



## What You Should Know about Inherited IRAs

The rules governing inherited IRAs can be complicated. Here are the major issues.

### Transferring inherited IRA assets

If you inherit an IRA from someone who isn't your spouse, your options are fairly limited. You can't roll the proceeds over to your own IRA, treat the IRA as your own, or make any additional contributions to the IRA. What you can do is transfer the assets to a different IRA provider, as long as the registration of the account continues to reflect that the IRA is an inherited IRA and not your own.

If you inherit an IRA from your spouse, you have many more options. You can roll all or part of the IRA proceeds over to your own IRA. You become the owner of the IRA assets, and the rules that apply to IRA owners, not beneficiaries, apply from that point on. If you're the sole beneficiary of the IRA, you can also generally treat the inherited IRA as your own by retitling the IRA in your name. But you aren't required to assume ownership of an inherited IRA. You can instead continue to maintain the inherited IRA as a beneficiary. You might want to do this if you inherit a traditional IRA and you'll need to use the funds before you turn 59½ (distributions from inherited IRAs aren't subject to the 10% penalty that typically applies to early distributions from IRAs you own).

### Required minimum distributions (RMDs)

**Nonspouse beneficiary:** Federal law requires that you begin taking distributions (called required minimum distributions, or RMDs) from the inherited IRA after the IRA owner dies. If the IRA owner died after turning 70½ and didn't take a required distribution for the year of death, you'll need to make sure to take that distribution by December 31 of the year of death in order to avoid a 50% penalty.

**Spouse beneficiary:** If you roll the inherited IRA over to your own IRA, or treat it as your own, then the RMD rules apply to you the same way they apply to any IRA owner—you'll generally need to begin taking RMDs from a traditional IRA after you turn 70½; no lifetime RMDs are required at all from a Roth IRA. If you don't roll the IRA assets over or treat the IRA as your own, then the same rules described above for nonspouse beneficiaries generally apply to you, except that you can defer receiving distributions until your spouse would have turned 70½.

### Special rules--inherited Roth IRAs

Qualified distributions to a beneficiary from an inherited Roth IRA are free from federal income taxes. To be qualified, the distribution must be made after a five-year holding period. The five-year period begins on January 1 of the year the deceased IRA owner first established any Roth IRA,

and ends after five full calendar years. If you take a distribution from an inherited Roth IRA before this five-year period ends, any earnings you receive will be subject to federal income taxes (earnings generally come out last). If you're a spouse beneficiary, and you roll the inherited Roth IRA over to your own Roth IRA or treat the inherited IRA as your own, then you'll be eligible to take tax-free distributions only after *you* reach age 59½, become disabled, or have qualifying first-time homebuyer expenses. You'll also need to satisfy the five-year holding period, but a special rule applies--the five-year period for *all of your Roth IRAs* will be deemed to have started on January 1 of the year you or your spouse first established any Roth IRA, whichever is earlier.

### And speak to a financial professional if...

- You're sharing the inherited IRA with other beneficiaries. This can impact when and how you must begin receiving RMDs from the IRA.
- You don't want or need the IRA funds. You may be able to disclaim the IRA and have it pass to another beneficiary. This must be done in accordance with strict IRA rules.
- Any estate taxes were paid that are attributable to the inherited IRA. You may be entitled to an income tax deduction equal to the estate taxes paid.

# OUTPERFORM.

## Why Reliance?

One question we at Reliance get on a regular basis is how we differ in managing money compared to other “financial advisors” and what is the process we use to manage our clients’ assets. This is a very important question because, not all advisors are the same. This key point can often be the critical difference with how money is managed for a client.

### Care of Duty & Fiduciary Benefit

Let’s start with the advisor role. As a trust company, Reliance is a fiduciary. We must operate in our client’s best interest by putting ourselves in their shoes and making decisions based on our expertise and the information the clients have shared with us. In other words, if I were in your identical situation how would I be managing my financial affairs? It should be the same.

In addition, just as you are concerned about fees, so too are we. Now we know there is no free lunch, but reasonable fees, which are free from conflicts of interest, are crucial. As fiduciaries, we are legally bound to act in our clients best interests and avoid conflicts of interest. At times, investors become confused as to who is a fiduciary and who is not. When they hear terms like financial advisor they think all are treated the same, which is not correct. The term “financial advisor” can be used as a generic term to describe professionals in the money management profession including stockbrokers, financial planners, insurance agents, mutual fund companies, etc. These individuals generally have a very limited duty to ensure an investment is best suited for you.

Most non-fiduciaries are paid for selling products or are paid a transaction fee for buying or selling securities. And in some cases, they benefit personally by selling products to clients, which pay them a higher commission. Thus, they lack the degree of objectivity provided by a fiduciary that does not sell or endorse specific products.

When it comes to managing the portfolios, as a fiduciary, we accept the responsibility of actively managing the portfolio(s) for our clients. This generally allows us to make buy and sell decisions without having to get our clients’ authorization. Because of our clients’ hectic lives this means we can make timely decisions as we see fit. Most clients have determined they have a better way of spending their time than keeping up on the latest investment trends and talking to an advisor every day.

### Client Alignment

Reliance, being an independent firm, is not associated with any particular managers. This allows us to bring our clients the best money managers in the world. Our approach maintains independence by accepting no fees from the investment managers we entrust with our clients’ money. We start by performing quantitative analysis on potential investment candidates. Once we find a number of potential candidates, we perform a fundamental (qualitative) analysis to narrow down the field even further.

While our quantitative model is adjusted to place less emphasis on recent top performance, this information makes it clear that one must look at factors other than past performance in the investment manager selection process. Reliance incorporates qualitative factors into the selection process, which sets us apart from those that rely heavily upon prior performance.

Once we have our investments, we need to know how they can be combined to meet our clients’ goals. Each client’s funds are managed based on a customized investment policy. We feel a well-defined investment policy is the cornerstone of our clients’ investment management process. The policy helps to clearly define the investment goals, risk characteristics and parameters in which we must manage our client’s money.

### Best of Both Worlds

The investment management process is dynamic and ongoing. Based upon the relative performance of each manager over time, monies will be reallocated among them. Our experience and analysis has shown that generally, less frequent reallocation between managers produces better results than more frequent reallocation. However, each decision is based upon the facts and circumstances for each client.

The overall general product mix is established by the Reliance Investment Committee (RIC), which consists of senior management with an expertise in managing assets. The members of RIC each receive and review on a daily basis both public and proprietary information from numerous sources. If any information is deemed to impact the manager or fund, and could negatively affect a portfolio, the situation is immediately reviewed and additional information requested. After reviewing the details the RIC will determine an appropriate response. In addition to reviewing external media, the RIC also reviews, at least quarterly, the funds and managers.

Through a review of economic data, the RIC makes changes which are projected to benefit the portfolio over the next 12-24 months. As clients, you have the ability to walk in and sit down with any of the RIC members and discuss your portfolio. Our active management and due diligence process allows us to manage assets in a more sophisticated process normally only available by larger firms in larger metropolitan areas.

As always, please feel free to contact your relationship manager or me with any questions or further clarification you have on our entire process.

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