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Moratorium on Required Minimum Distributions for 2009

Late last year, Congress passed a law that helps individuals who are taking, or are about to take, required payouts from employer-sponsored tax-qualified retirement plans or IRAs. In essence, the law waives these required payouts (called "required minimum distributions" or RMDs) for calendar year 2009. Had the waiver not been granted, many individuals with retirement accounts invested in beaten-down assets such as stocks or mutual funds would have had to sell assets at a loss this year to generate RMDs for 2009. But the new law change helps even those people who would otherwise have to make RMDs from retirement plan accounts and traditional IRAs invested in "bulletproof" assets such as government-insured CDs. If they can afford to skip this year's RMD, they can lower their tax bill for 2009.

The new law change has an impact on three distinct groups of people—here's how you or a family member may be affected.

(1) Older individuals who are retirement plan account and traditional IRA owners. The new law allows older individuals to skip the RMD that would otherwise be required for calendar year 2009. However, the new law doesn't waive a 2008 RMD that was deferred to April 1 of 2009.

(2) Beneficiaries of retirement plan accounts or traditional IRAs. The new law allows designated beneficiaries of retirement plans or IRAs to skip the annual payout that would otherwise be required for calendar year 2009.

(3) Beneficiaries of Roth IRAs. Designated beneficiaries of Roth IRAs don't have to make a minimum withdrawal for 2009 from their inherited Roth IRAs. This won't affect their income tax, since distributions to designated beneficiaries of Roth IRAs are tax-free. However, it will avoid having to sell reduced-in-value assets to make the otherwise-required distributions, and it will make it possible for designated beneficiaries to leave more money at work within the tax-shelter of the Roth IRA.

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