

Beneficiary Options



TRADITIONAL AND ROTH IRA

The type of IRA, the IRA agreement, the type of beneficiary, custodian/trustee policy, the beneficiary designation document, the timing of an IRA owner's death, and possibly a decedent's employer-sponsored retirement plan provisions can affect the required minimum distribution (RMD) calculations and the options available to you as beneficiary. **Note:** IRA custodians/trustees are not required to calculate RMDs for beneficiaries.

What is an IRA Beneficiary?

An IRA owner can designate specific individuals or other entities—including, but not limited to, an estate, a trust, or a charitable organization—as his/her IRA death beneficiaries. The named beneficiaries that survive an IRA owner inherit any assets remaining in the IRA after an IRA owner's death.

What is the Required Beginning Date (RBD)?

A traditional and/or SIMPLE IRA owner's RBD for taking RMDs is April 1 of the year following the year he/she reaches age 70½. For Roth IRA owners, death is always considered to occur before the RBD for RMD purposes.

Is There a General Rule for How IRA Assets Are to Be Paid to Me After an IRA Owner's Death?

For an IRA owner who dies before his/her RBD, or if it is a Roth IRA, you may have the option of taking distribution of the IRA assets over a single life expectancy period or within five years. For an IRA owner who dies after his/her RBD (for traditional (including SEP) and SIMPLE IRAs), distributions need to occur at least as rapidly as the IRA owner's distribution method before his/her death. If you are a spouse beneficiary, you may also choose to treat the entire interest (all of the account) of a decedent's IRA as your own IRA or roll over a distribution from the decedent's IRA to your own IRA.

What is the Five-Year Rule?

If you choose the five-year rule for distribution, you must have the decedent's IRA assets completely distributed by the end of the fifth year following the death year. You can take distributions periodically or sporadically before the end of the five years or in a lump sum at any time. There are no required distributions until the fifth year.

What is Single Life Expectancy?

Determining a single life expectancy for you after an IRA owner dies involves finding your age on a single life expectancy table. It is similar to calculating an RMD for a living IRA owner.

Attained Age Method – The attained age method is used to determine a spouse beneficiary's single life expectancy. A spouse beneficiary uses his/her age at the end of each distribution year to determine a single life expectancy divisor from the Single Life Expectancy table.

Understanding Your Options as an IRA Beneficiary

Example

Pete, age 72, named his wife, Penny, as sole beneficiary of his IRA. Penny was age 65 in the year he died. In the year after Pete's death Penny will reach age 66, and the divisor she will use from the Single Life Table is 20.2. Each subsequent year, Penny returns to that table to determine a new divisor based on her age that year.

| Single Life Expectancy Divisors | |
|---------------------------------|------|
| 62 | 23.5 |
| 63 | 22.7 |
| 64 | 21.8 |
| 65 | 21.0 |
| 66 | 20.2 |
| 67 | 19.4 |
| 68 | 18.6 |
| 69 | 17.8 |

Reduction Method – The reduction method is used to determine a single life expectancy for a nonspouse individual beneficiary. A nonspouse beneficiary uses his/her age at the end of the year following the death year to determine the initial single life expectancy divisor and reduces this number by one for each following year's RMD calculation.

Example

Brenda named her daughter, Molly, as the beneficiary of her IRA. In the year Brenda died, Molly attained age 50. If she chooses the single life expectancy option, Molly will start her distributions the year after her mother's death when she is age 51. Her divisor for that first RMD calculation is 33.3. The following year, the divisor will be 32.3—the first year's divisor minus one. She will continue reducing the first year's divisor by one for each subsequent year's calculation.

| Single Life Expectancy Divisors | |
|---------------------------------|------|
| 50 | 34.2 |
| 51 | 33.3 |
| 52 | 32.3 |
| 53 | 31.4 |
| 54 | 30.5 |
| 55 | 29.6 |
| 56 | 28.7 |
| 57 | 27.9 |
| 58 | 27.0 |
| 59 | 26.1 |

For an IRA owner who dies after his/her RBD, and if the nonspouse individual beneficiary is older than the deceased IRA owner, the beneficiary RMD calculation uses the longer of the remaining single life expectancy divisor (determined in the death year) of the deceased IRA owner using the reduction method or that of the nonspouse beneficiary using the reduction method.

What is Treat as Own?

If you are a surviving spouse beneficiary with an unrestricted right to an IRA's assets you can treat the IRA as your own IRA.

If you elect to treat a decedent's traditional IRA as your own, the IRA is treated as your personal IRA for the year of the change of ownership for calculating any IRA owner RMD unless it occurs in the death year.

What is Separate Accounting?

Separate accounting may apply to IRAs when more than one beneficiary has been designated on an IRA. Applying separate accounting after an IRA owner's death effectively treats each beneficiary as if he/she were the only IRA beneficiary of his/her share. For purposes of this brochure, the use of separate accounting is assumed.

What Options Are Available to Me if I am a Spouse Beneficiary?

If an IRA owner dies before his/her RBD or it is a Roth IRA, you have the following options:

- Have the IRA assets distributed over your single life expectancy
- Have the assets distributed within a five-year period
- Treat the IRA as your own IRA
- Take a total or partial distribution that is greater than the RMD amount, if permitted by the IRA agreement or investment
- Roll over a total or partial distribution that is greater than the RMD amount

If an IRA owner dies on or after his/her RBD, distributions must continue to you at least as rapidly as the IRA owner's distribution method before his/her death. The rules require you to take an RMD calculated each year after the year of death using either your or the deceased IRA owner's single life expectancy divisor.

You must also take, by the end of the death year, your share of an IRA owner's final RMD not taken before the IRA owner's death.

What Options Are Available to Me if I am a Nonspouse Individual Beneficiary?

If an IRA owner dies before his/her RBD, or it is a Roth IRA, you can:

- Have the assets distributed over your single life expectancy beginning in the year following death
- Have the assets distributed within a five-year period
- Take a total or partial distribution that is greater than the RMD amount, if permitted by the IRA agreement or investment

You cannot treat an inherited IRA as your own IRA. You also cannot roll over any portion of a distribution from a beneficiary (inherited) IRA.

If an IRA owner dies on or after the RBD, you must begin taking single life expectancy distributions by the end of the year following the death year.

What Options Are Available to a Nonindividual Beneficiary?

If a nonindividual, such as an estate, charity, or trust, is the beneficiary of an IRA when an IRA owner dies before the RBD, or it is a Roth IRA, the beneficiary can:

- Have the assets distributed within a five-year period
- Take a total or partial distribution earlier than required, if not limited by the investment

If an IRA owner dies on or after the RBD, only one option exists—single life expectancy. The RMD calculation after the death year uses the remaining single life expectancy of the deceased IRA owner. The deceased owner's remaining single life expectancy divisor is determined in the year of death using his/her age at the end of that year and reduced by one for each subsequent-year's calculation.

Note: If a trust named as IRA beneficiary is determined to be a qualified trust, the single life expectancy option for a nonspouse individual beneficiary may be available. A tax or legal professional should be consulted for additional information about a trust's options.

What is the Deadline for Making an Election Regarding the Method to Receive Assets?

Spouse – The deadline is the earlier of December 31 of the fifth year following the year of an IRA owner's death or December 31 of the year the IRA owner would have reached age 70½ (or, if an IRA owner reached age 70½ in his/her death year, December 31 of the year following the death year). A spouse beneficiary who fails to make an election by the deadline defaults automatically to the single life expectancy method.

A spouse beneficiary can make an election to treat the decedent's IRA as his/her own IRA at any time, even if he/she made an earlier single life expectancy or five-year rule election or defaulted to either. This is true even if he/she is taking distributions under either method.

Nonspouse Individual – The deadline is December 31 of the year following the death year. If a nonspouse individual beneficiary fails to make an election by this deadline, he/she defaults to the single life expectancy option, reduction method. If the nonspouse beneficiary chooses the single life expectancy option, distributions must begin by the end of the year following the death year.

Nonindividual – When death occurs before the RBD, the only option available to a nonindividual beneficiary (other than a qualified trust) is distributions within the five-year period.

What if a Beneficiary Doesn't Take the RMD?

Any portion of the RMD that is not taken by a beneficiary in a year is subject to a 50 percent penalty tax.

How is an RMD Calculated for a Beneficiary Using the Single Life Expectancy Method?

The beneficiary's RMD is calculated using the previous year-end balance, or fair market value, of the IRA divided by the beneficiary's single life expectancy divisor.

Will a Beneficiary Have to Pay Income Taxes or Penalty Taxes on the Distributions?

The IRS assumes that IRA distributions are fully taxable to you unless you can prove that some assets in the decedent's account were after-tax assets. The IRA owner's tax professional or copies of the decedent's previous IRS Forms 1040 and 8606 may provide this information. Distributions to you are not subject to the 10 percent early-distribution penalty tax.

Distribution of tax-year Roth IRA contributions and converted assets are not subject to income tax. Roth IRA earnings are not subject to income tax if five years have passed since a decedent's first Roth IRA contribution or conversion. The Roth IRA owner's tax professional (or copies of the decedent's previous IRS Forms 1040 and 8606) may provide this information. Distributions to you are not subject to the 10 percent early-distribution penalty tax.

This brochure is intended to provide general information on federal tax laws governing IRA beneficiary options. It is not intended to provide recommendations, legal advice, or to be a detailed explanation of the rules or how such rules may apply to your individual circumstances. For specific information, you are encouraged to consult your tax or legal professional. IRS Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs), and the IRS's web site, www.irs.gov, may also provide helpful information.



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