



TRI-VALLEY Help-line

March 2010

Tri-Valley receives many questions from area seniors, younger people with disabilities and caregivers and has created this monthly Help-line column to provide some assistance. We are also available five days a week to answer individual questions.

Withdrawing From My IRA?

Q: I am turning 71. Do I have to take some money out of my IRA?

A: No. Normally taxpayers must start taking out a “distribution” from their retirement account after they reach the age of 70 ½. But for the 2009 tax year, there is a special law that gives you a break.

There is usually a penalty for not withdrawing from your IRA by April 1st---once you reach the age of 70 ½. The penalty is a 50% tax on the amount that you should have taken out. But in 2008, Congress suspended the required minimum distribution (RMD) in order to protect seniors from being forced to sell stocks in a depressed market. So you don't have to withdraw funds from an IRA for this tax year.

Normally, if you turned 70 1/2 *before* 2009, you would have been forced to take your 2009 distribution before January 1, 2010. If you turned 70 1/2 *during* 2009, you would have been required to take your RMD by April 1, 2010. But now, you will not need to take this distribution for 2009 at all. This is also true for someone who inherits an IRA or an employer retirement accounts. But be forewarned: the RMD comes back into effect for 2010, and you will have to take a distribution before January 1, 2011, or you will pay that 50% tax.

The idea of retirement accounts is to encourage taxpayers to save for retirement---but once you reach retirement age, you are encouraged to spend your savings. Taxpayers usually are forced to take an annual distributions from their retirement accounts by the

-more-

April 1 after they reach age 70 ½. The percentage of your IRA that must be withdrawn is based on life expectancy, and it increases each year. For someone who is 70 ½ years old, the required withdrawal would be 3.65% of the total retirement account balance. If you had \$100,000 in an IRA, for example, you would have to withdraw \$3,650—or face a penalty of \$1,825.

When the Recession hit Wall Street, workplace retirement plans lost as much as \$2 trillion in the year ending October 2008, according to ElderLaw Answers. Congress chose to keep the RMD requirements for 2008, so taxpayers only got a break for 2009. A lot of seniors got hurt in 2008, because the amount they had to withdraw in 2008 was based on what their IRA or 401k plan was worth at the end of 2007---before the major stock market crash.

“Seniors are getting hit both ways,” an AARP spokesman said at the time. “If their retirement accounts have fallen and they have to make mandatory withdrawals and pay taxes on a higher amount, it’s putting them in a difficult financial bind.” It has been suggested that the freeze on mandatory withdrawals for 2009 really helps wealthy seniors the most, because they don’t have to withdraw their IRA funds to pay for living expenses in retirement. But less well-off seniors may have to withdraw the funds anyway—even if Congress doesn’t require them to do it—because they need the IRA money for daily living expenses. But for this 2009 tax reporting year, you don’t have to take money out of your IRA or other savings account.

It may be possible for taxpayers to take advantage of any long-term capital losses they suffered on investments held longer than one year. You can deduct up to \$3,000 of such losses a year from your income, and use any excess losses above that in future years on your tax form.

And for seniors who want to pass some money along to their children, the threshold for gifts in 2009 has been lifted to \$13,000 per taxpayer per child. A married couple with 3 children could give away \$78,000 without having to pay a gift tax or file a special return.

For more information about Required Minimum Distributions from retirement savings, or tax-free gifts, go to <http://www.elderlawanswers.com>

Tri-Valley continues to be ready to assist you with other questions through its free information & referral HELP-LINE at (508) 949-6640 or 1-800-286-6640. You may also access Tri-Valley by E-mail: info@tves.org or visit the agency's website at: www.trivalleyinc.org

Tri-Valley, Inc. is a private non-profit agency providing in-home and community based services in 25 Southern Worcester County towns. The agency receives funding from the Commonwealth of Massachusetts through the Executive Office of Elder Affairs and Federal financial support under the Older Americans Act furnished by the Central Massachusetts Agency on Aging and the Massachusetts Executive Office of Elder Affairs. Funds are also received from other public and private sources. All donations are welcome and memorials may be established. Marilyn L. Travinski is the executive director.

###