ESTATE PLANNING ALERT:

NEW RULES ON RETIREMENT ACCOUNT DISTRIBUTIONS

FEBRUARY 2001

The Internal Revenue Service is making some important changes in the rules for distribution of IRA and retirement accounts. Anyone who has a retirement account will likely be affected by these changes. The proposed new rules are scheduled to take effect in 2002, but can be utilized in many cases for distributions in 2001 as well.

The new rules affect the minimum annual distribution that retirement account holders are required to take starting at age 70 1/2. Under the existing system, calculation of the minimum distribution is based on the beneficiary you name for your account at your age 70 1/2, the life expectancy of that beneficiary, and whether you elected "recalculation" or "non-recalculation" of life expectancies. This is a cumbersome system which causes difficulties both in calculating the minimum required distributions and determining the ideal beneficiary to name.

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NEW RULES

By contrast, the new system is much simpler. The key features of the new rules are as follows:

- The minimum required distribution will generally be calculated under just one table, and will not be dependent on elections made at age 70 1/2. Your minimum distribution will not vary depending on who you designate as the beneficiary. The only exception to this rule is if your spouse is the sole designated beneficiary and he or she is more than ten years younger than you. If this exception applies, then a different table is used allowing even smaller minimum distributions.

- Under the new table that most participants will use, the annual minimum distribution will usually be lower than under the current tables.

- In most cases, you can change the beneficiary of your account at any time, even after age 70 1/2, without affecting your minimum distribution calculations.

- Charities can be named as beneficiaries without the tax disadvantages of the current system.

- When the account holder dies, there is a period of time during which the account beneficiary can change due to a disclaimer or other planning techniques. This system allows much more flexibility in coordinating retirement account distributions with your estate plan.

- The new rules can be used in 2001 for IRA accounts. If you have a pension, profit sharing or other type of qualified plan account, the new rules will only apply to those accounts after the plan has been formally amended by the plan administrator.

PLANNING STEPS

The new rules allow some new planning opportunities and will likely make your retirement accounts more valuable to you and your family. We recommend that you consider taking the following steps:

- If you are over age 70 1/2 and already taking minimum distributions annually, we recommend that you do not take any minimum distribution for 2001 until the impact of the new rules on your situation has been analyzed. You will still need to take at least a minimum distribution for 2001, but the amount may be reduced.

- You should carefully review your current primary and contingent beneficiary designations to see if any revisions are needed.

- If there has been a recent death in your family, any disclaimer or other planning options should be promptly evaluated before withdrawals are taken from any retirement accounts.

We would be pleased to help you determine the impact of the new IRS rules on your retirement accounts. We can also assist you in revising your beneficiary designations so they take advantage of the new rules. Please contact us for assistance. If you are out of town, please feel free to use our new toll-free number which is noted below.

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