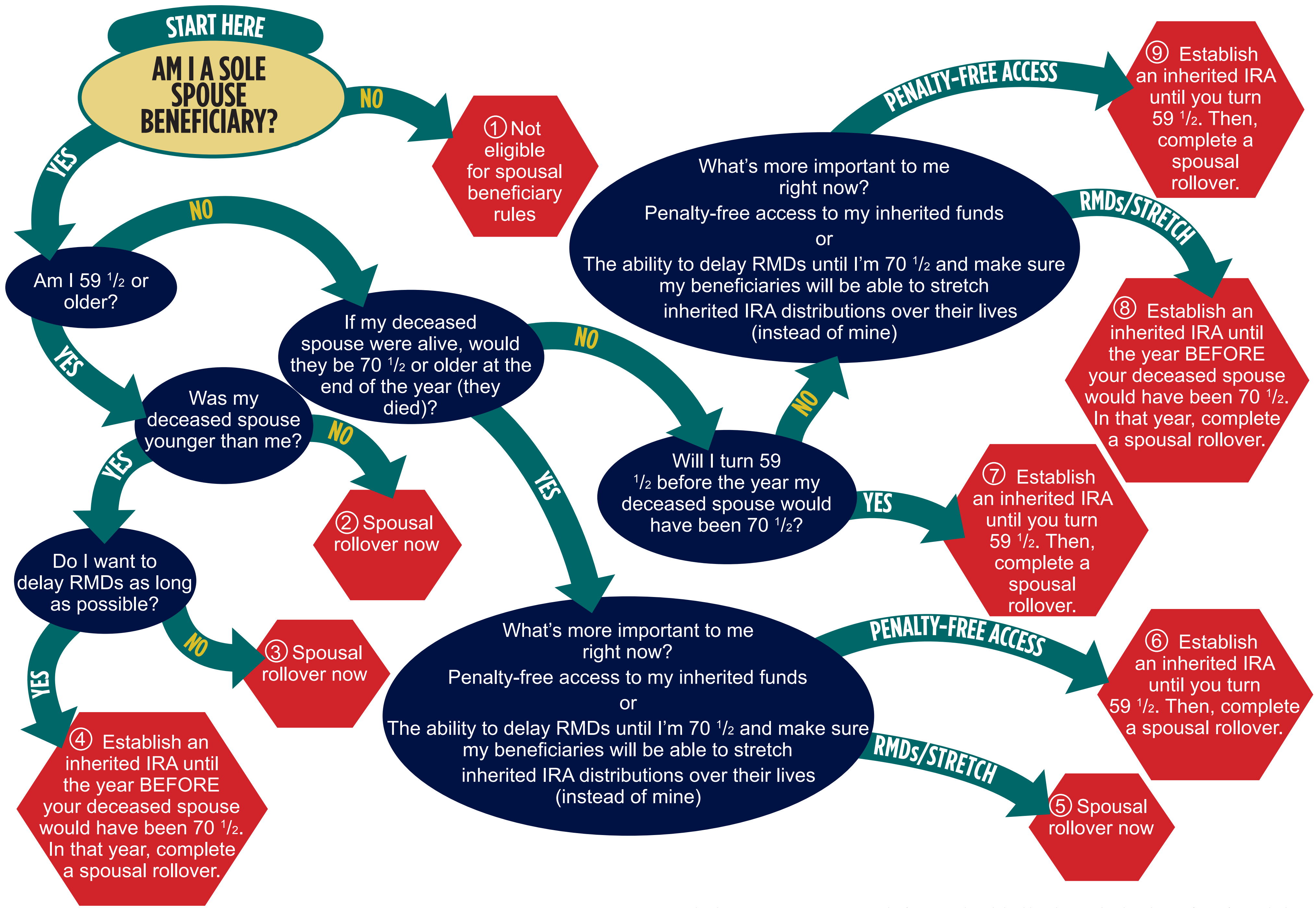
The Spousal IRA Beneficiary Decision Tree



See back side for step-by-step guide. ***Note:*** *This decision tree is meant as a general reference guide and should not be considered a substitute for professional advice. Individual's inheriting an IRA from a spouse are strongly encouraged to consult with a knowledgeable financial advisor and/or tax professional for personalized guidance.*

Planning for Spousal Beneficiaries: A Step-By-Step Guide

Sole Spouse Beneficiaries Have Three Options

1) Spousal rollover
2) Elect-to-treat-as-own
3) Remain a beneficiary

There are several special rules for spouses who choose to remain a beneficiary
- They can recalculate their life expectancy each year using the Single Life Expectancy Table
- There are no RMDs for the inherited IRA if the deceased spouse would not yet be 70½
- If the "surviving spouse" dies before the original deceased spouse would have been 70½, then the surviving spouse's own beneficiaries can use their ages to calculate RMDs after they inherit

Age is the Driving Factor Behind Most Spousal Beneficiary Decisions

Surviving Spouse is Under 59½	Surviving Spouse is 59½ or Older
Typical Planning Strategy: Remain a beneficiary until surviving spouse reaches 59½, then execute a spousal rollover	**Typical Planning Strategy:** Execute a spousal rollover (this can be done immediately)
Most common exception to typical planning strategy: Deceased spouse was/would have been over 70½ and surviving spouse does not think they will need to access inherited IRA funds prior to their age 59½	**Most common exception to typical planning strategy:** Surviving spouse is older than the deceased spouse (who was not/would not yet be 70½) and the surviving spouse wants to delay RMDs for as long as possible

Spousal Rollover Decision Tree

The decision of what to do as a surviving spouse is far more complicated than it might seem at first. This **"Spousal IRA Beneficiary Decision Tree"** will help you make the right decisions. Each green leaf asks a question. Answering the question via the options in the brown arrows will either lead you to another green leaf question, or to an orange leaf "result." Once you reach your result, you'll know what to do in order to maximize tax efficiencies while working within the confines of your most important objectives (i.e. penalty-free access to funds or more favorable RMD rules).

The following text provides some brief context for each result, as well as a synopsis of the major advantages and/or disadvantages of the approach.

Note: Due to the rarity of the decision to elect to treat a deceased spouse's IRA as one's own IRA, and it's similar tax impact to a spousal rollover, the Spousal IRA Decision Tree only contemplates remaining a beneficiary and executing a spousal rollover.

RESULT #1: This one's simple. If you are not a sole spouse beneficiary, you can't use the special spousal beneficiary rules. Remember though, even if you are named on your spouse's IRA beneficiary form along with other non-spouse beneficiaries, by timely cashing out the other beneficiaries and/or timely splitting out the account, you can still use the special spousal beneficiary rules.

- Major benefits - None
- Major drawbacks – You will be treated like a non-spouse beneficiary and will not be able to take advantage of the special rules available only to sole spouse beneficiaries

RESULT #2: If you are already over 59½ and your deceased spouse was older than you are, a spousal rollover is almost certainly the best option.

- Major benefits – No RMDs until you are 70½, your beneficiaries get to use their own age to calculate RMDs when they inherit.
- Major drawbacks – None

RESULT #3: If you are over 59½ and your deceased spouse was younger than you, and you know that you will need to take distributions from the account need to take distributions from the account anyway, you might as well execute a spousal rollover now.

- Major benefits – No RMDs until you are 70½, your beneficiaries get to use their own age to calculate RMDs when they inherit, simplicity.
- Major drawbacks – RMDs could have been delayed longer.

RESULT #4: If you are already over 59½ and your deceased spouse was younger than you, then you can delay RMDs beyond your own age 70½ (and until your deceased spouse would have been 70½) by establishing an inherited IRA.
In the year before your deceased spouse would have been 70½, you should execute a spousal rollover so that the following year you calculate RMDs as an owner, rather than as a beneficiary (which would be larger).

- Major benefits – No RMDs until your younger, deceased spouse would have been 70½, your beneficiaries always get to use their own age to calculate RMDs when they inherit.
- Major drawbacks – More complexity. If you don't remember to execute a spousal rollover by the year before your deceased spouse would have been 70½ then you will have larger RMDs than you would as an owner, and if you die, your beneficiaries would be stuck using your age to calculate RMDs.

Note: You can always do a rollover at any time to have the benefits in future years.

RESULT #5: You have to make a choice as to what's more important to you; penalty-free access to inherited IRA funds, or the ability to avoid RMDs and secure the stretch IRA for your beneficiaries using their own life expectancies.

- Major benefits – No RMDs until you are 70½, your beneficiaries can use their own life expectancies to calculate RMDs.
- Major drawbacks – Distributions prior to 59½ will generally be subject to a 10% penalty.

RESULT #6: This scenario is similar to Result #5, except here, you decide that penalty-free access to your inherited funds is the most important factor. A spousal rollover should, however, be made when you turn age 59½.

- Major benefits – Penalty-free access to inherited funds at any time, simplicity.
- Major drawbacks – You will have RMDs from the inherited IRA, and if you die, your beneficiaries would be stuck using your age to calculate RMDs.

RESULT #7: Here, you are under 59½, but will turn 59½ before your deceased spouse would have been 70½. Therefore, the logical choice is to establish an inherited IRA until you turn 59½. At that time, a spousal rollover should be executed.

- Major benefits – Penalty-free access to inherited funds at any time, no RMDs until you are 70½, your beneficiaries get to use their own age to calculate RMDs when they inherit.
- Major drawbacks – Complexity.

RESULT #8: In this situation, you have inherited an IRA prior to 59½. For the time being, your deceased spouse would have been younger than 70½, but they would have turned 70½ before you reach 59½. Thus, until your deceased spouse would have been 70½, there's no reason not to set up a properly titled inherited IRA. It is only at that time that a true choice has to be made.

- Major benefits – Penalty-free access to inherited funds until your deceased spouse would have been 70½, then again once you turn 59½, no RMDs until you are 70½, your beneficiaries get to use their own age to calculate RMDs when they inherit.
- Major drawbacks – Complexity, the 10% penalty will apply to distributions taken between the time your deceased spouse would have been 70½ and you turn 59½.

RESULT #9: Here, you have inherited an IRA prior to 59½. For the time being, your deceased spouse would have been younger than 70½, but you will turn 59½ after your deceased spouse would have been 70½. Thus, until your deceased spouse would have been 70½, there's no reason not to set up a properly titled inherited IRA when penalty-free access is important to you. It is only at that time that a true choice has to be made.

- Major benefits – Penalty-free access to inherited funds at any time.
- Major drawbacks – From the time your deceased spouse would have been 70½, and until you turn 59½, you will be subject to RMDs, and should you die during that time, you beneficiaries would be stuck using your life expectancy.

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