Understanding the basics of minimum required distributions.

Generally, when you reach age 70½, you're required to take money out of your retirement savings plan. It's important to know what these withdrawals, or minimum required distributions (MRDs), are and how they work. It's even more important to save on taxes and avoid penalties. Here are some key facts you should know.

ACTION PLAN

- Learn more about MRDs
- Set up a distribution plan
- Include your MRD in your retirement income plan

Q. What is a minimum required distribution?

A. A minimum required distribution is the minimum amount of money the Internal Revenue Service requires you to withdraw from a tax-deferred retirement account each year. You must begin withdrawals no later than the April 1 following the year you reach age 70½—or, if you're still working, the April 1 following the year you retire, if your plan allows.

You're generally required to take MRDs from any retirement account to which you've made pretax contributions and in which you've accumulated tax-deferred earnings. These accounts include your retirement savings plan and other 401(k) or 403(b) plans, as well as traditional IRAs, rollover IRAs, SIMPLE IRAs, Keoghs, and SEP-IRAs.

This flyer describes MRDs only from your employer-sponsored plans.

Q. When do I have to take MRDs?

A. You must begin taking MRDs from your employer-sponsored plans:

- By April 1 of the year following the calendar year in which you turn age 70½.
- Or, if you continue to work for the plan sponsor after age 70½, by April 1 of the following calendar year in which you retire, pursuant to plan rules.

For example, if you retired in 2005 and turn 70½ in 2006, you must begin taking MRDs by April 1, 2007.

In subsequent years, the deadline for taking MRDs is December 31. Please note that if you take your first MRD between January 1 and April 1 of the year after you turn age 70½ or retire, you're still required to take your second MRD by December 31 of the same year.

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Q. How much do I have to withdraw?

A. The amount is determined by IRS regulations. Generally, your MRD is calculated by dividing your account balance by a life expectancy factor that appears on a uniform table provided by the IRS. This table gives the joint life expectancy for you and another individual who's 10 years younger—regardless of how old your beneficiary actually is.

There's an exception, however: If your sole primary beneficiary for the entire calendar year is your spouse, and he or she is more than 10 years younger than you, then you can base your MRD on a second IRS table, known as the Joint Life Expectancy Table.[1] Applying the factors in this table will result in a smaller MRD than using the uniform table.

Q. Can you give me an example?

A. Sure. Say you turned age 70½ in 2005, had a retirement savings plan balance of $200,000 as of December 31, and came up with a joint life expectancy factor of 20 years. Your MRD for 2006 would be $10,000 ($200,000 ÷ 20).

Q. I've heard that my MRDs may be lower if I'm in a 403(b) plan. Is this true?

A. It depends. If you participate in a 403(b) plan, amounts you accrued before 1987 won't enter into your MRD calculations until you reach age 75. To qualify for this special treatment, the "grandfathered" portion of your account balance—the money you accumulated through December 31, 1986—must have been accounted for separately. Call Fidelity at your plan's toll-free number to see if you qualify, and to discuss the effects on your income planning.

Q. Why do I have to take MRDs?

A. You've been able to put off paying income taxes on the portion of your salary that you contribute on a pretax basis to your retirement savings plan account, as well as on any employer contributions and investment earnings. By making you withdraw money from your account, the federal government can begin collecting income taxes on your savings. However, there's another reason for MRDs: They ensure that your retirement savings plan is serving the purpose it's intended for—as a source of income during your retirement.

Q. I have more than one employer-sponsored retirement plan account. How do I handle the MRDs?

A. You'll need to meet your MRD requirements separately for each account. For example, if you have both a profit sharing plan and a money purchase plan—or 401(k) plans from several employers—you must take an MRD from each plan.

Q. What if I skip a distribution, or don't take my full MRD?

A. The penalty for missing all or part of an MRD can be stiff: a 50% tax on the portion of your required distribution that you failed to take may be imposed, on top of the ordinary income tax due on that amount.

Q. If I've already taken a distribution from my plan account, will it count toward my MRD?

A. Generally, all the distributions you receive in a given calendar year count toward your MRD for that year.

Q. Can I take more than my MRD in a given year?

A. Yes. You can take more than your MRD from your retirement savings plan in a given year, subject to your plan's withdrawal provisions. But be aware that you can't pay ahead—if you take more than your MRD in a given year, you'll still owe your entire MRD amount the following year.

Q. Are MRDs eligible for rollover?

A. No. You can't prolong tax deferral by rolling over an MRD to an IRA or another employer's retirement plan.

Once you've reached the point when distributions are required, the IRS considers every dollar you withdraw from your account part of your MRD, until you've taken the required amount. Your MRD must be processed before you can initiate a direct rollover of any of your eligible retirement plan savings.

Q. Will federal income tax be withheld from my MRD?

A. That's up to you. Unless you take action, your plan service provider is required to withhold federal taxes from your MRDs. The amount withheld will be based on the IRS withholding table for a married individual with three withholding allowances. If you prefer to not have federal income tax withheld, or to provide specific withholding directions, you'll need to complete and return the Withholding Election Form (IRS Form W-4P), which you can get by calling your plan's toll-free number.

In addition, your state may require withholding from your plan distributions. If so, and you have federal income tax withheld from your distribution, state income tax will also be withheld.

Q. Will my choice of beneficiary affect my MRD?

A. Generally not. The major exception, as noted earlier, is when your spouse is your sole primary beneficiary, is more than 10 years younger than you, and meets the requirements outlined under "How much do I have to withdraw?" (see page 2). In that case, an actual life expectancy factor—rather than a uniform table—can be used to calculate your MRDs. This will stretch the number of years you're allowed to take MRDs, and reduce the amount of each required withdrawal. Remember that to qualify for this treatment, your spouse must be your sole beneficiary for the entire year.[2] Changing your beneficiary designation at any time during the year will affect your MRD calculation.

If your sole spousal beneficiary meets all the criteria described above, be sure to contact your plan's toll-free number, to make sure your MRD is calculated in the appropriate way.

Q. How can I make it easier to manage my MRDs?

A. With the Systematic Withdrawal Plan, Fidelity will calculate your MRD for you each year, and send you checks each year for the appropriate amount. If you have retirement savings plans with more than one employer, Fidelity may be able to help you consolidate your accounts—making it far simpler to manage your distributions and your retirement income.

HERE'S HELP

To find out more about **minimum required distributions** and for help with your **next steps:**

- Call your plan's toll-free number
- Visit Fidelity NetBenefits®

[1]Your sole primary beneficiary is the one person entitled to receive what's left of your account balance upon your death. You can name more than one primary beneficiary. However, if you do, your MRD will be based on the uniform life expectancy table, rather than on actual joint life expectancy.

[2]Generally, if your sole spousal beneficiary dies, or you get divorced, you may continue to list him or her as your sole spousal beneficiary for the year in which the change occurs.

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