Understanding your choices when you inherit an IRA

When you inherit an Individual Retirement Account (IRA), there are important decisions regarding when and how you will distribute the account’s assets. You need to make these decisions by the end of the year following the IRA account owner’s death. Keep in mind that your decisions may affect the taxes you’ll owe on the assets left to you, so it’s important to understand your choices. While you may not be prepared to make long-term decisions immediately, there are steps you’ll need to take in the first few months of learning about the inheritance in order to help preserve the tax advantages of the assets, as well as meet any legally required deadlines. This sheet is intended to provide educational information that can help you prepare before speaking to your tax or other advisors about inherited IRA assets.

2020 Required Minimum Distributions (RMDs) are waived for all types of defined contribution plans (including 401(k), 403(b) and governmental 457(b) plans) and IRAs (including inherited IRAs). (RMD waiver is NOT available for defined benefit plans.)

What you need to know

New rules for inherited IRAs were established in the Setting Every Community Up for Retirement Enhancement (SECURE) Act, effective January 1, 2020. According to the new rules, certain beneficiaries, known as designated beneficiaries (DBs), must withdraw all assets within 10 years of inheriting the account. This does not apply to all beneficiaries, including surviving spouses, child of the employee or IRA owner who has not reached the age of majority, disabled individuals, the chronically ill and beneficiaries not more than 10 years younger than the employee or IRA owner, also known as eligible designated beneficiaries (EDBs). (See the graphic below for more detail on beneficiary types.)

If the date of death was in 2020:

- You have until December 31, 2021 to make your decision regarding distribution of your inherited assets.
- You will be subject to the current rules.

The rules are very complex and there will be tax consequences. You must consult with appropriate professionals such as your tax or legal counsel before making any decisions.

The graphic below describes the categories of beneficiaries, and the information that follows gives details on considerations for each beneficiary type.

**Eligible designated beneficiary**
(Exempt from 10-year rule; able to use stretch IRA strategy)

- Minor children of decedent
- Disabled persons
- Individuals with chronic illness
- Individuals no more than 10 years younger than decedent
- Spouses
- Certain trusts

**Designated beneficiary**
(Subject to 10-year rule)

- Non-spouses
- Certain trusts

**Non-designated beneficiary**
(Subject to 5-year rule)

- Charities
- Your estate (naming your will)
- Certain trusts

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<table>
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<th>May Lose Value</th>
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## Eligible designated beneficiaries (EDBs)

### Choices for all EDBs

**Stretch IRA**

If you do not need all the assets in your inherited IRA to cover your expenses, you might consider a strategy known as a “stretch” IRA.

- This strategy can “stretch” the time during which your inherited IRA assets can maintain their tax-deferred status. As a result, a “stretch” IRA can serve as an important estate-planning tool.
- By taking only the Required Minimum Distributions (RMDs) from the account each year, the remaining assets continue to grow tax-deferred as long as possible.

**Disclaim the assets**

If you do not want all or any portion of the assets, you may be able to disclaim them within nine months of the account owner’s death.

- This applies when an IRA account owner dies either before or after his/her required beginning date (RBD).\(^1\)

### Choices for spouses

**Roll the IRA to a new or existing IRA in your own name**

- By doing this, you’ll keep the tax-deferred status of the assets and be able to name your own beneficiaries.
- Distributions are based on your own life expectancy (using the IRS tables) and must begin April 1 of the year following the year you reach 72.
- If you are younger than your spouse, this may be a good option because you can delay taking RMDs until April 1 of the year following the year you reach 72.\(^1\)
- This applies when an IRA account owner dies either before or after his/her RBD.\(^2\)

### Special considerations

An eligible designated beneficiary may use their life expectancy to calculate their required minimum distributions. Talk to your tax advisor about the distribution strategy that works for you.

### Important note regarding minors

The 10-year rule would apply as of the date the child attains the age of majority (varies by state).

### Choices for all designated beneficiaries (DBs) (10-year rule)

**Withdraw the assets**

- Lump-sum distributions can be taken in any amount or frequency, as long as the account is depleted by December 31 of the tenth year following the year of the account owner’s death.
- Assets are available for immediate cash flow needs. However, assets may be subject to taxes when they are withdrawn.

**Disclaim the assets**

- If you do not want all or any portion of the assets, you may be able to disclaim them within nine months of the account owner’s death.
- This option applies when an IRA account owner dies either before or after his/her RBD.\(^2\)

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1. This applies when an IRA account owner dies either before or after his/her required beginning date (RBD).
2. This option applies when an IRA account owner dies either before or after his/her required beginning date (RBD).
### Choices for all non-designated beneficiaries (5-year rule)

| Withdraw the assets                       | Lump-sum distributions can be taken in any amount or frequency, as long as the account is depleted by December 31 of the fifth year following the year of the account owner’s death.  
|                                           | Assets are available for immediate cash flow needs. However, assets may be subject to taxes when they are withdrawn.  
|                                           | Some entities, such as see-through trusts, will be subject to different rules. Please see a tax advisor regarding your specific situation.  |
| Disclaim the assets                       | If you do not want all or any portion of the assets, you may be able to disclaim them within nine months of the account owner’s death.  
|                                           | This option applies when an IRA account owner dies either before or after his/her RBD.²  |

All beneficiaries, trustees and executors should consult their tax advisor before making any distribution elections.

### Additional considerations

<table>
<thead>
<tr>
<th>Multiple beneficiaries</th>
<th>If multiple beneficiaries inherit the IRA, you will need to make certain distribution decisions together. You must set up separate inherited IRA accounts by December 31 of the year following the year of the account owner’s death.</th>
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| Opening an inherited IRA            | An inherited IRA must be set up by December 31 of the year following the original account owner’s death.  
|                                       | An inherited IRA is available to any IRA beneficiary, whether the IRA is a traditional, rollover, SEP, SIMPLE or Roth IRA.  
|                                       | Beneficiaries may not make regular annual contributions to an inherited IRA.¹ However, spousal beneficiaries who choose to roll over the inherited assets to their own IRA can make regular contributions, if eligible.  
|                                       | Assets are available for immediate cash flow needs. However, assets may be subject to taxes when they are withdrawn.  
|                                       | If the beneficiary is not a spouse, they must set up their own inherited IRA.  
|                                       | Inherited IRAs are ineligible for 60-day rollovers. The beneficiary of an IRA must move the assets from the deceased person’s account directly to the inherited IRA. Inherited IRAs can accept a direct rollover from a deceased person’s qualified plan (e.g., 401(k), profit sharing).  |

All beneficiaries, trustees and executors should consult their tax advisor before making any distribution elections.
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1 Effective 1/1/2020, in accordance with new legislation, the required beginning date for RMDs is age 72. You may defer your first RMD until April 1 in the year after you turn age 72, but then you’d be required to take two distributions in that year. Failure to take all or part of an RMD results in a 50% additional tax applicable to the amount of the RMD not withdrawn. In addition, under the Coronavirus Aid, Relief, and Economic Security (CARES) Act, all 2020 RMDs have been waived. There are no coronavirus eligibility requirements associated with this change. 2020 distributions that would have been RMD payments prior to the law change may be restored to a plan or IRA subject to the 60-day rollover rule and the one-rollover-per-year limitation. Consult your tax advisor for more information on your personal circumstances.

2 The Required Beginning Date (RBD) is April 1 of the year following the year the account owner would have turned 72 and would have been required to begin taking required minimum distributions (RMDs).

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