



## CASE OF THE WEEK

### Considerations When Naming an IRA Beneficiary Who Is Not the Owner's Spouse

Our ERISA consultants on the Columbia Management Learning Center Resource Desk regularly receive calls from financial advisors who have questions regarding who or what can be named as beneficiary of an IRA.

Through our relationship with the Columbia Management Learning Center, we routinely guide Columbia Management's financial advisor partners through the IRS rules and regulations that govern IRA beneficiary designations.

A recent call with an advisor from AIG in Michigan is representative of a common nonspouse beneficiary scenario. The advisor asked: **"Can my client, who is married, designate a church as the beneficiary of his IRA?"**

#### Highlights of Recommendations

- Generally, an IRA owner can designate any individual or entity as his/her IRA beneficiary. However, some exceptions apply for residents of community and marital property states.
- An IRA owner who is married and lives in a community or marital property state, must first obtain the formal, written consent of his/her spouse in order to designate another individual or entity, other than the spouse, as beneficiary.
- There are nine community property states (i.e., Alaska<sup>1</sup>, Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas and Washington) and one marital property state (Wisconsin).
- The IRA owner should also consider how the beneficiary designation will affect distribution options during his lifetime and after (e.g., how distributions are calculated and the tax ramifications for the recipient).

#### Conclusion

The IRA beneficiary designation is one of the most important decisions an IRA owner will make with respect to the savings arrangement. With the expert guidance of the Columbia Management Learning Center, advisors can confidently assist their clients in understanding the effects of various IRA beneficiary designations.

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<sup>1</sup> In Alaska, in order for the community property laws to apply, the married couple must formally elect these rules.