



**BENEFICIARY  
PAYMENT  
OPTIONS  
FOR  
ROTH  
IRAS**

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# INTRODUCTION

We extend our sincere condolences for your recent loss. We hope this booklet will provide you with information you will find helpful in selecting how you want to receive your funds from the deceased owner's credit union individual retirement account (IRA).

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

## QUESTIONS AND ANSWERS

**Are payments from this IRA subject to income tax?**

A distribution from a Roth IRA after the original 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 2005, then any distribution after the owner's death that is made in 2010 or later is tax-free. This is true even if the owner made the 2005 contribution in 2006. If the first Roth IRA contribution made by the owner was an IRA conversion contribution, then the five-year period began on January 1 of the year in which the IRA 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 may have made an earlier Roth IRA contribution at another financial institution, but the credit union does not have this information. This information may 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" on page 6) 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" on page 6). Third, you can request periodic payments over a life expectancy or another long time period shorter than a life expectancy (see pages 8 and 9). 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" on page 7.

### **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 taking 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?**

Contact your tax advisor or professional financial planner for advice regarding your payments. Contact the credit union IRA representative if you have any other questions, and see if the credit union offers professional financial planning services.

# **PAYMENT OPTIONS**

## **Lump Sum**

You can receive all of your funds in a single lump-sum payment. Before doing this, you should consider the tax issues discussed on pages 3 and 4.

## **Payments over Five Years**

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

## **Transfer to Surviving Spouse's IRA**

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. Other beneficiaries (including a trust for the benefit of the spouse) do not have this option.

## **Transfer to IRA in Deceased Owner's Name**

If you want to move the IRA funds to a financial institution of your choice, you can directly transfer the funds to a Roth IRA established in the deceased owner's name for your benefit. Make sure 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) rules as the deceased owner's IRA. You cannot make contributions to the receiving IRA, and you cannot use a rollover to move the funds.

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 don't, you will need to receive this RMD from the receiving IRA or from another IRA originally set up by the deceased owner.

To make such a direct transfer, contact the credit union IRA representative.

## **Periodic Payments to Surviving Spouse**

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:

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

You can also receive periodic payments over any shorter time period you specify.

A qualified trust for the sole benefit of the surviving spouse during the spouse's lifetime has these same options. The trustee must complete a Qualified Trust Certification form to obtain these options. To obtain this form, contact the credit union.

## **Periodic Payments to Other Beneficiaries**

If you are not the deceased owner's surviving spouse, you can receive periodic payments over your life expectancy.

The first year's payment must be made by December 31 of the year after the owner's death. The payments in the first year are based on your life expectancy in that year. The payments in later years are based on your life expectancy in the first year, reduced by one year for each subsequent year.

You can also receive periodic payments over any shorter time period you specify.

A qualified trust has these same options based on the life expectancy of the oldest primary beneficiary. The trustee must complete a Qualified Trust Certification form to obtain these options. To obtain this form, contact the credit union.

## **Periodic Payments to Estate, Nonqualified Trust, or Organization**

The deceased owner's estate, a trust that is not a qualified trust, or an organization can receive payments over the deceased owner's life expectancy.

The first payment must be made by December 31 of the year after the owner's death. The payments in the first year are based on the owner's life expectancy in the year of death, reduced by one. The payments in later years are based on reducing the payment period by one year for each subsequent year.

Receiving periodic payments over a shorter time period is another available option.

# **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 generally required by law to withhold 10% from your payments to prepay your federal taxes unless you provide a written election to not withhold. You do this by selecting the no withholding option on the benefit selection letter or form. However, we are not required to withhold on a distribution if we know that it will be made after the end of the five-year waiting period discussed on page 3.

## **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.*