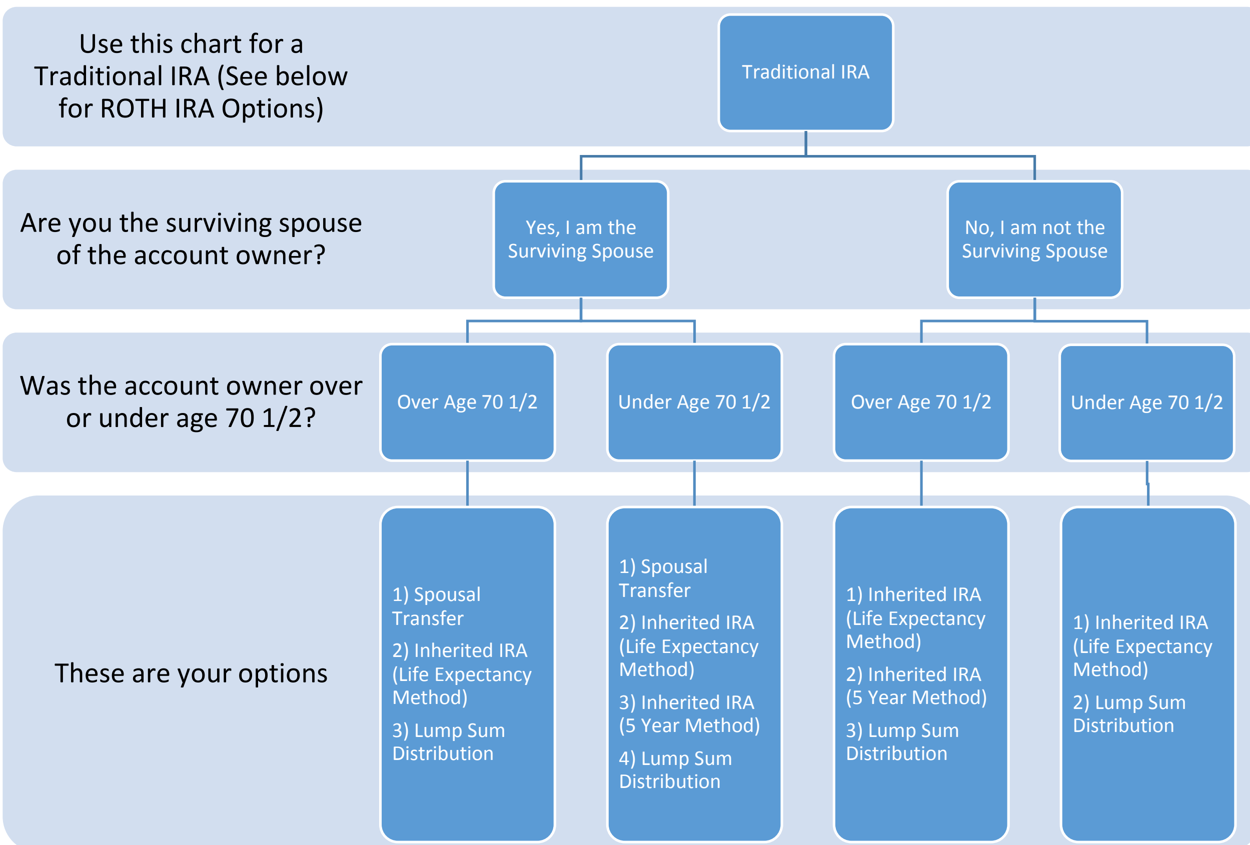
You've Inherited a Traditional IRA – Now What?

Inheriting assets in the form of an Individual Retirement Account (IRA) can be one of the most beneficial and flexible ways to inherit. If you've inherited an IRA, you may be wondering what your options are. The options available will depend on the type of IRA (Traditional or ROTH), whether the original account owner was your spouse, and, in the case of a Traditional IRA, whether the original account owner was over or under age 70 ½ at the time of his or her death.

If you've inherited a Traditional IRA, use the following chart to find out what options are available to you, and then read about those options below to learn more. If you've inherited a ROTH IRA, use the chart and information here to learn more. If you have questions about deciding on a form for your Inherited IRA, contact Mammel Law at 248-644-6326.



Traditional IRA Spousal Transfer

- A spousal transfer is available only to a surviving spouse and allows the surviving spouse to transfer the account owner's IRA assets into an existing or new Traditional IRA and **treat it as the spouse's own plan**. The money is available to the surviving spouse at any time, but the regular penalty will apply if the spouse takes a withdrawal prior to reaching

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age 59 1/2 as all of the **normal Traditional IRA distribution rules apply**. Similarly, if the account owner was over age 70 1/2 at death, the surviving spouse will need to take the **required minimum distribution (RMD) for the account owner's year of death**, if the RMD was not already taken. This option allows IRA assets to **continue growing tax-deferred**, but is only available to the spouse if he or she is the **sole beneficiary**. The **surviving spouse may name a new beneficiary on the account**, which includes the assets of the deceased account owner.

Inherited Traditional IRA (Life Expectancy Method)

- An inherited IRA allows you to transfer assets into an Inherited IRA in your own name, **spread the distributions over your own life expectancy** (as determined by IRS tables), avoid the 10% early withdrawal penalty, and **name your own account beneficiary**. If the account owner was under age 70 ½, and you are the surviving spouse, you **must begin taking the required minimum distributions** by December 31st of the year in which the account owner would have turned 70 ½. If the account owner was under age 70 ½ and you are not the surviving spouse, or if the account owner was over age 70 ½ regardless of whether you are the surviving spouse, you must begin taking the required minimum distributions by December 31st of the year following the account owner's death. The **distributions are taxable**, but any **undistributed assets continue to grow tax deferred**. If there are multiple beneficiaries, the life expectancy of the oldest beneficiary will be used to determine the RMDs for all beneficiaries, unless **separate accounts** are created for each beneficiary by December 31st of the year following the year of the account owner's death.

Inherited Traditional IRA (5 Year Method)

- An inherited IRA allows you to transfer assets into an Inherited IRA in your own name, **and fully distribute all of the assets** no later than December 31st of the **fifth year** after the year of the account owner's death. **Each distribution is taxable**, though the 10% early withdrawal penalty will not be incurred. The undistributed assets may continue to **grow tax deferred** during the five year period. You may **name your own account beneficiary**.

Traditional IRA Lump Sum Distribution

- A lump sum distribution makes all account funds available to the beneficiary **immediately**, and the **income taxes on the distribution are due all at once**. The 10% early withdrawal penalty will not be incurred. Depending on your current income and the total distribution amount, the distribution **may cause you to move into a higher tax bracket**.

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