



PRIVATE BANKING UPDATE

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Options for Inherited Assets From an Employer-Sponsored Retirement Plan

If you recently inherited retirement assets from a deceased loved one, it is important to pay attention to IRS rules that govern this type of bequest. Your options in managing this money typically depend on your relationship to the deceased and whether he or she had already begun taking required minimum distributions (RMDs) upon reaching age 70½.

Considerations for Spouses

Spouses have three options when it comes to inheriting assets from a qualified defined contribution retirement plan:

- Keep it in the plan.
- Take the assets as a lump sum.
- Transfer the assets into their own IRA.

As long as your spouse's plan permits, you may keep the assets in the plan as a "beneficiary account" and continue to enjoy its tax-deferred status. If your spouse had already begun taking RMDs, you must continue to take them at least at the same rate. If your spouse had not yet begun taking RMDs, you can delay taking them until the year your spouse would have turned age 70½.

If you take a lump-sum distribution, you will be required to pay income taxes on the full amount. Twenty percent of the amount due to you will be withheld automatically.

If you transfer the assets into an IRA, you are not required to pay federal estate or income taxes if the assets are left intact within the estate. After reaching age 70½, you must begin RMDs based on your life expectancy. If you have already begun taking RMDs, you must take your distribution for the year before transferring the assets into your account.

Considerations for Non-spouses

Non-spouses also have three options:

- Keep it in the plan.
- Take the assets as a lump sum.
- Roll over the assets into an inherited IRA.

Your option to keep it in the plan is dependent on plan guidelines: Some will allow you to keep the account in the plan; some will require you to withdraw the assets. If the deceased had already begun taking RMDs, you must continue taking them at the same rate or faster. If the deceased had not yet begun taking RMDs, you must begin taking distributions by the end of the year after the person died.

As with the spousal scenario, taking a lump-sum distribution will necessitate the payment of income taxes on the full amount. Twenty percent of the amount due to you will be withheld automatically.

If you are opening an inherited IRA, the account must be held in the name of the original participant, with you listed as the beneficiary. You will be taxed on your distributions as you take them.

Considerations for Trusts

For estate planning reasons, sometimes the deceased designated a trust, not an individual, as the beneficiary. Often it is assumed without detailed analysis that because the beneficiary was a trust, the money must be withdrawn immediately. However, each trust document is different. In certain situations, you may be able to treat the inherited account as though you were the named beneficiary. In other situations, you may have no choice but to close the account immediately. Before you act, you should have a professional specializing in this area review the trust document and help you understand your options.

Because determining the tax status of inherited retirement assets can be complicated, you may want to consult an estate planning attorney, tax professional, or a financial advisor to answer any questions you may have.

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