

Inheriting an IRA from Your Spouse: What Are Your Options?

Losing a spouse is one of the most difficult things anyone can experience. In the wake of such a loss, it's important to know what your financial options are, especially when it comes to IRAs. As a spouse inheriting IRA assets, you can move the assets either to your own traditional or Roth IRA or to an IRA Beneficiary Designation Account (BDA) opened in your name.

Always Consult with a Professional

Each IRA option comes with different considerations and rules to follow. Will your decision require you to take mandatory distributions? Will you be able to make additional contributions? Are there penalties you need to be aware of when you eventually distribute the assets? Before you make your decision, be sure to consult with your financial advisor or tax professional to determine which of the following options suits your unique set of circumstances.

1. **Transfer the funds to your own traditional or Roth IRA.** This strategy is commonly referred to as “treating the assets as your own.” With this option, you would transfer the assets directly into your own traditional or Roth IRA. The standard traditional and Roth IRA rules will apply to contributions, distributions, and RMDs.
2. **Transfer the funds to an IRA BDA (traditional or Roth) in your own name.** Distributions you take from your IRA BDA aren't subject to withdrawal penalties, but you are not permitted to make additional contributions to the account after the initial funding. In addition, you must take the required minimum distributions (RMDs) from the account. The start date for your RMDs will depend on how old your spouse was upon death.

Key Considerations

Required Minimum Distributions

When and if an RMD is required depends on the type of account you transfer the funds to and your spouse's age when they passed away. RMDs from traditional IRAs must begin at age 73*, while Roth IRAs do not have RMDs. For IRA BDAs, RMDs must begin the year your late spouse would have reached their own RMD age*.

IRS guidelines require you to take larger RMD amounts from an IRA BDA than if you opened a traditional IRA. Generally, the option with the lowest RMD that allows you to delay them as long as possible is best. This would lessen the tax liability on these distributions and enable you to stretch your retirement assets over a longer period of time.



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Age of the Individual

Distributions from a IRA BDA, otherwise known as a spousal-inherited IRA, are always penalty free regardless of your age. The same is not true for traditional and Roth IRAs. Distributions taken from these accounts by an account owner who is younger than 59½ may be subject to a 10 percent early withdrawal penalty.

Consequently, if you are younger than 59½, the spousal-inherited IRA option may be the best choice. This way, you have access to the funds if needed without having to worry about paying an early withdrawal penalty.

For example:

Elizabeth is 48 years old and inherits her deceased husband's IRA. She transfers the assets to a spousal-inherited IRA. When Elizabeth needs that money to pay for living expenses, she can take distributions from the account without owing penalties. The fact that she is younger than 59½ doesn't matter.

If you move the assets to your own traditional IRA instead of a spousal-inherited IRA in your name, normal IRA distribution rules apply. Any distributions you might take would most likely be subject to a 10 percent penalty if you are younger than 59½.

For example:

If Elizabeth puts the inherited assets into her own IRA rather than a spousal-inherited IRA, she would be penalized on the distributions she takes to pay for living expenses, as the normal IRA rules would apply. Specifically, because she is younger than 59½, Elizabeth would be subject to the 10 percent early withdrawal penalty on distributions from the account.

How Old Was Your Spouse?

When treating the assets as your own, your age determines when your RMDs begin. As mentioned earlier, if you choose an IRA BDA, your RMDs begin the year your spouse would have reached their own RMD age*.

If the intention is to delay RMDs as long as possible, whether your spouse is older or younger than you will determine the best option. If your spouse is younger, a spousal-inherited IRA might be a better fit because you can delay RMDs until after you reach your RMD age. If your spouse is older, treating the assets as your own might be better because you will not reach RMD age until after your deceased spouse would have.

For example:

Cathy passes away at age 63. Her husband, John, is 68 years old. If John chooses to treat the assets as his own, his RMDs will begin in five years when he turns 73. If he chooses the IRA BDA option, he can wait 10 years to start RMDs, the year Cathy would have turned 73.*

If John passes away instead at age 68, Cathy may be better served by treating the assets as her own so she can delay her RMDs until she turns 73, in 10 years, rather than starting RMDs in 5 years when John would have turned 73.

The Ability to Change Course

If you choose to move your spouse's assets into a IRA BDA in your name, you can always decide at a later date to treat the assets as your own and move them to your own IRA. The reverse scenario, however, is not true. Once you treat the assets as your own, the assets must remain in your own IRA. They cannot be transferred to an IRA BDA in the future. For example:



For example:

Matthew is 55 years old and inherits his deceased wife's IRA. He immediately puts the assets into his own IRA. Six months later, he needs to withdraw some funds to pay for childcare. Because the assets are in his own IRA and he is not 59½, the withdrawn funds will be subject to the 10 percent early withdrawal penalty. He cannot move the funds to an IRA BDA to avoid the penalty.

A common strategy for spouses younger than 59½ is to move some or all of the funds to an IRA BDA so that penalty-free distributions are available if needed. If you follow this course, you can move the assets to your own IRA once you reach age 59½. Distributions would continue to be penalty free and RMDs would not be required until you turn age 73*—or not at all if the decedent had a Roth IRA and the spouse transfers the assets to their own Roth IRA.

Please note: RMDs from IRA BDAs are larger, so if you take this option, it is usually beneficial to treat the assets as your own before the year your spouse would have reached RMD age to ensure that you are taking the smallest possible distribution.

The chart below summarizes the two options:

Option	Pros	Cons
 Treat Assets as Your Own	<ul style="list-style-type: none">• Smaller RMDs• RMDs not required until age 73*• RMDs not required from Roth IRAs	<ul style="list-style-type: none">• Distributions penalized if younger than 59½• Cannot transfer to IRA BDA
 IRA BDA	<ul style="list-style-type: none">• Penalty-free distributions• Ability to transfer to own IRA• Ability to delay RMDs until deceased spouse would have reached RMD age	<ul style="list-style-type: none">• If deceased spouse already reached age 73,* RMDs must begin in year following date of death• Larger RMDs• RMDs required from inherited Roth IRA

*For individuals born before July 1, 1949, RMDs must begin at age 70½. For individuals born on or between July 1, 1949, and December 31, 1950, RMDs must begin at age 72. For individuals born on or between January 1, 1950, and December 31, 1959, RMDs must begin at age 73. For individuals born on or after January 1, 1960, RMDs must begin at age 75.

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