SPECIAL RULES FOR SPOUSE IRA BENEFICIARIES

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The SECURE Act may have upended the rules for inherited IRAs, but the rules for spouse beneficiaries remain as advantageous as ever. In fact, naming a spouse as an IRA beneficiary is a better option than ever before. Now, an older spouse beneficiary will get more favorable payout options than a much younger adult child. Why? That is because the adult child must use the 10-year rule. No such restrictions exist for spouses. The SECURE Act keeps all the special benefits for spousal beneficiaries intact.

The special rules for spouse beneficiaries only apply if the spouse is the **sole** IRA beneficiary. However, even if the spouse is one of several IRA beneficiaries, the spouse can still qualify as a sole beneficiary if her share is split into a separate IRA by December 31st of the year following the year of the IRA owner's death.

• **Spousal Rollover** – Only a spouse beneficiary can roll over or transfer her inherited IRA into her own IRA. There is no deadline for a spousal rollover. If the deceased spouse died on or after his required beginning date, the year-of-death required distribution has to be taken before a 60-day rollover is permitted. However, an RMD can be transferred (trustee-to-trustee) to another account and taken later in the year.

• **Inherited IRAs for Spouses** – Under the SECURE Act, most beneficiaries will need to empty the inherited IRA by December 31 of the tenth year following the year of death. However, eligible designated beneficiaries (EDBs) will still be able to take RMDs from the inherited IRA based on life expectancy. A spouse is an EDB. If the spouse is the sole beneficiary, and the IRA owner dies before his RBD, the spouse can delay these RMDs from the inherited IRA until the later of December 31st of the year after the year of the account holder's death, or the year the account holder would have attained age 72.

If you inherited an IRA from your spouse, it may make sense to keep it as an inherited IRA when you are under age 59½, instead of doing a spousal rollover. If a spousal rollover is done, the account would be treated as your own IRA. If you want to take any money out before age 59½, there would be a 10% penalty which is assessed on retirement plan owners who tap into their retirement accounts early (assuming no other exceptions apply). But this 10% penalty does not apply to beneficiaries. After reaching age 59½, you would still have the rollover option available. Choosing to remain a beneficiary does not restrict you from being able to roll over later on. However, once the spousal rollover is done, there is no going back. Don't jump to spousal rollover too quickly.

Example: Francie dies before her RBD, at 50, and named her spouse, Brian, as IRA beneficiary. Brian is 53 years old. He has two choices. He can either keep an inherited IRA or do a spousal rollover. If Brian chooses to remain a beneficiary, he does not have to begin taking RMDs from the inherited IRA until December 31 of the year that Francie would have attained age 72. That is more than 20 years with no RMDs. Brian also will be able to access the IRA funds without the 10% penalty apply, despite his age. He can decide at any time to do a spousal rollover.