

# IRA and QRP Introduction to Beneficiary Options



## Learning Objectives

- ✔ Apply the concept of separate accounting and its deadline
- ✔ Understand when recalculation and nonrecalculation should be used
- ✔ Explain when a beneficiary may be able to roll over an inherited retirement plan to an inherited IRA
- ✔ List the deadlines that apply for beneficiary distribution elections

# Beneficiary Option Basics



Beneficiary  
distributions can be  
complicated

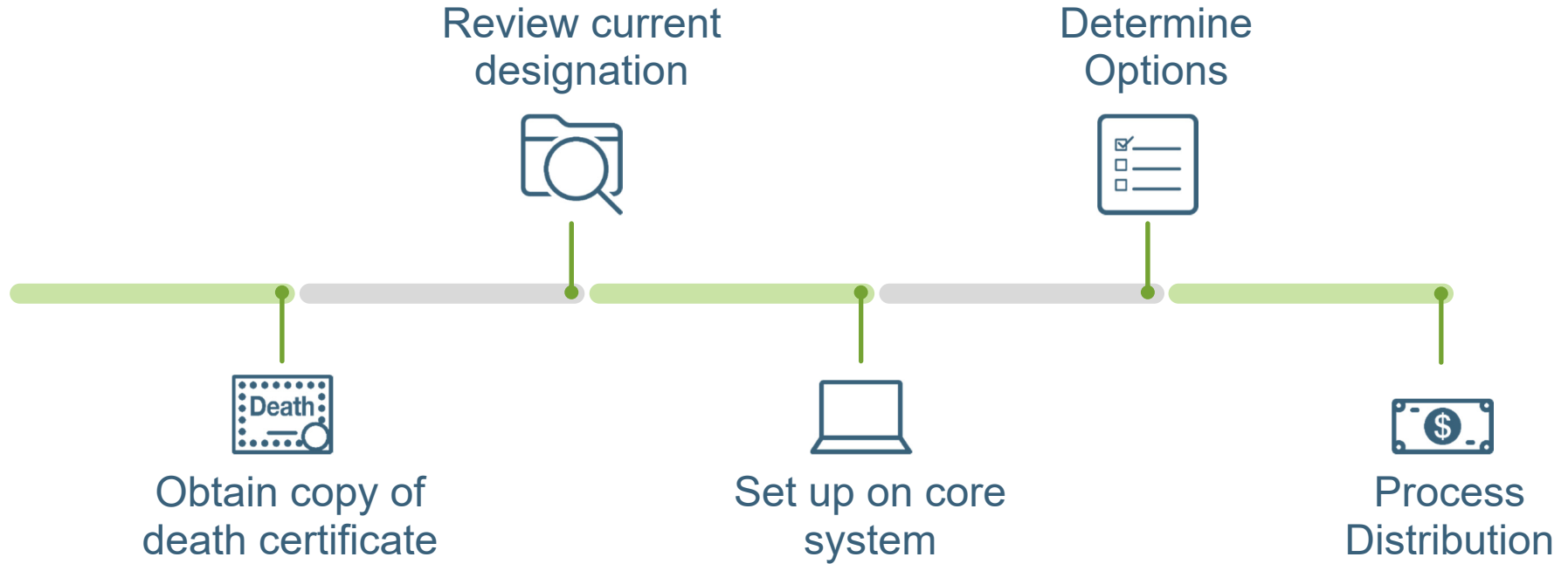


Basic  
understanding  
is crucial



Plan documents  
may be more  
restrictive

# Distribution Procedures



## Definitions

### **Primary or contingent beneficiaries**

Inherits portion of IRA or retirement plan

### **Primary beneficiary as of determination date**

Used for life expectancy calculations (oldest beneficiary unless separate accounts established as of December 31 of year after account owner's death)

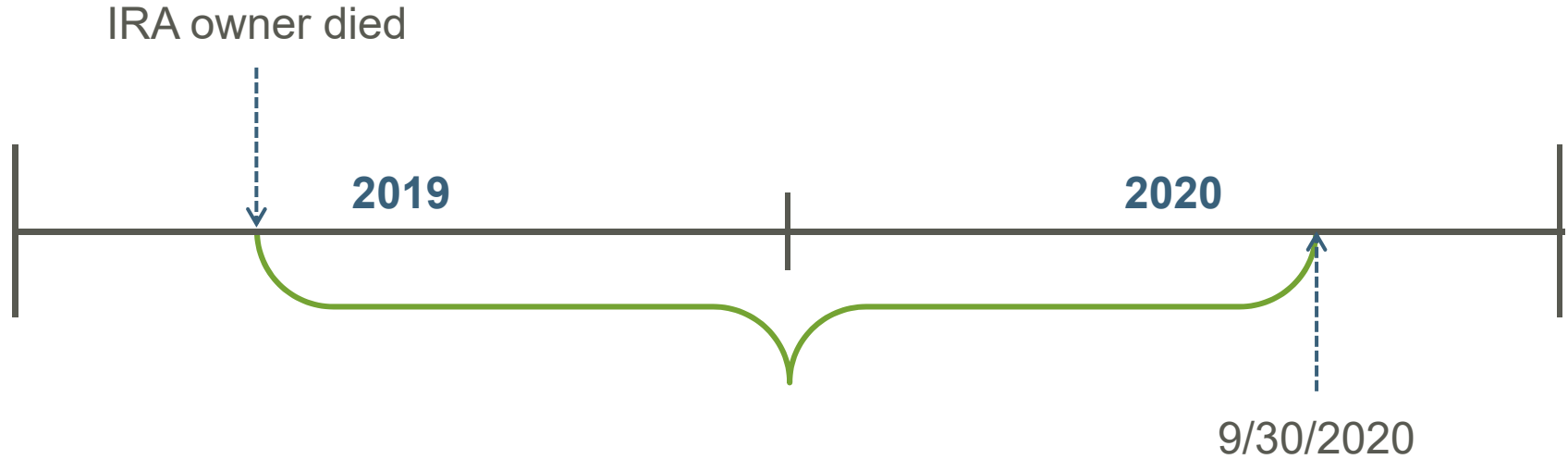


**Named Beneficiary**



**Designated Beneficiary**

# Designated Beneficiary



# Separate Accounting



Tracks gains and losses of each beneficiary's share



Transfer portion



No document required



May name beneficiaries



## Separate Account Deadline

### One Beneficiary or Separate Accounts Established Timely

- Each beneficiary becomes designated beneficiary of own account
- Each beneficiary may take life expectancy payments over own single life expectancy, or if death occurs on or after RBD, over account owner's life expectancy (if longer)
- Spouse beneficiary may delay distributions and transfer to own IRA



## Separate Account Deadline

### Multiple Beneficiaries and Separate Accounts NOT Established Timely

- If all beneficiaries are individuals, each beneficiary's life expectancy is based on oldest designated beneficiary on determination date. Payments must begin by December 31 of year after account owner's death.
- If an account owner dies before RBD, nonperson beneficiaries need to take lump-sum distribution or payments using five-year rule.
- If an account owner dies on or after RBD, nonperson beneficiaries need to take lump-sum distribution or life expectancy payments based on account owner's life expectancy in year of death.
- Spouse beneficiary cannot delay distributions or transfer assets to own IRA, but may distribute and roll over assets to own IRA or retirement plan.

## RBD

### Traditional IRA (before RBD) and Roth IRA

#### Spouse

- 5-year rule
- Life expectancy payments
- Lump sum
- Transfer
- Distribution and rollover

#### Nonspouse

- 5-year rule
- Life expectancy payments
- Lump sum

#### Nonperson

- 5-year rule
- Lump sum

### Traditional IRA (on or after RBD)

#### Spouse

- Life expectancy payments
- Lump sum
- Transfer
- Distribution and rollover

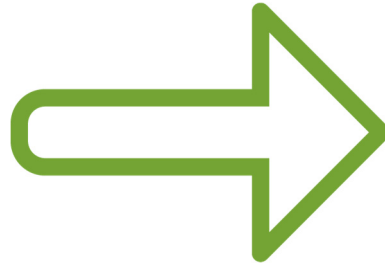
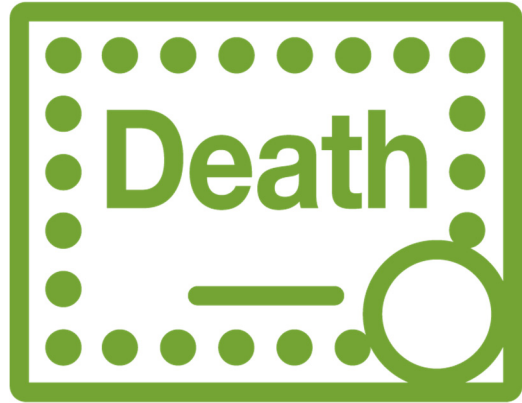
#### Nonspouse

- Life expectancy payments
- Lump sum

#### Nonperson

- Life expectancy payments
- Lump sum

# Death Before the RBD



**RBD**

# Beneficiary Distribution Options – Death Before the RBD

## Beneficiary Distributions Options – Account Owner Dies Before the RBD

### Spouse Is Sole Designated Beneficiary

- Five-year rule
- Life expectancy payments
  - **Payments must begin** by the later of December 31 of the year following the year of the account owner's death or December 31 of the year the account owner would have attained age 70½.
  - **Life expectancy is determined** each year using the spouse beneficiary's single life expectancy, recalculated.
- Treat IRA as own (transfer)
- Distribute and roll over assets to own IRA, to an inherited IRA, or to an eligible retirement plan

# Beneficiary Distribution Options – Death Before the RBD

## Beneficiary Distributions Options – Account Owner Dies Before the RBD

### Nonspouse Beneficiary or Spouse NOT Sole Beneficiary

- Five-year rule
- Life expectancy payments
  - **Payments must begin** by December 31 of the year following the year of the account owner's death.
  - **Life expectancy is determined** the first year using the oldest beneficiary's single life expectancy in the year following the year of the account owner's death. If separate accounting applies, each beneficiary may use his own single life expectancy. Subsequent years' payments are determined using nonrecalculation (spouse may use recalculation if there is separate accounting).
- Nonspouse beneficiary may directly roll over **plan assets to an inherited IRA**
- Spouse beneficiary may roll over assets to own IRA, to an inherited IRA, or to an eligible retirement plan

# Beneficiary Distribution Options – Death Before the RBD

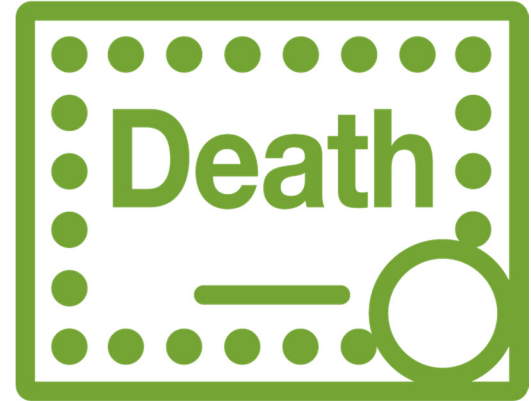
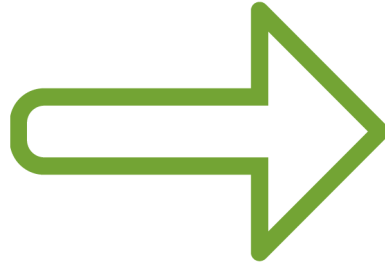
## Beneficiary Distributions Options – Account Owner Dies Before the RBD

**Nonperson  
Beneficiary  
(estates,  
entities, and  
certain  
trusts)**

- Five-year rule

## Death On or After the RBD

RBD



# Beneficiary Distribution Options – Death On or After the RBD

## Beneficiary Distributions Options – Account Owner Dies On or After the RBD

### Spouse Is Sole Designated Beneficiary

- Life expectancy payments taken annually
  - **Payments must begin** by December 31 of the year following the year of the account owner's death
  - **Life expectancy for first year** is the longer of
    - the spouse beneficiary's single life expectancy in the year following the year of the account owner's death, or
    - the account owner's single life expectancy in the year of death, reduced by one.
  - **Life expectancy for subsequent years** is determined using recalculation if using the spouse beneficiary's life expectancy and nonrecalculation if using the account owner's life expectancy.
- Treat IRA as own (transfer)
- Distribute and roll over assets to own IRA, to an inherited IRA, or to an eligible retirement plan



# Beneficiary Distribution Options – Death On or After the RBD

## Beneficiary Distributions Options – Account Owner Dies On or After the RBD

### Nonspouse Beneficiary or Spouse NOT Sole Beneficiary

- Life expectancy payments taken annually
  - **Payments must begin** by December 31 of the year following the year of the account owner's death.
  - **Life expectancy for first year** is the longer of
    - the oldest designated beneficiary's single life expectancy (unless separate accounting applies) in the year following the year of the account owner's death, or
    - the account owner's single life expectancy in the year of death, reduced by one.
  - **Life expectancy for subsequent years** is determined using nonrecalculation (spouse may use recalculation if separate accounting applies).
- Nonspouse beneficiary may directly roll over **plan assets to an inherited IRA**
- Spouse beneficiary may roll over assets to own IRA, to an inherited IRA, or to an eligible retirement plan

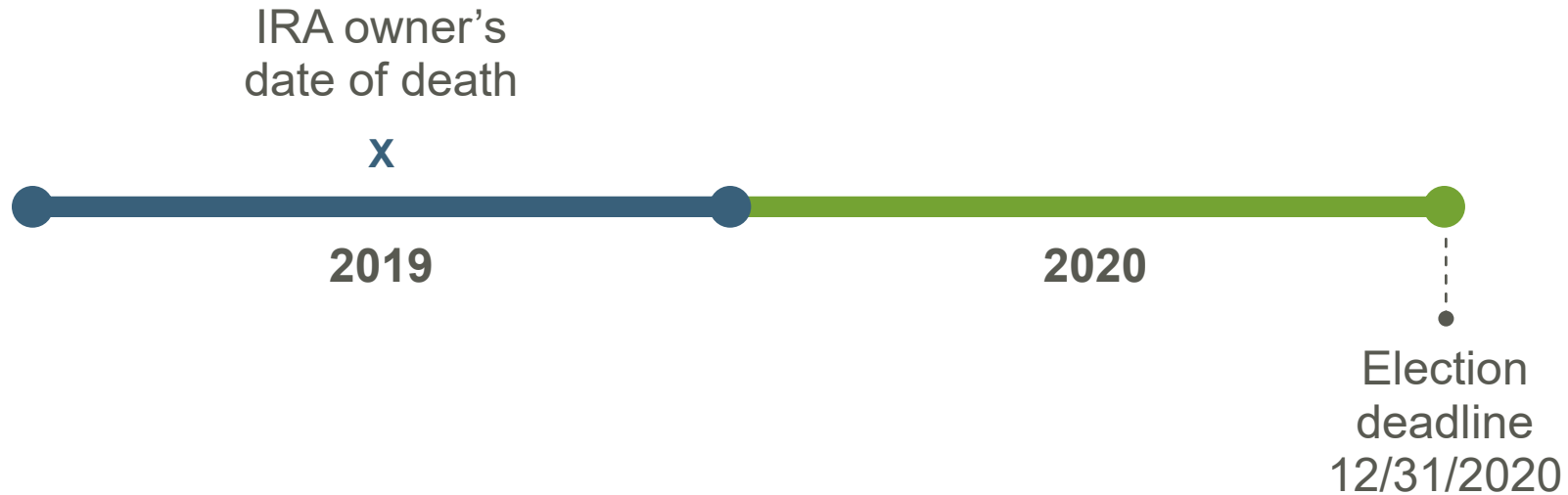
# Beneficiary Distribution Options – Death On or After the RBD

## Beneficiary Distributions Options – Account Owner Dies On or After the RBD

**Nonperson  
Beneficiary  
(estates,  
entities, and  
certain  
trusts)**

- Life expectancy payments taken annually
  - **Payments must begin** by December 31 of the year following the year of the account owner's death.
  - **Life expectancy for first year** is the account owner's single life expectancy in the year of death, reduced by one.
  - **Life expectancy for subsequent years** is determined using nonrecalculation.

# Beneficiary Election Deadline: Nonspouse or Spouse Not Sole Designated Beneficiary



# Beneficiary Election Deadline: Sole Designated Spouse Beneficiary

Earlier of December 31

- of year in which life expectancy payments must begin, or
- of 5th year after account owner's death

A wooden calendar block with the word 'DECEMBER' on the top block and the numbers '31' on the two bottom blocks. The blocks are blue and white. The background is a blurred desk with a laptop, a pen holder, and a pair of glasses on a notebook.

DECEMBER

31

# Sole Designated Spouse Beneficiary Election Deadline Example

Cindy was born on 6/19/1952, and died on 3/15/2019 before her RBD.

Her husband, Jon, is her only primary beneficiary.

By what date must Jon select a distribution option?

**December 31, 2020**

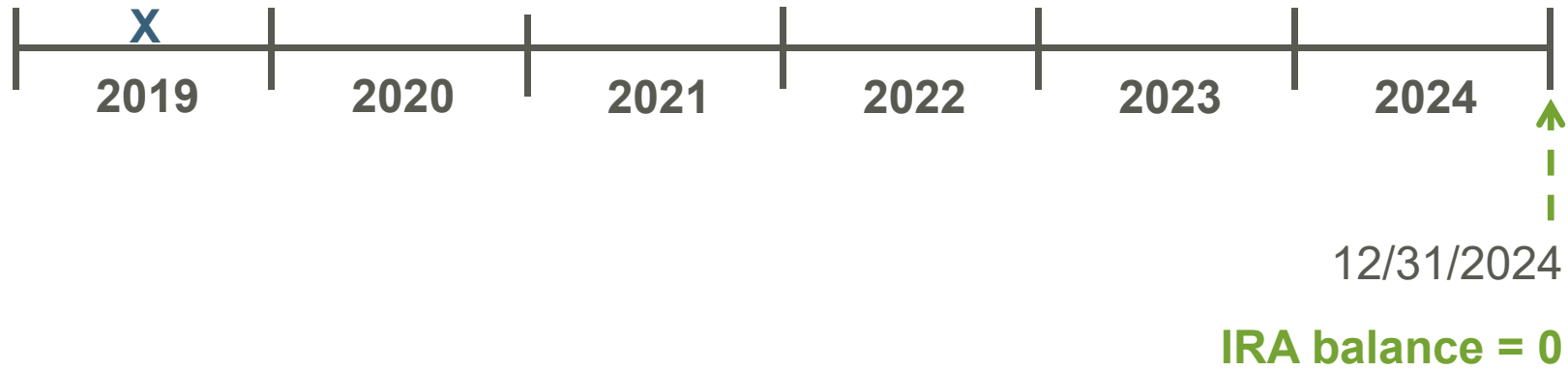
**December 31, 2022**

**December 31, 2024**



# 5-Year Rule

Death of  
IRA owner  
before RBD



# Calculating Life Expectancy Payments



$$\frac{\text{Account balance}}{\text{Distribution period}} = \text{Life expectancy payment}$$



Use Single Life Expectancy Table

## Recalculation



First year



Following years



## Nonrecalculation



First year

-1

Following years



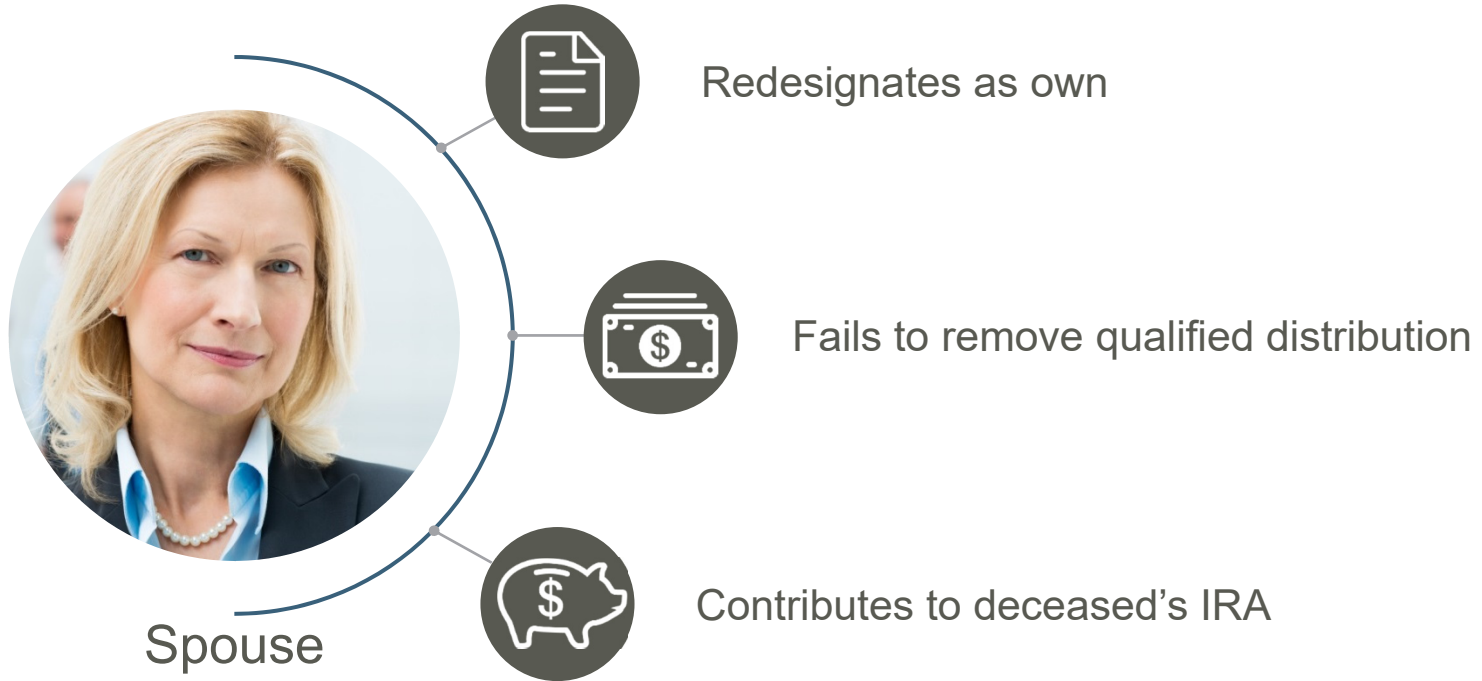


# Recalculation vs. Nonrecalculation

Joe is the beneficiary of his wife's IRA, and Bonnie is the beneficiary of her father's IRA. Both will attain age 68 in the first year of beneficiary distributions.

	<b>Joe (Spouse Beneficiary)</b>	<b>Bonnie (Nonspouse Beneficiary)</b>
<b>Attained Age in Distribution Year</b>	<b>Recalculation Distribution Period</b>	<b>Nonrecalculation Distribution Period</b>
68	18.6	18.6
69	17.8	17.6
70	17.0	16.6
71	16.3	15.6
72	15.5	14.6

# Deemed to Treat as Own



# Inherited Plan Rollovers to Inherited IRAs: Spouse Beneficiary Rollovers

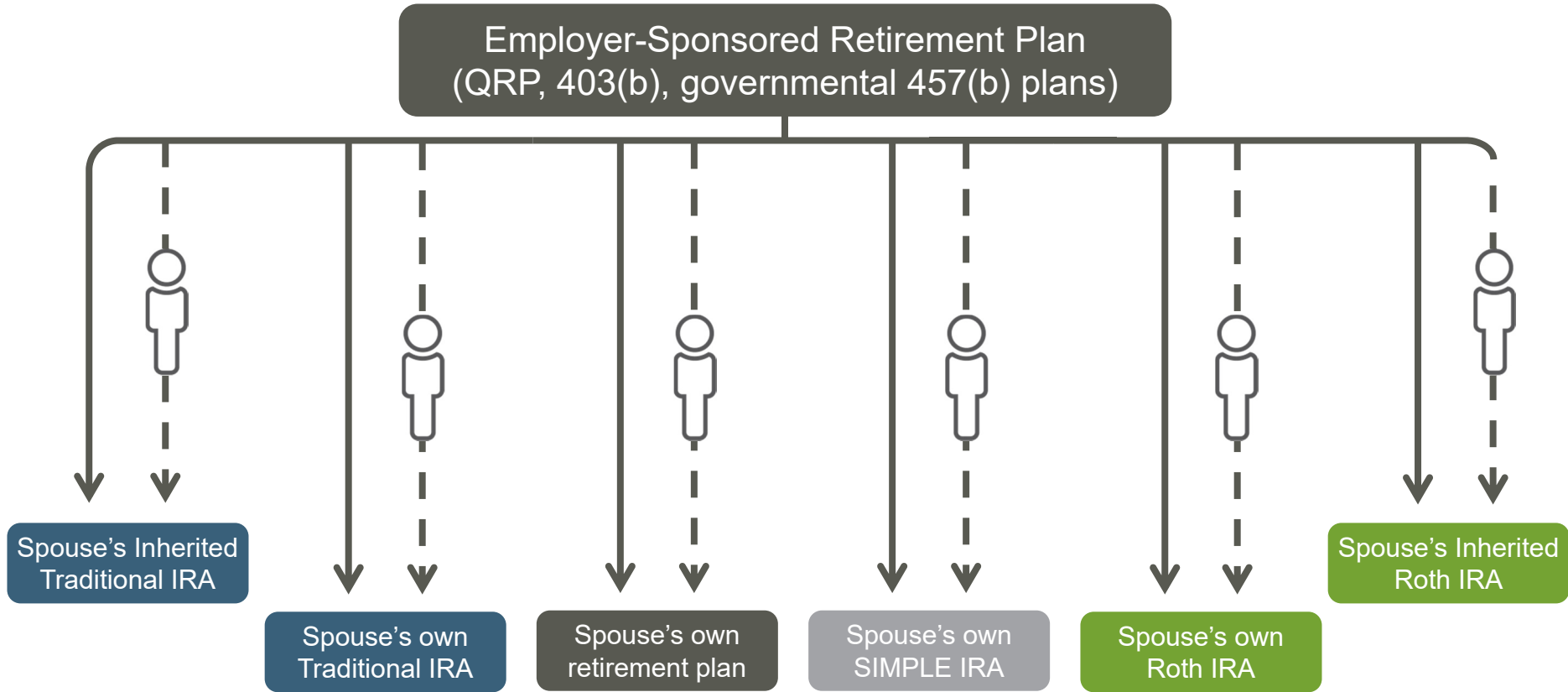


Directly or indirectly



All or a portion

# Spouse Beneficiary Retirement Plan Rollovers



# Inherited Plan Rollovers to Inherited IRAs: Nonspouse Beneficiary Rollovers



RMD or life expectancy payment may not be rolled over



Title inherited IRA properly



May use trust's oldest underlying beneficiary's age or deceased plan participant's age to determine payments

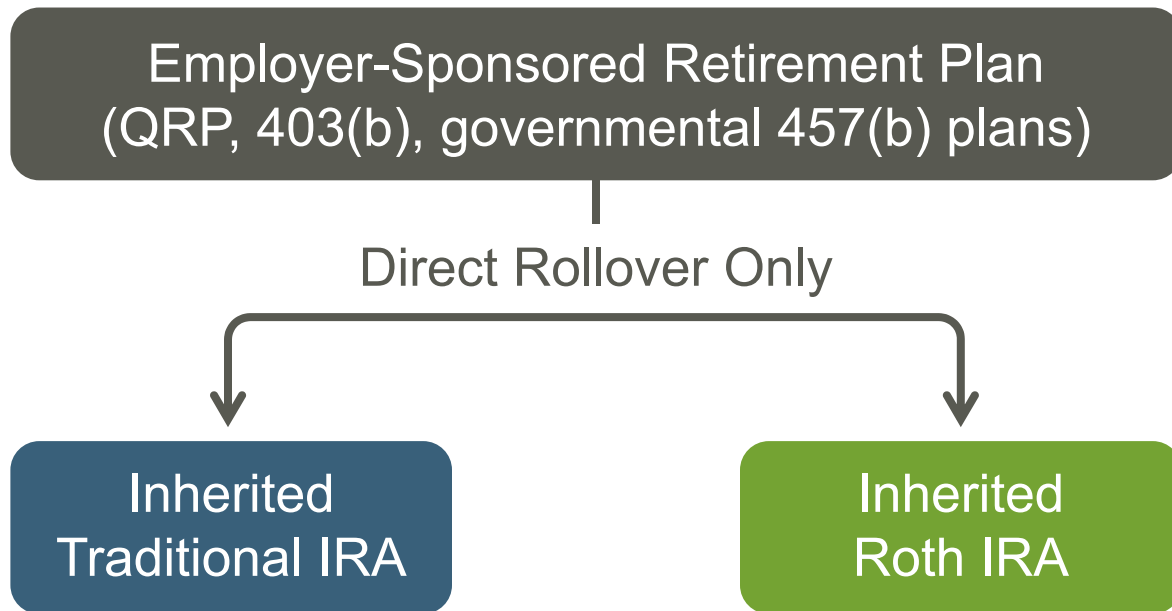


Pretax assets rolled over to a Roth IRA are taxable in year rolled over



5-year rule allows balance to be rolled over within first 4 years; assets not eligible for rollover in 5th year

# Nonspouse Beneficiary Retirement Plan Rollovers



# Inherited Plan Rollovers to Inherited IRAs: Nonspouse Beneficiary Rollovers



May switch from  
5-year rule

to life  
expectancy



Remaining balance rolled over by  
December 31 of year after death

AND

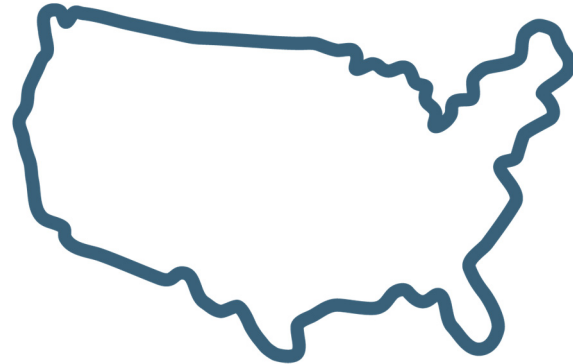


Continues taking life  
expectancy payments

# No Beneficiary Listed for IRA or Retirement Plan



Check default provisions



No provisions;  
state law dictates



A woman with long dark hair, wearing a dark sleeveless top, stands behind a podium, gesturing with her right hand raised. She is looking towards the right side of the frame. In the foreground, the backs of several audience members' heads are visible, suggesting a presentation or lecture setting. The entire image has a blue tint.

# IRA and QRP Introduction to Beneficiary Options Exercise

Pages 19–20

# IRA and QRP Introduction to Beneficiary Options Exercise

1. Arthur died on 10/14/2019. His two primary beneficiaries are his wife, Sandy, and his son, Barry. By what date must separate accounting be established?

12/31/2020; December 31 of the year following the year of the account owner's death



# IRA and QRP Introduction to Beneficiary Options Exercise

What is the benefit of separate accounting?

Separate accounting allows the beneficiary more distribution options. It also permits a financial organization to report distributions and the fair market value in the beneficiary's name and Social Security number.



# IRA and QRP Introduction to Beneficiary Options Exercise

2. Frank is the beneficiary of his wife's IRA. He will attain age 73 in 2019; the first year of beneficiary distributions. How will his beneficiary distributions be calculated each year?

Recalculation

Nonrecalculation



# IRA and QRP Introduction to Beneficiary Options Exercise

Using the Single Life Expectancy Table on page 14, what divisors will be used in Frank's first 3 years of beneficiary distributions?

2019 – 14.8

2020 – 14.1

2021 – 13.4



# IRA and QRP Introduction to Beneficiary Options Exercise

Kathy is the beneficiary of her uncle's IRA. She will attain age 47 in 2019; the first year of beneficiary distributions. How will her beneficiary distributions be calculated each year?

Recalculation

Nonrecalculation



# IRA and QRP Introduction to Beneficiary Options Exercise

Using the Single Life Expectancy Table on page 14, what divisors will be used in Kathy's first 3 years of beneficiary distributions?

2019 – 37.0

2020 – 36.0

2021 – 35.0



# IRA and QRP Introduction to Beneficiary Options Exercise

3. May a beneficiary moved inherited QRP assets to another type of account?

A spouse beneficiary may directly or indirectly roll over such assets to another eligible retirement plan, to his own IRA, or to his own inherited IRA.

A nonspouse beneficiary may directly roll over eligible retirement plan assets to an inherited IRA.





# IRA and QRP Introduction to Beneficiary Options Exercise

4. What is the election deadline for a nonspouse beneficiary or a spouse beneficiary who is not the sole designated beneficiary?

December 31 of the year following  
the year of the account owner's death



# IRA and QRP Introduction to Beneficiary Options Exercise

What is the election deadline for a spouse beneficiary who is the sole designated beneficiary?

The earlier of December 31 of the year in which life expectancy payments are required to commence, or December 31 of the year containing the fifth anniversary of the account owner's death

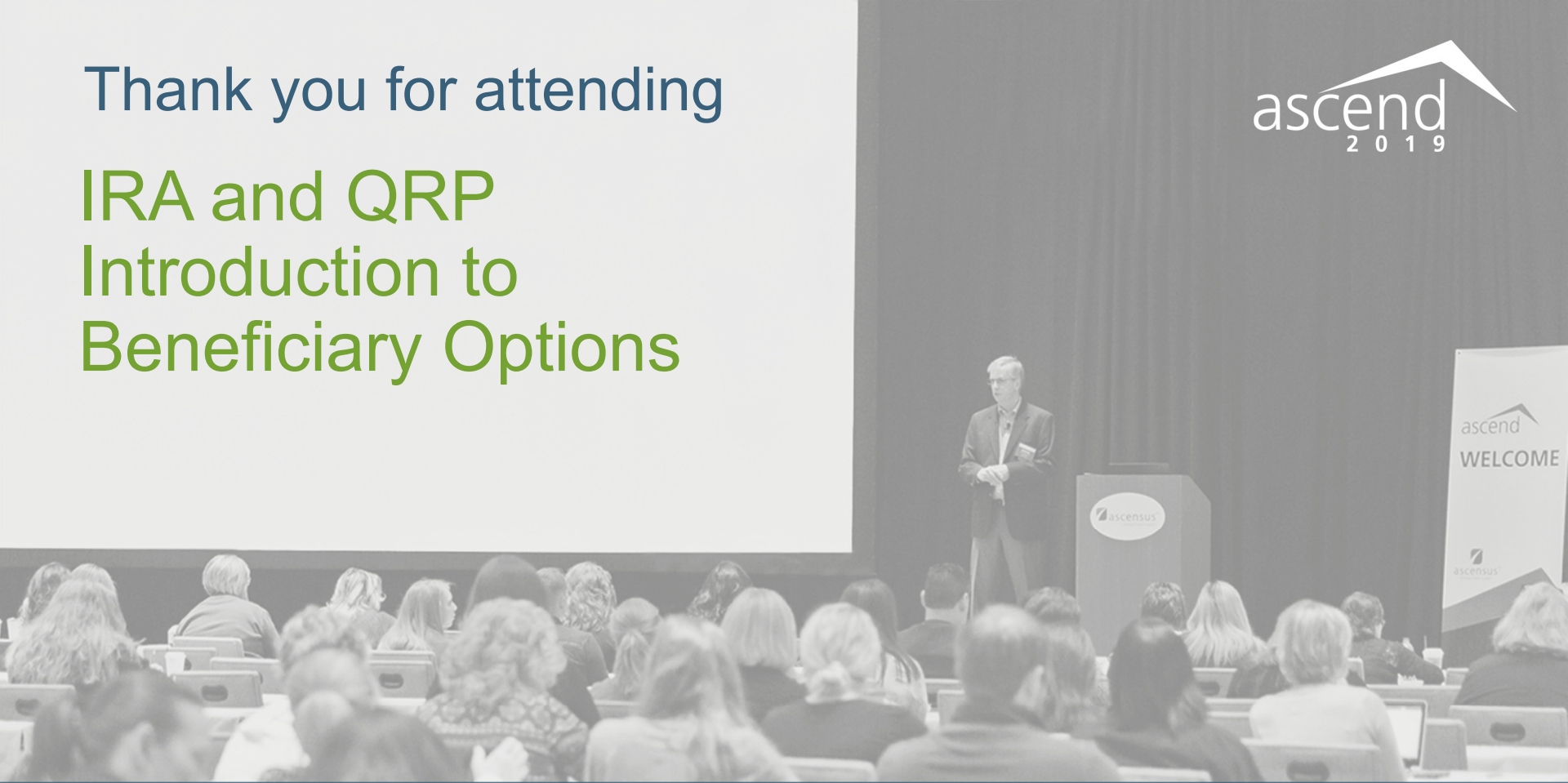


# Questions?

Thank you for attending

# IRA and QRP Introduction to Beneficiary Options

ascend  
2019



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