

Inheriting an Inherited IRA



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What are the rules when you inherit an inherited IRA? We get this question frequently. Let's consider what happens when using designated beneficiaries.

Jim dies and names Mike as his beneficiary on the beneficiary form. Five years later Mike dies and has named Phyllis, who is a successor beneficiary, on the beneficiary form.

Titling

The IRS has some complicated rules for titling inherited IRAs when there are successor beneficiaries. IRS says the title should include the name of the original beneficiary and the successor beneficiary's name. That would mean that the IRA would now be titled something like this, "*Phyllis as the beneficiary of Mike.*" But that would make it look like Phyllis would be using her life expectancy to calculate the inherited RMDs. It may be better to include wording to indicate that Phyllis is the *successor* beneficiary since she is not the original beneficiary. The title would now look something like this, "*Jim, deceased, IRA f/b/o Phyllis, successor beneficiary of Mike.*"

Calculating RMDs

The RMD calculation cannot be reset when a successor beneficiary inherits an inherited IRA. They succeed to the original beneficiary's inherited IRA. Phyllis cannot use her own age to calculate RMDs on the IRA that originally belonged to Jim. When Mike inherited, his life expectancy factor was determined by the age he turned in the year after Jim's death. He finds this factor on the Single Life Expectancy Table. Let's say that Mike was 62 in the year after Jim's death. His life expectancy factor would be 23.5. That factor gets reduced by one each year until the inherited account is emptied, no matter who might later become a successor beneficiary of the inherited IRA.

When Phyllis inherits the IRA five years later, she simply picks up the life expectancy factor where Mike leaves off. He started at 23.5 so five years later the factor is down to 18.5. The RMD for the fifth year will be based on a factor of 18.5 whether Mike or Phyllis takes the RMD. Phyllis' factor for the sixth year will be 17.5 and she will continue to reduce the factor by one each year.

Phyllis should name her own beneficiary in case she dies before she empties the inherited IRA account.

Aggregating Inherited Accounts

A beneficiary can combine inherited IRA accounts that are inherited from the same individual as long as the RMDs are calculated using the same life expectancy factor.

Example: Jim left 50% of his IRA to Mike and 50% to Phyllis. Five years later Mike dies and leaves his IRA inherited from Jim to Phyllis. Phyllis cannot combine these inherited accounts even though they are both inherited from Jim. The IRA inherited by Mike is calculating RMDs based on Mike's life expectancy. The IRA inherited by Phyllis is using Phyllis' life expectancy. So, even though both accounts came from Jim, the RMD calculations are being done differently and the inherited accounts cannot be combined. Phyllis will have to keep two separate inherited IRAs.

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