

Retirement Account Beneficiaries

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If you have a retirement account please pay close attention to the designation of your beneficiary. Your designation overrides any bequests that you have made in your will.

Also, be sure to name a contingent beneficiary. For example, if you named your spouse as your primary beneficiary but did not name a contingent beneficiary and you and your spouse die at the same time, then the account passes to your estate. In that event, and if you have not yet reached your required beginning date for distributions, the account would have to be paid out to your estate by December 31 of the fifth year following the year of your death. If you die after the required minimum distributions have begun, then the account can be paid to your estate over time, based on your remaining life expectancy calculated as of the year of your death.

Spousal Beneficiary

If you designate your spouse as the primary beneficiary of your retirement account, your spouse can roll it over into an IRA of their own and can continue to contribute to it. There is no difference in how the IRA inherited by a spouse is treated by the IRS from one a spouse opens.

Non-Spousal Beneficiaries

As a result of the Pension Protection Act of 2006 a non-spousal beneficiary, including children, can now roll over assets inherited from a qualified retirement plan to their own IRA. The IRA account will carry the designation "Inherited IRA". The beneficiary will avoid tax on the rollover and will pay taxes only as the assets are withdrawn from their IRA. Distributions are required over the life expectancy of the beneficiary. Previously this tax treatment was available only to people who inherited retirement assets from a deceased spouse.

You can also name an entity, charity, or non-qualifying trust as a beneficiary. When an owner dies younger than age 70-1/2 (the year distributions are required to begin) the assets must be completely distributed by December 31 of the fifth year following the year of the owner's death. If the owner was living on April 1 of the year after age 70-1/2, the distributions are based on the remaining life expectancy of the owner as if he or she were still alive.

There is an exception to these rules if there are multiple beneficiaries and one of the beneficiaries is a charity. If the charity is fully paid off by September 30 of the year following your death, then the remaining beneficiaries can divide the account among themselves and each beneficiary can use his or her own life expectancy.

If the intended beneficiary is a minor child or someone not capable of managing the account then a qualified trust might be appropriate. In this case a trustee would manage the IRA through the trust for the beneficiary's benefit.

If the beneficiary is a qualified trust, the receiving trust itself must be properly planned. To qualify as a beneficiary, your trust must meet four very specific criteria.

- Be valid under state law

- Be irrevocable (it can be revocable while the IRA owner is alive, but upon death it must become irrevocable)
- Have identifiable beneficiaries
- Provide the plan administrator or custodian with a copy of the trust documents

Only a qualified trust may take full advantage of the “stretch” permitted by the required minimum distribution rules. This allows a trust to stretch distributions out over the single life expectancy of the trust beneficiary.

As you can see, all of these issues require more thought than just writing down a name. We’re ready to help you with your choices – or, to review existing designations.