

**BENEFICIARY
PAYMENT
OPTIONS
FOR
TRADITIONAL
IRAs
(POST-71½ OWNER)**

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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 when a traditional IRA owner dies on or after April 1 of the year the owner reached or would have reached age 71½.

QUESTIONS AND ANSWERS

Are payments from this IRA subject to income tax?

Yes. All or part of the funds you receive from this IRA is subject to income tax. A portion of the funds may be exempt from tax if the deceased owner made nondeductible contributions to the IRA or transferred previously taxed funds from a qualified retirement plan to the IRA.

Will you tell me how much of my distribution will be taxable income?

In January of the year after the distribution, we will send you a Form 1099-R that tells you how much money we distributed to you in the previous year. However, we are not able to tell you how much of the money is subject to income tax because we do not have this information. You can get this information only from the deceased owner's tax records.

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 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 Traditional 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

Year of Death RMD

The tax laws required the deceased IRA owner to receive a minimum distribution for this IRA for the year in which the death occurred. This tax law requirement is called the post-70½ required minimum distribution (or post-70½ RMD for short). If the deceased owner did not receive all of the post-70½ RMD, then the beneficiary or beneficiaries must receive the remaining portion of this RMD prior to December 31 of the year in which the death occurred. The credit union can tell you the year-of-death RMD of this IRA and the amount that was distributed to the owner during the year. The owner could have received distributions from other traditional IRAs that applied toward meeting this RMD, and you would have to get this information from the owner's records.

Lump Sum

You can receive all of your funds in a single lump-sum payment. Before doing this, you should consider the tax consequences of receiving this amount of taxable income in one year.

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 traditional IRA in your name. Other beneficiaries (including a trust for the benefit of the spouse) do not have this option. If you make this direct transfer after the year in which the owner died and you are 70½ or older, then you will have a post-70½ RMD based on the amount transferred.

Tip: If you are the owner's spouse and you are under age 59^{1/2}, you should consider leaving the funds in the deceased owner's IRA until you reach age 59^{1/2}. Doing so allows you to withdraw funds from the deceased owner's IRA without having to pay the 10% early distribution tax. This tax would generally be imposed on withdrawals taken from your own IRA before you reach age 59^{1/2}. The disadvantage of leaving the funds in the deceased owner's IRA is that you are required to receive the death benefit RMD each year while the funds remain in that account; whereas if you were to transfer the money into your own IRA, you would not have required distributions until you reached age 70^{1/2}.

**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 traditional 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 choose payments over:

- Your own life expectancy in the year in which the payment is made.
- The owner's life expectancy. 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.
- Any time period you select that is shorter than the longer of the above life expectancies.

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

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 own life expectancy. The payments in the first year are based on your own 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.
- The owner's life expectancy. 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.
- Any time period you select that is shorter than the longer of the above life expectancies.

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

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 Traditional 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 provide a written election to not withhold. You do this by selecting the no withholding option on the benefit selection letter or form.

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.