



Are You in Danger of Making Errors in Retirement Account Withdrawals?

As my clients and I age, more and more questions and concerns about taking distributions from IRA and 401(k) plans seem to surface. Those questions and thoughts:

- When am I required to start taking distributions from my traditional IRA or 401(k)?

The IRA account holder must start distributions the year he or she reaches the age of 70 ½ or by April 1 of the following year. However, if the individual delays until the year following the age of 70 ½, that person must take two withdrawals in that year.

The 401(k) plan requirement is the same except no withdrawal is necessary if the individual is continuing to work past the age of 70 ½.

- How much must I withdraw?

Under most circumstances, at the age of 70 ½, the withdrawal is about 4% of the account balance on December 31st of the year preceding the withdrawal. The withdrawal amount increases each following year.

- Am I required to withdraw from each traditional IRA and 401(k)?

The account balance for IRA's on December 31st of the preceding year can be combined, and the withdrawal can be taken from one of the accounts, several accounts, or all of the accounts.

On the other hand, 401(k) withdrawals *must* be taken from *each* 401(k) account.



- What about Roth accounts?

A distribution is not required for a ROTH IRA, but a distribution from a Roth 401(k) is required. (NOTE to government employees making Roth Thrift savings plan contributions. Roth TSP does require distributions. Many advisors suggest transferring Roth 401(k) accounts to Roth IRA's to avoid the required distribution.) However, a withdrawal from TSP/401k is proportioned. Therefore, a partial withdrawal would have some Roth funds and some traditional TSP/401k).

- What happens if I don't make the withdrawal or don't make the proper withdrawal?

The IRS levies a 50% penalty on the amount that should have been withdrawn.

As we see here, withdrawing from retirement plans may not be as simple as thought.