Beneficiary Payment Options for Roth IRAs

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INTRODUCTION

This booklet is intended for use by a beneficiary after the death of a Roth IRA owner.

We hope you find it helpful in making a decision about how to receive your funds from this IRA.

The information in this booklet is not intended as tax advice. For guidance regarding payment decisions, consult a tax professional or financial planner.

FREQUENTLY ASKED QUESTIONS

Are payments from this IRA subject to income tax?

A distribution from a Roth IRA after the IRA owner's death is not subject to income tax if the distribution is made more than five years after January 1 of the first year for which the owner made a contribution to a Roth IRA. For example, if the first Roth IRA contribution made by the owner was a regular contribution for 2008, then any distribution after the owner's death that is made in 2013 or later is tax-free. This is true even if the owner made the 2008 contribution in 2009. If the first Roth IRA contribution made by the owner was an IRA conversion contribution or a QRP conversion contribution, then the five-year period began on January 1 of the year in which the conversion contribution was made.

Can you tell me when the owner made the first Roth IRA contribution?

Contact the credit union IRA representative to learn when the owner made the first Roth IRA contribution at the credit union. The owner might have made an earlier Roth IRA contribution at another financial institution, but the credit union does not have this information. This information might be available in the owner's tax records.

If the owner made the first Roth IRA contribution less than five years ago, does this mean that I have to pay tax on the distributions?

There are several ways for someone in this situation to avoid paying income tax on the distributions.

First, the owner’s surviving spouse can directly transfer the funds to the spouse’s own Roth IRA (see “Transfer to Surviving Spouse’s IRA” later in this booklet) and then wait until the requirements are met to receive qualified distributions from the spouse’s own Roth IRA. Second, anyone can wait until after the end of the five-year waiting period to receive distributions (see “Payments over Five Years” later in this booklet). Third, you can request periodic payments over a life expectancy or another long time period shorter than a life expectancy. This method usually avoids income taxes because distributions are treated as the tax-free return of the owner’s contributions until all the contributions have been distributed. When distributions are made over a life expectancy or another long time period, the distributions made within the five-year waiting period seldom exceed the owner’s contributions.

Why am I required to receive payments?
IRA beneficiaries must receive required minimum distributions (RMDs) under the IRS regulations that control the taxation of IRAs.

Why are there so many payment options?
Our policy is to offer you many payment options, which allows you to select the best option for your situation.

May I transfer the funds to my primary financial institution?
Yes. For more information, see “Transfer to IRA in Deceased Owner’s Name” later in this booklet.

Does the IRA continue to earn dividends or interest after I begin receiving payments?
For questions related to earnings and investments, contact the credit union IRA representative.

May I change the investments within the IRA after I begin receiving payments?

For questions related to earnings and investments, contact the credit union IRA representative.

May I designate my own beneficiaries to receive the funds if I die before receiving all of my payments?

Yes. Tell the credit union IRA representative that you want to complete a Roth IRA Beneficiary Designation/Change form for this IRA.

Does my beneficiary designation affect the payment options available to me?

No.

How does this IRA fit into my own estate plan?

If you die before you receive all your funds from this IRA, the credit union will distribute your remaining funds to the beneficiaries you have named. Your beneficiaries will have the option of receiving these funds over the remainder of the payment period you select. This is why it is important for you to designate beneficiaries.

Whom can I contact for more information about choosing a payment option?

For advice regarding your payments, contact a tax advisor or professional financial planner. If you have any other questions, or want to know whether the credit union offers professional financial planning services, contact the credit union IRA representative.

PAYMENT OPTIONS

All payment options are described in this section, but only the payment options available to you under the tax laws are provided on the enclosed **Beneficiary Payment Election (Form 2321).**

Lump Sum Payment

You can receive all of your funds in a single lump sum payment. Before electing this option, consider the tax consequences of receiving this amount of taxable income in one year. **(Option 1)**

You may elect to receive all the funds immediately **(1 a)**, or you may delay the payment as late as the date indicated **(1 b)**.

Direct Transfer

- **Transfer to Surviving Spouse's IRA (Option 2)**

If you are the spouse of the deceased IRA owner, you can directly transfer all or part of the IRA funds to a Roth IRA in your name. Non-spouse and non-human beneficiaries do not have this option.

If you make this direct transfer after the year in which the owner died, and you are age 70½ or older, then you will have a post 70½ RMD based on the amount transferred in the year in which the transfer occurs.

You may elect to transfer the funds immediately **(Option 2 a)**, or you may delay the transfer as late as the date indicated **(Option 2 b)**.

- **Transfer to IRA in Deceased Owner's Name (Option 3)**

Any beneficiary can directly transfer the IRA funds to a Roth IRA established in the name of the deceased owner for your benefit at a financial institution of choice. Confirm that the other financial institution will accept this type of direct transfer before you start the transaction.

The receiving IRA is subject to the same required minimum distribution (RMD) rule as the deceased owner's IRA. You cannot make contributions to the receiving IRA, and you cannot use a rollover to move the funds to the receiving IRA.

You can make the transfer before or after you start receiving payments. We recommend that you receive the RMD for the current year (if any) before starting the transfer. If you do not, you will have to receive the RMD from the receiving IRA, or from another IRA originally established by the deceased owner.

Periodic Payments

- **Payments Over Five Years (Option 4 b)**

You can receive one or more payments that result in all of the funds being distributed to you by December 31 of the fifth year after the owner's death.

- **Payments Over a Term (Option 4 c)**

Any beneficiary may elect payments over any number of years that does not exceed life expectancy. The life expectancy in question is dependent upon the beneficiary's relationship to the deceased IRA owner:

- **Spouse or Non-Spouse Beneficiary** – must select a number of years less than your own life expectancy or that of the designated beneficiary (whichever is applicable)
- **Qualified Trust Beneficiary –** must select a number of years less than the life expectancy of the oldest primary beneficiary named in the trust

- o **Non-Qualified Trust, Estate, or Organization Beneficiary** – must select a number of years less than the life expectancy of the deceased IRA owner

The first year's payment must be received by December 31 of the year after the IRA owner's death.

• **Specific Amount Payments (Option 4 g)**
You can elect payments of a specific dollar amount per payment (or the RMD, whichever is greater). If the specific amount indicated does not meet the RMD (required minimum distribution) for the year, the payment amount will be increased to meet the RMD.

The first year's payment must be received by December 31 of the year after the owner's death.

Life Expectancy Periodic Payments

• **Spouse Beneficiary (Option 4 d)**
If you are the deceased owner's spouse, you can receive payments over **your** life expectancy based on your age in the year in which the payments are made. The first year's payment must be made by the later of the following dates:

- o December 31 of the year after the IRA owner's death, or
- o December 31 of the year the IRA owner would have attained age 70½

A qualified trust **for the sole benefit of the surviving spouse** during the spouse's lifetime has the same option of receiving payments over the life expectancy of the surviving spouse.

- **Non-Spouse Beneficiary (Option 4 f)**

If you are not the spouse of the deceased owner, you can receive periodic payments over **your** life expectancy. The payments in the first year are based on your life expectancy in that year. The payments in subsequent years are based on your life expectancy in the first payment year, reduced by one each year thereafter.

The first year's payment must be made by December 31 of the year after the owner's death.

- **Non-Human Beneficiary**

A non-human beneficiary is a trust, an estate, or an organization.

  - **Qualified Trust Beneficiary (Option 4 e)**
    A qualified trust can receive periodic payments over the life expectancy of the oldest primary beneficiary named in the trust.

    The first year's payment must be made by December 31 of the year after the owner's death.

  - **Non-Qualified Trust Beneficiary (Option 4 a)**
    A non-qualified trust may take periodic payments over the life expectancy of the deceased IRA owner. The payments in the first year are based on the deceased owner's life expectancy in the year of death, reduced by one. The payments in subsequent years are based on reducing the payment period by one each year thereafter.

    The first year's payment must be made by December 31 of the year after the owner's death.

- **Estate Beneficiary (Option 4 a)**
  An estate may take periodic payments over the life expectancy of the deceased IRA owner. The payments in the first year are based on the deceased owner’s life expectancy in the year of death, reduced by one. The payments in subsequent years are based on reducing the payment period by one each year thereafter.

  The first year’s payment must be made by December 31 of the year after the owner’s death.

- **Organization Beneficiary (Option 4 a)**
  An organization may take periodic payments over the life expectancy of the deceased IRA owner. The payments in the first year are based on the deceased owner’s life expectancy in the year of death, reduced by one. The payments in subsequent years are based on reducing the payment period by one each year thereafter.

  The first year’s payment must be made by December 31 of the year after the owner’s death.

Other

- **Beneficiary Responsible (Option 5)**

Any beneficiary may select this option and assume responsibility for determining and withdrawing the required minimum distribution (RMD) amount that you must receive each year from an IRA originally set up by the deceased owner.

PAYMENT FLEXIBILITY

Payment Frequency

You can elect to receive periodic payments in monthly, quarterly, semi-annual, or annual installments.

Additional Withdrawals

You can make withdrawals in addition to the scheduled periodic payments. Tell the credit union IRA representative you would like to complete a Roth IRA Withdrawal Instruction form for this IRA in order to make additional withdrawals.

Changes in Payments

If you initially select payments over a life expectancy, you can later change to payments over a shorter time period. If you initially select payments over a time period that is less than a life expectancy, you can later change to payments over a life expectancy. In either case, contact the credit union IRA representative to make the change.

WITHHOLDING ELECTIONS

Federal Withholding

We are required by law to withhold 10% from your payments to prepay your federal taxes unless you elect the “Do not withhold federal income tax from my payment(s)” withholding option.

State Withholding

State withholding may also apply to your payments, depending on the state in which you live.

Changes in Withholding

To change your withholding election in the future, contact the credit union IRA representative.

Not intended as tax advice. Please consult a tax professional.

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