SECURITY BENEFIT

Inherited IRAs At-A-Glance

When you have inherited a retirement account, it can be an excellent opportunity to plan for a more secure future. We are proud to offer opportunities to help support those that are beneficiaries of IRAs and now need additional solutions when they receive those assets.

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 account after the original account owner dies.

Quick Fact About Inherited IRAs: Anyone can inherit an IRA, but a beneficiary can't contribute more money into it.

Spousal Beneficiary Options

As a surviving spouse, you have more options than other beneficiaries when it comes to handling an inherited IRA.

1. Treat the IRA as Your Own (Spousal Transfer)

You can transfer the assets into your own existing IRA or new IRA under your name. This option essentially makes the inherited IRA part of your own retirement savings and allows you to:

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

If your spouse had already reached their required beginning date (RBD) to start taking RMDs, you 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 you're younger than your deceased spouse and wish to delay distributions, allowing the account more time to grow tax-deferred.

2. Open an Inherited IRA

Options include:

a) The Life Expectancy Method, in which you must begin taking RMDs no later than Dec. 31 of the year after your spouse's death and annual distributions are spread over your single life expectancy. 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.

b) 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.

Non-Spousal Beneficiary Options

For non-spousal beneficiaries, 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). However, 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:

- You 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, you 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 IRA withdrawals are taxable as ordinary income, while Roth IRA distributions are generally tax-free if the account has met the 5-year holding period.

Distribution Options

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

1. **Penalty-free Withdrawals**
2. **Required Minimum Distributions**
3. **A Lump-sum Payment**

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

Cashing Out the IRA

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 you into a higher tax bracket.

Inheriting an IRA can offer financial stability, but the applicable rules vary depending on your situation. Consulting a financial professional is recommended to ensure you make informed decisions tailored to your specific needs.

Your path *To and Through Retirement®* begins here.

Talk to your financial professional to see whether an inherited IRA can complement your retirement portfolio or contact us at 800.888.2461.