



Inherited IRAs At-A-Glance

When your clients inherit a retirement account, it can be an excellent opportunity to help them plan for a more secure future.

What is an Inherited IRA?

An Inherited IRA, also known as a beneficiary IRA, is an account that is opened for someone who inherits another person's IRA or employer-sponsored retirement plan after the original account owner dies. Anyone can inherit an IRA, but a beneficiary can't contribute more money into it.

Spousal Beneficiary Options

1 Treat the IRA as Their Own (Spousal Transfer)

Your client can transfer the assets into their own IRA or designate themselves as the account owner. This option essentially makes the inherited IRA part of their own retirement savings and allows them to:

- Continue making contributions (if they meet eligibility requirements).
- Defer Required Minimum Distributions (RMDs) until they reach age 73 (or 72 if they were born before Jan. 1, 1951), if the inherited account is a traditional IRA.

If your client's spouse had already reached their required beginning date (RBD) to start taking RMDs, they will need to take an RMD for the year of death (if the account holder did not already take it). This approach can be especially advantageous if they're younger than their deceased spouse and wish to delay distributions, allowing the account more time to grow tax-deferred.

Your client can also consolidate the inherited IRA with their own existing IRA. The rules for contributions, withdrawals, and RMDs will then align with their IRA's terms.

2 Open an Inherited IRA

Your client can elect to open an Inherited IRA as the beneficiary of their spouse's IRA. This option requires an election of how the money will be distributed.

- Under the Life Expectancy Method, distributions must begin by Dec. 31 of the year following the spouse's death and continue annually over the beneficiary's single life expectancy, or until the decedent would have reached RMD age. If the decedent did not take an RMD in the year of death, it must be taken by Dec. 31 of that year.
- The 10-year Method, in which money is available any time up until the end of the tenth year after the year in which the account holder died, at which point all assets need to be fully distributed (this option is only available if the deceased spouse had not reached RMD age prior to death).

Non-Spousal Beneficiary Options

- IRS regulations require inherited accounts to be fully depleted within 10 years of the original account owner's death, whether the death occurred before or after the Required Beginning Date (RBD).
- Certain non-spousal beneficiaries ("Eligible Designated Beneficiaries"), such as those within 10 years of the owner's age, disabled or chronically ill individuals, or minor children of the owner (until they reach the age of majority), can use the life expectancy rule instead of the 10-year rule.

Key Points of the 10-Year Rule

- ✓ If the original account holder had not reached their RBD before they died, your client can choose how and when to withdraw funds within the 10-year period — taking distributions annually, periodically, or all at once.
- ✓ If the original account holder had reached their RBD before they died, your client will also be required to take RMDs during the 10-year period. If the original account holder did not take an RMD in the year of death, an RMD must be taken from the account by Dec. 31 of the year they died.
- ✓ If the account is not fully distributed by the end of the 10 years, the remaining balance is subject to a 50% penalty.
- ✓ Traditional Inherited IRA withdrawals are taxable as ordinary income, while Inherited Roth IRA distributions are generally tax-free if the account has met the 5-year holding period

Distribution Options for Inherited IRAs

A beneficiary can select to receive distributions from the Inherited IRA through:¹

- 1 Penalty-free Withdrawals
- 2 A Lump-sum Payment

Lump Sum Distributions²

Both spousal and non-spousal beneficiaries have the option to "cash out" and withdraw the full balance in a lump-sum payment. While this simplifies the inheritance process, it may not be the most tax-efficient option for traditional IRAs, as the entire withdrawal will be taxed as ordinary income in the year it's received. It may also bump your client into a higher tax bracket.

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¹ Depending on your product, contingent deferred sales charge (CDSC), market value adjustment (MVA), and other product charges may still apply upon withdrawals.

² A lump-sum distribution may be subject to state income tax as well as federal income tax. Please refer to the appropriate product form for specifics on your distribution options. Depending on your client's product, contingent deferred sales charge (CDSC), market value adjustment (MVA), and other product charges may still apply upon withdrawals.

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