

IRA BENEFICIARY PLANNING

01/23

PREPARING YOUR FINANCIAL LEGACY STARTS NOW

True, we can't know what the future holds. But, by designating a proper IRA beneficiary, you can help ensure your hard-earned wealth lives on long after you do — in the hands of those you care about most.

The importance of proper IRA beneficiary designations is frequently overlooked. With recent legislation, some of the distribution options available to beneficiaries have changed, and some options have been limited to certain groups of individuals. The following is intended to decipher the rules and help determine what options are available to which beneficiaries. Please reference the back page for more information on each of the distribution options.

IRA BENEFICIARY OPTIONS FOR DEATHS OCCURRING AFTER DECEMBER 31, 2019¹

SURVIVING SPOUSE

Definition: A spouse who was legally married to the account holder at the time of death. Does not include domestic partnerships, civil unions, or other arrangements that are not deemed a legal marriage.

Options:

- Lump sum
- All out in 10 years
- Annuitization
- Spousal continuation
- Spousal rollover
- Life-expectancy "stretch" payout

NON-SPOUSE ELIGIBLE DESIGNATED BENEFICIARY

Definition: A living person who is eligible for the life-expectancy "stretch" payout:

- Disabled individuals
- Chronically ill individuals
- Beneficiaries who are or not more than 10 years younger than the original owner
- Minor children of the account holder (life-expectancy "stretch" payout until the minor reaches age of majority, then all out in 10 years)

Options:

- Lump sum
- All out in 10 years
- Life-expectancy "stretch" payout
- Annuitization (see back for more details)

NON-ELIGIBLE DESIGNATED BENEFICIARY

Definition: A living person who is not a surviving spouse or an eligible designated beneficiary

Options:

- Lump sum
- All out in 10 years
- Annuitization (cannot exceed 10 years)

NON-NATURAL ENTITY

Definition: A beneficiary who is not a living person, such as estates, charities, corporations, and some trusts

Options:

- Lump sum
- All out in five years
- Annuitization (cannot exceed five years)

¹ Not all employer-sponsored retirement plans or IRA custodians offer all of these options. If one or more is important to your wealth transfer objectives, or if you seek control, confirm that your current plan or custodian will accommodate your intentions.

Withdrawals of taxable amounts are subject to ordinary income tax.



TAXATION OF INHERITED IRA ASSETS

The IRS permits several distribution options for inherited IRAs. Distributions are subject to taxation in the year they are received.

LUMP SUM — TAXES DUE IN ONE YEAR

The entire IRA can be withdrawn in a lump-sum payment.

ALL OUT IN FIVE YEARS

The beneficiary must receive all payments by the end of the year containing the fifth anniversary of the owner's death. Taxes will be due for payments in the year they are received.

ALL OUT IN 10 YEARS

The beneficiary must receive all payments by the end of the year containing the 10th anniversary of the owner's death. If the owner died prior to his or her required beginning date, no distributions are required for years one through nine. If, however, the owner died after his or her required beginning date, required minimum distributions are due for years one through nine. Taxes will be due for payments in the year they are received.

ANNUITIZATION

This option is available from annuity contracts and can provide a stream of payments. Surviving spouses and eligible designated beneficiaries are allowed a life expectancy annuitization. Non-eligible designated beneficiaries cannot exceed a 10-year annuitization.

All guarantees, including optional benefits, are based on the claims-paying ability of the issuing insurance company.

TREAT AS OWN IRA OR ROLL OVER TO OWN IRA

This option is only available for spouses.

MISCELLANEOUS RULES

Accounts that are currently "stretched" can continue while the beneficiary is living. If the current beneficiary dies before liquidating the entire account, the successor beneficiary will be limited to a 10-year window to liquidate the remaining balance.

Restricted beneficiary options may still be available. The restriction is limited to the maximum distribution period allowed by law.

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THE LIFE-EXPECTANCY "STRETCH" BENEFICIARY DISTRIBUTION OPTION

(Not available to all beneficiaries. See chart on front page.)

The beneficiary can spread systematic required minimum distributions over a period that does not exceed his or her life expectancy. In the case where the owner died after his or her required beginning date, the beneficiary may be able to use the remaining life expectancy of the owner if it is longer than their own.

Three valuable features:

1. They're only required to withdraw a minimum amount each year, giving them greater tax liability control of the inherited IRA to the extent permitted by law.
2. The assets that remain in the inherited IRA maintain tax-deferred status and the potential to appreciate in value.
3. The beneficiary keeps all other options available, including taking a lump-sum withdrawal at any time.



Inherited IRA
\$100,000 ÷ 30.5 = \$3,279



The stretch death benefit distribution calculation is based on the life expectancy of the beneficiary (or, in some cases, the owner) as listed in IRS Table I: Single Life Table (for use by beneficiaries), which can be found in *IRS Publication 590*. The calculation is based on the beneficiary's age in the year following death or, in some instances, the owner's age in the year of death, reduced by one each year moving forward. The following is an example of how a stretch distribution is calculated based on the life expectancy of a 54-year-old beneficiary.

Initial divisor for 54-year-old beneficiary, reduced by one each year (e.g., 30.5, 29.5, 28.5, etc.). This calculation method only applies to non-spouse beneficiaries.

This is a hypothetical illustration and is for illustrative purposes only.



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