**Rev. Rul. 86-78, I.R.B. 1986-20, 11.**

This ruling provides questions and answers relating to the financial disclosure that must be provided by the trustee or issuer of an individual retirement account or annuity (IRA) to the individual to be benefited by an IRA.

Section 1.4086(d)(4) of the Income Tax Regulations provides that the trustee or issuer of an IRA must furnish a disclosure statement to the benefited individual and prescribes the information the statement must contain. Among other things, the statement must satisfy the applicable financial disclosure requirements of section 1.408-6(d)(4)(v), (vi), and (vii) of the regulations. That section requires that where an amount is guaranteed over a period of time, or a projection of growth in value of the IRA can reasonably be made, the disclosure statement must show the amount guaranteed or projected to be made available to the benefited individual if (1) level annual contributions in the amount of $1,000 were made on the first day of each year, and (2) the benefited individual were to withdraw, in a single sum, the entire amount of the IRA at the end of each of the first five years during which contributions are to be made, at the end of each of the year in which the benefited individual attains the ages of 60, 65, and 70, and at the end of each year during which the increase in the guaranteed available amount is less than the increase in the guaranteed amount available during any preceding year. Similar information must be provided with respect to amounts guaranteed or projected to be made available under an IRA which is to receive only a rollover contribution except the amounts guaranteed or projected to be made available are based on only one $1,000 contribution made in the beginning of the year the rollover contribution occurred.

This ruling is being issued because of the widespread public interest in the amounts that must be shown to be made available on the IRA disclosure statement where the IRA values are either guaranteed or can reasonably be projected. It is important that trustees and issuers of IRAs know the IRS position on these matters because such trustees and issuers can be subject to penalties for failure to conform to IRA disclosure requirements.

No inference should be drawn regarding matters not addressed which may be suggested by a particular question or answer or as to why certain questions and not others are included.

Q-1. What must be taken into account in computing the amounts that are required to be disclosed where the values under the IRA are guaranteed or can be reasonably projected?

A-1. The amount that is shown to be available at any particular time must be the amount actually guaranteed or reasonably projected to be withdrawable after reduction for all charges or penalties that may be applied, including, for example trustee fees and any penalties for early withdrawal (such as interest forfeiture provisions for early withdrawal for a time deposit). For example, the issuer of an IRA that guarantees or reasonably projects an earnings rate of 10 percent annual interest, but deducts five percent of any amounts withdrawn within five years after the amount is established, must show $1,045 ($1,000 × 1.10 × .95) as the amount available if the account is withdrawn at the end of the first year, whether or not such fees and penalties are charged directly to the account or stated separately.

Q-2. In the example given in Q-1, would it be acceptable to show $1,100 as available at the end of the first year and indicate separately that there is a five percent or $55 ($1,100 × .05) deduction for withdrawal at the end of the first year?

A-2. No. The disclosure statement must show the amount that could actually be withdrawn by the benefited individual at the end of the first year after reduction for all applicable charges and penalties.

Q-3. Must guarantees or projections of IRA values available at ages 60, 65, and 70 of the benefited individual be based on the actual age of the benefited individual?

A-3. Yes. Amounts guaranteed or projected for ages 60, 65, and 70 must be computed based on the actual age of the benefited individual as of the date the IRA is established. The requirement to provide the value of the IRA at ages 60, 65 and 70 must be met by providing the values for the particular benefited individual at those ages.

Q-4. May the requirement discussed in Q-3 be met by providing a table that shows the values at those ages based on various ages at the time the IRA is established, including the age of the particular benefited individual at that time?

A-4. Yes. Also, it would be sufficient to provide a table that shows the value of the IRA based on the number of years after the IRA was established if the benefited individual, by knowing how many years it will be until he or she reaches ages 60, 65, and 70, could determine the value of the IRA at those times.

Q-5. If the IRA has a minimum guaranteed earnings rate that is lower than the rate currently being paid on the IRA investments, may the trustee or issuer of the IRA show projected amounts based on the earnings rate actually being paid?

A-5. If the trustee or issuer of the IRA is paying earnings at a greater rate than guaranteed to be paid and it is reasonable to project growth in values, the disclosure statement may show a projected amount available based on the actual greater rate. However, section 1.408-6(d)(4)(v)(A)(1) and (B)(2) of the regulations required that the disclosure statement clearly identify what amounts are, or are not, guaranteed to be available to the benefited individual.

Q-6. If the earnings rate of the IRA is not guaranteed but a reasonable projection of growth may be made, may the projection use an assumed earnings rate that is greater than the rate being paid at the time the IRA is being established?

A-6. No. Where the values of the IRA are projected and not guaranteed, section 1.408-6(d)(4)(v)(B)(2) of the regulations requires the projection be based on an earnings rate no greater than the rate currently being paid.

Q-7. If the earnings rate of the IRA is not guaranteed but may be projected, may the projection use an assumed earnings rate that is lower than the rate being paid at the time the IRA is being established?

A-7. Yes. In fact, if the trustee or issuer uses the greatest earnings rate allowable in the disclosure statement projections, and the actual earnings rate then falls below that rate, the disclosure statement must be revised before the IRA is offered to other individuals. Thus, trustees or issuers of IRAs may prefer to use more conservative earnings rates than the greatest rate allowable so that small decreases in the earnings rate being paid will not require immediate modification of their disclosure statements.

***Example***

Bank M provides an IRA that guarantees an interest rate of 6 percent per year compounded daily using a 365/360 day year. However, a withdrawal penalty of 10 percent of the amount in the account is assessed by Bank M if withdrawal takes place within the first 10 years. Currently, the IRA is paying earnings at 8 percent using the same method of compounding as is used for the guaranteed rate. An individual establishes an IRA with Bank M. The disclosure requirements are satisfied if the following instructions and tables are provided to such individual (similar tables would be used for a rollover of $1,000, except that such tables would reflect only one payment of $1,000):

Instruction for Use of the Tables Below

(1) Find your age in the first column of the table.

(2) Look across the table on the same line as your age to determine the projected value of the account at ages 60, 65 and 70, after taking out any withdrawal penalty.

(3) At the top of each table values are shown for the projected account after taking the withdrawal penalty at the end of the first, second, third, fourth and fifth years. Values at the end of the first five years will be the same for all ages.

(4) The first table uses the current rate and the second table uses the guaranteed rate.

(5) The projections used the following assumptions:

(a) A level contribution of $1,000 annually paid on the first day of the calendar year;

(b) Interest compounded daily using a 365/360 day year, i.e., using an effective daily rate of interest of 1/360 of the assumed rate and compounding such effective daily rate for 365 days per year.

Interest rate equals 8 percent compounded daily using a 365/360 day year.

Table includes a withdrawal penalty of 10 percent during first 10 years.

| *End of Year* | *Accumulated* Amount |
|---|---|
| 1 | 976.03 |
| 2 | 2,034.52 |
| 3 | 3,182.44 |
| 4 | 4,427.23 |
| 5 | 5,777.39 |

| *Age at* Opening | *Age 60* | *Age 65* | *Age 70* |
|---|---|---|---|
| 18 | 406,935.68 | 616,850.61 | 931,737.32 |
| 19 | 374,235.20 | 567,797.65 | 858,154.54 |
| 20 | 344,082.10 | 522,565.94 | 790,303.89 |

| | | | |
|---|---|---|---|
| 21.............. | 316,277.94 | 480.857.80 | 727,738.84 |
| 22.............. | 290,639.74 | 442,398.75 | 670.047.64 |
| 23.............. | 266,998.77 | 406,935.68 | 616,850.61 |
| 24.............. | 245,199.44 | 374,235.20 | 567,797.65 |
| 25.............. | 225,098.29 | 344,082.10 | 522,565.94 |
| 26.............. | 206,563.03 | 316,277.94 | 480,857.80 |
| 27.............. | 189,471.67 | 290,639.74 | 442,398.75 |
| 28.............. | 173,711.74 | 266,998.77 | 406,935.68 |
| 29.............. | 159,179.51 | 245,199.44 | 374,235.20 |
| 30.............. | 145,779.35 | 225,098.29 | 344,082.10 |
| 31.............. | 133,423.07 | 206,563.03 | 316,277.94 |
| 32.............. | 122,029.35 | 189,471.67 | 290,639.74 |
| 33.............. | 111,523.21 | 173,711.74 | 266,998.77 |
| 34.............. | 101,835.50 | 159,179.51 | 245,199.44 |
| 35.............. | 92,902.47 | 145,779.35 | 225,098.29 |
| 36.............. | 84,665.32 | 133,423.07 | 206,563.03 |
| 37.............. | 77,069.85 | 122,029.35 | 189,471.67 |
| 38.............. | 70,066.07 | 111,523.21 | 173,711.74 |
| 39.............. | 63,607.89 | 101,835.50 | 159,179.51 |
| 40.............. | 57,652.81 | 92,902.47 | 145,779.35 |
| 41.............. | 52,161.63 | 84,665.32 | 133,423.07 |
| 42.............. | 47,098.22 | 77,069.85 | 122,029.35 |
| 43.............. | 42,429.25 | 70,066.07 | 111,523,21 |

| | | | |
|---|---|---|---|
| 44.............. | 38,123.99 | 63,607.89 | 101,835.50 |
| 45.............. | 34,154.11 | 57,652.81 | 92,902.47 |
| 46.............. | 30,493.49 | 52,161.63 | 84,665.32 |
| 47.............. | 27,118.03 | 47,098.22 | 77,069.85 |
| 48.............. | 24,005.52 | 42,429.25 | 70,066.07 |
| 49.............. | 21,135.48 | 38,123.99 | 63,607.89 |
| 50.............. | 18,489.02 | 34,154.11 | 57,652.81 |
| 51.............. | 14,443.85 | 30,493.49 | 52,161.63 |
| 52.............. | 12,418.67 | 27,118.03 | 47,098.22 |
| 53.............. | 10,551.25 | 24,005.52 | 42,429.25 |
| 54.............. | 8,829.31 | 21,135.48 | 38,123.99 |
| 55.............. | 7,241.50 | 18,489.02 | 34,154.11 |
| 56.............. | 5,777.39 | 14,443.85 | 30,493.49 |
| 57.............. | 4,427.33 | 12,418.67 | 27,118.03 |
| 58.............. | 3,182.44 | 10,551.25 | 24,005.52 |
| 59.............. | 2,034.52 | 8,829.31 | 21,135.48 |
| 60.............. | 976.03 | 7,241.50 | 18,489.02 |
| 61.............. | | 5,777.39 | 14,443.85 |
| 62.............. | | 4,427.33 | 12,418.67 |
| 63.............. | | 3,182.44 | 10,551.25 |
| 64.............. | | 2,034.52 | 8,829.31 |
| 65.............. | | 976.03 | 7,241.50 |
| 66.............. | | | 5,777.39 |
| 67.............. | | | 4,427.33 |

| | |
|---|---|
| 68.............. | 3,182.44 |
| 69.............. | 2,034.52 |
| 70.............. | 976.03 |

The above table shows the accumulation using rates that are not guaranteed.

The table below shows the accumulation using the guaranteed rate.

Accumulation table for IRA account.

Interest rate equals 6 percent compounded daily using a 365/360 day year.

Table includes a withdrawal penalty of 10 percent during first 10 years.

| *End of Year* | *Accumulated* Amount |
|---|---|
| 1 | 956.45 |
| 2 | 1,972.88 |
| 3 | 3,053.06 |
| 4 | 4,200.98 |
| 5 | 5,420.90 |

| *Age at* Opening | *Age 60* | *Age 65* | *Age 70* |
|---|---|---|---|
| 18.............. | 214,786.13 | 297,157.26 | 408,808.05 |
| 19.............. | 201,110.50 | 278,620.49 | 383,682.19 |
| 20.............. | 188,241.94 | 261,177.67 | 360,039.14 |

| | | | |
|---|---|---|---|
| 21............. | 176,132.82 | 244,764.24 | 337,791.39 |
| 22............. | 164,738.32 | 229,319.45 | 316,856.59 |
| 23............. | 154,016.27 | 214,786.13 | 297,157.26 |
| 24............. | 143,926.98 | 201,110.50 | 278,620.49 |
| 25............. | 134,433.11 | 188,241.94 | 261,177.67 |
| 26............. | 125,499.52 | 176,132.82 | 244,764.24 |
| 27............. | 117,093.15 | 164,738.32 | 229,319.45 |
| 28............. | 109,182.88 | 154,016.27 | 214,786.13 |
| 29............. | 101,739.44 | 143,926.98 | 201,110.50 |
| 30............. | 94,735.27 | 134,433.11 | 188,241.94 |
| 31............. | 88,144.45 | 125,499.52 | 176,132.82 |
| 32............. | 81,942.59 | 117,093.15 | 164,738.32 |
| 33............. | 76,106.74 | 109,182.88 | 154,016.27 |
| 34............. | 70,615.29 | 101,739.44 | 143,926.98 |
| 35............. | 65,447.92 | 94,735.27 | 134,433.11 |
| 36............. | 60,585.50 | 88,144.45 | 125,499.52 |
| 37............. | 56,010.04 | 81,942.59 | 117,093.15 |
| 38............. | 51,704.60 | 76,106.74 | 109,182.88 |
| 39............. | 47,653.24 | 70,615.29 | 101,739.44 |
| 40............. | 43,840.98 | 65,447.92 | 94,735.27 |
| 41............. | 40,253.70 | 60,585.50 | 88,144.45 |
| 42............. | 36,878.12 | 56,010.04 | 81,942.59 |
| 43............. | 33,701.75 | 51,704.60 | 76,106.74 |
| 44............. | 30,712.83 | 47,653.24 | 70,615.29 |

| | | | |
|---|---|---|---|
| 45.............. | 27,900.31 | 43,840.98 | 65,447.92 |
| 46.............. | 25,253.77 | 40,253.70 | 60,585.50 |
| 47.............. | 22,763.41 | 36,878.12 | 56,010.04 |
| 48.............. | 20,420.02 | 33,701.75 | 51,704.60 |
| 49.............. | 18,214.93 | 30,712.83 | 47,653.24 |
| 50.............. | 16,139,97 | 27,900.31 | 43,840.98 |
| 51.............. | 12,768,71 | 25,253.77 | 40,253.70 |
| 52.............. | 11,115.16 | 22,763.41 | 36,878.12 |
| 53.............. | 9,559.20 | 20,420.02 | 33,701.75 |
| 54.............. | 8,095.06 | 18,214.93 | 30,712.83 |
| 55.............. | 6,717.32 | 16,139.97 | 27,900.31 |
| 56.............. | 5,420.90 | 12,768.71 | 25,253.77 |
| 57.............. | 4,200.98 | 11,115.16 | 22,763.41 |
| 58.............. | 3,053.06 | 9,559.20 | 20,420.02 |
| 59.............. | 1,972.88 | 8,095.06 | 18,214.93 |
| 60.............. | 956.45 | 6,717.32 | 16,139.97 |
| 61.............. | | 5,420.90 | 12,768.71 |
| 62.............. | | 4,200,98 | 11,115.16 |
| 63.............. | | 3,053.06 | 9,559.20 |
| 64.............. | | 1,972.88 | 8,095.06 |
| 65.............. | | 956.45 | 6,717.32 |
| 66.............. | | | 5,420.90 |
| 67.............. | | | 4,200.98 |

| | |
|---|---|
| 68.............. | 3,053.06 |
| 69.............. | 1,972.88 |
| 70.............. | 956.45 |