CHESSMAN
WEALTH STRATEGIES

Avoiding Non-Spouse Beneficiary Mistakes

…in 5 Easy Steps

How can I avoid making costly mistakes when I inherit an IRA from a person who was not my spouse? Inheriting an IRA can be a financial windfall, but it's important to understand the complex, specific rules that apply to non-spouse IRA beneficiaries to avoid critical errors.

Sean Phillips, CFP®, CKA | 214.572.2120
Vice President of Wealth Management, Wealth Advisor

Sean is a member of Ed Slott's Elite IRA Advisor Group℠, an exclusive organization of financial advisors who are dedicated to being leaders in the IRA industry. As an Ed Slott Elite IRA Advisor, Sean proves to be an advisor with the specialized knowledge to navigate an increasingly more complicated tax environment.

1. **At first, don't do anything!** Especially, don't take a distribution from the IRA. Doing so without proper planning may forfeit years of potential tax-favored investment returns. Inherited IRA funds are distinct from IRA funds you save for yourself. They can't be commingled with your other IRAs, you can't make contributions to an account that holds them, and they can't be converted to inherited Roth IRAs. Before acting, consult with a qualified advisor to learn the rules and plan how to best use the inherited funds in your personal situation.

2. **Transfer inherited funds from the deceased owner's IRA into your own new "inherited IRA."** In addition to moving the funds to a financial institution you prefer, this lets you "stretch" distributions from the IRA over your life expectancy to obtain more years of tax-favored returns (if you are younger than the deceased). The transfer between institutions must be made directly, trustee-to-trustee (non-spouse beneficiaries can't use 60-day rollovers).

3. **If the original IRA has multiple beneficiaries, split it so each obtains a separate inherited IRA.** Otherwise, minimum distributions to all will be based on the life expectancy of the oldest beneficiary, which may cost the younger beneficiaries years of tax-favored returns. With separate IRAs, each beneficiary can use her own life expectancy.

4. **Prepare to take required minimum distributions (RMDs).** Beneficiaries of IRAs must begin taking RMDs in the year after that of the IRA owner's death. RMDs are also required from inherited Roth IRAs. You are also responsible for calculating the RMD; consult with an advisor for assistance. A 50% penalty applies to RMDs that are not taken in time.

5. **Heed deadlines and records.** Inherited IRAs must be established and split by December 31 of the year after that of the owner's death. Also, check the records of the deceased IRA owner to see if an inherited Traditional IRA contained non-deducted contributions, which provide tax-free distributions. And be sure to designate beneficiaries of your own to the inherited IRA that you establish.