The Independent Investor

By Bill Schmick

IRA Distribution Time

Information abounds on why and when you should contribute to a tax-deferred savings plan such as an Individual Retirement Account (IRA). Less is known about what happens in retirement when you have to take money out of these plans. For those who turned 70½ years or older in 2013, pay attention, because you have until April 1 to take your first distribution.

The original idea behind tax-deferred savings was to provide Americans a tax break in order to encourage us to save towards retirement. Individuals could stash away money tax-free while they were working and then take it out again once they retired, when they were presumably earning less and at a lower tax rate. The government determined that once you reached 70½ you have until April 1 of the next tax year to take your first distribution. If you have already turned 70½, remember that you must take another distribution by the end of 2014.

Officially, it's called a Required Minimum Distribution (RMD) and applies to all employer-sponsored retirement plans. That includes profit-sharing plans, 401(K) plans, Simplified Employee Pension Plans (SEPS), Salary Reduction Simplified Employee Pension Plans (SARSEPS) and Savings Incentive Match Plans for Employees (SIMPLE IRAs), as well as contributory or traditional IRAs. The individual owner of each plan is responsible for computing the RMD and taking it from their accounts. There are stiff IRS penalties (of up to 50% of the total RMD) levied on those who fail to comply.

The RMD is calculated by taking the total amount of money and securities in each IRA or other tax-deferred plan, as of December 31 of the prior year, and dividing it by a life expectancy factor that the Internal Revenue Service publishes in tables. The document, "Publication 590, Individual Retirement Arrangements," can be easily accessed over the internet. As an example, let's say at the end of last year your IRA was worth $100,000. You are 72 years old. Looking up the life expectancy ratio in the IRS table for that age, which is 15.5, you divide your $100,000 by 15.5. Your RMD for this year would be $6,451.61 (100,000/15.5 = 6,451.61).

Remember that you must compute your RMD for every tax-deferred account you own. However, you can withdraw your entire distribution from just one account if you like. You can always withdraw more than the RMD from your accounts, but remember that whatever you withdraw is taxed at your tax bracket. If you make an error and withdraw too much in one year, it cannot be applied to the following year. And before you ask, no, you can't roll the RMD over into another tax-deferred savings account.

What happens if you forget or for some reason you cannot take your RMD in the year it is required? You might be able to avoid the 50% penalty if you can establish that the shortfall in distribution was the result of a reasonable error and that you have taken steps to remedy the situation. You must fill out Form 5329 and attach a letter of explanation asking the IRS that the penalty be waived. Your accountant should be able to furnish the form and help you with the letter.

For those who have an Inherited IRA, you, too, may have to take an RMD before the end of 2014. The calculations and rules are somewhat different. Generally, if you have received the inheritance this year, as the beneficiary, you have the choice of taking one lump sum, taking the entire amount within five years or spreading out the distributions over the course of your life expectancy, starting no later than one year following the former owner's death. The IRS produces a table for use by beneficiaries in Publication 590 as well.

Many retirees have a hard time remembering to take their RMD each year. It is a good idea to ask your money manager or your accountant to handle the distribution or at least to remind you each year when the RMD is due. The last thing you want to do is give back to the IRS half your hard-earned savings each year.

Bill Schmick is registered as an investment advisor representative and portfolio manager with Berkshire Money Management (BMM), managing over $200 million for investors in the Berkshires. Bill's forecasts and opinions are purely his own and do not necessarily represent the views of BMM, and none of his commentary is or should be considered investment advice. Direct your inquiries to Bill at 1-888-232-6072 or Bill@afewdollarsmore.com. Visit www.afewdollarsmore.com for more of Bill's insights.

Update on the Strategic Planning Process

By John Brodman

The Strategic Planning Steering Committee (SPSC) met on January 9 to discuss a first draft of the entire Strategic Plan that was produced over the holidays. The draft plan focuses on seven strategic areas which, in no particular order of importance, are: Beach Preservation, Infrastructure, Community Involvement, Public Safety and Disaster Planning, Environment/Natural Resources, Residency/Commercial Development and Fiscal Planning. In the draft plan, each of these strategic areas is accompanied by specific goals and objectives which both define the area and set out measurable milestones for achieving favorable outcomes.

Suggestions and comments on the first draft of the plan were then incorporated into a revised draft of the plan, which was made available simultaneously to the SPSC and to the Board of Commissioners (BOC) on January 15. Commissioners were then given one week to review the plan and get back to the Steering Committee with their comments, questions and suggestions by January 22. The Steering Committee then considered the comments from the Commissioners and incorporated them into a presentation and discussion of the full Strategic Plan report that was scheduled to occur on January 30, after press time of this issue of *The Shoreline,* between the SPSC and the BOC, during the Commissioners' annual offsite planning meeting. The results of this meeting are to be incorporated into a final draft of the Strategic Plan.

If all goes well, there will be a roll-out and public hearing on the Strategic Plan, possibly as early as the regular Board of Commissioners' meeting scheduled for February 13. After the public hearing, the BOC will be asked to formally adopt the plan. Once adopted, the plan will be posted on the town's website, and highlights of the plan will be published in an upcoming edition of *The Shoreline.*

It is important to keep in mind that a strategic plan is a living document that is meant to evolve over time as circumstances in the town and priorities change. Nothing is set in concrete, and the Strategic Planning Steering Committee is currently discussing options for reviewing and updating the plan in the future.

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