



Let's talk  
about the  
retirement  
account you  
inherited.

Important things to know as a  
retirement account beneficiary.

You've just inherited a retirement account. What follows is a very personal decision at a difficult time. As you think about what to do with money inherited from an Individual Retirement Account (IRA) or a Qualified Retirement Plan, we're here to help you understand your options and make a decision based on your financial situation.

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**Note:** The information in this brochure is based on the SECURE Act, which applies when the IRA account holder passed away after 2019. For IRA account holders who passed away prior to 2020, view [Schwab.com/IRA/Inherited-IRA](https://www.schwab.com/IRA/Inherited-IRA).

The information in this brochure is intended for individual U.S. citizens, and for situations where a U.S. retirement account is being inherited for the first time. If you are inheriting the account as part of a charitable donation, are inheriting a previously inherited account, or are inheriting a foreign account, please consult your tax advisor.



#### TYPES OF BENEFICIARIES

You have some big decisions to make about your inheritance. We're here to help you do it with confidence—and make things a little easier during an otherwise difficult time.

## First things first. Who are you?

When the account holder designates a beneficiary, this could be an individual (e.g., spouse, family member, or friend) or it could be an entity such as a trust, estate, or organization.

The rules for how you can receive the money vary depending on the type of account you inherit—it could be an IRA (such as a Traditional IRA or an employer-sponsored SEP-IRA or SIMPLE IRA), a Roth IRA (which may have special tax benefits), or a Qualified Retirement Plan (such as profit-sharing, money-purchase, or 401(k) or 403(b) plans sponsored by an employer).

There are three distinct types of beneficiaries, and knowing the capacity in which you inherited the account will help determine how you should proceed and what requirements you have to distribute the assets in the account. Note that unless you are a spouse beneficiary or choose to disclaim the inheritance, an Inherited IRA will need to be opened in order to receive any inherited assets.

## Eligible Designated Beneficiaries

You were listed as the beneficiary on the account, and are also one of the following: the spouse or minor child of the deceased, an individual less than 10 years younger than the deceased (a sibling, for example), or an individual who is chronically ill<sup>†</sup> or disabled.<sup>§</sup>

## Designated Beneficiaries

You were listed as the beneficiary on the account but don't fall under one of the special categories mentioned above to be considered an "Eligible" Designated Beneficiary.

## Trust/Estate as Named Beneficiary

You were **not** listed as the beneficiary on the account itself but were listed as the beneficiary in a will or received the assets via an estate or trust. In these situations, you will need to work with the executor of the estate or the trustee of the trust to determine how the assets will be managed.

Each of the above classifications has its own pros and cons, and it's important to consider all of your options once you determine which classification you are in, as well as factoring in any accompanying rules, before you decide what to do.

\*We recommend you consult a tax or estate professional to ensure all applicable state and federal laws are followed.

<sup>†</sup>At the date of death, the individual must be chronically ill as defined by IRC 7702B(c)(2).

<sup>§</sup>At the date of death, the individual must be disabled as defined by IRC 72(m)(7).

**ELIGIBLE DESIGNATED BENEFICIARIES**

# This inheritance has your name on it.

The spouse or any minor children of the deceased, an individual less than 10 years younger than the deceased, or an individual who is chronically ill or disabled constitutes an Eligible Designated Beneficiary.

In some situations, beneficiaries may be allowed to keep inherited assets in the existing plan. Check with the plan’s administrator to determine all available options.

**Option 1: Transfer the assets to your own IRA (spouses only).**

Benefits	Considerations	Distribution Rules
<ul style="list-style-type: none"> <li>• The assets can potentially continue to grow tax-deferred.</li> <li>• Provides bankruptcy creditor protection up to \$1M.</li> <li>• You won’t have to pay a 10% early withdrawal penalty if you’re over the age of 59½.</li> </ul>	<ul style="list-style-type: none"> <li>• You cannot make penalty-free withdrawals if you’re under the age of 59½—unless you meet one of the IRS penalty exceptions.</li> </ul>	<ul style="list-style-type: none"> <li>• The funds are moved into your retirement account and follow the rules of that account.</li> <li>• You can access the funds at any time, but a penalty could apply to distributions made before you reach age 59½.</li> <li>• After you turn RMD age, your account will be subject to annual RMDs (required minimum distributions) based on your life expectancy.</li> <li>• If the original account holder was subjected to RMD requirements and did not distribute the whole amount prior to death, you must remove any undistributed amount at the time of the transfer to your IRA.</li> </ul>

**Option 2: Open an Inherited IRA and take distributions over time.**

Benefits	Distribution Rules
<ul style="list-style-type: none"> <li>• The assets can potentially continue to grow tax-deferred.</li> <li>• You will not have to pay a 10% early withdrawal penalty.</li> </ul>	<ul style="list-style-type: none"> <li>• You can access your funds at any time, and taxable distributions are included in your gross income.</li> <li>• Your life expectancy will be used to calculate RMDs.</li> </ul> <p><b>If the original account holder was under RMD age at the time of death:</b></p> <ul style="list-style-type: none"> <li>• You have until December 31 of the year following their death to begin taking RMDs.</li> <li>• If you are the spouse of the deceased, you have until December 31 of the year in which the deceased would have reached RMD age to take your first RMD.</li> </ul> <p><b>If the original account holder was of RMD age at the time of death:</b></p> <ul style="list-style-type: none"> <li>• You have until December 31 of the year following their death to begin taking RMDs.</li> <li>• If the original account holder did not take an RMD for the year in which they died, you must take at least that amount as a distribution by the end of the current year.</li> </ul> <p><b>If the beneficiary is a minor child of the deceased:</b></p> <ul style="list-style-type: none"> <li>• When they reach age 21, the rules change to the 10-year rule (see: Designated Beneficiaries section).</li> </ul>

## ELIGIBLE DESIGNATED BENEFICIARIES

### Option 3: Take a lump-sum distribution.

Benefits	Considerations	Distribution Rules
<ul style="list-style-type: none"><li>Immediate access to the entire inheritance.</li></ul>	<ul style="list-style-type: none"><li>You miss out on the potential opportunity for any future tax-deferred growth.</li><li>Depending on the size of the inheritance, this could move you into a higher tax bracket.</li></ul>	<ul style="list-style-type: none"><li>The funds are distributed all at once.</li><li>You'll pay income taxes on the taxable portion of the distribution, and you may move to a higher tax bracket.</li></ul>

### Option 4: Disclaim the account.

Benefits	Considerations	Distribution Rules
<ul style="list-style-type: none"><li>No tax implications, and if you're financially secure, you could be letting it go to someone in greater need.</li></ul>	<ul style="list-style-type: none"><li>You don't inherit any of the assets.</li><li>Schwab recommends that you consult with a qualified tax advisor, CPA, financial planner, or investment manager.</li></ul>	<ul style="list-style-type: none"><li>N/A</li></ul>

## Stash it away for a rainy day.

Most spouses take advantage of the special spousal privilege that allows them to roll assets inherited from their spouse's retirement plan directly into an IRA of their own. There are times, however, when this might not be the best option. Here's an example:

When Janet's husband dies unexpectedly, she worries about how she'll manage without his income in the years ahead. Will she need money from his Traditional IRA to help with the mortgage? She can't be sure.

So instead of transferring the money to her own IRA, where it would be treated as if it had always been hers—and be subject to a 10% early withdrawal penalty if she needs to use the money before age 59½—she opens an Inherited IRA, where she can make withdrawals at any time and avoid the penalty. She will still be subject to RMDs based on her husband's RMD age, but his money can potentially continue to grow tax-deferred, and is readily available if Janet needs it.

If you're ready to take the necessary next steps, check out pages 11–12 for additional information. You can also call us at [1-888-297-0244](tel:1-888-297-0244) or visit [Schwab.com/IRA/Inherited-IRA](https://www.schwab.com/IRA/Inherited-IRA).

This is a hypothetical example and is not intended to be tax advice. You should consult with a tax advisor to help minimize the tax impact of an inherited retirement account.

## DESIGNATED BENEFICIARIES

# You've inherited some money. What do you do?

You fall under this category if you've been named a beneficiary but are not the spouse or a minor child of the deceased, are more than 10 years younger than the deceased, and are not chronically ill or disabled. Here are some factors to consider as you decide how to proceed.

### Option 1: Open an Inherited IRA and take distributions within 10 years.

Benefits	Considerations	Distribution Rules
<ul style="list-style-type: none"><li>The assets can potentially continue to grow tax-deferred.</li><li>You will not have to pay a 10% early withdrawal penalty.</li></ul>	<ul style="list-style-type: none"><li>For deaths on or after January 1, 2020, the so-called "stretch IRA" option to take distributions over your lifetime is no longer available under SECURE Act rules.</li><li>If the money is not taken out by the end of the 10th year, an excise penalty may apply.</li></ul>	<ul style="list-style-type: none"><li>You can access your funds at any time, and taxable distributions are included in your gross income—as long as the money is distributed within 10 years.</li><li>All assets in the account must be distributed within 10 years. If the original account owner died before they started taking required minimum distributions, you can distribute the assets however you like. If the original account owner had started taking required minimum distributions, you will also need to take RMDs each year during the 10-year distribution period.</li></ul>

### Option 2: Take a lump-sum distribution.

Benefits	Considerations	Distribution Rules
<ul style="list-style-type: none"><li>Immediate access to the entire inheritance.</li></ul>	<ul style="list-style-type: none"><li>You miss out on the potential opportunity for any future tax-deferred growth.</li><li>Depending on the size of the inheritance, this could move you into a higher tax bracket.</li></ul>	<ul style="list-style-type: none"><li>The funds are distributed all at once.</li><li>You'll pay income taxes on the taxable portion of the distribution, and you may move to a higher tax bracket.</li></ul>

### Option 3: Disclaim the account.

Benefits	Considerations	Distribution Rules
<ul style="list-style-type: none"><li>No tax implications, and if you're financially secure, you could be letting it go to someone in greater need.</li></ul>	<ul style="list-style-type: none"><li>You don't inherit any of the assets.</li><li>Schwab recommends that you consult with a qualified tax advisor, CPA, financial planner, or investment manager.</li></ul>	<ul style="list-style-type: none"><li>N/A</li></ul>



## DESIGNATED BENEFICIARIES

### From piggy bank to college fund.

For younger beneficiaries, transferring inherited retirement money into an Inherited IRA, where it can potentially continue to grow tax-deferred, could turn a modest inheritance into a substantial legacy. Consider this example:

When 8-year-old Tara inherits a \$100,000 IRA from her grandfather, who passed away at age 71 before he was required to start taking Required Minimum Distributions, her parents decide to open an Inherited IRA with the money. By doing so, they're letting Tara's inheritance potentially continue to grow tax-deferred for a decade. So, while Tara's parents can withdraw funds for her if needed, by stretching out those withdrawals over 10 years, they help Tara maximize the growth of those funds.

When Tara nears adulthood, she'll know that the 10-year distribution window will soon come to a close and any remaining assets in the account will need to be distributed. She will then need to withdraw the money from the Inherited IRA and can either use it to pay for a big expense—like college, or add it to a savings or investment account.

If you're ready to take the necessary next steps, check out pages 11–12 for additional information. You can also call us at [1-888-297-0244](tel:1-888-297-0244) or visit [Schwab.com/IRA/Inherited-IRA](https://www.schwab.com/IRA/Inherited-IRA).

This is a hypothetical example and is not intended to be tax advice. You should consult with a tax advisor to help minimize the tax impact of an inherited retirement account.

## The inheritor of the IRA is an estate.

If the beneficiary of the IRA account is an estate, then the estate will determine how the assets are distributed. Under this scenario, these are the options. Please note that the executor of the estate will need to work with Schwab to manage the process.

### Option 1: The executor opens an Inherited IRA and distributes assets within five years if the deceased was under RMD age.

Benefits	Considerations	Distribution Rules
<ul style="list-style-type: none"> <li>The assets can potentially continue to grow tax-deferred.</li> <li>You won't have to pay a 10% early withdrawal penalty.</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>The executor of the estate can access the funds and manage the taxable distributions. If you are a beneficiary of the assets, the distributions may be included in your gross income.</li> <li>All funds must be distributed within five years.</li> </ul>

### Option 2: The executor opens an Inherited IRA and distributes assets based on the deceased's life expectancy if they were of RMD age.

Benefits	Considerations	Distribution Rules
<ul style="list-style-type: none"> <li>The assets can potentially continue to grow tax-deferred.</li> <li>You won't have to pay a 10% early withdrawal penalty.</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>	<ul style="list-style-type: none"> <li>The executor of the estate can access the funds and manage the taxable distributions. If you are a beneficiary of the assets, the distributions may be included in your gross income.</li> <li>The same RMDs would apply as if the deceased were still alive.</li> </ul>

### Option 3: Take a lump-sum distribution.

Benefits	Considerations	Distribution Rules
<ul style="list-style-type: none"> <li>Immediate access to the entire inheritance minus any taxes.</li> </ul>	<ul style="list-style-type: none"> <li>You miss out on the potential opportunity for any future tax-deferred growth.</li> <li>Depending on the size of the inheritance, this could move you into a higher tax bracket.</li> </ul>	<ul style="list-style-type: none"> <li>The executor of the estate can determine to distribute the funds all at once.</li> <li>If you are a beneficiary of the assets, the distributions may be included in your gross income and may move you into a higher tax bracket.</li> </ul>



#### TRUST/ESTATE AS NAMED BENEFICIARY

## Let it grow.

Beneficiaries don't have to be explicitly named as such in an IRA in order to access their inheritance if they are otherwise heirs to an estate. Consider this example:

Joe's father passes away with \$50,000 in an IRA with no listed beneficiary. However, Joe is named as his father's sole heir in the will, which makes him a Non-Designated Beneficiary.

Joe wants to leave the assets to grow in the market for as long as possible, so he consults with the executor of his father's estate, who opens an Inherited IRA for the estate. Since his father was 68 when he died, the executor is required to distribute all assets within five years. The Executor chooses to leave the money untouched for five years to potentially maximize its growth, at which time the assets will be withdrawn and provided to Joe to spend (or further invest) as he wishes.

If you're ready to take the necessary next steps, check out pages 11–12 for additional information. You can also call us at [1-888-297-0244](tel:1-888-297-0244) or visit [Schwab.com/IRA/Inherited-IRA](https://www.schwab.com/IRA/Inherited-IRA).

This is a hypothetical example and is not intended to be tax advice. You should consult with a tax advisor to help minimize the tax impact of an inherited retirement account.

## CHECKLIST

# You know what you want to do. Here's how you do it.

**You've made a pros and cons list, consulted with a qualified tax advisor, and thoughtfully weighed your options to come to a decision. Now that you know what you want to do, here's how to get started.**

If the account to be inherited is at Schwab, visit [Schwab.com/IRA/Inherited-IRA](https://www.schwab.com/IRA/Inherited-IRA) or call **1-888-297-0244** to speak to an estate specialist. You will need a copy of the death certificate to get started.

If the account to be inherited is at another financial institution, you'll have to contact them for instructions on how to transfer the funds to Schwab—whether to a new Schwab Inherited IRA or to your own currently existing Schwab IRA.

Once you've gathered your completed documents and forms, please send them to:

***Residents of California and the Pacific Northwest and Southwest regions:***

Charles Schwab & Co., Inc.  
ATTN: IS Document Control  
P.O. Box 982600  
El Paso, TX 79998-2600

***Residents of Florida and the Great Lakes, Mid-Atlantic, Midwest, Northeast, and Southeast regions:***

Charles Schwab & Co., Inc.  
P.O. Box 628291  
Orlando, FL 32862-8291

## NEXT STEPS

### Now you can breathe.

If you're like most people, inheriting a retirement plan is a new kind of financial responsibility—one that can feel incredibly overwhelming during what might be a difficult time. However, this can also serve as an excellent opportunity to plan for a more secure future, thanks to your benefactor.

Whether you have chosen to transfer your new assets into an Inherited IRA, move them into a new or existing retirement savings plan, or withdraw them as a lump-sum amount, we're here to ensure you're well-informed and feel great about your decision.

If you have questions or need additional information, please call us at **1-888-297-0244**, 8:30 a.m. to 8:00 p.m. ET, Monday through Friday. We're here to help.

**Tip:** We recommend you talk with your tax advisor or CPA before making a decision that could affect your financial standing. They can help you understand the specific tax implications of your inheritance and set up an RMD schedule so your distributions can be withdrawn annually to avoid tax penalties.

Although Schwab can help you understand your choices, the IRS requires account holders to be responsible for their beneficiary RMD calculations and due dates.

**Brokerage and insurance products: Are not deposits**  
▪ Are not FDIC-insured ▪ Are not insured by any federal government agency  
▪ Are not guaranteed by the bank or any affiliate of the bank ▪ May lose value

The general information provided in this guide should not be considered an individualized recommendation or personalized tax advice. You should review your own particular situation and consider contacting an appropriate tax, legal, estate, or investment advisor prior to making a decision.

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