

The IRA Authority

IRA & Employer Plan Rules, News, and Tips In Plain Language

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IRA Calendar

September 30:

- *Deadline by which certain beneficiaries of inherited IRAs must be removed, if the IRA owner died last-year and the IRA has multiple beneficiaries. This includes non-person beneficiaries such as charities, and beneficiaries who will be disclaiming or taking a full distribution of their share of the inherited IRA. Removing these beneficiaries could help to ensure that the remaining beneficiaries will be able to stretch distributions over their own life expectancies.*

October 15:

- *Deadline to complete recharacterization of a 2009 Roth conversion or contribution. A recharacterization results in the conversion being treated as if it never occurred for tax purposes.*
- *Deadline to remove 2009 IRA Excess Contributions. 2009 IRA excess contributions that are not removed by this deadline are subject to a 6-% excise tax, which will continue to apply for each subsequent year it remains in the IRA. Missing the deadline could also result in the amount being subject to double taxation. ■*

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Beneficiary Tips & Deadlines

One of the most important benefits available to beneficiaries of retirement accounts, is the ability to take advantage of the option to stretch distributions over their life-expectancies. However, this benefit can be lost if the proper steps are not taken. In this issue, we review some of the rules that could affect the distribution options that apply to beneficiary IRAs.

Making Sure The Stretch Is an Option

While the stretch is allowed under IRA governing rules and regulations, it is not mandatory for a custodian to allow it under its IRAs. As such, IRA agreements should be carefully reviewed to determine if the stretch is available. This determination is made by reviewing the language that applies to the beneficiary. Examples include:

- **Beneficiary distribution options:** Check to see if beneficiaries are allowed to distribute the inherited amount over their life expectancies (the stretch option). Some IRA agreements may require that the assets are distributed within one year after the IRA owner's death or within 5- years if the IRA owner dies before requirement minimum distributions (RMD) begins.
- **Beneficiary Rights:** Check to see if the agreement assigns the same rights to the beneficiary, as those that apply to the IRA owner. If such is the case, each beneficiary would be able to name a successor beneficiary. This is important for the stretch, as it would allow the first generation beneficiary to name a successor beneficiary; and, in the event the first generation beneficiary dies before his life-expectancy expires, the successor beneficiary would be able to continue stretching distributions over the life expectancy that apply to the first generation beneficiary.
- **Default provisions:** The default provisions of some IRA agreements can negate the stretch option, even if it is allowed under the terms of the agreement. For instance, the document could provide that if the IRA owner dies before RMDs are required to begin, then the five-year rule¹ applies unless

¹ Under the five-year rule, distributions are optional until December 31 of the 5th year that follows the year in which the IRA owner dies, at which time the IRA must be fully distributed.