

TAKE THE MONEY OR ELSE

IRS PROPOSES TOUGHER RULES FOR INHERITED IRAs

Some heirs will be required to take annual withdrawals.

MANAGING AN INHERITED IRA HAS

never been easy, and it soon could become even more complex. Under the Setting Every Community Up for Retirement Enhancement (SECURE) Act, which took effect in 2020, adult children and other non-spouse heirs are required to deplete inherited IRAs and other tax-advantaged accounts within 10 years of the death of the original owner. Previously, these heirs could take withdrawals over their life expectancy, which reduced the size of annual withdrawals and allowed untapped assets to continue to grow. The law didn't change the rules for surviving spouses, along with heirs who are disabled or are no more than 10 years younger than the original IRA owner. Those heirs can roll the money into their own IRAs or take withdrawals over their life expectancy.

In the months after the law took effect, many financial professionals assumed the new rules meant non-spouse heirs could wait until the 10th year to deplete their inherited IRAs, which would provide them a decade of tax-deferred growth. Heirs who were planning to retire in a few years could postpone withdrawals until they fell into a lower tax bracket, which could reduce taxes on their withdrawals.

But recent proposed guidance from the IRS puts the kibosh on this withdrawal strategy. Under the proposed rules, non-spouse heirs would be required to take annual withdrawals, based on their life expectancy, if the original owner died on or after his or her required beginning date for distributions from a traditional IRA. Under current law, that date is April 1 after the year the original owner turned 72.

After taking required annual withdrawals for nine years, heirs would be required to deplete the balance of the account in year 10.

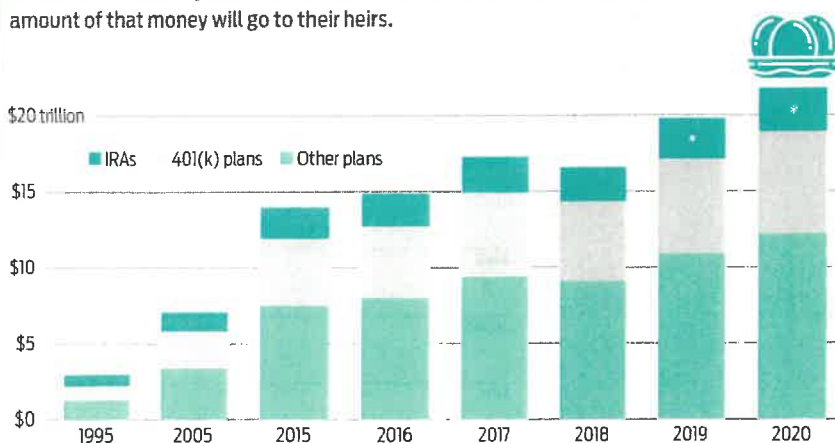
If the original owner died before that date, the heirs wouldn't be required to take annual withdrawals but would still be required to deplete the account in 10 years.

For most heirs, the required distributions won't be very large, says Ed Slott, founder of IRAhelp.com. For example, a 50-year-old who inherited an IRA worth \$200,000 would be required to withdraw \$5,525—about 3% of the total—in the first year. But because the penalty for failing to take a required distribution is severe—50% of the amount that should have been withdrawn—“most beneficiaries are going to take more than the minimum,” Slott says.

The proposed guidance also creates a conundrum for individuals who inherited an IRA after January 1, 2020, and delayed taking withdrawals because they believed they had 10 years to deplete the account. Although the rules suggest they should have taken a withdrawal last year, “you can't go back and take a 2021 distribution unless you have a time machine,” Slott says. Slott predicts that the IRS will provide a waiver for those heirs.

Growing Nest Eggs

Americans held nearly \$22 trillion in tax-advantaged accounts in 2020. A large amount of that money will go to their heirs.



*Data are estimated. SOURCE: Investment Company Institute. For a complete list of sources, see Investment Company Institute, “The US Retirement Market, Fourth Quarter 2020.”

The gift of a Roth. Seniors who want to reduce the tax burden on their heirs may want to consider converting some of the funds in their traditional IRAs to a Roth IRA. The IRS's proposed rules make Roths even more attractive to inherit, Slott says. While the SECURE Act also requires non-spouse heirs to deplete Roths within 10 years, the withdrawals are tax-free. And since Roth owners don't have to take required minimum distributions, there is no required beginning date for Roth IRAs, Slott says. That means individuals who inherit a Roth will still be able to wait 10 years to deplete the account, which will provide them with a decade of tax-free growth.

SANDRA BLOCK



INHERITED/STRETCH IRA

EquiTrust Can Assist with Your Important Decisions

Inheriting assets from a loved one can be trying, as it involves important decisions during a time of grief. In the case of an Inherited or Stretch IRA, the decisions involve your ability to continue tax-deferred growth while avoiding the immediate impact of income taxes.

EquiTrust can assist with products that suit your financial and legacy objectives, the necessary documents to accommodate the ownership transfer, and guidance with distribution obligations.

Ask your Agent for a copy of Inherited/Stretch IRA Rules (form ET-INHRSTRCHRULES) for more detailed information on your Inherited IRA options.

Your agent can also provide a customized illustration with specific product and payout assumptions.

If you are the beneficiary of an IRA, you may have a variety of options depending on your relationship to the original owner, which likely falls into one of three categories:

- Eligible
- Ineligible
- Entity, estate or trust (EquiTrust is unable to assist in these scenarios)

Eligible Beneficiary Options (Stretch)

If you receive an IRA directly from your deceased spouse or otherwise qualify as an eligible beneficiary, EquiTrust offers several options, including:

- Roll over the assets into your (new or existing) Traditional IRA and treat them as if they are your own. The timing of required minimum distributions (RMDs) is based on your own age.
- Transfer the assets to a Spousal or Stretch IRA. The amount of your RMDs will be based on your age, but timing of initial distribution may be based on your spouse's age at the time of death.

Ineligible Beneficiary Options (Inherited)

When you inherit an IRA directly from someone other than a spouse, EquiTrust can help you

- Roll over the inherited assets to an Inherited IRA. You control how the assets are directed and to whom they pass upon your death. Distributions from the Inherited IRA account must be taken within 10 years of the original owner's death.

Hypothetical Example #1

Stretch IRA Advantages

Phyllis, 50 – Eligible Beneficiary

As a sibling of the deceased that is within 10 years of his age, Phyllis has two options in assuming ownership of an IRA account owned by her deceased brother, Richard, who died at age 55.

Scenario A

Phyllis can pay the income taxes in the tax year of Richard's death and invest proceeds at a 1.25%* taxable rate.

Richard's IRA Value at Death	\$100,000
24%* Income Taxes Applied	\$24,000
After-Tax Proceeds	\$76,000

Account Value after 1.25%* Growth for 10 Yrs **\$83,537**



Scenario B

Phyllis can Stretch the IRA and take RMDs based on her starting age of 50, while earning 1.25%* on the account value.

Richard's IRA Value at Death	\$100,000
Taxes paid on Account Value end of Year 10	\$20,246
After-Tax Ending Value	\$64,113
Total After-Tax* RMDs Taken Over 10 Yrs	\$20,629
Ending Value Plus Total RMDs	\$84,742

Hypothetical Example #2

Inherited IRA Advantages

Damon, 40 – Ineligible Beneficiary

As son of his deceased mother, Damon has two options in assuming ownership of an IRA account owned by his mother, Joan.

Scenario A

Damon can pay the income taxes in the tax year of Joan's death and invest proceeds at a 1.25%* taxable rate.

Joan's IRA Value at Death	\$100,000
24%* Income Taxes Applied	\$24,000
After-Tax Proceeds	\$76,000
Account Value after 1.25%* Growth for 10 Yrs	\$83,537



Scenario B

Damon can place the account value in an Inherited IRA, and pay taxes on the account value at the end of 10 years.

Joan's IRA Value at Death	\$100,000
1.25%* Growth for 10 Years	\$113,227
24%* Income Taxes Applied	\$27,174
After Tax Ending Value	\$86,053

Important Dates

- **December 31 of the Year of the Original Owner's Death** - Any RMDs not taken by the original owner must be paid to the beneficiary and reported under the beneficiary's Social Security number.
- **September 30 of Year Following the Original Owner's Death** - The date beneficiaries must be identified to determine their distribution and RMD calculation options. Consult legal or tax advisor for more information.
- **December 31 of the Year Following the Original Owner's Death** - Generally, the date by which Stretch IRA owners must take their first required distribution.
- **December 31 of the 10th year Following the Original Owner's Death** - The date by which Inherited IRA owners must distribute the entire proceeds of their IRA.

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.



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*The 1.25% annualized growth rate and 24% tax bracket are for illustrative purposes, are applied consistently for the example periods, and should not be considered representations of current, future or guaranteed growth rates or tax rates.

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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 new law is designed to expand access to retirement accounts, promote participation, and preserve savings. At the same time, it introduces new restrictions on deferring taxes for inherited retirement accounts. The new 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 IRA.
- The 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 RMDs from the inherited IRA to delay RMDs as long as possible. Also,

- If the owner dies before RMDs, the spousal beneficiary can wait until the original owner's age of 72 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

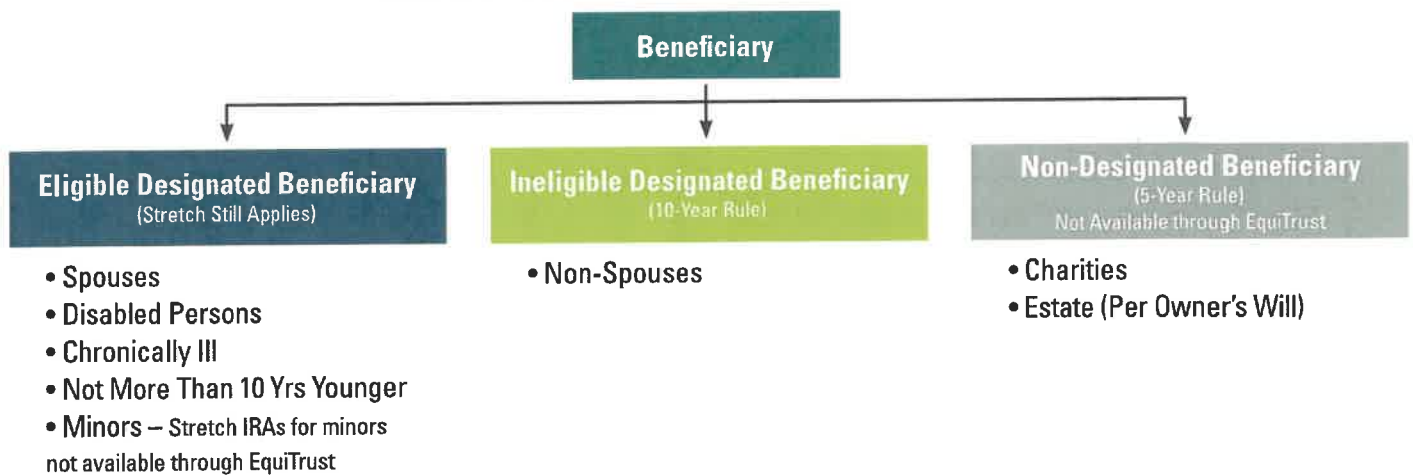
OWNER DEATH BEFORE 1/1/20: STRETCH IRA FOR ALL BENEFICIARIES

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 required minimum distributions* (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.

IRA Beneficiaries After the SECURE Act



Eligible Designated Beneficiaries

In order 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 stretch IRA or come in line with personal IRA
- Disabled individual
- Chronically ill
- Beneficiary not more than ten years younger than the IRA owner

Ineligible Designated Beneficiary

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 beneficiary may 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

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 their 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. Tax-reporting and withdrawal options include

- Take receipt of account assets and pay taxes – either as a lump sum or periodically (may also be subject to surrender charges and Market Value Adjustment)
- Leave funds with EquiTrust and defer taxes as long as possible; EquiTrust will notify the beneficiary before the end of the 10-year period
- Leave the funds with EquiTrust, pay the taxes and convert to a NQ Annuity

STRETCH IRA – FOR ELIGIBLE DESIGNATED BENEFICIARIES ABLE TO STRETCH DISTRIBUTIONS

RMDs are required based on single life expectancy of beneficiary reduced by 1 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 1 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
- No RMDs are required
- 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 single life expectancy until death, second beneficiary inherits IRA
- No RMDs are required
- 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

Example Inheritance Scenarios – continued on next page.

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 1 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 1 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 in understanding the implications of the SECURE Act. Start the process now to protect your financial future and your legacy.



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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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