

RETIREMENT PLANNING & EMPLOYEE BENEFITS FOR FINANCIAL PLANNERS
4TH EDITION UPDATES

CHAPTER 7

Example 7.5, Page 300

Assume the same facts as above except Joe Bob does not elect 10-year averaging.
 The tax is now \$188,596.75.

Line 1	Lump-Sum Distribution	\$600,000.00
Line 2	Tax on Line 1	<u>\$188,596.75</u>
Line 3	Pay the tax from Line 2	<u><u>\$188,596.75</u></u> (31.43%)

Notice that in this instance it is in Joe Bob's best interest to elect 10-year averaging because he will pay \$1,228.75 less tax (\$188,596.75 - \$187,368).

If Joe Bob was married then the tax would be:

Line 1	Lump-Sum Distribution	\$600,000.00
Line 2	Tax on Line 1	<u>\$181,575.00</u>
Line 3	Pay the Tax from Line 2	<u><u>\$181,575.00</u></u> (30.26%)

If Joe Bob was married, then not electing the 10-year averaging would be best because he would pay \$5,793.00 less tax (\$187,368.00 - \$181,575.00).

Multiple Choice #12, Page 343

12. Nancy, age 70 on February 2, 2007, had the following account balances in a qualified retirement plan.

12/31/ <u>2004</u>	\$300,000
12/31/ <u>2005</u>	\$350,000
12/31/ <u>2006</u>	\$500,000
12/31/ <u>2007</u>	\$478,000
12/31/ <u>2008</u>	\$519,000
12/31/ <u>2009</u>	\$600,000

Assuming that Nancy is retired and has never taken a distribution prior to 2008, what is the total amount of minimum distribution required in 2008? Life expectancy factors according to the uniform life table are 27.4 for a 70 year old and 26.5 for a 71 year old.

- a. \$18,038.
- b. \$18,248.
- c. \$35,597.
- d. \$36,286.

The correct answer is d.

For 2007, look back to 2006: $\$500,000 \div 27.4 = \$18,248$

For 2008, look back to 2007: $\$478,000 \div 26.5 = \$18,038$

$\$18,248 + \$18,038 = \$36,286$