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There seems to be a fair bit of confusion as to how Individual Retirement Accounts (IRAs) are treated once the owner has died. Keep the following in mind as you determine who should receive your retirement accounts upon your death.

If your spouse inherits your retirement account he/she can roll or transfer it into his/her own IRA. Spouses are the only ones allowed to do so. All other beneficiaries should establish an Inherited IRA.

The tax treatment for individuals beneficiaries remain as they were while you were alive. So, if you have a Traditional IRA your spouse could transfer this into his own into his/her own Traditional IRA. Other individuals would transfer it into a Traditional Inherited IRA.

It is vital that people who set up an Inherited IRA not commingle money from your retirement accounts with that of anyone else. They cannot put the money into their own retirement account.

If you have a Roth IRA the beneficiaries would similarly transfer the money into an Inherited Roth IRA.

As of now, a beneficiary with an Inherited IRA they will have to take annual Required Minimum Distributions (RMDs) based on their life expectancy using a divisor from the IRS Single Life Table and the prior year-end IRA value, on a term-certain basis. . Term certain means that instead of using a new divisor from the table, one is subtracted from the original divisor in each subsequent year. Income tax, but not the IRS 10% additional tax for early or pre-59½ distributions (10% additional tax), will apply to taxable amounts when withdrawals are taken from the Traditional IRA you inherited.

The beneficiary will need to satisfy any RMD the deceased should have taken by December 31 of the year of death of the IRA owner.

Having your Estate listed as the IRA beneficiary may have consequences that could negatively affect your heirs as well as your overall estate plan. These consequences may include the following: being subject to probate, limited distribution options and tax implications. If you are not sure whom you have named as primary and contingent beneficiaries for your IRAs, employed sponsored retirement plans, annuities and life insurance policies I encourage you to check on this as soon as possible. Beneficiaries named in these documents take precedence over instructions in a will or trust. Also, remember to update your beneficiary designations on all IRAs, annuities, QRPs, and life insurance policies after major life events, such as a birth of a child or grandchild, a marriage or divorce, or the death of a beneficiary.

Good luck.

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Traditional IRA distributions are taxed as ordinary income. Qualified Roth IRA distributions are not subject to state and local taxation in most states. Qualified Roth IRA distributions are also federally tax-free provided a Roth account has been open for at least five years and the owner has reached age 59½ or meets other requirements. Both may be subject to a 10% Federal tax penalty if distributions are taken prior to age 59½. Any estate plan should be reviewed by an attorney who specializes in estate planning and is licensed to practice law in your state.

Wells Fargo Advisors Financial Network and SKV Group, LLC are not legal or tax advisors. You should consult with your attorney, accountant and/or estate planner before taking any action.

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