Inherited Individual Retirement Annuities

When your client inherits an Individual Retirement Annuity (IRA), they become a beneficiary. A beneficiary can be any person or entity the owner chooses to receive the benefits of the IRA after she or he dies. Any IRA distributions received by the beneficiary must be included in their gross income. Understanding the options as a beneficiary is extremely important as this can impact how much your client can receive and the tax consequences of the decisions they make.

Consider contacting a professional tax advisor to provide advice on the options.

Inherited From Spouse

The following are the options your client can choose if they are the surviving spouse inheriting an IRA:

- Treat the Inherited IRA as their own by designating themselves as the annuity owner
- Treat the Inherited IRA as their own by rolling it over into their own Traditional IRA or into an eligible qualified plan
- Treat themselves as the beneficiary rather than treating the IRA as their own IRA
- Take lifetime payments or
- Take payments as a lump sum or over five years

Under any option, they have an unlimited right to take withdrawals subject to tax penalties. For instance, if they choose to have the IRA treated as their own, then any distributions before age 59 ½ will be subject to the IRS 10% early distribution penalty. However, if they treat themselves as the beneficiary, they are able to take distributions prior to age 59 ½ without penalty. Please have your client consult their tax advisor as these options can have significant impacts on taxable income.

Your client will only be considered to have chosen the "treat as their own" option if they are the sole beneficiary of the IRA, or if the IRA has been placed in a separate annuity for each beneficiary from which he or she has unlimited rights to withdraw funds.

Inherited From a Non-Spouse

If your client inherits an IRA from someone other than their spouse, they cannot treat the Inherited IRA as their own. Your client cannot make contributions to the IRA or rollover the Inherited IRA into their own IRA.

Your client may want to have the funds in the Inherited IRA grow tax deferred for as long as possible or they may have a need for the money now and may want to take a lump sum. Understanding the tax ramifications of each option prior to making a decision is very important. Whatever choice they make will be irrevocable.

Your client must take a Minimum Required Distribution (MRD) each year when they inherit an IRA or else a 50% tax penalty will be levied on the MRD amount. The choices they have for taking the MRD depends on whether the annuity owner died before or after his or her Required Beginning Date (RBD). The Required Beginning Date for a Traditional IRA is April 1 of the calendar year following the year in which the owner attains the age of 70 ½.

Available Methods of Payment of the Inherited IRA:	
Life Expectancy Method	To avoid tax penalties, the Life Expectancy Method requires that your client withdraw minimum amounts each year according to calculations specified by the IRS to be paid over an expected lifetime. A distribution period is established based upon the designated beneficiary's single life expectancy in the year after the owner's death. More than the minimum amount can be withdrawn, but all funds must be withdrawn by the end of the distribution period.
Five-Year Method	To avoid tax penalties, the Five-Year Method requires that the entire value is distributed no later than the end of the fifth year following the owner's year of death. **This method is not available if the owner died on or after the RBD.**
Lump Sum Distribution	The entire amount of the IRA is distributed at once. If the account is a Traditional IRA, income taxes will be paid on the distribution amount.

Minimum Required Distributions (MRD) for Inherited IRAs

The MRD amount is set through IRS tables for Inherited IRAs. It is based upon the beneficiary's age and resulting life expectancy. For example: If, under the single life expectancy table, someone has a 30-year life expectancy and an IRA balance of $100,000. The prior year's balance is divided by the number of life expectancy years. The first year after the year of death they would be required to remove 1/30th of the balance, or $3,333 ($100,000/30). The following year they would subtract one year of life expectancy and be required to withdraw 1/29th of the remaining balance, the following year 1/28th, and so on each year until the beneficiary dies or the money in the IRA is exhausted. If a beneficiary dies prior to removing all funds, they may name a beneficiary to finish out the distributions at least as rapidly as the original Inherited IRA beneficiary. In the case of multiple beneficiaries, the age of the oldest beneficiary is used for the MRD calculations.

If there are multiple beneficiaries named by the original IRA owner and they do not establish separate annuities prior to December 31 of the year following death, the expected lifetime of the oldest beneficiary is used to compute all beneficiaries' Minimum Required Distribution.

60-Day Rule

Keep in mind that with an Inherited IRA, the 60-Day Rule does not apply. Any transfer must be a Trustee to Trustee transfer. The 60-Day Rule, whereby an annuity holder may take the money out of an IRA and redeposit it into another IRA within 60 days, applies only to Traditional IRAs and does not apply to Inherited IRAs.

If the original IRA owner dies on or after their Required Beginning Date, those who inherit the IRA must take the original IRA owner's Minimum Required Distribution in the year of the original IRA owner's death. The Minimum Required Distribution is not paid to the estate unless the estate is the beneficiary of the IRA. If, however, the original IRA owner dies prior to their Required Beginning Date, no distributions are required in the year of death.

American National Products and Inherited IRAs

Choosing an annuity to use in an inherited IRA situation must be done carefully to avoid the 50% penalty for not distributing the minimum distribution amount or continuing to distribute money after the end of the distribution period. As shown previously, if someone inherits an IRA and has a 20-year life expectancy, 1/20th must be distributed the first year, 1/19th the next year, and so on until, in the 20th year, the entire annuity would be distributed.

Using the example above with a Palladium Single Immediate Annuity (SPIA) as the funding vehicle, towards the end of the 20-year distribution period the distribution would be less than the minimum amount required by law and therefore incur a 50% penalty. If the inherited IRA beneficiary lives beyond the 20-year life expectancy, the 50% penalty also applies to the continuing payments.

If an ANICO Strategy Indexed Annuity PLUS (ASIA PLUS) with the Lifetime Income Riders were chosen as the funding vehicle, the same issue would apply as with the SPIA as described above. Eventually, the payments under the Lifetime Income Rider would not meet the Minimum Required Distribution and would result in penalty taxes applying. In addition, if the beneficiary lived beyond their life expectancy and continued to receive Rider payments, the penalty taxes would again apply.

In the case of an Inherited IRA where the payment is not recalculated annually but is set up on a schedule where payments must be made according to such schedule, a Lifetime SPIA or a product with a Lifetime Income Rider would not work.

American National products that would work with an inherited IRA include:	
ANICO Strategy Indexed Annuity PLUS 7 & 10 without the Lifetime Income Rider	**ASIA PLUS 7 & 10 for New York**
Palladium® Multi Year Guarantee Annuity	**Palladium® Multi Year Guarantee Annuity - NY**
WealthQuest® Citadel 5 and 7 Diamond Series	**WealthQuest® Citadel 5 and 7 Diamond Series - NY**

For more information on this or other advanced life insurance and annuity sales, contact:

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Inheriting an IRA requires your client to make complex decisions based upon their specific fact situation. Every alternative cannot be covered here. American National does not provide legal or tax advice. Have your client consult their tax and legal advisors to determine what their options are and which method of distribution best meets their needs.

When a person buys the ANICO Strategy Indexed Annuity PLUS, the person is not buying an ownership interest in any stock or index. Interest earnings are paid at a rate that is related to the performance of an index. The index does not reflect dividends paid on stocks underlying the index. Past performance of the index is no guarantee of future results. Form Series IA13; IA13(NY); LIR14; NSPA; ANY-NSPA; MYGNQ; MYGPQ; GMYGNQ-C; MYG16; GMYGPQ-C; MYGNQ(NY); MYGPQ(NY); WQ512; WQ712; WQ5NQ(NY); WQ7PQ(NY); WQ7NQ(NY); WQ5PQ(NY) (Forms may vary by state)

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