

CALCULATING THE NEED FOR RETIREMENT ASSETS

When IRS considers levy of a taxpayer's retirement account assets, Internal Revenue Manual 5.11.6.2(7), Funds in Pension or Retirement Plans, states the IRS must "determine whether the taxpayer depends on the money in the retirement account (or will in the near future) for necessary living expenses." The guidance in making this determination is limited.

This document provides a consistent method for calculating the need for retirement account assets to advocate for a taxpayer where the IRS levied retirement account assets or the IRS threatened such a levy. Use this method to verify or challenge the IRS determination.¹

Five Steps for Calculating the Need for Retirement Assets

- 1 Calculate the taxpayer's necessary living expenses.** See [Collection Financial Standards](#)² and Internal Revenue Manual 5.15, Financial Analysis.³
- 2 Calculate the taxpayer's life expectancy.** See Life Expectancy Tables in the appendices of Publication 590-B, Distributions From Individual Retirement Arrangements (IRAs), at www.irs.gov (updated annually). Use the life expectancy to determine the number of months income from retirement assets will be required.
- 3 Calculate the taxpayer's future Social Security Administration (SSA) benefits (if the taxpayer is eligible).** See the [SSA Quick Calculator](#).⁴
CAUTION: The SSA Quick Calculator is the least accurate method to estimate benefits. Encourage the taxpayer to secure an estimate by creating an online account at www.ssa.gov or by using the Retirement Estimator on that site. These calculators use the taxpayer's actual income rather than estimates used by the Quick Calculator.
- 4 Calculate the monthly income required from the taxpayer's retirement assets to meet necessary living expenses.** Total income from all sources other than the retirement assets considered for levy, then subtract necessary living expenses.
- 5 Calculate the number of monthly distributions from retirement assets until they are depleted.**⁵ Divide the total current balance of retirement assets by the monthly income needed from retirement assets computed in step four above.

Note: If retirement funds are not fully depleted by end of life expectancy, the remaining balance would be available for levy.

¹ The method in this document factors no growth in retirement assets or inflation of necessary living expenses. Attempting to estimate these future financial uncertainties would include too many variables to ensure a consistent application for all taxpayers.

² <https://www.irs.gov/businesses/small-businesses-self-employed/collection-financial-standards>.

³ Calculate current necessary living expenses without factoring future growth or inflation. Allow for known increases (*e.g.*, health insurance or medical costs certain to increase upon retirement).

⁴ Calculate SSA income without factoring future growth or inflation. <https://www.ssa.gov/OACT/quickcalc/index.html>.

⁵ Calculates retirement income without factoring future growth or inflation.

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IRM 13.1.24.5.5 Supplement Example



Calculating the Need for Retirement Assets Example

- *Assumptions About the Taxpayer*
- Age 61, single, no dependents, and his date of birth is December 31, 1960.
- A wage earner, with no defined benefit retirement plan.
- Current annual wage income is \$75,000.
- Plans to retire December 31, 2021, upon turning age 62.
- Owns a 401k account with a current balance of \$250,000 and an Individual Retirement Arrangement with a current balance of \$50,000.
- Owns no real property, rents an apartment, and owns one auto with a loan balance and no equity.
- Health care expenses are \$300 per month. Health insurance will increase \$32 per month upon retirement.
- Estimated tax on retirement account withdrawals is \$68 per month.

Five Steps for Calculating the Need for Retirement Assets

1

Calculate the taxpayer's necessary living expenses. See [Collection Financial Standards](#)¹ and Internal Revenue Manual 5.15, Financial Analysis.²

The example assumes Form 433A, *Collection Information Statement for Wage Earners and Self-Employed Individuals*, has been completed and the current monthly allowable necessary living expenses are \$2,968.³

2

Calculate the taxpayer's life expectancy. See Life Expectancy Tables in the appendices of Publication 590-B, *Distributions From Individual Retirement Arrangements (IRAs)*, at www.irs.gov (updated annually). Use the life expectancy to determine the number of months income from retirement assets will be required.

Publication 590-B, Table I shows a life expectancy of 24.4 years (292 months) for the taxpayer's current age of 61. Therefore, upon retirement in seven months, the taxpayer's income must meet his necessary living expenses for 23 years and nine months (285 months).

¹ <https://www.irs.gov/businesses/small-businesses-self-employed/collection-financial-standards>.

² Calculate current necessary living expenses without factoring future growth or inflation. Allow for known increases (e.g., health insurance or medical costs certain to increase upon retirement).

³ To make an accurate comparison of living expenses and income, this example uses today's dollars for necessary living expenses with no future growth rate.

Calculate the taxpayer's future Social Security Administration (SSA) benefits (if the taxpayer is eligible). See the [SSA Quick Calculator](#).⁴

3

CAUTION: The SSA Quick Calculator is the least accurate method to estimate benefits. Encourage the taxpayer to secure an estimate by creating an online account at www.ssa.gov or by using the Retirement Estimator on that site. These calculators use the taxpayer's actual income rather than estimates used by the Quick Calculator.

The SSA calculator shows the taxpayer's monthly benefits to be \$1,394, beginning age 62.⁵

Calculate the monthly income required from the taxpayer's retirement assets to meet necessary living expenses. Total income from all sources other than the retirement assets considered for levy, then subtract necessary living expenses.

4

Monthly necessary living expenses (\$2,968) plus anticipated monthly health insurance increase (\$32) minus monthly SSA benefits (\$1,394) equals monthly income required from retirement assets (\$1,606).

Calculate the number of monthly distributions from retirement assets until they are depleted.⁶ Divide the total current balance of retirement assets by the monthly income needed from retirement assets computed in step four above.

5

Note: If retirement funds are not fully depleted by end of life expectancy, the remaining balance would be available for levy.

Monthly distributions of \$1,606 would deplete the \$300,000 in retirement account assets in 15 years and seven months (187 months), which is 98 months short of the taxpayer's expected life span.⁸ Therefore, the retirement account assets should not be levied upon.

⁴ Calculate SSA income without factoring future growth or inflation. <https://www.ssa.gov/OACT/quickcalc/index.html>.

⁵ The Social Security Administration Quick Calculator allows the user to estimate today's dollars or inflated (future) dollars. To make an accurate comparison of living expenses and income, this example uses today's dollars.

⁶ Calculate retirement income without factoring future growth or inflation.