

# Setting Up an Inherited Account

## WITHDRAWAL OPTIONS FOR THE BENEFICIARY

Beneficiaries of an annuity, IRA, or qualified plan have several ways to receive the death benefit proceeds of an inherited account. The following is a description of how to handle a beneficiary account if the owner died **after 12/31/19**.

Withdrawing the money as a lump sum may not be the most advantageous option due to taxation. The IRS offers provisions that allow a beneficiary to take funds out over time, mitigating the tax consequences.

These options differ depending on whether the plan is an **IRA or other qualified plan**, or a **non-qualified annuity**. If an annuity is used as a funding vehicle within the IRA or qualified plan, it will follow the distribution rules for IRAs and qualified plans.

National Life does not provide tax advice, the following is a general guide to inherited accounts. Questions on a beneficiary's specific situation should be directed to the client's tax advisor.

### IRAs and Qualified Plans

For these types of plans, first determine if the beneficiary is an eligible designated beneficiary, designated beneficiary, or non-designated beneficiary.

Eligible Designated Beneficiaries	
Who They Are	What Their Options Are
<ul style="list-style-type: none"> <li>• Spouse (Spouse has additional options, see end of document)</li> <li>• Individual less than 10 years younger than the deceased</li> <li>• Individual that is chronically ill or permanently disabled as defined under Social Security guidelines</li> <li>• Child of the account owner under the age of majority</li> </ul> <p>Note: A Child under the age of majority may take life expectancy payments until they reach the age of majority as defined in the state of issue. Then remaining balance must be distributed within 10 years.</p>	<ul style="list-style-type: none"> <li>• Lump sum</li> <li>• Fully liquidate within a 10 year period from decedent's year of death <ul style="list-style-type: none"> <li>– Please see RMD section on the next page if this option will be elected</li> </ul> </li> <li>• Payments based on life expectancy of the deceased or the beneficiary <ul style="list-style-type: none"> <li>– Must begin by the end of the calendar year following the year of death</li> </ul> </li> </ul> <p>Note: If life expectancy payments are elected and death was after the RMD started and the original contract owner had not taken their RMD for the year of death, the first payment to the beneficiary must be the amount that would have been required for the original contract owner. All future payments can be recalculated and paid based on the age of the beneficiary.</p>

#### National Life Products Available

Any annuity that does not have the Guaranteed Lifetime Income Rider.

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Designated Beneficiaries	
Who They Are	What Their Options Are
Any individual that does not meet the Eligible Designated Beneficiary definition, or qualifying trust**	<ul style="list-style-type: none"> <li>Lump sum</li> <li>Fully liquidate within a 10 year period from the original decedent's year of death <ul style="list-style-type: none"> <li>Please see RMD section below if the option is elected</li> </ul> </li> </ul>
<b>National Life Products Available</b> <ul style="list-style-type: none"> <li>10 year Single Premium Immediate Annuity (SPIA)</li> <li>Zenith Growth 5, 7, or 10** deferred annuity, RetireMax Secure 5, or Green Mountain Freedom 5</li> </ul>	<b>Requirements when using a deferred annuity for a non-eligible designated beneficiary</b> <ul style="list-style-type: none"> <li>Must submit IRA/QP distribution disclosure with application</li> </ul>
Non-Designated Beneficiaries	
Who They Are	What Their Options Are
<ul style="list-style-type: none"> <li>Estate</li> <li>Charity</li> <li>Or other entity not considered an eligible designated beneficiary or designated beneficiary</li> </ul>	<ul style="list-style-type: none"> <li>Lump sum</li> <li>Fully liquidate over a five-year period</li> </ul>
<b>National Life Products Available</b> <ul style="list-style-type: none"> <li>Zenith Growth 5 deferred annuity, RetireMax Secure 5, or Green Mountain Freedom 5</li> </ul>	

## Nonqualified Annuities

All beneficiaries of a nonqualified annuity will have the same options. (Spouse has additional options, see end of document.)

What Their Options Are	National Life Products Available
<ul style="list-style-type: none"> <li>Lump sum</li> <li>Fully liquidate within a five year period from original decedents year of death</li> <li>Payments based on life expectancy <ul style="list-style-type: none"> <li>Must begin within exactly one year of date of death</li> </ul> </li> </ul>	Any annuity that does not have the Guaranteed Lifetime Income Rider.

## 10 Year Distribution RMD Requirements

Under proposed IRS regulations, if the original owner died after December 31, 2019, and was required to take RMDs, the beneficiary may be required to take annual RMDs over the 10 years based on the age of the beneficiary. RMDs must start no later than December 31st, following the year of death. As a reminder, if the decedent was required to take an RMD in their year of death and had not taken the RMD for their year of death, the beneficiary must take the RMD for the year of death based on the decedent's age. The proposed regulations have not been finalized. Clients should consult with their tax advisors regarding their personal situation.

## How to Complete the Application

All inherited accounts, regardless of qualification, have the same paperwork requirements. Only paper applications can be used for this business. eApp is not available.

- The application will need to have the owner, annuitant, and beneficiary completed as follows (assuming John Doe is deceased, and Susan Doe is the beneficiary):
  - Owner: Susan Doe ICA beneficiary of John Doe, deceased
  - Annuitant: Susan Doe
  - Beneficiary: Anyone Susan Doe chooses
- List the date of death of the original owner in the comments section of the application.
- All other standard paperwork must also be completed including the **Suitability Form** for the beneficiary of original account that is being moved to a beneficiary account (in example above the suitability is based on Susan Doe).

## Additional Spousal Options

If the spouse is the named beneficiary they are not required to take the death benefit of an account or to set up a beneficiary account, the IRS allows for spousal assumption. For qualified accounts the spouse has the option to assume ownership (if plan allows) or roll the money into their own qualified account. For nonqualified accounts the spouse can assume ownership of the policy.

## Successor Beneficiaries of Inherited Accounts

A successor beneficiary is the beneficiary that has been named by the original beneficiary of an inherited account such as an IRA.

If the original beneficiary's death occurs after December 31, 2019, the successor beneficiary's distribution options are based upon the original beneficiary's distribution election.

Original Beneficiary Distribution Election	Successor Beneficiary Distribution Options
Life Expectancy	<ul style="list-style-type: none"><li>• Lump sum</li><li>• 10-year period</li></ul>
<ul style="list-style-type: none"><li>• 10-year period</li></ul>	<ul style="list-style-type: none"><li>• Lump sum</li><li>• Remaining years of 10-year period<sup>2</sup></li></ul>

1. To elect the life expectancy option, the original beneficiary had to be an eligible designated beneficiary.
2. If the original beneficiary elected the 10-year period and died in distribution year four, the original beneficiary's distribution period carries over and the successor beneficiary would have to fully deplete the account within six years.

The successor beneficiary may be required to take RMDs during the 10-year period or remaining years of the 10-year period based on the original beneficiary's age at death.

Successor beneficiaries should consult with their personal tax and legal advisors prior to making any decisions regarding distributions.

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\* For accounts that do not meet the minimum premium requirement of Zenith Growth 5, 7, or 10, FIT Secure Growth may be used

\*\*To qualify trust must be considered a "see through" meeting these requirements

- Must be a valid trust under state law
  - Must be irrevocable, or by its terms become irrevocable upon the death of the account holder
  - Beneficiaries must all be individuals and identifiable as eligible
  - A copy of "trust documentation" must be provided to the administrator or custodian in a timely manner
- Trustee should consult with their personal tax advisor to ensure proper distribution option is elected