

A Guide for Beneficiaries of Traditional, Roth, and SEP IRAs



Beneficiary Options

Spouse Beneficiary (Sole Beneficiary)

- **Treat IRA as your own:** The IRA funds and investments will be re-registered into an IRA in your name. This transaction is **not** reported to the IRS as taxable income.
- **Life Expectancy Payout:** This election may be beneficial for **spouse** beneficiaries under the age of 59½. Distributions would be coded as death distributions, which are not penalized by the IRS. Distributions would be reported to the IRS as taxable income. Beneficiaries would be required to take a percentage of the account each year based on their life expectancy as determined by IRS regulations. The required percentage must be taken the year after death or the year the IRA owner would have attained age 70½, whichever is later.
- **Five Year Rule:** The account must be distributed by December 31st of the fifth year after the year of death. You may take distributions in multiple payments over the 5 year period or as one single lump sum distribution.
Note: This option is only available if the original IRA owner died *before* the Required Beginning Date or if the account is a Roth IRA.

Individual Beneficiary (Non-Spouse Beneficiary or Spouse who is not the Sole Beneficiary)

- **Life Expectancy Payout:** Beneficiaries would be required to take a percentage of the account each year based on their life expectancy as determined by IRS regulations.
- **Five Year Rule:** The account must be distributed by December 31st of the fifth year after the year of death. You may take distributions in multiple payments over the 5 year period or as one single lump sum distribution.
Note: This option is only available if the original IRA owner died *before* the Required Beginning Date or if the account is a Roth IRA.

Non-Individual Beneficiary (Estate, Trust, Charity, etc.)

- **Life Expectancy Payout:** Beneficiaries would be required to take a percentage of the account each year based on the life expectancy of the *IRA owner's remaining life expectancy* (reduction method) by December 31st of the year after the year of death. **Note:** This option is only available if the original account owner passed away *after* the required beginning date or if the beneficiary is a **qualified** trust.
- **Five Year Rule:** The account must be distributed by December 31st of the fifth year after the year of death. You may take distributions in multiple payments over the 5 year period or as one single lump sum distribution.
Note: This option is only available if the original IRA owner died *before* the Required Beginning Date or if the account is a Roth IRA.



Definitions

Distribution - Moving funds or investments from an IRA, SEP/IRA, or Roth IRA to an individual's personal name, trust, etc. This may be a taxable event reported to the IRS.

Five Year Rule - Election option in which a beneficiary agrees to take a full distribution of the inherited account within 5 years following the year of death.

Life Expectancy Payout - Election option in which a payment schedule is selected in order to meet the annual required minimum distribution amount.

Non-Qualified Trust - Any trust that does not meet the requirements to be a qualified trust.

Required Beginning Date (RBD) - April 1st of the year following the year the IRA owner turns 70 ½. Roth IRAs are considered *before* the RBD.

Required Minimum Distribution (RMD) - For Traditional IRAs and Beneficiary Roth IRAs, the IRS requires that a percentage of the IRA be distributed each year for account owners that have reached age 70 ½.

Qualified Trust - A qualified trust is valid under applicable state law, is irrevocable or will become so when the individual dies. The underlying beneficiaries are identifiable and proper documentation has been provided to CNB.

Treat as Own - Spouse beneficiaries may claim an account as their own.



Beneficiary Claim Checklist

- **IRA Application**
- **Beneficiary Claim Form** (notary required)
- **Death Certificate** - CNB only needs a photocopy; however, some product sponsors require a certified copy for re-registrations. Please contact the product sponsor to determine if a certified copy is required.
- **Termination Fees** - The decedent's termination fees will be \$150 plus other applicable transaction fees for the current year, depending on activity within the account. Fees may be deducted from available cash; otherwise a check may be mailed. Please contact our office for calculation of the fees.
- **Has the RMD for the year of death been met?** - If not, this will need to be taken care of prior to the processing of the claim.
- **Investment Authorization Form** - Only required if a beneficiary wishes to purchase or sell investments.
- **Distribution Form** - This form is required if the beneficiary needs to meet the decedent's RMD, wants to set up periodic distributions to meet Life Expectancy payments, or to take a one time distribution from the account.
- **Online Access/eStatement Authorization Form** - Only necessary if you would like to sign up for online access and/or eStatements.
- **Other transfer or redemption forms may be required by the investment companies.**



Frequently Asked Questions

Does CNB need a certified copy of the death certificate?

CNB will accept a photocopy; however, some product sponsors require a certified copy for re-registrations.

Why am I responsible for meeting the deceased's RMD prior to the account being claimed?

The IRS requires that in the year of the account owner's death, the beneficiary must satisfy the decedent's RMD by December 31st of that year if it was not satisfied prior to death. If there are multiple beneficiaries on the account, each one must meet a percentage of the RMD.

What if the deceased met the RMD from another account earlier in the year?

Please mark the box under Section 4 of the claim form to indicate this.

Do I have to complete an IRA application even if I will be closing the account?

Yes, we suggest that you do in order to allow you to appoint beneficiaries on your account and designate a financial representative while your claim is being processed.

Why are fees charged on a deceased account?

The deceased account will incur fees due to the additional tax reporting and paperwork that is required for beneficiary IRAs.

How long do I have to claim the account?

The account should be claimed as soon as possible to avoid any IRS penalties from missing a required minimum distribution.

What if I do not want the account, can I disclaim my share?

Yes, you may disclaim (in writing) the entire account within nine months of the date of death or nine months from the date the beneficiary reaches age 21. The disclaimer must be notarized. After an account has been claimed and assets have been transferred, the account may no longer be disclaimed.



Important Processing Information

- Claims will not be processed until all beneficiaries have submitted their claim forms.
- Please consult your tax and/or legal advisor, financial representative, IRS Publication 590, and other IRS materials for further information.
- Claim forms available at www.cnbcustody.com.

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