UNDERSTANDING

REQUIRED MINIMUM DISTRIBUTIONS

MAKING ADVISED CHOICES

RETIREMENT

Prudential Financial
PRUDENTIAL CAN HELP

Prudential has developed this guide to help you avoid common—and costly—mistakes, provide valuable retirement planning information, and help you make the most of your retirement savings.

If you have questions about this guide or about planning your required minimum distributions, please call your financial professional or the Prudential Mutual Fund Service Center at (800) 225-1852.
What are Required Minimum Distributions?

A required minimum distribution is the minimum amount that is required by law to be withdrawn from your tax-deferred retirement plan(s) each year after you reach age 70½.

The rewards of tax deferral
Tax-deferred retirement plans have helped many Americans save and invest for retirement. Untouched by annual taxation, your contributions to these plans have grown faster over the years than would have been possible with the same investments held outside a tax-deferred vehicle.

Why withdraw money you may not need?
Tax-deferred retirement plans are not tax free. You probably haven’t been taxed on the money in your retirement plan(s), so at some point you must withdraw your money and pay taxes. The law generally requires that you begin to do so at age 70½. You can always take out more than the minimum, but the excess cannot be used toward a required minimum distribution for a future year.

New, simpler rules
The Internal Revenue Service has simplified the rules for these distributions. These changes let you:

- Keep more of your retirement assets working on a tax-deferred basis.
- Have the freedom to change beneficiaries after age 70½.
- Eliminate the often complex tables and formulas needed to calculate your minimum distributions.

Although these changes will not become effective until 2002, the IRS will allow you to use these new rules to calculate your 2001 required distribution. (Regardless of your calculation method in 2001, your required distributions will be calculated under the new rules beginning in 2002.)

Note: If your retirement benefit is in the form of an annuity (as in the case of payments under a traditional defined benefit pension plan), the “old” required minimum distribution rules generally continue to apply.

Avoid severe tax penalties
If you fail to take the required minimum distribution, federal tax law imposes a 50% penalty on the difference between the amount of your required minimum distribution and the amount you actually take out—in addition to full tax liability. In this example, Joe Jones is required to take out $10,000 from his retirement plans by April 1, 2002, but took out only $4,000.

<table>
<thead>
<tr>
<th>Income tax</th>
<th>Federal tax penalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10,000</td>
<td>$10,000</td>
</tr>
<tr>
<td>x 0.28</td>
<td>- 4,000</td>
</tr>
<tr>
<td>$2,800</td>
<td>$6,000</td>
</tr>
<tr>
<td>income tax</td>
<td>difference</td>
</tr>
<tr>
<td>$3,000</td>
<td>% IRS penalty</td>
</tr>
<tr>
<td>IRS penalty</td>
<td>$3,000</td>
</tr>
</tbody>
</table>

Tax is due on the entire $10,000, but Joe must pay an additional 50% tax penalty on the difference between his actual distribution and his required minimum distribution.

This example is for illustrative purposes only. Your individual situation may differ.
**When do required minimum distributions begin?**

You must generally begin distribution no later than April 1 of the year after you turn age 70½. In future years, you must take your distribution by December 31.

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**Exceptions to the age 70½ rule**

- If you are a participant in a qualified retirement plan and are not a 5% or greater owner of the company sponsoring the plan, then you might be able to delay taking your distribution until you retire (even if you retire after age 70½). Note: the later distribution age does not apply to distributions from IRAs.
- If you had money in a 403(b) plan on or before December 31, 1986, you may be able to delay taking required minimum distributions until age 75; or
- If you participate in a 403(b) plan, you might be able to delay taking your distributions until you retire (even if you retire after age 70½).

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**Be careful with your first distribution!**

If you wait until April 1 to make your first distribution, you’ll have to make another withdrawal by December 31. Taking two distributions in one year increases your taxable income, which can push you into a higher tax bracket or cause you to become ineligible for certain deductions.

**A first-year exception example**

2. Joe can wait to complete taking his required minimum distribution out of his plan(s) until April 1, 2001—April 1 of the year after he turned age 70½. (The calculation is based upon his December 31, 1999, account value.)
3. He must take the second distribution by December 31, 2001, to satisfy the 2001 calendar year distribution requirement. (The calculation is based upon his December 31, 2000, account value adjusted for the first distribution taken for 2001.)
How Prudential can help

Based on the information you provide, Prudential can calculate your required minimum distribution for you, and can also make your distributions automatic.

What Prudential can do for you starting in January 2002

- Calculate your mutual fund required minimum distribution only.
- Calculate required minimum distributions from all of your retirement accounts.
- Send your Prudential distribution to you on or before April 1 of the year after you turn age 70½.

To have Prudential do your calculations

- You need to make decisions about your beneficiaries. (See pages 4 and 5 for more information.)
- Call the Prudential Mutual Fund Service Center at (800) 225-1852.
- Complete the “Individual Retirement Account Required Minimum Distribution Form.”

Remaining invested in your fund

If you have more than one retirement plan or account and you want to remain invested in your Prudential mutual fund, you may be able to take distributions from another account or consolidate your retirement holdings (see box at right). Your financial professional can help.

Complete information is important!

You’ll need to know the value of each of your accounts as of December 31 of the previous year (even plans kept at other institutions) if you want us to calculate distributions from all of your retirement accounts. Our calculations will be based on the information you provide.

Plans that require minimum distributions

- Traditional IRAs (including rollovers).
- 403(b) and 401(k) plans.
- 457 plans.
- Simplified Employee Pension plans (SEP-IRAs).
- Savings Incentive Match for Employees IRAs (SIMPLE IRAs).
- Pension and profit-sharing plans.

If you have more than one type of plan, there are three rules to keep in mind:

1. Generally, you must make withdrawals based on the December 31 prior year value of each of your retirement plans.
2. If you have more than one IRA or 403(b) account, you can withdraw from any one or all of them, but you must take a separate minimum distribution from each type of plan, i.e., one for IRA and one for 403(b).
3. For other types of retirement plans, you must withdraw money from each plan for which a minimum distribution is required.
The IRS has simplified the rules for calculating required minimum distributions. Just be sure you understand your options.

### The “Stretch” IRA

Known also as the eternal IRA or continual IRA, this popular technique allows a much younger beneficiary to inherit your traditional or Roth IRA.

Naming a younger beneficiary with a longer life expectancy than the owner of the IRA may extend the tax-deferral period and increase the potential value of the IRA to the beneficiary.

You should consult your tax adviser to arrange a beneficiary designation who can take advantage of this option.

### Choose a beneficiary

Your beneficiary is the individual, individuals, trust, or charity you’ve chosen to receive your retirement plan assets upon your death. Beneficiaries now enjoy greater “stretch” tailored to their life expectancies.

If you leave your IRA to more than one person, your beneficiaries may have their required minimum distributions paid out according to their own life expectancies if your IRA is divided into separate accounts.

### Calculate your required minimum distribution

Your required minimum distribution is generally determined by dividing the total amount in your retirement plan on December 31 of the previous year by your life expectancy “factor.”

The IRS has created a Uniform Distribution Period table (see page 9) for everyone age 70 and older. That table assumes you have a beneficiary, even if you haven’t named one by the time you are age 70½, and that your beneficiary is 10 years your junior.

The only reason you would not use this table is if you named your spouse as your sole beneficiary, and your spouse is more than 10 years younger than you. In that case, you may use the IRS’ Joint Life and Last Survivor Expectancy table (see page 9), which will yield a required minimum distribution less than that determined by the uniform table.

### Keep careful records

Because choosing a beneficiary is such an important decision, you should keep a copy of your beneficiary records in a safe place and keep a record of any changes you make. You may also wish to review your beneficiary designation periodically.

**Important!**

Any beneficiary changes must be made in writing.
**If your spouse is the named beneficiary**
Your spouse can choose to roll the entire value of your account into an IRA of his or her own. The required distributions from that account would be based on the account value when he or she reaches age 70½. Alternatively, your account can be maintained and distributions deferred until you would have reached age 70½. At that time, your spouse would begin to receive payments from your account calculated using IRS tables for a single life expectancy and his or her age. This life expectancy would be recalculated annually.

**Disclaiming a beneficiary interest**
Up until December 31 of the year after the year of your death, your beneficiary designations may change. No one may designate a new beneficiary on your account, but a beneficiary may choose to “disclaim” his or her interest, or have it paid in full.

For example, say you left your IRA to your 71-year-old brother and your 25-year-old grandson. If your brother were to disclaim his interest, your grandson could take required minimum distributions based on his own life expectancy rather than that of your brother (as the older beneficiary). Since your grandson's life expectancy is so much longer than your brother's, the required minimum distributions would be much smaller.

There may be other instances where a beneficiary disclaimer may be advisable. Keep in mind that any change must be made before the December 31 deadline. Ask your tax adviser and financial professional if you think this strategy might be appropriate for your personal situation.

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**Example**

In Year 1, Jane Jones is age 60 when her deceased spouse would have been age 70½ — her life expectancy is 24.2 years. The total retirement plan value is $400,000.

$400,000 divided by 24.2 = $16,530 (required minimum distribution).

Jane has a job that she likes. She doesn't need the money— or the tax liability. Jane rolls over her deceased spouse’s plan value ($400,000) to her own IRA, where she can defer distribution until she reaches age 70½.

This illustration is hypothetical and does not represent the performance of any specific investment.
Consolidate to simplify

It can be hard to make sense of multiple account statements, track the performance of different investment portfolios, and monitor your withdrawals.

Once your assets have been consolidated into a Prudential IRA, you’ll be able to:

- Calculate your required minimum distributions from one account.
- Track your investments on a single, easy-to-read account statement.
- Simplify your record keeping.
- Monitor your asset allocation at a glance.
- Manage your assets to pursue the income you need.

As one of the largest financial services companies in the world, Prudential offers a wide variety of services that can help you through all phases of your retirement.

**Asset allocation.** Now that you’re retired, your money may have to generate income and provide growth to keep pace with inflation. Prudential’s industry-leading risk profiling and asset allocation service can help you develop a strategy to meet your needs.

**Ongoing performance monitoring.** Small changes in inflation rates and investment results can have an impact on your retirement income. Your financial professional can review your retirement plan with you each year to help you stay on track.

**Estate planning.** A sound estate plan will help ensure that your hard-earned assets are protected from excessive taxation, enabling you to leave more of your wealth to your beneficiaries.

**Trust services.** Your estate plan may benefit from various types of trust arrangements. Prudential offers a wide array of trust products to meet your estate planning needs and help achieve the tax savings you desire. For more information about Prudential’s trust services, contact your financial professional or call toll free (800) 778-8778.
There are several ways to roll over or transfer assets to Prudential from another brokerage firm or mutual fund company.

- With a **rollover**, you take possession of the money in your retirement plan, although 20% is automatically withheld.\(^1\) While you generally claim this 20% as a tax credit when you file your next tax return, you must invest the gross amount distributed—including the 20% withheld, which you must make up out of other assets—into a rollover account within 60 days of receipt of the rollover check. If you fail to make up the 20% withheld, you will be subject to federal income tax, and possibly to a 10% tax penalty on that amount.

- With a **direct rollover**, you move your retirement assets directly to Prudential from an employer’s retirement plan. Unlike the rollover, you do not take possession of the money, and there is no automatic withholding.

- With an **asset transfer**, you move the assets directly to Prudential from another custodian. You do not take possession of your money. Transfers must be between the same types of plan (i.e., traditional IRA to traditional IRA, etc.).

In each case described above, you must take your required minimum distribution for the particular calendar year **before** rolling over or transferring your money to Prudential.

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\(^1\)Important note: Only 10% is withheld on distributions from traditional IRAs, SEPs, and SIMPLE IRAs, but you can generally opt out.

\(^2\)In certain situations, you may lose tax advantages by rolling assets into an IRA, such as the ability to hold employer securities or lump-sum distributions. You should consult your tax adviser about your particular situation.

\(^3\)Restrictions apply for the first two years after establishing a SIMPLE IRA.
REINVESTING YOUR DISTRIBUTION

If you have enough current income to meet your needs, you may choose to reinvest your required distribution.

<table>
<thead>
<tr>
<th>Consider converting to a Roth IRA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Your required minimum distribution can't be rolled over into a Roth IRA (or any other IRA), but if you meet certain income eligibility requirements, you can convert all or a portion of your traditional IRA into a Roth IRA <strong>after you have taken the required distributions</strong>.</td>
</tr>
<tr>
<td>• You can open a Roth IRA at any time—even if you’ve begun taking minimum required distributions from your retirement plans.</td>
</tr>
<tr>
<td>• You can make federal-tax-free withdrawals if at least five tax years have passed since your conversion and you are the owner and age 59½ or older (or meet certain other requirements).</td>
</tr>
<tr>
<td>• Money in a Roth IRA is not subject to the required minimum distribution rules during the owner's lifetime. You can let your money grow tax deferred as long as you like.</td>
</tr>
</tbody>
</table>

Keep in mind that if you convert your entire IRA in a single year, the tax liability could be substantial.

What you can do with your required minimum distributions

Once you take (and pay taxes on) your required minimum distribution, there are a wide range of options available to suit your needs. Regardless of your decision, always consider the impact of sales charges.

**Reinvest in the same mutual fund.** You must move the money into a non-retirement account. There are usually no sales charges for moving from one fund to another within the same share class.

**Invest for tax-free income.** Municipal bonds and municipal bond funds pay interest and dividends that are free from federal income tax (may impact taxation of Social Security benefits, and may have Alternative Minimum Tax consequences).

**Invest for tax-wise growth potential.** Consider tax-managed investments, which use strategies to seek long-term capital growth while reducing taxes.
IRS Life Expectancy Tables

IRS Publication 590 has additional information on required minimum distributions.

You can download IRS publication 590 at www.irs.gov or order it by calling (800) TAX-FORM (829-3676).

Use the Uniform Distribution Period table (below left) to determine lifetime required minimum distributions. This table does not provide for IRA owners younger than age 70. If you have a spouse beneficiary who is more than 10 years younger than you, use the Joint Life and Last Survivor Expectancy table (below right). For additional life expectancy tables, see IRS Publication 590.

Uniform Distribution Period Table

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Joint Life and Last Survivor Expectancy Table

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</tr>
</thead>
<tbody>
<tr>
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<td>22.5</td>
<td>22.0</td>
<td>21.5</td>
<td>21.1</td>
</tr>
</tbody>
</table>

Making Advised Choices

In today's complex financial marketplace, investors are faced with a multitude of choices. With literally thousands of mutual funds and other investment products available, how can you choose the ones that are right for you?

One answer is to begin with the guidance of a financial professional who knows you, who understands your reasons for investing, the time you have to reach your goals, and the amount of risk you’re comfortable assuming. We believe that every investor should start with this advantage.

Next, choose from a select list of investment solutions—one that narrows your options to a manageable number while increasing your confidence in the solutions themselves. That’s where Prudential mutual funds may offer an advantage.

Prudential mutual funds are subadvised, which means we seek to hire the best available money managers for a fund’s particular objective, asset class, and investment style. In a very real sense, we manage the managers. This approach enables us to hire specialists, an advisable practice in today’s fast-moving global markets. Equally important is the way we go about it.

Managers for Prudential mutual funds are selected and monitored by a team of approximately 20 experienced professional analysts who thoroughly research each manager according to a rigorous process. It’s part of an approach we call Advised Choice, and it means when you choose one of our funds, you’ll know that the money manager has been held to an appropriate, product-specific standard of review, and we’ll change managers if they fail to maintain that standard.

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