Three Mistakes To Avoid *with*
INHERITED IRAs

financial fitness

By **Rocky Mills**, North Ranch Resident

Someone you love just passed away. It's an emotional time. But you still need to properly deal with an inheritance, which may include an IRA. This article will help you avoid costly mistakes. And, by all means, discuss these issues with your tax advisor.

Spousal vs. Non-Spousal As a spouse, you have special privileges when inheriting an IRA. In most circumstances, you'll just simply fold the IRA into yours – not too complicated.

The mistakes we see are for the non-spousal cases, such as when the IRA comes from your parents, aunts and uncles, sisters and brothers, or a friend.

Here are three common mistakes we see.

#1 Account Titling Non-spousal inherited IRAs can not be rolled into your IRA. They must be kept separate and titled properly. Unlike your own IRA, the title of an inherited IRA account needs to also show who you inherited it from. And it needs to include words like "inherited IRA," "beneficiary IRA" or "beneficiary" to reflect its inherited IRA status.

Are you TRENDWISE?

We know that even the best portfolios perform poorly when the stock market performs poorly. Remember the devastation on portfolios from the market crashes of 2000-02 and 2007-09?

The key is to be WISE about the stock market's TREND and proactively move to the sidelines when the market's trend turns negative.

How do you become TRENDWISE?

Read the free whitepaper at **WestlakeIA.com/Writings.**

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So, if Mary Smith left her IRA to her son, William, the account title could read:
Mary Smith (deceased 2-1-18) IRA, F/B/O William Smith, Beneficiary.
Or William Smith Inherited IRA, B/O Mary Smith (deceased 2-1-18).
F/B/O means "for benefit of." B/O means "beneficiary of."

#2 Not Taking a Distribution This is the most common mistake, especially when the inheritor is nowhere near retirement age. They likely assume that the funds don't have to be taken out of the IRA until they retire. Not so. And there's a 50% penalty for not taking out the right amount.

But you do have choices. And these choices have tax consequences. Remember, any distribution is fully taxable as income in the year(s) you take it. Unlike a personal account, you do not get the benefit of long-term capital gains treatment.

- Take it all out now.
- Cash out the entire IRA within 5 years. You can only do this if the IRA owner died before turning 70.5.
- Begin taking RMDs (Required Minimum Distributions):
  - If the IRA owner died before age 70.5, use your age to determine the right amount.
  - If the IRA owner died after age 70.5, use the younger of your age or IRA owner's age to determine the right amount.

#3 Investment Mismatch The investments that you inherit in the IRA were, of course, designed to benefit the original owner. Your needs will likely be very different, stemming from differences in age, income and expenses, other financial resources, and your risk appetite. Unfortunately, we see some clients reluctant to make changes because "uncle Bob was a genius and if he set it up this way, that's how I want to keep it."

The investments should reflect your needs and goals. And the good news is that making such changes inside the inherited IRA will not having any tax consequence.

For further information, go to www.IRS.gov and search on "Inherited IRA."

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