

The importance of naming IRA beneficiaries

If you are wondering how to help your heirs get the most out of your IRA assets, one of the most important decisions you can make is who to name as your IRA beneficiary(ies). Among the more significant implications of specifying IRA beneficiaries is the effect your choice will have on their future income and estate taxes, as well as on required minimum distributions (RMDs).

Who Can Be a Beneficiary?

Any individual or entity can be a beneficiary of your IRA, and you can generally change your beneficiary whenever you wish. Your choices include:

- Your spouse—who has certain options after your death that may not be available with other IRA beneficiaries, including qualification for the unlimited marital deduction, which allows your spouse to receive these assets free of federal estate tax. Generally, only spouses who are U.S. citizens are eligible for the unlimited marital deduction; qualified domestic trusts may be used for the benefit of non-citizen spouses.
- Non-spouse beneficiaries—someone other than your spouse, such as a child, grandchild or friend.
- Trusts, estates, foundations and charities—which can be used to potentially reduce federal estate taxes and control the management of IRA assets after your death.¹

In addition, you can elect:

- Multiple beneficiaries—splitting your IRA assets among more than one beneficiary. In designating more than one beneficiary, you need to specify the percentage share you wish each to have.
- Contingent beneficiaries—allowing you to select the beneficiary(ies) you wish to inherit your IRA, or a portion of it, if your primary beneficiary(ies) predecease(s) you.

Generally, only a person may be called a “designated” beneficiary, which means that they are able to take annual RMDs from your IRA after your death based upon a life expectancy factor. An entity, such as a charity, foundation or estate, can never be a “designated” beneficiary and is not entitled to take annualized RMDs. A trust also cannot be a designated beneficiary unless it qualifies under a special “look through” rule, under which the individual beneficiary of the trust is considered



to be the designated beneficiary of the IRA for purposes of calculating RMDs after your death.

Your Beneficiaries' Payout Options

Although your beneficiary selections generally will not affect RMDs during your lifetime, they will have a significant impact on the payout options from your IRA after your death. Distributions from your IRA must start no later than April 1 of the year following the year in which you reach age 70½. This date is often referred to as your required beginning date (RBD). If you die before your RBD, the following distribution options apply.

Spouse beneficiaries can:

- Roll over IRA assets to their own IRA (or to an employer’s retirement plan) and name new beneficiaries. Spouses can also take distributions over their own single recalculated life expectancy or under the five-year rule, which dictates that beneficiaries must deplete the IRA by the end of the year that contains the fifth anniversary of the date of the IRA owner’s death.
- Leave the IRA assets in the IRA of the decedent and delay distributions until the deceased IRA owner would have reached age 70½. At that point, the new owner can take annual distributions over their single recalculated life expectancy, or take distributions under the five-year rule.

Non-spouse individual beneficiaries can:

- Take annual RMDs based on their single non-recalculated life expectancy if distributions begin by December 31 of the year following the year of the IRA owner's death.²
- Take distributions under the five-year rule (*see above for definition*).

If you die after your required beginning date with a designated beneficiary, RMDs must be taken according to the same rules that apply when you die before that date, with the following exceptions:

- If your non-recalculated life expectancy is longer than your designated beneficiary's life expectancy, your life expectancy may be used.
- The five-year rule does not apply.
- Your spouse may not delay the start of the withdrawals unless he or she has not yet reached age 70½ and elects to treat the IRA as their own, since you have already reached age 70½.

Review Your Beneficiary Choices

Beneficiary selections should be reviewed periodically—every few years or when significant life changes occur, such as a birth, marriage or death. Your tax and legal advisors can help you review your specific situation and counsel you as to the legal and tax implications of your decisions.

¹ Naming a non-person beneficiary (other than certain trusts that qualify under IRS guidelines as designated beneficiaries) may affect the amount of RMDs after your death.

² If more than one beneficiary is named, the beneficiaries must use the life expectancy of the oldest beneficiary (unless separate accounts are established by December 31 of the year following the year of the IRA owner's death).

Note: Most of the concepts discussed here apply to both traditional and Roth IRAs. There are important differences between the two types of IRAs, however. For example, the age 70½ RMD rules do not apply to Roth IRAs during the Roth IRA owner's lifetime. In addition, distributions from Roth IRAs—including distributions to your beneficiaries after your death—are generally not subject to federal income tax.

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Did you know that you can plan to maximize your IRA assets for the benefit of your children and even your grandchildren? Proper beneficiary designations can help you “stretch” your retirement savings to last through the years. A Stretch IRA is a wealth transfer strategy that can extend the life of your IRA through your beneficiary choices so that your IRA assets may continue to grow tax-deferred over a number of years to potentially benefit future generations.

We can help you understand the impact of naming IRA beneficiaries, as well as the benefits of the Stretch IRA strategy, and can provide the forms you need to implement or change your beneficiary elections for your UBS IRA.