Understanding Inherited IRAs

Creating A Financial Future

MIDLAND
Retirement Distributors℠

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Understanding Inherited IRAs

Many retirement savers spend much of their working lives building their retirement nest eggs through the use of Individual Retirement Accounts (IRAs). When retirement arrives, they can utilize these accounts to create a steady and dependable source of income.

For others, IRA savings may never be needed and converting these accounts into income often means a tax burden that is unnecessary. Some may pass this power of income with tax-deferral onto their heirs, essentially creating a legacy of growth and income for multiple generations.

For IRA owners, qualified distributions are required to begin at age 70½. The owner may always choose to take out more if they need, but they must withdraw the minimum amount based on their life expectancy. If you are fortunate enough to need to withdraw only the Required Minimum Distribution (RMD), you may find yourself in the position to leave a significant amount to your heirs.

An Opportunity

The current tax law makes it simple to set up and pass on an IRA to your heirs. The law has also defined how the IRA must be liquidated after you pass on. Your beneficiary(ies) may be allowed to “stretch” the distributions over their own life expectancy. This will allow them to spread out the tax liability as long as possible, allowing that legacy to grow tax-deferred and provide income for a number of years.

This is called an Inherited IRA, and it can be provided to you and your heirs by Midland Retirement Distributors℠.

Features

- Helps to ensure an income stream to you and your heirs, while offering continued tax-deferral on your IRA. This creates a legacy for your retirement nest egg.
- Provides the ability to name multiple primary and contingent beneficiaries. These can be changed at any time until the death of the contract owner.
- Allows the beneficiary the ability to spread out the tax liability over a number of years, as well as take additional amounts of income from the accounts, if needed.

The Time Is Now

The old saying is, “There is no time like the present,” and in this case it is very true. No one knows what tomorrow may bring, and for that reason, it is important to start planning now. Why delay making a decision that may profoundly affect not only you, but also those dearest to you? While it may seem impossible to know where to start, there are a few simple steps you can take to begin. All of the items listed below are important things to consider. Addressing these now can help make the rest of the process easier.

1. Think about who you want your beneficiaries to be, and in what percentages you wish them to benefit. While these choices are not irrevocable, it is still wise to have a clear idea about how this should be structured.
2. Gather records for all your retirement accounts. This will help you gain a more comprehensive picture of your needs.
3. Contact your financial professional in order to make any necessary beneficiary changes and to discuss options.

While most of the ideas and information are reasonably easy to understand, it may seem overwhelming to put all of the pieces together. That is why we recommend you work closely with your financial professional. This person can help with the paperwork and further explanation of the concepts for your review. Together, you will find that an Inherited IRA could assist in your preservation of wealth and creation of an income legacy for you and your future generations.

Uniform Lifetime Table		Beneficiary Life Expectancy Table			
Age	Life Exp. Factor	Age	Life Exp. Factor	Age	Life Exp. Factor
70	27.4	0	82.4	56	28.7
71	26.5	1	81.6	57	27.9
72	25.6	2	80.6	58	27.0
73	24.7	3	79.7	59	26.1
74	23.8	4	78.7	60	25.2
75	22.9	5	77.7	61	24.4
76	22.0	6	76.7	62	23.5
77	21.2	7	75.8	63	22.7
78	20.3	8	74.8	64	21.8
79	19.5	9	73.8	65	21.0
80	18.7	10	72.8	66	20.2
81	17.9	11	71.8	67	19.4
82	17.1	12	70.8	68	18.6
83	16.3	13	69.9	69	17.8
84	15.5	14	68.9	70	17.0
85	14.8	15	67.9	71	16.3
86	14.1	16	66.9	72	15.5
87	13.4	17	66.0	73	14.8
88	12.7	18	65.0	74	14.1
89	12.0	19	64.0	75	13.4
90	11.4	20	63.0	76	12.7
91	10.8	21	62.1	77	12.1
92	10.2	22	61.1	78	11.4
93	9.6	23	60.1	79	10.8
94	9.1	24	59.1	80	10.2
95	8.6	25	58.2	81	9.7
96	8.1	26	57.2	82	9.1
97	7.6	27	56.2	83	8.6
98	7.1	28	55.3	84	8.1
99	6.7	29	54.3	85	7.6
100	6.3	30	53.3	86	7.1
101	5.9	31	52.4	87	6.7
102	5.5	32	51.4	88	6.3
103	5.2	33	50.4	89	5.9
104	4.9	34	49.4	90	5.5
105	4.5	35	48.5	91	5.2
106	4.2	36	47.5	92	4.9
107	3.9	37	46.5	93	4.6
108	3.7	38	45.6	94	4.3
109	3.4	39	44.6	95	4.1
110	3.1	40	43.6	96	3.8
111	2.9	41	42.7	97	3.6
112	2.6	42	41.7	98	3.4
113	2.4	43	40.7	99	3.1
114	2.1	44	39.8	100	2.9
115	1.9	45	38.8	101	2.7
		46	37.9	102	2.5
		47	37.0	103	2.3
		48	36.0	104	2.1
		49	35.1	105	1.9
		50	34.2	106	1.7
		51	33.3	107	1.5
		52	32.3	108	1.4
		53	31.4	109	1.2
		54	30.5	110	1.1
		55	29.6	111+	1.0

Source: Tax Facts 2017

Reasons Why

1. Most IRA owners are required to use the most current Uniform Lifetime Table (reproduced on the prior page) to calculate required minimum distributions (RMDs). If the account owner has named their spouse as beneficiary AND if the spouse is more than 10 years younger than the account owner, a different joint life expectancy table may be used.
2. IRA owners may change their beneficiary designation(s) at any point during their lifetime without negatively affecting their RMD amount. This allows the beneficiary designation to change if needed.
3. Even IRA owners who are already taking RMDs can name beneficiaries who will be allowed to stretch out their own distributions after the original owner's death. In some cases, this will slow down the post-death distributions from the IRA while preserving the benefits of after-tax growth for the beneficiaries.

How It Works

Let's assume that you are the owner of an IRA in which your daughter is the primary beneficiary. Once you reach age 70½, if you elect to take only the RMD each year, you will be able to maximize the amount you pass on to your daughter at your death. At the time your daughter inherits the account from you, she will take RMDs based on her life expectancy. She would use the factor from the Single Life Table on the prior page as the starting point to calculate her RMDs.

The result is a relatively small distribution to your daughter, spread out over a longer period of time, which could lower her potential tax burden. Also, because there is no annuitization required, the IRA may continue to earn tax-deferred interest while these distributions are taken. If your daughter had been forced into a lump sum settlement, more than one-third may have been consumed in taxes.

The Option of Spousal Continuance

When a spouse is the owner's sole primary beneficiary, there is a unique opportunity to elect a spousal continuance option. This option, based on the contract, may allow the spouse to continue the contract, free of any surrender penalties, as the new owner. Under the spousal continuance option, the spouse will be entitled to all of the benefits available under the contract. The spouse may …

- Leave the annuity contract in force, allowing the current value of the annuity to continue earning tax-deferred interest.
- Begin taking annuity income payments from the contract.
- Withdraw funds from the contract by taking a partial or full distribution. Contact your financial professional to discuss possible tax consequences.

On the next page is an example of how a payout might work when spousal continuance is elected.

Below is an example of how a payout might work when spousal continuance is elected. We will assume that the husband is 65 and has an IRA. His wife is age 55, and their daughter is age 22. Additionally, we will also assume that the husband will live to be age 73 and the wife will live to be age 72. Let's also assume that over the entire period the IRA is paying out, it will be earning a 4% interest rate. These examples are hypothetical, not intended to predict or project future performance, and calculated before taxes. Actual results may be higher or lower.

The RMD for any year is based on the account value as of the end of the immediately preceding calendar year, and the RMD must be taken by December 31 of each year. These calculations assume an end-of-year withdrawal of the RMD calculated based on the account value at the beginning of that calendar year, and assume the contract year and calendar year are the same for the purpose of these examples.

Husband

Year	Age	Beg. Account Value	RMD Life Exp.	Interest	RMD WD	End Account Value
1	65	$200,000	N/A	$8,000	-	$208,000
2	66	$208,000	N/A	$8,320	-	$216,320
3	67	$216,320	N/A	$8,653	-	$224,973
4	68	$224,973	N/A	$8,999	-	$233,972
5	69	$233,972	N/A	$9,359	-	$243,331
6	70	$243,331	27.4	$9,733	$8,881	$244,183
7	71	$244,183	26.5	$9,767	$9,214	$244,736
8	72	$244,736	25.6	$9,789	$9,560	$244,965
9	73	$244,965	24.7	$9,799	$9,918	$244,846

The husband leaves $244,846 at his death to his wife. The wife inherits the IRA account and begins RMDs based upon her life expectancy at age 70½.

Wife / Mother

Year	Age	Beg. Account Value	RMD Life Exp.	Interest	RMD WD	End Account Value
10	64	$244,846	N/A	$9,794	-	$254,640
11	65	$254,640	N/A	$10,186	-	$264,826
12	66	$264,826	N/A	$10,593	-	$275,419
13	67	$275,419	N/A	$11,017	-	$286,436
14	68	$286,436	N/A	$11,457	-	$297,893
15	69	$297,893	N/A	$11,916	-	$309,809
16	70	$309,809	27.4	$12,392	$11,307	$310,894
17	71	$310,894	26.5	$12,436	$11,732	$311,598
18	72	$311,598	25.6	$12,464	$12,172	$311,890

The wife leaves $311,890 at her death to her daughter. She continues RMDs based on her life expectancy using the beneficiary life expectancy table following the year of her mother's death.

Daughter

Year	Age	Beg. Account Value	RMD Life Exp.	Interest	RMD WD	End Account Value
19	40	$311,890	43.6	$12,476	$7,153	$317,212
20	41	$317,212	42.6	$12,688	$7,446	$322,455
21	42	$322,455	41.6	$12,898	$7,751	$327,602
22	43	$327,602	40.6	$13,104	$8,069	$332,637
23	44	$332,637	39.6	$13,305	$8,400	$337,542
24	45	$337,542	38.6	$13,502	$8,745	$342,299
25	46	$342,299	37.6	$13,692	$9,104	$346,888
26	47	$346,888	36.6	$13,876	$9,478	$351,285
27	48	$351,285	35.6	$14,051	$9,868	$355,469
28	49	$355,469	34.6	$14,219	$10,274	$359,414
29	50	$359,414	33.6	$14,377	$10,697	$363,094
30	51	$363,094	32.6	$14,524	$11,138	$366,480
35	56	$376,447	27.6	$15,058	$13,639	$377,865
40	61	$377,984	22.6	$15,119	$16,725	$376,378
45	66	$361,679	17.6	$14,467	$20,550	$355,596
50	71	$319,238	12.6	$12,770	$25,336	$306,671
55	76	$239,112	7.6	$9,564	$31,462	$217,215
60	81	$104,240	2.6	$4,170	$40,092	$68,317
61	82	$68,317	1.6	$2,733	$42,698	$28,352
62	83	$28,352	-	$1,134	$29,486	-

Payments will continue to the daughter for the remainder of her life or until the account balance is depleted. At the daughter's death, payments can continue to her named beneficiary based upon the above table. In this example, the husband's initial premium of $200,000 totaled a payout of $930,702 "stretched" over multiple generations. This can be compared to the daughter electing to take a lump sum settlement at the mother's death, which would have resulted in a payout of $384,674 (accumulation value at the wife's death plus previous RMDs).

Now, let's assume that the daughter, instead of inheriting the IRA, chooses to disclaim it. It would then pass on to the next in line, which for this illustration is the daughter's son (or the husband's grandson). Also assume at the time of inheritance, the grandson is 20, and he is the sole contingent beneficiary. Again, we will assume the IRA is paying a 4% interest rate. These examples are hypothetical, not intended to predict or project future performance, and calculated before taxes. Actual results may be higher or lower.

Husband

Year	Age	Beg. Account Value	RMD Life Exp.	Interest	RMD WD	End Account Value
1	65	$200,000	N/A	$8,000	-	$208,000
2	66	$208,000	N/A	$8,320	-	$216,320
3	67	$216,320	N/A	$8,653	-	$224,973
4	68	$224,973	N/A	$8,999	-	$233,972
5	69	$233,972	N/A	$9,359	-	$243,331
6	70	$243,331	27.4	$9,733	$8,881	$244,183
7	71	$244,183	26.5	$9,767	$9,214	$244,736
8	72	$244,736	25.6	$9,789	$9,560	$244,965
9	73	$244,965	24.7	$9,799	$9,918	$244,846

The husband leaves $244,846 at his death to his wife. The wife inherits the IRA account and begins RMDs based upon her life expectancy at age 70½.

Wife / Grandmother

Year	Age	Beg. Account Value	RMD Life Exp.	Interest	RMD WD	End Account Value
10	64	$244,846	N/A	$9,794	-	$254,640
11	65	$254,640	N/A	$10,186	-	$264,826
12	66	$264,826	N/A	$10,593	-	$275,419
13	67	$275,419	N/A	$11,017	-	$286,436
14	68	$286,436	N/A	$11,457	-	$297,893
15	69	$297,893	N/A	$11,916	-	$309,809
16	70	$309,809	27.4	$12,392	$11,307	$310,894
17	71	$310,894	26.5	$12,436	$11,732	$311,598
18	72	$311,598	25.6	$12,464	$12,172	$311,890

The wife leaves $311,890 at her death to her daughter. Her daughter disclaims the retirement account, and it passes to the wife's contingent beneficiary, her grandson. The grandson continues RMDs based on his life expectancy using the beneficiary life table following the year of the grandmother's death.

Grandson

Year	Age	Beg. Account Value	RMD Life Exp.	Interest	RMD WD	End Account Value
19	20	$311,890	63.0	$12,476	$4,951	$319,415
20	21	$319,415	62.0	$12,777	$5,152	$327,040
21	22	$327,040	61.0	$13,082	$5,361	$334,760
22	23	$334,760	60.0	$13,390	$5,579	$342,571
23	24	$342,571	59.0	$13,703	$5,806	$350,468
24	25	$350,468	58.0	$14,019	$6,043	$358,444
25	26	$358,444	57.0	$14,338	$6,288	$366,493
26	27	$366,493	56.0	$14,660	$6,545	$374,609
27	28	$374,609	55.0	$14,984	$6,811	$382,782
28	29	$382,782	54.0	$15,311	$7,089	$391,005
29	30	$391,005	53.0	$15,640	$7,377	$399,267
30	31	$399,267	52.0	$15,971	$7,678	$407,560
35	36	$440,788	47.0	$17,632	$9,378	$449,042
40	41	$481,335	42.0	$19,253	$11,460	$489,128
45	46	$518,454	37.0	$20,738	$14,012	$525,180
50	51	$548,636	32.0	$21,945	$17,145	$553,437
55	56	$566,956	27.0	$22,678	$20,998	$568,636
60	61	$566,584	22.0	$22,663	$25,754	$563,494
65	66	$538,113	17.0	$21,525	$31,654	$527,983
70	71	$468,588	12.0	$18,744	$39,049	$448,283
75	76	$339,917	7.0	$13,597	$48,560	$304,954
80	81	$124,892	2.0	$4,996	$62,446	$67,442
81	82	$67,442	1.0	$2,698	$70,139	-

Payments will continue to the grandson for the remainder of his life or until the account balance is depleted. At the grandson's death, payments may continue to his named beneficiary based upon the above table. In this example, the husband's initial premium of $200,000 totaled a payout of $1,503,520 "stretched" over multiple generations. This can be compared to the grandson electing to take a lump sum settlement at his grandmother's death, which would have resulted in a payout of $384,674 (accumulation value at the wife's death plus previous RMDs).

Backed By More Than 110 Years' Experience

Midland Retirement Distributors℠ offers a competitive product line of fixed rate and fixed index annuities, issued by Midland National® Life Insurance Company. Founded in 1906 under the name of Dakota Mutual Life Insurance Company, Midland National Life Insurance Company assumed its current name in 1925. Today Midland National is one of the leading insurance companies in the U.S. Throughout the Company's history, Midland National has enjoyed steady growth, stability, and industry success.

Midland National currently holds more than 1 million life insurance and annuity policies with over $56 billion* in assets. Independent rating agencies have awarded the following ratings:

A.M. Best[a,b]	S&P Global Ratings[b,c]	Fitch Ratings[b,d]
A+	**A+**	**A+**
(Superior)	(Strong)	(Stable)
(2nd category of 15)	*(5th category of 22)*	*(5th category of 19)*
Superior ability to meet ongoing obligations to policyholders	Very strong financial security characteristics	Strong business profile and investment performance

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Talk to your financial professional today about how a fixed index annuity from Midland Retirement Distributors may help you reach your long-term financial goals.

*Statutory basis as of 12/31/2017.

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The term financial professional is not intended to imply engagement in an advisory business in which compensation is not related to sales. Financial professionals that are insurance licensed will be paid a commission on the sale of an insurance product.

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Fixed Index Annuities are not a direct investment in the stock market. They are long-term insurance products with guarantees backed by the issuing company. They provide the potential for interest to be credited based in part on the performance of specific indices, without the risk of loss of premium due to market downturns or fluctuation. Although Fixed Index Annuities guarantee no loss of premium due to market downturns, deductions from your Accumulation Value for additional optional benefit riders could under certain scenarios exceed interest credited to your Accumulation Value, which would result in loss of premium. They may not be appropriate for all clients.

A surrender during the Surrender Charge Period could result in a loss of premium. Surrender charge structure may vary by state.

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