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Naming a Beneficiary for your IRA Account

The following is general information regarding Naming a Beneficiary for your IRA Account. This information is not intended to replace the advice of your legal counsel. If you have a special situation such as a beneficiary who is unable to manage their financial affairs or has "special needs", particular care must be exercised when designating a Beneficiary.

Must I designate a Beneficiary for my IRA?

No, naming a beneficiary is not a requirement. However, it is strongly advised that you do name a Designated Beneficiary.

Can I name Contingent Beneficiaries in case my Primary Beneficiary precedes me in death?

Yes.

Can I change my IRA Beneficiary designations in the future?

Yes

If I am married, must I name my spouse as my Primary Beneficiary?

No, however in many cases if you do not name your spouse as the Primary Beneficiary; your spouse will need to sign a statement indicating that they understand they are not the Primary Beneficiary of your IRA.

If I name my spouse as my Designated Beneficiary and I divorce, is that person automatically removed as a Beneficiary?

No, you must inform the IRA company if you wish to change your Beneficiary.

What will the Beneficiary of my IRA inherit?

The Beneficiary(ies) will inherit the asset in the form that you left to them.

- If you have a Traditional IRA; they inherit a Traditional IRA.
- If you have a Roth IRA; they inherit a Roth IRA

The assets that are inside the IRA transfer intact.

What is the difference between a "Beneficiary" and a "Designated Beneficiary"?

A Designated Beneficiary is a living person you name to receive your IRA at your death. In most cases, it is best to identify at least one Designated Beneficiary.

However, you may name a Beneficiary that is not a Designated Beneficiary, Example: Naming; your cat, a charity, or a Trust as Beneficiary.

However, a Non Designated Beneficiary does not have a life expediency that qualifies to be used to compute Required Minimum Distributions; thus non-Designated Beneficiaries may have fewer options when taking distributions or paying taxes.

How will the IRA be distributed to the Designated Beneficiaries if I die before I must start my Required Minimum Distributions (RMD)?

Note: For owners of a Traditional IRA RMD starts at age 70½
For owners of a Roth IRA there presently is no RMD

Most Designated Beneficiaries have 4 options. However, a spouse has one additional option.

The Beneficiary may:	If the Designated Beneficiary is: Your Spouse	If the Designated Beneficiary is: NOT your Spouse
Transfer Your IRA to their own IRA and treat it like they have always owned all along.	Allowable	Not Allowable
Transfer Your IRA to an "Inherited IRA". This will be titled with both your name and the name of the deceased.	Allowable	Allowable
Transfer Your IRA to an "Inherited IRA". Take distributions <u>based on the life expectancy of the Designated Beneficiary</u> .	Allowable	Allowable
Transfer Your IRA to an "Inherited IRA". Take distributions over five years.*	Allowable	Allowable
Not transfer Your IRA in to an "Inherited IRA". Simply take a lump sum distribution.	Allowable	Allowable

* It is actually a little longer than five years as the final distribution may be taken as late as December 31, of the fifth year.

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Should I name a "Trust" as the Beneficiary of my IRA?

Generally, a "Designated Beneficiary" (a living person) will receive the best tax treatment and greatest flexibility when they inherit an IRA. For most people selecting a Designated Beneficiary is the preferred option.

However, there are (a few) cases when it does make sense to name a Trust as beneficiary: Such as if your Beneficiary:

- Is not capable of managing their own money
- Is classified as "special needs"
- Has some other restricted capacity

If you do name a Trust as Beneficiary, consult the attorney who wrote the Trust document for confirmation of your actions.

Can I name a Minor as Beneficiary of my IRA?

Yes, you may designate a Minor as the Beneficiary. However, remember that under common law, a minor cannot own property of any kind in their name. Hence; a Guardian must be

appointed to manage the asset on the minor's behalf until the child reaches the age of majority. Appointing a Guardian is your responsibility. If you do not do this, then the court will appoint one for you. This Guardianship will automatically disappear when the minor reaches their age of majority.

If I die and there is no named Beneficiary for my IRA, can someone fill in a name for me?

No, the IRA simply becomes part of your estate and may need to go to Probate.

If I die and my named Beneficiary wants to make a change, can they?

Yes, in limited situations.

Let's say you have left your Spouse as your Primary Beneficiary and your children as Contingent Beneficiaries. Following your death, your spouse decides they do not need the money from your IRA. That person may "renounce" their interest in your IRA. In this case, the proceeds go to the named Contingents.

I am not married, I named each of my six children as Designated Beneficiaries. However, each child has different needs and goals; some may want to take a lump sum distribution others may want to stretch out their distributions. Must the distributions they take remain in lock step with each other?

The IRS offers a very practical solution. After your death the Beneficiaries may split your IRA. They have until September 30, of the year following your death to make this election. Once the split is complete, each of the owners can make their own investment and withdrawal choices.

Transferring an Inherited IRA. (This is important)

If you are a Beneficiary of an IRA and you want to change IRA companies. Example; move your inherited IRA from a brokerage firm to a Self Directed IRA, this can only be done by using a Trustee-to-Trustee Transfer (not by a Rollover). In other words, always allow the new IRA company to request and move the funds on your behalf. Do not attempt to do this yourself.

My father passed away and left me his IRA. I have transferred it to an Inherited IRA. Now I find that I like how the account has been growing; may I make contributions to this account.

No you may not. However, you could start a new IRA and the two IRA's could "partner" to make larger investments.

My mother passed away and left me her "Traditional IRA". I transferred it into a "Traditional Inherited IRA".

Now I'd like to convert this IRA from Traditional Inherited to a Roth Inherited IRA?

Sorry, you may not implement a conversion of an inherited IRA. In this case, Mom wanted to you have a Traditional IRA. We know that because that is what she left to you.