

## Inheriting a Traditional IRA

As the beneficiary of an individual retirement account (IRA), you are entitled to receive proceeds. Your options for receiving IRA proceeds will vary depending on certain criteria.

### Wealth Solutions Group

Contact your Financial Advisor with questions.

As the beneficiary of an individual retirement account (IRA), you are entitled to receive proceeds. Your options for receiving IRA proceeds will depend upon:

- Your relationship to the IRA owner and
- Whether the IRA owner passed away before, on, or after his or her required beginning date (RBD). RBD refers to when the IRA owner must begin taking IRS required minimum distributions from the IRA, which is April 1st of the year following the year in which the IRA owner turns 73.

### BENEFICIARY DISTRIBUTION OPTIONS

Beneficiary	If death of IRA owner occurred before RBD, your options are:	If death of IRA owner occurred on or after RBD, your options are:
<b>Spouse, sole designated beneficiary</b>	<ul style="list-style-type: none"> <li>• Life expectancy payments<sup>1</sup></li> <li>• Treat as own/roll to own IRA</li> <li>• Lump Sum Distribution</li> </ul>	<ul style="list-style-type: none"> <li>• Life expectancy payments<sup>2</sup></li> <li>• Treat as own/roll to own IRA</li> <li>• Lump Sum Distribution</li> </ul>
<b>Non-spouse designated beneficiary or qualified trust</b>	<ul style="list-style-type: none"> <li>• 10-year rule</li> <li>• Lump Sum Distribution</li> </ul>	<ul style="list-style-type: none"> <li>• 10-year rule</li> <li>• Lump Sum Distribution</li> </ul>
<b>Non-spouse, "Eligible Designated Beneficiary"</b>	<ul style="list-style-type: none"> <li>• Life expectancy payments</li> <li>• 10-year rule</li> <li>• Lump Sum Distribution</li> </ul>	<ul style="list-style-type: none"> <li>• Life expectancy payments<sup>4</sup></li> <li>• Lump Sum Distribution</li> </ul>
<b>No beneficiary or non-living entity (estate, charity, non-qualified trust)<sup>3</sup></b>	<ul style="list-style-type: none"> <li>• Five-year rule</li> </ul>	<ul style="list-style-type: none"> <li>• "Ghost" Life expectancy payments<sup>5</sup></li> </ul>

*Note:* Before choosing one of the following distribution options, assets must be moved to a beneficiary IRA. Spouses have the option to move assets directly into an IRA in their name and can skip this step.

### LUMP SUM DISTRIBUTION

You have the option to cash out the account at one time and the distribution may be fully taxable as ordinary income, thus ending the tax deferred status of the IRA investment.

### FIVE-YEAR RULE

You must distribute the full balance of the IRA by December 31st of the year containing the fifth anniversary of the original IRA holder's death.

### 10-YEAR RULE

You must distribute the full balance of the IRA by December 31st of the year containing the tenth anniversary of the original IRA holder's death.

### LIFE EXPECTANCY PAYMENTS

You may elect to take required minimum distributions over single life expectancy if you are considered an “*eligible beneficiary*.” Individuals that fall in this category are: spouses, minor children, disabled or chronically ill persons, or persons whose age is close to the original owner. The first distribution must start by December 31st of the year following the IRA owner's death. Life expectancy payment rules are complex - see footnotes below and consult your tax or legal advisor for further details.

### TREAT AS OWN/ROLL TO OWN IRA

As the surviving spouse and sole beneficiary, you have the ability to treat the IRA as your own or you can roll the decedent's IRA into an IRA in your name.

### SUCCESSOR BENEFICIARIES

A successor beneficiary is someone who inherits an IRA from another beneficiary (the beneficiary of a Decedent or Beneficiary IRA). Per IRS rules, any successor beneficiary is treated as a Non-Eligible Designated Beneficiary and subject to the 10-year rule, regardless of relationship and status<sup>6</sup>.

- Example 1:

On July 15, 2020, Steve, age 52, inherits the IRA of his sister, Jenni, who was 55. Because Steve is not more than 10 years younger than Jenni, he is considered an Eligible Designated Beneficiary and is able to do life expectancy withdrawals over his lifetime. Later, Steve decides to name his sister, Katie, as his beneficiary. Katie is within 10 years of Steve's age and therefore is an Eligible Designated Beneficiary. When Steve passes away, Katie, as a successor beneficiary will have 10 years to withdrawal the remaining funds in the IRA.

- Example 2:

On August 1, 2021, an IRA owner passed away and their 35-year-old daughter, Jessica, inherits the account. Because Jessica is a child of the account owner, she is a Non-Eligible Designated Beneficiary, and therefore has only 10 years to withdraw the funds out of the account (2031). Let's say Jessica passes away three years later and her husband, Tom, inherits the account as a successor beneficiary. Tom has the remaining seven years left to withdrawal the funds from the IRA account Jessica inherited.

It is important to note that successor beneficiaries do not get a new 10-year rule if they are inheriting from a Non-Eligible Designated Beneficiary.

### OTHER IMPORTANT INFORMATION

- Except for trusts and certain annuity products, you can distribute more than the required minimum distribution at any time; however, distributions from pre-tax IRAs are subject to tax.
- Spouse beneficiaries who treat the IRA as their own or roll to their own IRA and take distributions before age 59 ½ will be subject to a 10% penalty and should consider taking life expectancy payments instead.

## Inheriting a Traditional IRA, *continued*

- Multiple beneficiaries – The beneficiary is officially determined on September 30th of the year following the year of the original IRA holder's death. If there are multiple beneficiaries, this provides an opportunity to divide the accounts so that each person or entity is beneficiary on their own account and can elect their own distribution strategy.
- 401(k) plan beneficiary distribution options may be different because they are plan document specific.

To discuss your beneficiary distribution options further, please contact your Baird Financial Advisor.

<sup>1</sup>Single life expectancy payments, set in year following year of original IRA holder's death, recalculated while spouse beneficiary is alive, begun later of 12/31 of year following year of original IRA holder's death or 12/31 of original IRA holder's 73<sup>rd</sup> year; non-recalculated following spouse beneficiary's death (set in year of spouse beneficiary's death), begun by 12/31 of year following the year of the spouse beneficiary's death.

<sup>2</sup>Longer of: Single life expectancy payments based on spouse beneficiary, recalculated while spouse is alive, begun by 12/31 of year following the year of the original IRA holder's death; non-recalculated following spouse beneficiary's death (set in the year of spouse beneficiary's death), begun by 12/31 of year following year of spouse beneficiary's death, OR, single life expectancy payments based on original IRA holder, non-recalculated (set in year of original IRA holder's death), begun by 12/31 of year following year of original IRA holder's death.

<sup>3</sup>When the estate of the IRA owner, charity or a non-qualified trust is named as beneficiary, their own life expectancy cannot be used in the calculation, as these entities do not have a life expectancy. However, these entities are entitled to receive the IRA proceeds.

<sup>4</sup>Future Year RMDs are based on the beneficiary's life expectancy according to the Single Life Table.

<sup>5</sup>"Ghost" life expectancy means using the Single life expectancy factor based on original IRA holder, non-recalculated (set in year of original IRA holder's death), begun by 12/31 of year following year of original IRA holder's death.

<sup>6</sup>If the spouse that inherited the IRA dies prior to RMD payments starting, the successor beneficiary would be able to do life expectancy payments if they are an eligible designated beneficiary