

Welcome!

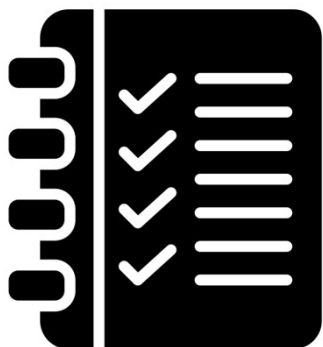
Beneficiary Distribution Options



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What We'll Cover



- Determining Beneficiaries
- Separate Accounting
- Categories of Beneficiaries
- Beneficiary Distribution Options
- Common Beneficiary Designation Mistakes

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1. Verify death of IRA owner
2. Verify beneficiaries
3. Set up Inherited IRAs
4. For Traditional IRAs, verify whether the death was before OR on/after the IRA owner's RBD
5. Verify beneficiary type/status
6. Determine the beneficiary options/requirements
7. Capture election, if applicable

The Process

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Determining Designated Beneficiaries

- Beneficiaries named to IRA as of date of death
- Remain beneficiaries as of September 30 year after death
- Not considered designated beneficiary if:
 - Beneficiary takes a total distribution by September 30 year after death
 - Beneficiary disclaims interest in IRA
- If beneficiary dies during period between owner's date of death and September 30 year after death still considered designated beneficiary

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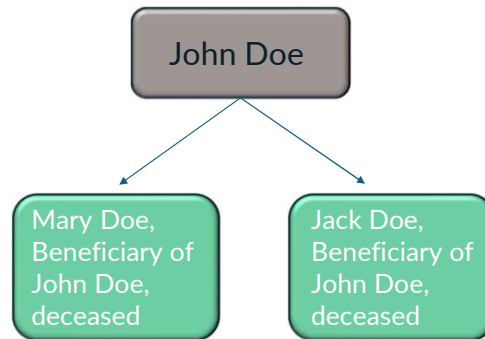
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The Separate Accounting Rule

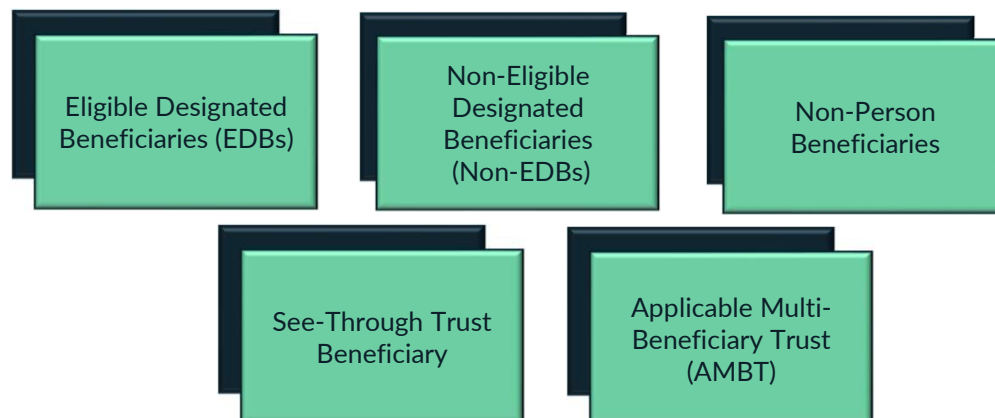
Beneficiary distribution rules are applied as if each beneficiary is the sole beneficiary *provided that*

- the beneficiary's interest is "separately accounted" for by no later than **December 31** of the year following the IRA owner's year of death.

If the beneficiary's interest is not separately accounted for by the deadline, beneficiary options are restricted.



Categories of Designated Beneficiaries



Categories of Designated Beneficiaries

Eligible Designated Beneficiaries (EDBs)

- Spouse
- Minor child of account owner (< Age 21)
- Disabled individual*
- Chronically-ill individual*
- Individual not more than 10 years younger than account owner

*No longer required to obtain qualifying documentation to certify disability or chronic illness.

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Categories of Designated Beneficiaries

Non-Eligible Designated Beneficiaries (Non-EDBs)

- Designated individual beneficiaries who do not meet one or more of the definitions necessary to qualify as an EDB

Non-Person Beneficiaries

- Estate
- Charity
- Nonqualified Trusts
- Other Non-Person Entities

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Categories of Designated Beneficiaries

Trust Beneficiaries

General Rule:

Trust is considered a Non-Person Beneficiary

The Exception:

Trusts that meet the "Qualified See-Through Trust" requirements

Qualified See-Through Trust Requirements

- Valid under state law
- Irrevocable at the IRA owner's death
- Identifiable individual beneficiaries
- No longer required to obtain trust document from trustee

Qualified See-Through Trusts

- Determining whether a trust beneficiary meets "Qualified See-Through" requirements is only the beginning
- Must determine which "designated beneficiaries" are considered
- Only after designated beneficiaries have been identified can we begin to determine distribution requirements applicable to the trust beneficiary (generally payments will be calculated using the life expectancy of the oldest trust beneficiary)
- Trusts including Non-EBDs will often be subject to the 10-year rule*

*There is a special exception for trusts covering minor children of the deceased IRA owner



Qualified See-Through Trusts: Conduit vs Accumulation Trusts

- Determining *which* beneficiaries should be considered on the list to determine who is oldest can be complicated
 - **Conduit Trust** – if all distributions from the retirement account are required to be distributed immediately to one or more trust beneficiaries, then only the trust beneficiary initially designated to receive distributions is treated as a beneficiary
 - **Accumulation Trust** – if distributions from the retirement account are allowed to accumulate within the trust, both primary and residual beneficiaries are treated as beneficiaries (2 exceptions)
 - When a residual beneficiary can only receive asset from the trust after the death of a primary beneficiary who has not predeceased the original account owner, or
 - When a residual beneficiary can only receive assets from the trust after the death of a primary beneficiary who has not predeceased the original account owner and who died before the distribution could occur

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Qualified See-Through Trusts: Conduit Trust

- A trust that requires all RMDs collected from the IRA be passed through directly and immediately to the income beneficiary
- Only *that* income beneficiary's life expectancy is considered.
- All other subsequent remainder beneficiaries can be ignored when determining the oldest life expectancy

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Qualified See-Through Trusts: Accumulation Trust

- A trust that allows the RMDs paid to the trust to accumulate after they are distributed from the IRA
- Under the terms of the trust those RMD amounts may not subsequently pass through to the underlying trust beneficiaries until a later date
- Both current income and remainder beneficiaries must be considered when determining the oldest life expectancy (must continue down the line until the point is reached where an outright distribution occurs - at this point no subsequent beneficiaries must be considered)

Conduit vs Accumulation Trusts: Why does it matter?

- It determines which underlying trust beneficiary(ies) must be considered designated beneficiaries for purposes of being able to “stretch” the distributions over a life expectancy (how many layers of trust beneficiaries must be considered)
 - (Conduit Trust) If the trust requires that all RMDs collected from the IRA be passed immediately and directly to the underlying “income” beneficiary, *only* that income beneficiary’s life expectancy must be considered. (allowing all other subsequent “remainder” beneficiaries to be ignored when determining the oldest life expectancy), BUT
 - (Accumulation Trust) If the trust can accumulate the RMDs after they are distributed from the IRA and not be passed to the trust beneficiaries until a later date, current income AND remainder beneficiaries must be considered
- If any of the “considered” designated beneficiary of the trust are not individual beneficiaries, it could result in the *entire* stretch IRA concept being invalid

Categories of Designated Beneficiaries

Applicable Multi-Beneficiary Trust (AMBT)

- Specific type of see-through trust beneficiary
- Generally subject to distribution requirements for EDB
- Have more than one beneficiary
- Have at least one disabled or chronically ill trust beneficiary
- Not have any nonperson trust beneficiaries (except for certain qualified charitable organizations)
- Provide that no beneficiary (other than a disabled or chronically ill beneficiary) has any right to the interest in the IRA until the death of all EDB who are disabled or chronically ill

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Beneficiary Distribution Requirements

- Year of death RMD – determined using deceased owner's age in the year of death and either the ULT or JLT
 - If not fully satisfied by owner prior to death, must be taken by beneficiary(ies)
 - No longer required to be satisfied pro rata by each beneficiary (if multiple beneficiaries named on the IRA the RMD can be taken by any one or more beneficiaries)
- RMDs following year of death – requirements vary depending on:
 - Type of IRA
 - Date of death in relation to RBD (Traditional, SEP or SIMPLE IRAs)
 - Type of designated beneficiary

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Beneficiary Distribution Requirements

Beneficiary Type	Death before RBD & Roth IRAs	Death On/After RBD
Non-Person	5-Year Rule (Total distribution by 12/31 of 5th year following owner's death)	Annual RMDs (Annual RMDs based on SLE of deceased owner, non-recalculated)
Non-EDB	10-Year Rule (Total distribution by 12/31 of 10th year following owner's death)	Annual RMDs with 10-Year Depletion Deadline (Annual RMDs based on Non-EDB SLE, nonrecalculated, and total distribution by 12/31 of 10th year after owner's death)
Spouse EDB	10-Year Rule, Life Expectancy Payments, or Treat as own (Total distribution by 12/31 of 10th year following owner's death or annual RMDs determined using the spouse beneficiary's SLE or ULT, recalculated - not required to being until the year the deceased owner would have reached RMD start age)	Annual RMDs (Based on spouse beneficiary's SLE or ULT, recalculated)
Non-Spouse EDB (excluding minor child EDB)	10-Year Rule or Life Expectancy Payments (Total distribution by 12/31 of 10th year following owner's death or annual RMDs determined using the EDB's SLE, non-recalculated)	Annual RMDs (Based on longer of SLE of deceased owner, non-recalculated, or SLE of EDB, non-recalculated)
Minor Child EDB	10-Year Rule or Life Expectancy Payments (with 10-Year Depletion Deadline) (Total distribution by 12/31 of 10th year following owner's death or annual RMDs determined using the minor child EDB's SLE, non-recalculated, with a requirement to completely deplete IRA by 12/31 of year they attain age 31)	Annual RMDs with 10-Year Depletion Deadline (Annual RMDs based on minor child EDB SLE, nonrecalculated, with a requirement to completely deplete IRA by 12/31 of year they attain age 31)

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Beneficiary Distribution Requirements

	See-Through Trusts (including AMBT)		Other Trusts
	Conduit Trust	Accumulation Trust	
Trust Provisions	Must distribute all IRA distributions to an individual trust beneficiary when received	Allows for the accumulation of IRA distributions within the trust instead of immediate payout	Does not meet definition of see-through trust
RMDs to the Trust	EDB Payout based on the life expectancy of the beneficiary (subject to stretch IRA rules)	10-year rule - total distribution to trust by 12/31 of 10th year after owner's death. (Annual RMDs required if owner died on/after RBD)	Owner death before RBD: 5- year rule
	Non-EDB Total distribution to trust by 12/31 of 10th year after owner's death. (Annual RMDs required if owner died on/after RBD)		Owner death on/after RBD: Annual RMDs based on deceased owner's SLE non-recalculated

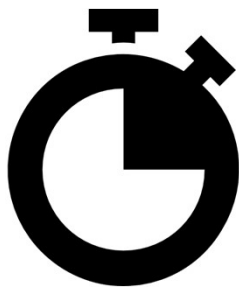
*Due to the complexity of determining which underlying trust beneficiaries are "treated as designated under the IRA" for purposes of determining the distribution requirements /options, trustees of a see-through trust (including AMBTs) should seek assistance from a competent tax or legal advisor.

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Excess Accumulation Penalty



If the RMD is not withdrawn timely, beneficiaries are subject to an excess accumulation penalty

- Excess Accumulation Penalty = 25% (was previously 50%)
- Can be reduced to 10% if corrected by deadline (generally within two years of penalty arising)
- Possible automatic waiver for IRA owner year-of-death RMDs

Common Beneficiary Designation Mistakes

- When designating the trust as beneficiary, the owner lists the trustee's name as beneficiary and not the trust itself.
- After creating a trust, the IRA owner fails to name the trust as the IRA beneficiary.
- Not structuring trust correctly to execute stretch strategy.
- Failing to periodically review beneficiary designations when life events happen (marriage, divorce, birth of a child, death of a spouse, etc.).
- Assuming the POD form for checking, savings, etc., also applies to the IRA.
- Naming an estate as the beneficiary (or not naming a beneficiary at all) assuming the decedent's Last Will and Testament or trust will dictate how funds are to be paid out of the IRA.

Questions?

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Thank You!



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