Pittenger & Anderson, Inc.
REGISTERED INVESTMENT ADVISOR

The P&A Blog
September 11, 2018

What to know when inheriting an IRA

In addition to dealing with the emotional aspects of losing a loved one, there are financial elements to consider as well. Inheriting an IRA can be a relatively straightforward process or it can become more complicated. If you are the beneficiary of an IRA of someone who has recently passed away, here are a few key points to understand:

1. **Your distribution options depend on your relationship to the deceased:**
    a. If your spouse passed away and you are the only beneficiary of their IRA account, you can transfer their IRA assets into your own IRA account (existing or new) and treat these monies as your own going forward. Other options include: opening an Inherited IRA and taking required distributions over your life expectancy, taking a lump sum distribution, or depleting the account within five years of the deceased's passing (if deceased was younger than 70 ½).
    b. If someone other than your spouse passed away, you may not add his or her IRA assets to your own IRA account. You must open an Inherited IRA and choose from one of three distribution options: over your own life expectancy, via a lump sum distribution, or by depleting the account within five years of the date of death (if deceased was younger than 70 ½). Distributions from an Inherited IRA must begin by 12/31 of the year following the deceased's passing.
2. **Your distribution options depend on the age of the deceased:**
    a. As we highlighted above, if you inherit an IRA, you are able to deplete the account within five years if the deceased was younger than 70 ½ years of age. The five-year method is not available if the deceased was over 70 ½ years of age.
    b. If the deceased was over the age of 70 ½ and had not taken their required minimum distribution (RMD) for the current year, the beneficiary or beneficiaries will need to take the required amount as a distribution before setting up an Inherited IRA or transferring the assets to their own IRA.
3. **Things can get complicated if there are multiple beneficiaries or if a trust or charity is listed as an IRA beneficiary:**
    a. Some trusts are non-person beneficiaries, which do not allow trust beneficiaries to take distributions over their own life expectancy. If a trust is written as a see-through trust, however, the trust beneficiary will be treated as a direct beneficiary of the IRA and will be able to stretch the distributions over their own life expectancy.
    b. In general, IRA distributions go more smoothly when the IRA beneficiaries are individuals rather than a trust, estate, or charity. The exception would be if the sole beneficiary of an IRA were a charitable organization. Mixing individual beneficiaries with charitable beneficiaries limits the distribution options available for the individual and typically does not allow the individual to stretch the IRA over their own life expectancy.

As you can see, there are many nuances when it comes to inheriting an IRA and taking distributions. We have the expertise to help you navigate these nuances and analyze your options.

To view this article and others like it online, visit the P&A blog at https://pittand.com/blog/.