

Reviewing IRA Beneficiaries

Evaluating beneficiary designations is an important and often overlooked part of the estate planning process. If information is missing, outdated, or inconsistent with other estate documents, it can cause the accounts to not pass as they were intended, as well as increase taxes and expenses. Keep in mind your wealth transfer goals and discuss estate distribution with your financial advisor and estate planning attorney. If you are interested in learning more about how Evergreen can advise you on your legacy goals, [click here](#) to take our client compatibility survey.

Who can be a beneficiary?

Individuals, trusts, charities, or your estate can inherit retirement accounts. There are significant tax considerations for each option, so it is important to review with your advisor and estate planner.

Impacts of the SECURE Act

The SECURE Act of 2019 made changes to how beneficiaries of retirement plans must distribute the accounts and may have sizable tax consequences for certain heirs. Prior to 2020, individuals inheriting IRAs were able to take required minimum distributions (RMDs) based on their own life expectancy. The current rules are detailed in the diagram below. Many individuals will be required to distribute the entire balance of an inherited IRA within ten years, which can cause a substantial tax hit as funds taken out of a traditional IRA are taxable income¹. We recommend reviewing your estate plan in the context of these new rules to determine if IRA named persons should be updated. Spousal beneficiaries will still be able to combine the inherited IRA with their IRA and take distributions according to their own life expectancy schedule. One strategy for those who are charitably inclined is to leave retirement accounts to charities, which are not impacted by these tax rules, and leave non-retirement assets to individual heirs.

When did the decedent pass?

Prior to 1/1/2020

After 1/1/2020

Can take over lifetime per IRS Uniform Lifetime Table

Are you surviving spouse, disabled person, chronically ill, less than 10 years younger than decedent, or minor child?

Yes, can take over lifetime per Uniform Lifetime Table

No, must withdraw the account within 10 years

What happens if you don't designate a beneficiary?

If you don't designate a beneficiary, the assets typically will be paid to your estate. It is generally not the best option as funds will have to go through probate, which can be timely and costly. In addition, estates distribute the assets over five years instead of ten.

Best practices

- **Review:** We recommend reviewing your beneficiaries annually or if you go through a major life event such as birth, death, divorce, etc. If you haven't revisited designations since the SECURE Act went into effect, it is important you do so now. Discuss with your estate attorney to make sure beneficiaries line up with what is listed in your will and trust documents, as these designations supersede what is written in your will.
- **Consider the beneficiary:** An individual relying on government benefits, such as Medicaid, could be at risk of losing these benefits if they inherit an IRA. Leaving the account to a special needs trust can be an option to provide support. Also, a high-earning beneficiary may not want to take a distribution during peak earning years. If possible, when reviewing your distribution plan, consider which assets would be most tax efficient for beneficiaries.
- **Name contingent beneficiaries:** We recommend naming a backup in case the primary predeceases you. If no contingent is listed, your assets may flow to your estate, which as previously mentioned, is less favorable than having a named person.
- **Per stirpes vs. per capita:** When naming recipients, you can define if you would like the account to flow to the beneficiary's children. Per stirpes is a legal term in Latin which means "by branch". If a recipient is listed per stirpes, it means that if they pass away, the assets would pass on to their children in equal shares. Conversely, per capita means "by head" and if a beneficiary passes away, the account does not go to their heirs.
- **Communicate your intentions:** We recommend discussing with your heirs so you can provide education and instruction for the account. Keeping these individuals informed sets things up for a smooth transition and for the funds to be used in the manner they were intended.

Want to learn more about working with Evergreen? Visit our [Private Wealth Management](#) page.

<https://www.irs.gov/retirement-plans/plan-participant-employee/retirement-topics-required-minimum-distributions-rmds>



Katie Vercio, CFP®, CDFIA®

Senior Financial Planner

To contact Katie, email:

kvercio@evergreengavekal.com

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