

NAMING IRA BENEFICIARY DESIGNATIONS

Saving for your retirement may be complicated and making sure your pension assets last may be even tougher. You want to make sure your money lasts for your life time and anything left over you want to go to your named beneficiaries. However, if you are not careful, the IRS could end up as one of your unintended beneficiaries.

To make sure your money goes where you would like, consider naming primary beneficiaries (first in line) and contingent beneficiaries (second in line).

Note: Pension contracts such as 401(k) and 403(b) are subject to the same required distribution rules as IRAs. However, there are some special rules that relate to pensions:

*Only spouses can rollover the proceeds from a pension plan into his or her IRA. A nonspouse beneficiary can now move the pension plan to an inherited IRA.

*Check the plan document for the payout options available for a beneficiary because it may contain provisions which may shorten the normal Required Minimum Distribution (RMD) rules which could leave the beneficiaries paying more taxes.

Due to possible 401(k) and 403(b) plan limitations, retirees often role their pensions into an IRA. In many cases, this affords the retiree more flexible investment options as well as to ensure their estate intentions are met.

Trusts:

Trusts cannot be named as beneficiaries of an account. However, under certain circumstances, trust beneficiaries can be treated as designated beneficiaries.

The Trust must be irrevocable, valid under state law, the beneficiaries must be named individually or by class, and a copy of the trust agreement must be on file with the IRA trustee.

You may name tiers of contingent beneficiaries, this way the IRA won't revert to the beneficiary's estate if they died.

A Trust may be a valuable tool when dealing with large estates. It may especially be helpful when considering that New York State taxes estates that have \$1 million dollars or more.

Having a minor child as your beneficiary?

As minors cannot legally own securities, you do want to use either an Irrevocable Trust or a UGMA account for benefit of the minor as the beneficiary. If you leave your IRA to the minor, use a trust or guardian account for benefit of a minor as a beneficiary and you want your written RMD election to include how the minor will take distributions after your death since a trustee or guardian is not allowed to make distribution elections for an inherited IRA. Also, you want to make sure that you do not run into Generation Skipping Tax problems as a result of leaving your IRA to a grandchild or other person more than one generation younger than you.

Designated Date:

Beneficiaries must be designated by September 30 of the year following your death. (That date is October 31 if a Trust is involved.) A beneficiary cannot be added after your death but for estate tax purposes, a beneficiary that exists at the date of death may disclaim the right to inherit your IRA or pension.

Distribution rules:

The spouse beneficiary of the IRA can choose to roll the IRA into their own named inherited IRA. The Pension Protection Act (PPA) now make this option available to non-spouses.

If the account owner dies before reaching age 70 1/2, the beginning date of **Required Minimum Distribution** (if the account is not in pay status) can be calculated by using one of two methods for distributions to non-spouse beneficiaries. The first method requires that the entire amount is withdrawn no later than December 31 of the fifth anniversary year of the death (the five year rule). The second method allows the designated beneficiary to take distributions, not to exceed his or her life expectancy, based on his or her attained age at the death of the IRA owner. The required minimum distribution rules would apply, and distribution must commence within one year of the owner's death.

If there are no beneficiaries for the account and the owner did NOT start RMD, the account must be distributed by 12/31 of the year that contains the fifth anniversary of the date the account owner died.

RMD Started by a Decedent:

If the account owner was over 70 1/2 (in pay status), the **Required Minimum Distributions** are required to continue to the beneficiary. At the IRA owner's death, the distribution formula considers the year the owner attained age 70 1/2 and the inheritee's attained age at the time. Using the age of the owner or the age when account was established, and the attained age of the inheritee, a joint life expectancy is determined. Life expectancy tables can be found in IRS publication 590. (If the owner was recalculating his or her life expectancy, the formula would be based on a single life expectancy table.)

If there are no beneficiaries for the account and the owner started RMD, the account must be distributed over the IRA owner's remaining life expectancy.

Multiple Beneficiaries:

You may name several beneficiaries on your IRA and pension accounts. Unless accounts are split, the age of the oldest beneficiary is used to calculate the **Required Minimum Distribution** (RMD).

Splitting the accounts into sub-accounts is one method of allowing multiple beneficiaries to prolong the payout period.

The effect of Heirs Inheriting the IRA

Premature withdrawal penalties do not apply to beneficiaries who take distributions even if they are not yet age 59 1/2. Normally a 10% penalty applies to IRA owners who are not 59 1/2, however, inheritee's are not owners.

Other Taxes:

The IRS imposes an Estate Excise Tax equal to 15% of an individual's excess IRA or pension accumulation.

IRA and pension distributions can be complicated. You should speak with a tax advisor to ensure that your money goes where you want it to go.

~Merri P. Ciano, CFP®
L.I.S.E.C. Education Chairperson