

Selected Subjects

Guru Chatter* on IRA



Is an IRA Custodial Agreement Needed?

Question: When an IRA account holder dies and the Beneficiary of the IRA chooses to leave the funds with us in a John Doe as Beneficiary of Joe Doe's IRA, I know we do an election of payment by beneficiary and a successor beneficiary form. Do we also need a custodial agreement?

Answer by Ken Gollhofer:

No, the beneficiary is not opening an IRA, only giving directions regarding the pay out. Some IRA custodians will make a copy of the decedent's IRA agreement to place in the beneficiary's file folder. Primarily, it fulfills a need to make the file look like all the others.

Money Market IRAs?

Question: In my research I have found credit unions offering a money market IRA. Can banks offer this and is there any advantage or disadvantage vs. the traditional IRA CD?

Answer by Ken Gollhofer:

Any type of interest bearing bank deposit is an acceptable investment for IRAs and some banks already use MMDAs as a funding mechanism. They have a great deal of utility when a customer is over 59 1/2 and may choose to make withdrawals without penalty from time to time.

IRA Statements

Question: How often should IRA statements be generated and what sort of disclosure is required on the statement paper itself?

Answer by Ken Gollhofer:

There is no specific statement requirement for IRAs beyond the responsibility to provide the year-end balance. Some banks incorporate requirements for annual notices regarding withdrawal elections and required minimum distributions in the following year with their year-end statements.

Part of Required Distribution?

Question: I have a customer who is 70 1/2 and withdrew \$1000.00 on 7/7/05. She wanted to know if this has to be used as part of her Required Distribution. I say yes, but what is the answer, and why wouldn't she want it to be?

Answer by Ken Golliher:

Any amount withdrawn within the calendar year serves to reduce the amount she must withdraw before year end. My only guess is that she misunderstands the meaning of the required "minimum" distribution - she may think that is all she is allowed to withdraw.

Reopening IRA Closed by Deceased Spouse

Question:

An IRA customer closes his account and within 2 weeks he dies. Can his spouse, the beneficiary, reopen the account within a time limit?

Answer by Ken Golliher:

No. A surviving spouse has a number of options other beneficiaries do not have. Reincarnation is not among them.

Figuring RMD for IRA beneficiaries

Question: An IRA account holder dies after taking his RMD for the year. He names his three sons as beneficiaries. If they choose to treat their portion of the IRA as their own IRA, is their required minimum figured using each of their individual life expectancies, or by using the age of the oldest child?

Answer by Ken Golliher:

Sons named as beneficiaries cannot make an election to treat their pro rata portions of their IRAs as their own. That option is only available to surviving spouses.

The decedent's RMD would be distributed to the beneficiaries equally in the year of the decedent's death. Before or after distribution of the RMD, the IRA could be distributed equally among three "pay-out" accounts leaving each beneficiary to take RMDs calculated on his individual life expectancy in the following year.

Early Withdrawal Penalty on an IRA

Question: We have an IRA customer who is over 70 1/2. We charge a penalty if he withdraws the money before the 5 year term is up. He thinks we should waive this since he is over 70 1/2. Should we? I think that we shouldn't because of Regulation D, and that he is thinking about the withholding part.

Answer by David Dickinson:

You CAN waive the fee if you'd like (Regulation D allows you to waive the penalty after the 6th day), but you're not required to just because the customer is over 70 1/2. This is purely a contractual and customer service issue. If your contract (CD) allows for the penalty, you have every right to impose it.