Inherited or Beneficiary IRA's

When you inherit an Individual Retirement Annuity (IRA), you become a beneficiary. A beneficiary can be any person or entity the owner chooses to receive the benefits of the IRA after she or he dies. A beneficiary of a Traditional IRA must include any distributions in their gross income as received. Understanding your options as a beneficiary is extremely important as this can impact how much you can receive and the tax consequences of the decisions you make. Consider contacting a professional tax advisor to provide you advice on your options.

Inherited From Spouse

Following are the options you can choose if you are the surviving spouse inheriting an IRA:

- Treat the Inherited IRA as your own by designating yourself as the owner
- Treat the Inherited IRA as your own by rolling it over into your own Traditional IRA or into an eligible qualified plan
- Treat yourself as the beneficiary rather than treating the IRA as your own IRA
    - Take life time payments or
    - Take as a lump sum or over five years

If you choose to have the IRA treated as your own, then any distributions that you take from it before age 59 ½ will be subject to the 10% early distribution penalty. Please consult your tax advisor as these options can have significant impacts on your taxable income.

You will only be considered to have chosen to treat as own method if you are the sole beneficiary of the IRA or the IRA has been placed in a separate account for each beneficiary and you in your capacity have an unlimited right to withdraw amounts from your separate account.

Inherited From a Non Spouse

If you inherit an IRA from someone other than your spouse, you cannot treat the Inherited IRA as your own. You cannot make contributions to the IRA or rollover the Inherited IRA into your own IRA.

You may want to have the funds in the Inherited IRA grow tax deferred for as long as possible or you may have a need for the money now and may want to take a lump sum. Understanding the tax ramifications of each option prior to making your decision is very important. Whatever choice you make will be irrevocable.

You must take a Required Minimum Distribution (RMDs) each year when you inherit an IRA to avoid paying a 50% tax penalty on the amount of the RMD that should have been taken. How you take RMDs depends on whether the account owner died before or after his or her Required Beginning Date (RBD), as described later.

If the IRA owner died before the RBD, you may choose the Life Expectancy Method, the Five Year Method, or a lump sum.

If the IRA owner died on or after the RBD, you may use the Life Expectancy Method or take a lump sum.

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Inherited or Beneficiary IRA's ... continued from reverse side

Life Expectancy Method

To avoid tax penalties, the Life Expectancy Method requires that you withdraw minimum amounts each year according to calculations specified by the IRS paid over an expected lifetime. A distribution period is established based upon the designated beneficiary's single life expectancy in the year after the owner's death. You are always able to withdraw more.

Five Year Method

To avoid tax penalties, the Five Year Method requires that you distribute the entire value no later than the end of the fifth year following the owner's year of death.

Required Beginning Date (RBD)

The Required Beginning Date for a Traditional IRA is April 1 of the calendar year following the year in which the owner attains the age of 70 ½.

Required Minimum Distributions (RMD) for Inherited IRAs

The RMD amount is set through IRS tables for Inherited IRAs. It is based upon the beneficiary's age and resulting life expectancy. So, for example, if under the single life expectancy table someone has a 30-year life expectancy, the first year after the year of death they would be required to remove 1/30th of the prior year-end balance from the Inherited IRA. The following year they would subtract one and need to withdraw 1/29th and the following year 1/28th and so on each year until the beneficiary dies or the money in the IRA is exhausted. If a beneficiary dies prior to removing all funds, they may name a beneficiary to finish out the distributions at least as rapidly as the original Inherited IRA beneficiary.

If there are multiple beneficiaries named by the original IRA Owner and they do not establish separate accounts prior to December 31 of the year following death, the expected lifetime of the oldest beneficiary is used to compute all beneficiaries' Required Minimum Distribution.

If the original IRA owner dies on or after their Required Beginning Date, those who inherit the IRA must take the original IRA owner's Required Minimum Distribution in the year of the original IRA owner's death. The Required Minimum Distribution is not paid to the estate unless the estate is the beneficiary of the IRA. If, however, the original IRA owner dies prior to their Required Beginning Date, no distributions are required in the year of death.

Inheriting an IRA requires you to make complex decisions based upon your specific fact situation. Every alternative cannot be covered here. American National Insurance Company does not provide legal or tax advice. Consult your tax and legal advisors to determine what your options are and which method of distribution best meets your needs.

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12/09