

AVOIDING SPOUSAL BENEFICIARY MISTAKES IN 5 EASY STEPS



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Who is a spousal beneficiary?

A spousal beneficiary must be married to the account owner at the time of the account owner's death and he or she must be named on the beneficiary form (or inherit directly through the document default provisions). A spousal beneficiary has a number of unique options.

- #1 Split the inherited account if necessary.** A spousal beneficiary can take advantage of the special spousal rules if they are the sole beneficiary of an IRA account. If other beneficiaries have been named, the spouse can still take advantage of these special provisions by transferring their portion of the inherited IRA to a separate account by December 31 of the year following the year of the IRA owner's death.
- #2 Will a spousal beneficiary need money prior to 59 ½?** If a spousal beneficiary needs money from the IRA prior to age 59 ½, they will likely want to remain a beneficiary of the inherited account. Death is an exception to the 10% early distribution penalty, so by staying as a beneficiary they'll avoid paying the 10% penalty. The account should be retitled as a properly titled inherited IRA. A spouse that remains a beneficiary does not need to take RMDs from the account until the year the deceased spouse would have turned 70 ½.
- #3 Transfer the inherited IRA into a spousal beneficiary's account.** A spousal beneficiary should generally roll the inherited IRA into their own name. Once a younger spousal beneficiary reaches age 59 ½, there's no advantage to remaining a beneficiary, and a spousal rollover should be done. There is no deadline for this transaction. NO other beneficiary has this option. By doing this rollover, a surviving spouse ensures that their own beneficiaries will be able to stretch distributions over their own life expectancies.
- #4 Name new beneficiaries.** A surviving spouse should name their own beneficiaries. If no beneficiaries have been named and the surviving spouse dies, the remaining assets will pass according to the default provisions in the custodial document. This is frequently the estate of the now deceased spouse, which could eliminate the stretch option for beneficiaries or add unnecessary time and expenses by tying the assets up in probate.
- #5 Consider a disclaimer.** Before taking any action regarding an inherited IRA, a surviving spouse should evaluate whether a full or partial disclaimer would be advantageous. Using a disclaimer, some or all of the inherited IRA can be passed to contingent beneficiaries, potentially extending the stretch IRA and reducing the future impact of estate taxes.

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