Beneficiary Payment Options for Traditional IRAs (Death On or After Required Beginning Date)

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This booklet is intended for Traditional IRA beneficiaries to use when a Traditional IRA owner dies on or after the required beginning date for required minimum distributions (RMDs), which is April 1 of the year following the year the IRA owner is required to begin receiving RMDs. (This is age 70½ for IRA owners born before July 1, 1949, and age 72 for IRA owners born on or after July 1, 1949.)

We hope you find this booklet helpful in making a decision about how to receive your assets from this IRA.

The information in this booklet is not intended as tax advice. For guidance regarding payment decisions, consult a competent tax professional or financial planner.
FREQUENTLY ASKED QUESTIONS

Are payments from this IRA taxable?
Yes. All or part of the assets you receive from this IRA are taxable. A portion of the assets may be exempt from tax if the deceased IRA owner made nondeductible contributions to the IRA or rolled over previously taxed assets from an employer-sponsored retirement plan to the IRA.

How much of my distribution will be taxable income?
In January, following the year of distribution, we will send you a Form 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*, reporting how much money we distributed to you in the previous year. We cannot tell you how much of the distribution is taxable because we do not have this information. You can obtain this information from the deceased IRA owner’s tax records.

Why am I required to receive payments?
IRAs were created to help individuals save for retirement; they were not intended to permanently shelter IRA assets from taxation. Therefore, IRS regulations that control the taxation of IRAs require beneficiaries to take annual life expectancy payments or to deplete the IRA within a certain amount of time. Various payment options are available.
Why are there multiple payment options?

The variety of payment options allows you to select the best option for your situation.

May I transfer the assets to my primary financial organization?

Yes. For more information, see the option(s) provided in the “Transfer” section of this booklet.

Does the IRA continue to earn interest after I begin receiving payments?

For questions related to earnings and investments, contact one of our IRA representatives.

May I change the IRA investments after I begin receiving payments?

For questions related to earnings and investments, contact one of our IRA representatives.

May I designate my own beneficiaries to receive the assets if I die before receiving all of my payments?

Contact one of our IRA representatives to discuss your option to name a beneficiary for this inherited IRA.

Who can I contact for more information about choosing a payment option?

For advice regarding your payments, contact a competent tax advisor or professional financial planner. If you have any other questions or want to know whether our financial organization offers professional financial planning services, contact one of our IRA representatives.
PAYMENT OPTIONS

All payment options are described in this section, but only the payment options available specifically to you (as a spouse, nonspouse, or nonperson beneficiary) are provided on the enclosed Beneficiary Payment Election form. 

NOTE: The Setting Every Community Up for Retirement Enhancement (SECURE) Act, signed into law on December 20, 2019, significantly decreased the number of beneficiary payment options available to non-eligible designated beneficiaries when an IRA owner’s date of death occurs in 2020 or later.

The following are considered eligible designated beneficiaries.

- Spouse
- Disabled
- Chronically ill
- Beneficiaries who are not more than 10 years younger than the decedent
- Children of the IRA owner who are under the age of majority

If you fall into one of these categories, but only have the suboption of “Payments over ten years” provided under number four of the Payment Option section of your Beneficiary Payment Election, please contact one of our IRA representatives, as you may have additional payment options available to you.
Year-of-Death RMD

The tax laws generally require that traditional IRA owners take annual required minimum distributions (RMDs) upon turning the required beginning age. However, the Coronavirus Aid, Relief, and Economic Security (CARES) Act waived RMDs, including for beneficiaries, for 2020.

Please note that while an RMD is not required for 2020, the passing of the SECURE Act changed the required beginning age from age 70½ to age 72, effective January 1, 2020. This means the required beginning age for deceased IRA owners born before July 1, 1949, is age 70½, and the required beginning age for deceased IRA owners born on or after July 1, 1949, is age 72. Typically, if a traditional IRA owner died after their required beginning date and was required to take an RMD, the RMD amount must be taken from the IRA even in the year of death. However, due to the passing of the CARES Act, this is not required for 2020. If the IRA owner died in 2019 or earlier, the remaining RMD for their year of death will be distributed to the beneficiary (or beneficiaries) as soon as possible, as that distribution should have occurred before December 31 of the year in which the death occurred. Our financial organization can tell you the amount of the RMD due for this IRA and what amount, if any, was distributed to the IRA owner during the year. The IRA owner could have received distributions from other Traditional IRAs that applied toward meeting this RMD, but you would have to obtain this information from the IRA owner’s records.
**Lump-Sum**

You can receive all of your beneficiary assets in one single lump-sum payment. Before electing this option, consider the tax consequences of receiving this amount in one year.

**Transfer**

**Transfer to Your IRA (Only Available to Surviving Spouse)**

If you are the deceased IRA owner’s spouse, you may transfer all or part of the IRA assets to a Traditional IRA in your name that is either held at the current financial organization or a different financial organization. Nonspouse and nonperson beneficiaries do not have this option.

If you make this transfer after the year in which the IRA owner died, and you are of the age required to begin receiving RMD payments, your RMD is based on the original IRA owner’s prior-year December 31 account balance.

**Tip:** If you are the IRA owner’s spouse and you are under age 59½, you may choose to leave the assets in the deceased owner’s IRA until you reach age 59½. Doing so allows you to withdraw assets from the deceased owner’s IRA without having to pay the 10 percent early distribution penalty tax, which generally applies to distributions from your own IRA before you reach age 59½. If you leave the assets in the deceased owner’s IRA, you must take life expectancy payments each year while the assets remain in that account. If you transfer the assets into your own IRA, you are not required to take distributions until you reach the required age to begin receiving RMD payments.
**Transfer to Inherited IRA at a Different Organization**

Whether you are a spouse, nonspouse, or nonperson beneficiary, you may transfer the IRA assets to an inherited IRA established in the deceased IRA owner’s name for your benefit at a financial organization of your choice. Confirm that the other financial organization will accept this type of transfer before you start the transaction.

The receiving IRA is subject to the same beneficiary distribution rules as the deceased IRA owner’s IRA. You cannot make contributions to the receiving IRA, and you cannot use a rollover to move the assets to the receiving IRA unless you are a spouse.

You can transfer the assets before or after you start receiving beneficiary payments. If it is the year after death or later, you may choose to take a payment for the current year (if required for that year) before starting the transfer. If you do not, you may have to take a required payment from the receiving IRA or from another inherited IRA that you received from the same deceased IRA owner.

**Payments of a Predetermined Length From an Inherited IRA at the Current Organization**

**Payments Over Ten Years**

If the IRA owner died in 2020 or later, and you are a spouse, nonspouse, or certain trust beneficiary, you can receive one or more payments of any amount that result in all of the assets being distributed to you by December 31 of the tenth year following the IRA owner’s death.
Life Expectancy Payments From an Inherited IRA at the Current Organization

When death occurs on or after the required beginning date for RMDs, tax laws require life expectancy payments to be generally calculated using the longer of

- the life expectancy of the eligible designated beneficiary (or oldest beneficiary, if applicable), or

- the remaining life expectancy of the deceased IRA owner.

If you are older than the deceased IRA owner, life expectancy payments are calculated using the deceased IRA owner’s life expectancy (the longer life expectancy), resulting in smaller annual payments. (Beneficiaries may always take more than the required minimum amount, but not less.) If you are younger than the deceased IRA owner, your own life expectancy will be used to calculate the life expectancy payments.

NOTE: As indicated previously, the Coronavirus Aid, Relief and Economic Security (CARES) Act waived beneficiary payments for 2020. If the IRA owner died prior to 2020, a payment will not be required from the inherited IRA for 2020.

If the owner died prior to 2020 and you establish scheduled payments at the current financial organization, please work with the financial organization to determine if you would like to take a payment for 2020, as it is not required.

Payments Over Your Life Expectancy, Recalculated (Spouse Beneficiary)

If you are the deceased IRA owner’s spouse and you are younger than the deceased IRA owner, you may receive payments calculated using your
life expectancy based on your age in the year in which each payment is made.

Generally, the first year’s payment must be made by December 31 of the year following the year of the IRA owner’s death. However, the passing of the CARES Act waived payments for 2020.

Payments Over Deceased Owner’s Life Expectancy (Spouse or Nonspouse Beneficiary)

If the IRA owner died in 2019 or earlier, and you are a spouse or nonspouse beneficiary who is older than the deceased IRA owner, you may receive payments calculated using the IRA owner’s life expectancy.

If the IRA owner died in 2020 or later, this option is only available if you are also an eligible designated beneficiary.

If this option is selected, the payment for the first year is based on the IRA owner’s life expectancy in the year of death, reduced by one. Subsequent payments are calculated by reducing the life expectancy used in the preceding year by one. For example, if the life expectancy one year is 24.4, the life expectancy for the following year would be 23.4.

Generally, the first year’s payment must be made by December 31 of the year following the year of the IRA owner’s death. However, the passing of the CARES Act waived payments for 2020.

Payments Over Your Life Expectancy (Nonspouse Beneficiary)

If the IRA owner died in 2019 or earlier, and you are a nonspouse beneficiary who is younger than the deceased IRA owner, you may receive payments calculated using your life expectancy. If the IRA owner died in 2020 or later, this
option is only available if you are also an eligible designated beneficiary. The payment for the first year is based on your age in that year. Subsequent payments are calculated by reducing your life expectancy used in the preceding year by one. For example, if the life expectancy one year is 24.4, the life expectancy for the following year would be 23.4.

Generally, the first year’s payment must be made by December 31 of the year following the year of the IRA owner’s death. However, the passing of the CARES Act waived payments for 2020.

Payments Over the Oldest Designated Beneficiary’s Life Expectancy (Nonperson Beneficiary)

A nonperson beneficiary often is a trust, an estate, or an organization. With the exception of certain trust beneficiaries, a nonperson beneficiary must receive payments calculated over the deceased IRA owner’s life expectancy. The payment for the first year is based on the deceased IRA owner’s life expectancy in the year of death, reduced by one. Subsequent payments are calculated by reducing the life expectancy used in the preceding year by one. For example, if the life expectancy one year is 24.4, the life expectancy for the following year would be 23.4.

Generally, the first year’s payment must be made by December 31 of the year following the year of the IRA owner’s death. However, the passing of the CARES Act waived payments for 2020.

Trust Beneficiaries

If certain requirements are met, certain trusts may be able to receive life expectancy payments over the oldest underlying beneficiary’s age.
However, due to the complicated rules surrounding trust beneficiaries, we recommend you seek competent tax or legal advice to determine the best options available to the trust.

**Other Beneficiary Responsible**

Any beneficiary may select this option and assume responsibility for calculating and withdrawing the required amount each year from the inherited IRA held at the current financial organization.
PAYMENT FLEXIBILITY

Payment Frequency
You can elect to receive payments in monthly, quarterly, semi-annual, or annual installments.

Additional Withdrawals
You can make withdrawals in addition to the scheduled payments. Tell one of our IRA representatives that you would like to complete a Traditional IRA Withdrawal Authorization form to make additional withdrawals.

Changes in Payments
If you initially select payments over the longest payment period available to you, you can later change to payments over a shorter payment period. If you initially select payments over a shorter payment period, you can later change to payments over a longer payment period, as long as it does not exceed the longest payment period available to you. In either case, contact one of our IRA representatives to make the change.
**WITHHOLDING ELECTIONS**

**Federal Withholding**
We are required by law to withhold 10 percent from your payments to apply toward federal taxes unless you elect to not withhold or to withhold more than 10 percent.

**State Withholding**
State withholding also may apply to your payments, depending on the state in which you live.

**Changes in Withholding**
To change your withholding election in the future, contact one of our IRA representatives.