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Multiple Options for Spouse Beneficiary

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I have a client (I will call him Ed) whose spouse (I will call her Sue) died last year; its been understandably difficult for him. However, after a reasonable time has passed, it is my responsibility as Ed's financial advisor to discuss his choices concerning Sue's IRA. Since she named him as primary beneficiary on her IRA beneficiary form, Ed has multiple options and which one he chooses will depend on his personal needs and financial situation.

One option is to do a rollover/direct transfer to his own IRA. Sue's IRA would become his own IRA and treated as if it always had been. Ed then goes from beneficiary to owner and therefore, will follow the normal IRS rules for IRAs.

A second option would be to treat Sue's IRA as if it was his own. This would involve changing the name and social security number on her IRA to his own. However, Ed must be the sole primary beneficiary on Sue's IRA. If he is not, her IRA can be split into multiple IRAs, one for each primary beneficiary. This would make Ed the sole primary beneficiary on just one of the IRAs. Ed could then treat that IRA as if it were his own. He would then have two separate IRAs: his original IRA and the newly created one from Sue. The normal IRS rules for IRAs would then apply.

A third option for Ed would be to remain a beneficiary and reclassify the account as an

inherited IRA. As the spouse, he has multiple options for withdrawing funds. If he needs the money, he could begin withdrawing the funds once the IRA is reclassified. A non-spouse beneficiary is subject to required minimum distributions (RMD) and would be required to begin withdrawals the year after Sue's death. Even though Ed chooses to withdraw funds immediately after inheriting Sue's IRA, he is not required to do so until he turns 70 ½ years old or when Sue would have turned 70 ½ years old, whichever is later. Whether a spouse or a non-spouse beneficiary, withdrawals are not subject to the 10% early withdrawal penalty but are subject to ordinary income taxes (if the IRA was not a Roth IRA). If

after a few years Ed no longer needs the money, he could change his option mid-stream and do a rollover/direct transfer and make it his own IRA. The normal IRS rules for withdrawing IRA funds would once again apply.

Whether Ed chooses the first, second, or third option, he should name both a primary and secondary beneficiary on the IRA beneficiary form.

There are many nuances to IRAs and inherited IRAs. Don't blindly make a choice without knowing the possibilities. Choose the one that fits your personal needs and financial situation. Contact your financial advisor to discuss your options.