

Age 70 ½ DROP (or IBO) MINIMUM DISTRIBUTION REQUIREMENT

CAUTION: IF YOU FAIL TO MAKE YEARLY WITHDRAWALS IN THE MINIMUM REQUIRED AMOUNTS, THE IRS MAY IMPOSE A 50% ANNUAL EXCISE TAX ON THE AMOUNTS YOU SHOULD HAVE WITHDRAWN.

According to federal law, you cannot keep funds in your DROP or IBO account indefinitely. Eventually your funds must be distributed. The amount that must be distributed each year is referred to as the required minimum distribution. Generally, you must begin receiving distributions by April 1 of the year following the year in which you reach age 70½. The required minimum distribution for any year after the year in which you reach age 70½ must be made by December 31 of that later year. If there are no distributions, or if the distributions are not large enough, you may have to pay a 50% excise tax on the amount not distributed.

According to IRS Publication 590 (2014), you figure your required minimum distribution for each year by dividing your DROP/IBO account balance as of the close of business on December 31 of the preceding year by the applicable distribution period or life expectancy shown in the Tables provided by the IRS. Your DROP/IBO account balance is the amount in the DROP/IBO account at the end of the year preceding the year for which the required minimum distribution is being figured. Different rules apply if you have a beneficiary, or your beneficiary is not your spouse, or if your beneficiary is more than 10-years younger than you, or if you die before the required beginning date for the distributions. The yearly required minimum distribution can be withdrawn from your DROP/IBO account in a series of installments (monthly, quarterly, yearly, etc.) as long as the total withdrawals for the year are at least as much as the minimum required amount.

It is solely up to you to calculate the amount to be withdrawn each year and to submit the proper forms to the retirement staff for your withdrawal. Although we strive to be as helpful as possible, we cannot give tax advice, tax instructions, or legal advice. We do however suggest that you seek the guidance of a financial advisor or a tax professional to determine how much you must withdraw from your DROP/IBO account each year. The amount may change each year depending on your DROP/IBO balance. The IRS rules may change without further notice to you. Your financial advisor or tax professional can assure that you are complying with IRS rules that are in effect at the time you read this memo or when you submit your application for DROP/IBO withdrawal. You should furnish your advisor with copies of the quarterly DROP/IBO balance statements that you receive from FRS. We also suggest that you give this memo to that person for review.

The IRS rules concerning minimum distributions are very complicated and this memo does not address all the rules. The purpose of this memo is to prompt you to take additional action to determine your tax rights and obligations. The memo is not intended to provide tax or legal advice and should not be relied on for that purpose.