

Beneficiary Payment Options

Beneficiary Payment Options for Roth IRAs

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INTRODUCTION

This booklet is intended for use by a beneficiary after the death of a Roth IRA owner.

We hope you find it helpful in making a decision about how to receive your assets from this IRA.

The information in this booklet is not intended as tax advice. For guidance regarding payment decisions, consult a competent tax professional or financial planner.

FREQUENTLY ASKED QUESTIONS

Are payments from this IRA subject to income tax?

All Roth IRA distributions after the IRA owner's death are tax-free if the distribution is made more than five years after January 1 of the first year for which the IRA owner made a contribution to a Roth IRA. For example, if the first Roth IRA contribution made by the IRA owner was a regular contribution for 2008, then any distribution after the IRA owner's death that is made in 2013 or later is tax-free. This is true even if the IRA owner made the 2008 contribution in 2009. If the first Roth IRA contribution made by the IRA owner was an IRA conversion contribution or a retirement plan rollover, then the five-year period began on January 1 of the year in which the conversion or retirement plan rollover was made.

Can you tell me when the IRA owner made the first Roth IRA contribution?

Contact the credit union IRA representative to learn when the IRA owner made the first Roth IRA contribution at the credit union. The IRA owner might have made an earlier Roth IRA contribution at another financial organization, but the credit union does not have this information. This information might be available in the IRA owner's tax records.

If the IRA owner made the first Roth IRA contribution less than five years ago, does this mean that I have to pay tax on the distributions?

Not necessarily. Because nonqualified distributions from a Roth IRA are subject to ordering rules, the assets distributed first may have already had tax paid on them. A competent tax advisor or financial planner can advise you on how these rules work and discuss strategies to help you avoid distributing taxable assets.

Why am I required to receive payments?

IRAs were created with the intent of helping individuals save for retirement, not to permanently shelter IRA assets from taxation. Therefore, IRS regulations that control the taxation of IRAs require beneficiaries to take annual life expectancy payments or to deplete the IRA of assets within a certain amount of time. Various payment options are available.

Why are there so many payment options?

Our policy is to offer you as many payment options as are available under the law, which allows you to select the best option for your situation.

May I transfer the assets to my primary financial organization?

Yes. For more information, see “Transfer to Inherited IRA” later in this booklet.

Does the IRA continue to earn dividends or interest after I begin receiving payments?

For questions related to earnings and investments, contact the credit union IRA representative.

May I change the investments within the IRA after I begin receiving payments?

For questions related to earnings and investments, contact the credit union IRA representative.

May I designate my own beneficiaries to receive the assets if I die before receiving all of my payments?

Please contact a credit union IRA representative to discuss your option to name a beneficiary for this inherited IRA.

Whom can I contact for more information about choosing a payment option?

For advice regarding your payments, contact a competent tax advisor or professional financial planner. If you have any other questions, or want to know whether the credit union offers professional financial planning services, contact the credit union IRA representative.

PAYMENT OPTIONS

All payment options are described in this section, but only the payment options available specifically to you (as a spouse, nonspouse, or nonperson beneficiary) are provided on the enclosed *Beneficiary Payment Election (Form 2321)*.

Lump-Sum Payment

You can receive all of your beneficiary assets in a single lump-sum payment (Option 1). Before electing this option, consider the tax consequences of receiving this amount of taxable income in one year.

You may elect to receive all the assets immediately (Option 1 a), or you may delay the payment as late as the date indicated (Option 1 b).

Transfer

Transfer to Surviving Spouse's IRA (Option 2)

If you are the spouse of the deceased IRA owner, you may directly transfer all or part of the IRA assets to a Roth IRA in your name. Nonspouse and nonperson beneficiaries do not have this option.

Transfer to Inherited IRA (Option 3)

If you are a spouse or nonspouse beneficiary, you may transfer the IRA assets to an inherited Roth IRA established in the name of the deceased IRA owner for your benefit at a financial organization of your choice. Confirm that the other financial organization will accept this type of direct transfer before you start the transaction.

The receiving IRA is subject to the same beneficiary distribution rules as the deceased owner's IRA. You cannot make contributions to the receiving IRA, and you cannot use a rollover to move the assets to the receiving IRA.

You can make the transfer before or after you start receiving beneficiary payments. We recommend that if it is the year after death or later, you take a payment for the current year (if required for that year) before starting the transfer. If you do not, you may have to take a payment from the receiving IRA or from another IRA originally established by the deceased IRA owner for which you are also a beneficiary.

Payments of a Predetermined Length or Amount

Payments Over Five Years (Option 4 b)

You can receive one or more distributions of any amount that result in all of the assets being distributed to you by December 31 of the fifth year after the IRA owner's death.

The only beneficiary distribution options available to a nonperson beneficiary (estate, nonqualified trust, or organization) are a lump-sum payment or payments over five years.

Payments Over a Term (Option 4 c)

A spouse, nonspouse, or qualified trust beneficiary may elect annual payments over any number of years that does not exceed the applicable life expectancy. The applicable life expectancy depends upon the beneficiary's relationship to the deceased IRA owner.

- **Spouse or Nonspouse Beneficiary** – You must select a number of years that is less than your own life expectancy or that of the oldest beneficiary (whichever is applicable).
- **Qualified Trust Beneficiary** – If all beneficiaries of the trust are persons, you may select a number of years that is less than the life expectancy of the oldest primary beneficiary of the trust. If a nonperson is among the trust beneficiaries, a lump-sum or payments over five years are the only beneficiary distribution options available.

For payments over a term, the first year's payment must be made by December 31 of the year following the year of the IRA owner's death.

Payments of a Specific Amount (Option 4 g)

A spouse, nonspouse, or qualified trust beneficiary may elect payments of a specific dollar amount per payment (or the calculated life expectancy payment for the year, whichever is greater). If the specific amount requested is less than the calculated life expectancy payment for the year, the requested payment amount will be increased to meet the required amount.

The first year's payment must be made by December 31 of the year following the year of the IRA owner's death.

Life Expectancy Payments

Spouse Beneficiary (Option 4 d)

If you are the deceased IRA owner's spouse, you can receive payments calculated using your life expectancy based on your age in the year in which the payments are made. The first year's payment must be made by the later of the following dates.

- December 31 of the year following the year of the IRA owner's death
- December 31 of the year the IRA owner would have attained age 70½

A qualified trust for the sole benefit of the surviving spouse during the spouse's lifetime has the same option of calculating payments using the life expectancy of the surviving spouse. The trustee for the trust must complete a *Qualified Trust Certification* form to request this option. To obtain this form, contact the credit union.

Nonspouse Beneficiary (Option 4 f)

If you are a nonspouse beneficiary, you may receive payments calculated using your life expectancy or that of the oldest beneficiary (whichever is applicable). The life expectancy payment for the first year is based on your (or the oldest beneficiary's) age in that year. The payments in subsequent years are calculated by reducing the life expectancy used in the preceding year by one. For example, if the life expectancy one year is 24.4, the life expectancy for the following year would be 23.4.

The first year's payment must be made by December 31 of the year following the year of the IRA owner's death.

Nonperson Beneficiary

A nonperson beneficiary often is a trust, an estate, or an organization. The only nonperson beneficiary that may use the life expectancy payment option is a qualified trust.

- **Qualified Trust Beneficiary (Option 4 e) –**
A qualified trust generally can receive payments over the life expectancy of the oldest primary beneficiary of the trust.

The first year's payment must be made by December 31 of the year following the year of the IRA owner's death.

Other

Beneficiary Responsible (Option 5)

Any beneficiary may select this option and assume responsibility for calculating and withdrawing the required amount each year from the inherited IRA.

PAYMENT FLEXIBILITY

Payment Frequency

You can elect to receive payments in monthly, quarterly, semi-annual, or annual installments.

Additional Withdrawals

You can make withdrawals in addition to the scheduled payments. Tell the credit union IRA representative you would like to complete a *Roth IRA Withdrawal Instruction* form for this IRA in order to make additional withdrawals.

Changes in Payments

If you initially select payments over the applicable life expectancy, you can later change to payments over a shorter time period. If you initially select payments over a shorter time period than the applicable life expectancy, you can later change to payments over that life expectancy. In either case, contact the credit union IRA representative to make the change.

WITHHOLDING ELECTIONS

Federal Withholding

If this is not a qualified distribution from the Roth IRA, we are required by law to withhold 10 percent from your payments to apply toward your federal taxes unless you elect the no withholding option or the option to withhold an amount larger than 10 percent.

State Withholding

State withholding also may apply to your payments, depending on the state in which you live.

Changes in Withholding

To change your withholding election in the future, contact the credit union IRA representative.

*This information is not intended as tax advice.
Please consult a tax professional.*