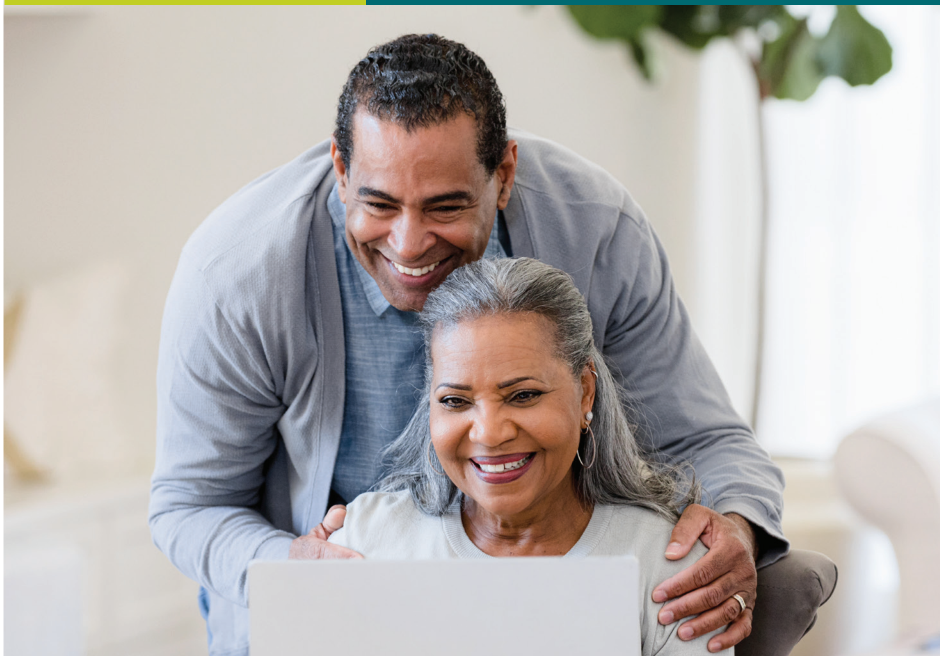

EquiTrust®

INHERITED/STRETCH IRA RULES

New rules create big changes for IRA beneficiaries

Seek professional guidance
IRA Owners and beneficiaries should speak to a tax or estate-planning professional before making important retirement-plan decisions. Talk to your EquiTrust agent/producer for complete product details before purchasing.

Laws for Inherited/Stretch IRAs were revised in the Setting Every Community Up for Retirement Enhancement (SECURE) Act that went into effect January 1, 2020.

The law is designed to expand access to retirement accounts, promote participation and preserve savings. It includes restrictions on deferring taxes for inherited retirement accounts. The rules impact the withdrawal options available to beneficiaries who inherit IRAs from Owners who died on or after January 1, 2020.

This guide will help distinguish beneficiary status for Spousal IRA, Inherited IRA and Stretch IRA — and the pre- and post-SECURE Act distribution rules applicable to each beneficiary category.

Surviving spouse

SPOUSAL CONTINUATION IRA

Despite the changes to IRA assets passed along upon the death of the Owner, surviving spouses continue to get special treatment compared to non-spouse beneficiaries. The surviving spouse can designate the IRA as their own by rolling it over or transferring it to the surviving spouse's existing IRA or to a new IRA account in their name. In addition:

- The account title is in the surviving spouse's name, as it is not considered an Inherited or Stretch IRA.
- The Required Minimum Distribution (RMD) schedule is determined solely by the surviving spouse's age. That's why it's sometimes called a fresh-start IRA.
- The withdrawal rules apply as though the surviving spouse had owned it originally.

SPOUSAL BENEFICIARY

Alternatively, the surviving spouse can assume a beneficiary status rather than treat the IRA as their own. The choice may be based on when the surviving spouse is due to take RMDs or whether the deceased owner had started RMDs. Because RMDs are based on the life expectancy of the Owner, as a beneficiary, the surviving spouse can plan to delay RMDs from the Inherited IRA as long as possible. Also:

- If the Owner dies before RMDs, the spousal beneficiary can wait until the original Owner's required beginning date before starting RMDs — which can be helpful if older than the deceased.
- RMDs are then calculated on the surviving spouse's life expectancy.
- If the original Owner had reached the age of RMDs, the spouse can continue distributions as originally calculated on the deceased Owner's life expectancy.

Non-spouse beneficiaries

OWNER DEATH BEFORE 1/1/20: STRETCH IRA FOR ALL BENEFICIARIES

To better understand the new rules, an overview of the old rules is helpful. Under the prior law, any IRA beneficiary could "stretch" the IRA by taking distributions based on the beneficiary's single life expectancy. A Stretch IRA is not a special type of IRA — it is a strategy to lengthen the IRA's tax deferral by withdrawing only the RMDs for a period based on life expectancy. The Stretch provision provides significant tax savings to the beneficiaries, allowing them to spread the income over a large number of tax years, minimize the tax rates applied to the income and allow the account additional tax-deferred growth.

OWNER DEATH ON OR AFTER 1/1/2020: STRETCH OF INHERITED IRA SUBJECT TO BENEFICIARY TYPE

The SECURE Act significantly limits the opportunity to stretch IRA assets by segregating most IRA beneficiaries into two distinct classes: **eligible designated beneficiaries** and **ineligible designated beneficiaries**. The new rules permit eligible designated beneficiaries the same ability to stretch distributions as the pre-SECURE Act provisions allowed, while ineligible designated beneficiaries must distribute the proceeds and/or pay taxes on the assets within 10 years.

If the deceased IRA Owner's required beginning date for RMDs occurred prior to death, RMDs must continue at either the deceased Owner's RMD calculation or the single life calculation for the ineligible designated beneficiary based on IRS rules.

IRA beneficiaries after the SECURE Act

Beneficiary

Eligible designated beneficiary
(Stretch still applies)

- Spouses
- Disabled persons
- Chronically ill
- Not more than 10 years younger
- Minors — Stretch IRAs for minors not available through EquiTrust

Ineligible designated beneficiary
(10-year rule)

- Non-spouses

Non-designated beneficiary
(5-year rule)
Not available through EquiTrust

- Charities
- Estate (per owner's will)

Eligible designated beneficiaries

To qualify as an eligible designated beneficiary, the IRA must designate a specifically named beneficiary; unspecified beneficiaries do not qualify. Eligible designated beneficiaries may use the pre-SECURE-Act rules for RMDs, and stretch distributions based on the beneficiary's life expectancy. The class includes:

- Surviving spouse — may either stretch the IRA or comingle with personal IRA
- Disabled individual
- Chronically ill
- Beneficiary not more than 10 years younger than the IRA owner

Ineligible designated beneficiaries

Ineligible designated beneficiaries are subject to a 10-year rule, where distribution and/or taxation of account assets must be completed within 10 years of the former Owner's death. The 10-year rule applies to both traditional IRAs and Roth IRAs.

WHEN TO TAKE WITHDRAWALS AND PAY TAXES

The ineligible designated beneficiary can take withdrawals and/or pay taxes on any schedule within the 10-year period. With the guidance of a tax and estate-planning professional, the ineligible designated beneficiary must determine the schedule for withdrawals or taxation, including:

- Full account balance as soon as possible
- Full balance at end of the distribution period
- Periodically during the 10-year period
- Whether RMDs must be taken based on the required beginning date for RMDs for the deceased Owner
- Partial or full tax conversion to a Non-Qualified EquiTrust contract

If the deceased IRA Owner had begun RMDs prior to death, the ineligible designated beneficiary must continue taking RMDs based on the longer of 1) the original RMD calculation or 2) the single life calculation for the beneficiary.

IRA beneficiaries after the SECURE Act

Beneficiary

Eligible designated beneficiary
(Stretch still applies)

- Spouses
- Disabled persons
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(10-year rule)

- Non-spouses

Non-designated beneficiary
(5-year rule)
Not available through EquiTrust

- Charities
- Estate (per owner's will)

Many variables apply to determine which withdrawal strategy within the 10-year period is most advantageous. Considerations like age, employment status, tax bracket (now vs future), financial need, proximity to retirement and anticipated expenses will impact the decision. Depending on the EquiTrust product selected, the distributed proceeds may be subject to surrender charges and/or Market Value Adjustment. Seek professional tax assistance to estimate the potential impact that various withdrawal strategies will have on inherited assets.

DISTRIBUTION TIMING AND GUIDANCE

If the original IRA Owner's date of death is in the current calendar year, the ineligible designated beneficiary has until December 31 of the following year to determine Inherited IRA distributions. While the beneficiary may not be prepared to make long-term decisions immediately, there are important steps to help preserve the tax advantages of the assets, as well as meet any legally required deadlines. The rules are complex and there will be taxes owed on inherited assets. Consult with tax or legal professionals before making decisions.

Non-designated beneficiaries

If an IRA has no designated beneficiary, or if the beneficiary is the estate, trust or other entity, EquiTrust is unable to assist in these circumstances.

	Stretch IRA	Inherited IRA
Deaths before 1/1/2020	X	
Eligible beneficiary with death on or after 1/1/2020	X	
Ineligible beneficiary with death on or after 1/1/2020		X

Inherited and Stretch IRAs with EquiTrust

EquiTrust can assist Inherited IRA beneficiaries with required distribution obligations through a broad range of fixed annuities that feature convenient withdrawal and RMD programs.

INHERITED IRA — FOR INELIGIBLE DESIGNATED BENEFICIARY SUBJECT TO THE 10-YEAR RULE

Any distributed funds are subject to taxation, surrender charges and Market Value Adjustment (MVA). Tax-reporting and withdrawal options include:

- Taking receipt of account assets and paying taxes — either as a lump sum or periodically (may also be subject to surrender charges and MVA)
- Leaving funds with EquiTrust and deferring taxes as long as possible; EquiTrust will notify the beneficiary before the end of the 10-year period
- Leaving the funds with EquiTrust, paying the taxes and converting to a NQ annuity over time through the Partial Tax Conversion program or all at once

STRETCH IRA — FOR ELIGIBLE DESIGNATED BENEFICIARIES ABLE TO STRETCH DISTRIBUTIONS

RMDs are required based on single life expectancy of beneficiary reduced by one each year, and begin by 12/31 of the year following death of IRA Owner.

Proper title to Inherited/ Stretch IRA account

IRA beneficiaries should make certain that the title to the accounts conforms to tax laws. A non-spouse beneficiary should not put the account in the beneficiary's own name. The account title should read: "[Owner's name], deceased [date of death], IRA FBO [beneficiary name], Beneficiary" (FBO means "for the benefit of"). If the account is put in the beneficiary's name, this is treated as a distribution, and all of the funds are immediately reportable.

Example inheritance scenarios

Upon death of an IRA Owner, beneficiary status and the respective titling, distribution and RMD rules are described below.

SURVIVING SPOUSE — BEFORE AND AFTER SECURE ACT

Spouse — Assumption

- Assume the IRA as the surviving spouse's personal IRA
- RMDs begin when surviving spouse turns 72

Spouse — Stretch

- Establish a Stretch IRA per SECURE Act rules, as eligible beneficiary
- Account title includes decedent's name
- All distributions are reported as death-claim distributions to avoid early withdrawal penalty tax
- RMD is based on whether deceased spouse had attained RMD age prior to death or after

NON-SPOUSE — AFTER SECURE ACT

Eligible designated beneficiary

- Establish a **Stretch IRA** subject to pre-SECURE Act rules
- Account title includes decedent's name
- All distributions are reported as death claim distributions to avoid early withdrawal penalty tax
- RMDs are required based on single life expectancy of beneficiary reduced by one each year, and begin by 12/31 of the year following IRA Owner's death

Ineligible designated beneficiary

- Establish an **Inherited IRA**
- Account title includes decedent's name
- All distributions are reported as death-claim distributions to avoid early withdrawal penalty tax until 12/31 of the 10th year after IRA Owner's death
- RMDs are required if the deceased IRA Owner had achieved their required beginning date for RMDs prior to death
- All IRA funds must be distributed or taxed by 12/31 of 10th year after IRA Owner's death

Double Stretch

- Original IRA owner dies prior to 1/1/2020, first beneficiary dies after 1/1/2020
- Account title includes decedent's name and first deceased beneficiary
- First beneficiary takes RMDs based on their own life expectancy
- When the first beneficiary dies, the funds cannot be stretched again — they then become an Inherited IRA
- All IRA funds must be distributed or taxed by 12/31 of the 10th year after the first beneficiary's death
- All distributions are reported as death-claim distributions to avoid early withdrawal penalty tax until 12/31 of the 10th year after IRA beneficiary's death

NON-SPOUSE — BEFORE SECURE ACT

Non-spouse beneficiary

- Establish a Stretch IRA subject to pre-SECURE Act rules
- Account title includes decedent's name
- All distributions are reported as death claim distributions to avoid early withdrawal penalty tax
- RMDs are required based on single life expectancy of beneficiary less one each year, and begin by 12/31 of the year following death of IRA Owner

Double Stretch

- Original IRA Owner and first beneficiary die prior to 1/1/2020
- Account title includes decedent's name and first deceased beneficiary
- All distributions are reported as death-claim distributions to avoid early withdrawal penalty tax
- RMDs are required based on single life expectancy of first beneficiary less one each year, and continue the same for second beneficiary until IRA is depleted

The SECURE Act changed the retirement and estate-planning landscape. Now is a good time to review retirement savings, retirement account beneficiary designations and estate plans to assess whether savings, designations and plans are aligned to meet your goals. Working with your trusted financial, legal and tax professionals will assist you in understanding the implications of the SECURE Act. Start the process now to protect your financial future and your legacy.

Notes

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*Required Minimum Distribution (RMD): The RMD is the minimum amount that the IRS requires the owner of a traditional, SIMPLE, SEP or SAR-SEP IRA to take each year, starting with the year the IRA Owner turns 72. RMDs also apply to a beneficiary of an IRA (including the beneficiary of a Roth IRA) who is required to take post-death RMDs when opting for payments based on life expectancy. Failure to take a scheduled RMD may subject a living Owner of an IRA or a beneficiary to an excise penalty tax of 50% of the undistributed portion of the amount that should have been distributed.

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