

Are you leaving your IRA to someone other than your spouse?

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An IRA can be a powerful wealth-building tool, offering tax-deferred growth (tax-free in the case of a Roth IRA), asset protection and other benefits. However, if you leave an IRA to your children — or to someone else other than your spouse — these benefits can be lost without careful planning.

“Inherited IRA” stretches tax benefits

Surviving spouses who inherit IRAs are permitted to roll them into their own IRAs, allowing the funds to continue growing tax-deferred or tax-free until they're withdrawn in retirement or after age 70½. Beneficiaries *other* than your spouse, such as your children, are treated differently.

To take full advantage of an IRA's tax benefits, nonspouse beneficiaries must transfer the funds directly into an “inherited IRA.” Although the beneficiaries will have to begin taking distributions by the end of the following year, they'll be able to stretch those distributions over their life expectancies, allowing earnings to grow tax-deferred or tax-free as long as possible.

Your children or other nonspouse beneficiaries won't have this option, however, unless you name them as beneficiaries (or secondary beneficiaries) of your IRA. If you leave an IRA to your estate, your children or other heirs will still receive a share of the IRA as beneficiaries of your estate, but they'll have to withdraw the funds within five years (or, if you die after age 70½, over what would otherwise be *your* remaining actuarial life expectancy).

If you name multiple nonspousal beneficiaries (several children, for example), they'll have to establish separate inherited IRA accounts by the end of the year after the year of your death to take distributions over their own life expectancies. If they miss the deadline, they'll have to use the *oldest* beneficiary's life expectancy.

Be aware that, unlike other IRAs, inherited IRAs aren't protected from creditors in bankruptcy.

Inherited IRA rules

The following special rules apply to an inherited IRA:

- The IRA must be a new IRA set up for the specific purpose of receiving the inherited account.
- The IRA must be specially titled in the deceased account owner's name.
- No other contributions may be made to the IRA.
- No other amounts may generally be rolled into or out of the IRA.
- Required minimum distributions will need to be made over the beneficiary's life expectancy starting the year after the IRA owner's death.

Please contact us if you have questions about how to address your IRA in your estate plan.

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