, this is just a general rule with many exceptions – *consult your advisor*.

Ron Valpey is a fee-only CERTIFIED FINANCIAL PLANNER™ professional, an ACCREDITED INVESTMENT FIDUCIARY™, and a registered investment advisor representative of Valpey Financial Services, LLC. If you have a financial planning question, please call Ron at 603-856-7945 or visit his website at www.ronvalpey.com.