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INVESTMENT - RETIREMENT - LEGACY PLANNING

NON-SPOUSAL INHERITED IRA DOS AND DON'TS

When a loved one passes away, there is a lot to do and think about. While you may be overburdened with funeral arrangements, will and trust complexities, caring for other affected loved ones, or your own grief, the specifics to follow when transferring the IRA assets from the deceased family member may not be anywhere close to crossing your mind. But, if you do not follow the special rules regarding Inherited IRAs if you are not the decedent's spouse, you may reduce the account values substantially. After making one of these many common mistakes, you will be unable to go back and correct them.

For Inherited IRAs, as well as many other financial changes that take place at the death of a loved one, it is always a good idea to set a meeting with your advisor at McIlrath and Eck, LLC as soon as possible and make sure you are getting the full value of what your loved one has left you. This article will cover a few topics which have major consequences based on what you do or don't do when you are inheriting IRA assets from someone who is not your spouse.

INELLIGIBLE ROLL-OVERS

While a spouse has 60 days to withdraw the inherited IRA assets and place them in another IRA without any penalties, this is not the case if you are a non-spousal beneficiary. In your case, you MUST do a direct [trustee-to-trustee] transfer to a properly-titled Inherited IRA. This is also known as a Stretch IRA. If it is not done this way and the funds are instead withdrawn as they are in an indirect transfer with the 60-day window, all the funds that are withdrawn are income subject to tax. This cannot be corrected and may cause a very severe erosion of the inherited account.

INCORRECT ACCOUNT TITLING

The new Inherited IRA account must be properly titled when the direct transfer is accomplished. The title must have the decedent's name and show as an inherited or beneficiary IRA. For example: Jane Doe (Deceased 5/30/17) IRA, FBO Janet Doe, Beneficiary. Titling it in this way will prevent issues with the beneficiary treating it similarly to their own IRA or personal accounts, which could nullify the Inherited IRA and subject the balance to taxation. It is also a helpful reminder to us that when we advise you about these accounts, there are specific rules to follow that do not exist elsewhere.

DISALLOWED CONTRIBUTIONS

No contributions are allowed into the Inherited IRA. If done, the entire account must be distributed and taxed. Correct titling and careful planning will prevent you from making an accidental contribution to an Inherited IRA.

DELAYING RMDs

Unlike normal IRAs, in which RMDs begin at 70½, Inherited IRA RMDs usually begin the year after your loved one passes away. This is also true for Inherited Roth IRAs, which do not normally have any RMD requirements. Depending on how the IRA is inherited, RMDs can have different timetables for complete distribution. If you were a "designated" beneficiary, meaning you were a named beneficiary on the IRA beneficiary form (as opposed to being named a beneficiary in the will) or you inherited the IRA through a default provision in the IRA custodial agreement when no beneficiary was named, you are entitled to stretch the RMDs out over your lifetime.

If you are not a "designated" beneficiary, one of two timetables for RMDs will be applicable. If the deceased loved one died before his beginning RMD date (April 1st of the year following age 70½), you will have to take RMDs on a 5-year distribution schedule from the year the loved one died. This is known as the 5-year rule. If the loved one died after his beginning RMD date, you can take RMDs based on the deceased loved one's single life expectancy were they to still be alive.

As you can tell, being diligent about how various major life events effect your financial picture can be of substantial benefit to you and your loved ones. It is always a good idea to ask your financial professional at McIlrath and Eck, LLC about the consequences of taking certain actions if you are unsure of the risks associated with your decisions. The death of a loved one who's passing effects your finances should be one of these times, especially if you are a non-spouse who is inheriting an IRA.

Source: "*Costly Mistakes With Inherited IRAs*" Investment News. Ed Slott. p26-27. May 22-26, 2017