

Avoiding Spousal Beneficiary Mistakes in 5 Easy Steps

Who is a spouse beneficiary? A spouse beneficiary must be married to the account owner at the time of the account owner's death, and he or she must be named on the beneficiary form (or inherit directly through the document default provisions). A spouse beneficiary has a number of unique options.

- 1. Split the inherited account if necessary.** A spouse beneficiary can take advantage of the special spousal rules if they are the sole beneficiary of an IRA account. If other beneficiaries have been named, the spouse can still take advantage of these special provisions by transferring their portion of the inherited IRA to a separate account by December 31 of the year following the year of the IRA owner's death.
- 2. Making a deferral election.** A spouse beneficiary who wants to defer RMDs until the year the deceased owner would have turned 73 must make a deferral election to do so. Failing to make a deferral election means the spouse must start RMDs in the year following the year of the IRA owner's death. In either case, the account should be retitled as a properly titled inherited IRA.
- 3. Transfer the inherited IRA into a spouse beneficiary's account.** A spouse beneficiary should generally roll the inherited IRA into their own name. Once a younger spouse beneficiary reaches age 59½, there's no advantage to remaining a beneficiary, and a spousal rollover or transfer should be done. NO other beneficiary has this option. By doing this rollover or transfer, a surviving spouse ensures that eligible designated beneficiaries will be able to stretch distributions over their own life expectancies.
- 4. Name new beneficiaries.** A surviving spouse should name their own beneficiaries. If no beneficiaries have been named and the surviving spouse dies, the remaining assets will pass according to the default provisions in the custodial document. This is frequently the estate of the now deceased spouse, which could require a shorter payout period for beneficiaries or add unnecessary time and expenses by tying the assets up in probate.
- 5. Consider a disclaimer.** Before taking any action regarding an inherited IRA, a surviving spouse should evaluate whether a full or partial disclaimer would be advantageous. By using a disclaimer, some or all of the inherited IRA can be passed to contingent beneficiaries, potentially extending the stretch IRA and reducing the future impact of estate taxes for eligible designated beneficiaries.

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