

# Establishing a Substantially Equal Periodic Distribution Schedule

## To: Accountholder

Name \_\_\_\_\_  
Home Address \_\_\_\_\_  
City/State/Zip \_\_\_\_\_  
County \_\_\_\_\_ Date of Birth \_\_\_\_\_

Date: \_\_\_\_\_  
Phone: Home \_\_\_\_\_  
Work \_\_\_\_\_  
SSN \_\_\_\_\_  
IRA Account Number \_\_\_\_\_  
Type of IRA: \_\_\_\_ Traditional \_\_\_\_ Roth

## From: Custodian/Trustee

Name \_\_\_\_\_ Phone: \_\_\_\_\_  
Address \_\_\_\_\_  
City/State/Zip \_\_\_\_\_

## Explanation and Instructions to the Accountholder

When an accountholder takes a distribution from an IRA before reaching age 59 1/2, he or she is normally subject to a 10% excise tax. You have indicated that you are to be exempt from this tax because you will establish a substantially equal payment schedule. We request that you complete this form for two reasons.

1. Annually we are required to prepare IRS Form 1099-R documenting your distribution. The information provided by you allows us to insert a reason code "2" in box 7.
2. **Because IRAs are so influenced by tax laws, your signature expressly acknowledges that you have consulted with your tax advisor and are taking full responsibility for the tax consequences of this distribution. You acknowledge that you have not relied upon us for any advice concerning the making of this distribution schedule and the related tax consequences. You are strongly advised to read the explanatory information set forth on the reverse side and to meet with your legal or tax advisor.**

\_\_\_\_\_  
Representative's Signature of Custodian

\_\_\_\_\_  
Date

## Accountholder's Acknowledgment and Instruction to Commence Substantially Equal Payments

I hereby instruct you that I have not attained age 59 1/2 and that I wish to commence substantially equal periodic payments from my IRA. I have read the information set forth on the reverse side and understand that I will be subject to a special penalty tax if I subsequently modify this payout schedule. I understand that I must take a distribution under this schedule at least annually and that the annual amount must be considered a substantially equal periodic payment as defined by the IRS and the Internal Revenue Code.

I acknowledge that I have consulted with my tax advisor and/or that I am taking full responsibility for the tax consequences of this distribution. I have not relied upon the custodian/trustee for any advice concerning such tax consequences.

I hereby instruct you that my annual payment will be determined under the following method (select one and complete):

\_\_\_\_\_ 1. Code Section 401(a)(9) Method. My annual distribution amount will vary each year based on the applicable factor from the governing IRA regulation.  
My account balance as of: \_\_\_\_\_ is  
\$ \_\_\_\_\_

\_\_\_\_\_ 2. Amortizing Method. My annual distribution will be \$ \_\_\_\_\_  
My life expectancy is: \_\_\_\_\_  
Reasonable interest rate \_\_\_\_\_  
Account balance \$ \_\_\_\_\_  
Cola Adjustment: \_\_\_\_\_  
\_\_\_\_ Yes \_\_\_\_ No  
If yes, the above annual amount shall increase annually at the same rate as the following index: \_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_ 3. Annuity Factor Method. My annual distribution will be: \$ \_\_\_\_\_  
Table Used \_\_\_\_\_  
Reasonable interest rate \_\_\_\_\_  
Account balance \$ \_\_\_\_\_  
Annuity factor \_\_\_\_\_  
Cola Adjustment: \_\_\_\_\_  
\_\_\_\_ Yes \_\_\_\_ No  
If yes, the above annual amount shall increase annually at the same rate as the following index: \_\_\_\_\_  
\_\_\_\_\_

\_\_\_\_\_  
Signature of Accountholder

\_\_\_\_\_  
Date

## Additional Explanation/Warning

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You should discuss the following information in greater detail with your tax advisor.

**SPECIAL WARNING - SUBSEQUENT CHANGE:** A special penalty tax may apply if you set up a periodic payout schedule to avoid the 10% penalty tax, but then you later modify the series of payments (for example, you decide you need more cash, so you close the IRA). If you modify the payment schedule before you reach age 59 1/2, then you will be liable for this special penalty tax. If you have attained age 59 1/2 at the time of the modification, but the periodic payout schedule has not been in effect for five years (as determined from the date of the first payment), then you will also be subject to the special penalty tax (determined from the date of the first payment).

**THE SPECIAL PENALTY TAX:** This shall be the amount, determined under regulations, equal to the 10% tax which otherwise would have been imposed plus the interest for the deferral period. That is, you owe the 10% tax that you otherwise would have owed but for this special deferral rule, and you must pay the interest which has accrued from the year you should have paid the 10% tax until the current time of payment. The special penalty tax will not be imposed if the modification of the payout schedule is due to your death or disability.

**SUBSTANTIALLY EQUAL PAYMENTS:** The IRS, in Notice 89-25, has authorized three alternative methods which will be considered a substantially equal periodic payment. The three methods are:

1. **Code Section 401(a)(9) Method.** The annual payment is determined using a method that complies with the rules of section 401(a)(9) and related regulations. The annual payment will vary each year.
2. **Amortizing Method.** The annual payment is determined by amortizing your account balance over the number of years equal to your life expectancy (or joint life expectancy) at an interest rate which must be reasonable on the date the payments commence. This annual amount will not be changed.
3. **Annuity Factor Method.** The annual payment is determined by dividing your account balance by an annuity factor. This factor is determined by use of a reasonable mortality table and a reasonable interest rate. The factor is the present value of an annuity of \$1.00 for a stated period (yearly, semi-annually, monthly, etc.) beginning at the age you attain during the year you take the first distribution, and continuing for your life. This annual amount will not change.