

What You Need to Know About Inherited IRAs



When you lose a loved one, there's a lot to think about, especially if they leave you an inheritance. It can be a good time to update your life goals and plan for your future. But if you're inheriting an IRA or employer-sponsored retirement account, there are specific rules and options that are important for you to understand.

What is an Inherited IRA?

An Inherited IRA (or beneficiary IRA) is an account that is set-up for someone who inherits an IRA or other employer-sponsored retirement plan after the original owner passes away.

What are the Distribution Rules for Inherited IRAs?

There are two types of beneficiaries for inherited IRAs and specific rules for each.

Spousal Beneficiaries

If you're the spouse of the original account owner, you have two options:

- **Treat the IRA as Your Own**

You can roll the assets into your own existing IRA or set up a new IRA in your name. This allows you to:

- Include the Inherited IRA as part of your own retirement savings.
- Continue making contributions (if eligible)
- Defer your Required Minimum Distributions (RMDs) until Age 73

Note: If your spouse had already reached their Required Beginning Date (RBD) for RMDs, you must take the RMD for the year of their death if they had not already done so.

- **Establish an Inherited IRA**

You can set up an Inherited IRA in your name and choose one of these options:

- Life Expectancy Method: RMDs begin by Dec. 31 of the year after your spouse's death, based on your life expectancy. If your spouse didn't take an RMD in the year they passed, you must take it by Dec. 31 of that year.
- 10-Year Method: You must withdraw all funds within 10 years of your spouse's death, but you do so on your own schedule—annually, periodically, or all at once.

Non-Spousal Beneficiaries

If you are not the spouse of the original account owner, you must deplete the inherited account within 10 years of their death. You can take distributions annually, periodically, or all at once.

Exception: This rule does not apply to eligible designated beneficiaries who are:

- Less than 10 years younger than the original account owner,
- Disabled or chronically ill, or
- A minor child of the original account owner.

If you qualify for an exception, you may use the life expectancy rule instead of the 10-year rule.

Distribution Options for Beneficiaries

As the beneficiary, you can choose how you want to take the money out of your Inherited IRA:

- Penalty-free withdrawals
- RMDs
- Lump-sum payment¹

Cashing out the account makes inheritance easier but may not be tax-efficient for traditional IRAs. The full withdrawal is taxed as ordinary income in the year received and could push you into a higher tax bracket.

Making the Right Choice

Understanding these options can help you make the best decision about your situation and how to manage the IRA you inherit.

¹ A lump-sum distribution may be subject to state income tax as well as federal income tax. Please refer to the appropriate product form for specifics on your distribution options. Depending on your product, contingent deferred sales charge (CDSC), market value adjustment (MVA), and other product charges may still apply upon withdrawals.

Additional Topics



Planning for Retirement: How IRAs Can Help You Build Financial Security

While pensions and Social Security benefits provide some income, they often aren't enough to maintain the lifestyle you're used to. One way to do address this is by opening an Individual Retirement Account (IRA).

[Learn More About IRAs](#)



What you should know about Required Minimum Distributions (RMDs)

Required Minimum Distributions, or RMDs, are minimum amounts you must withdraw annually from your tax-deferred retirement account. We cover the ins and outs of RMDs.

[Learn More About RMDs](#)

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