A GUIDE TO Managing Your **Inherited Account**

MNDCP Minnesota Deferred Compensation Plan

When you inherit a Minnesota Deferred Compensation Plan account,

careful consideration must be taken when choosing what to do with your account. Your decision should be based, in part, on how and when you will need to take withdrawals from the account and the tax liability you will incur.

To ensure you make the most appropriate decision, we recommend that you consult a financial or tax professional.

This brochure is meant to present your options as the beneficiary of a Minnesota Deferred Compensation Plan [MNDCP] account, which is administered by Minnesota State Retirement System [MSRS]. Contact MSRS at any time, we're here to help.

Online at: **www.msrs.state.mn.us**

Speak to an MSRS Service Center Representative:
1.800.657.5757 or **651.296.2761**

Your Options

Generally, you have the following options as a beneficiary of an MNDCP account. We will discuss the options in greater detail on the following pages.

1 Rollover the Inherited MNDCP Account to an Inherited IRA

Once you open an Inherited IRA, you can generally withdraw money immediately without paying the 10% IRS penalty on withdrawals before age 59 ½. You can then choose when you want to withdraw money from the account each year; however, there are rules about when you must begin taking withdrawals (known as Required Minimum Distributions).

You are encouraged to discuss rolling money from one account to another with your financial advisor/planner and to consider any potential fees and/or limitations of available investment options.

2 Rollover the Inherited MNDCP Account to Your IRA (for spousal beneficiaries only)

If you inherit an MNDCP account from your spouse, you can rollover the assets to your own IRA. You can withdraw from your IRA at any time; however, you may be subject to the 10% IRS penalty on withdrawals before age 59 ½.

You are encouraged to discuss rolling money from one account to another with your financial advisor/planner and to consider any potential fees and/or limitations of available investment options.

3 Take a Lump Sum Withdrawal

All the money in the MNDCP account is distributed to you. A lump sum withdrawal may be taxable depending on whether the MNDCP account assets are pre-tax or Roth after-tax. If the MNDCP account consists of pre-tax assets, taking a lump sum withdrawal may move you into a higher tax bracket. You should discuss your options with a tax advisor before proceeding.

4 Maintain Your MNDCP Account & Take Withdrawals When Needed

You are not required to rollover an inherited MNDCP account to an IRA or take a lump sum withdrawal. As the beneficiary, you can continue to enjoy the features of the MNDCP, including low competitive fees and flexible withdrawal options. One benefit is that withdrawals from an MNDCP account are exempt from the 10% IRS early withdrawal penalty. There are rules about when you must begin taking withdrawals (known as Required Minimum Distributions).

Withdrawals may be subject to ordinary income tax. The 10% federal early withdrawal penalty does not apply to 457(b) plan withdrawals except for withdrawals attributable to rollovers from another type of plan or account.

5 Disclaim Your Interest

As a primary beneficiary, you may prefer to allow the assets to pass to alternate beneficiaries – perhaps to avoid tax implications. You can choose to disclaim (or refuse to accept) an inherited MNDCP account. To do so, you must **act within nine months** of the original account owner's death and before you've taken possession of the account assets. Contact MSRS for more information.

What are the Rules for Required Minimum Distributions?

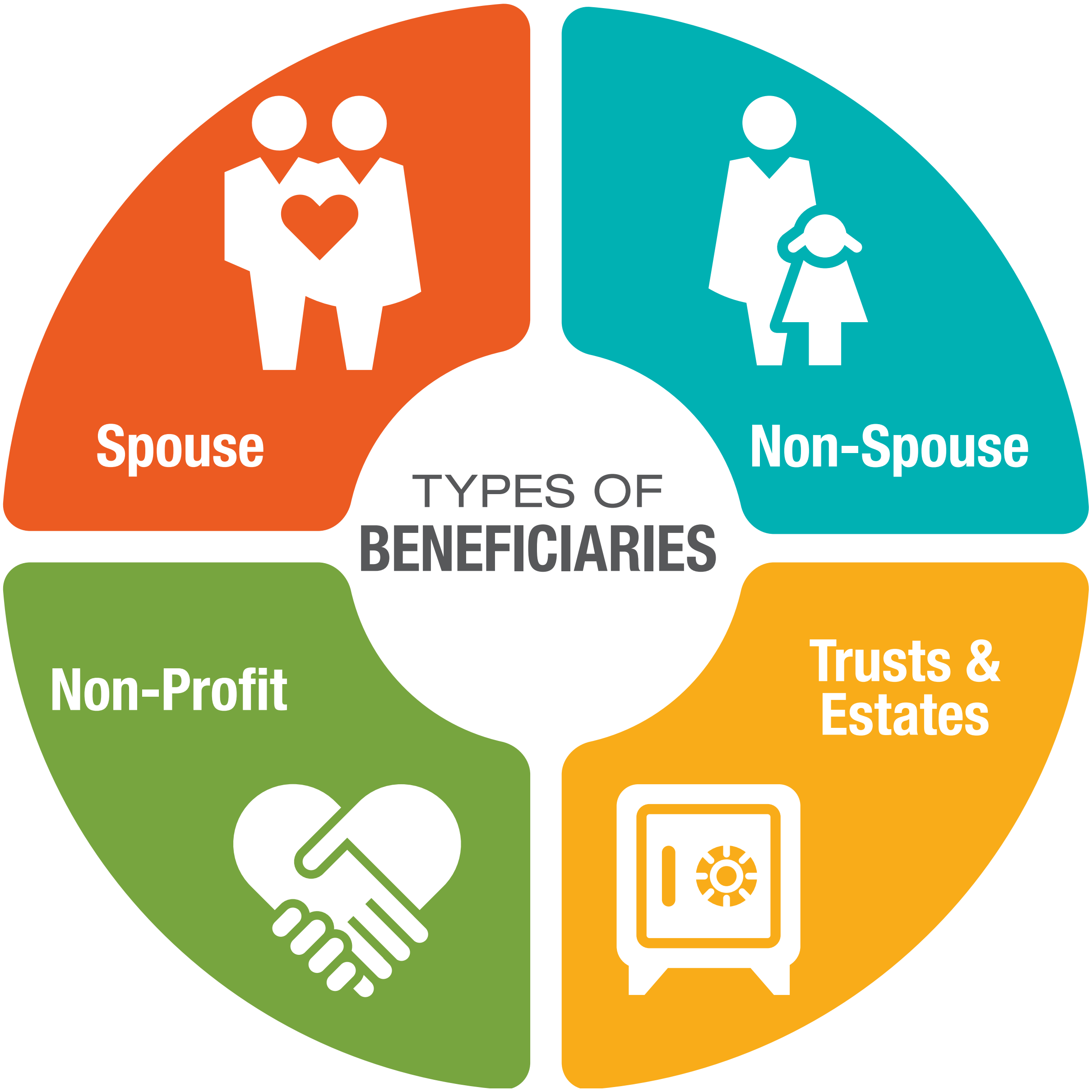
The IRS requires that certain beneficiaries who inherit a retirement account withdraw a minimum amount each year. This is known as a Required Minimum Distribution or RMD.

- The date you must begin taking RMDs is determined by whether or not the original account owner had reached age 70 ½ before they died.
- If you do not take RMDs when required, you may have to pay an IRS 50% penalty on the RMD amount.
- The RMD amount you must withdraw each year is typically based on your life expectancy and the prior year-end value of the account.

IRS rules vary depending on the type of account you inherit and your relationship to the original account owner, so ensure you review the RMD section on the charts on the following pages for more details.

Who Inherited the MNDCP account?

The original MNDCP account owner designated a beneficiary to receive their account assets upon their death. The withdrawal options are determined by the beneficiary's relationship to the account owner.



The following pages will help clarify the rules for each type of beneficiary.

Spouse as Beneficiary

Option 1: Rollover to an Inherited IRA **OR** Maintain an MNDCP account and take withdrawals as needed

Features	Required Minimum Distribution (RMD)
• *An MNDCP account and an Inherited IRA are not subject to 10% IRS penalty on withdrawals before age 59 ½.* • *Pre-tax assets continue to grow tax-deferred.* • *You can designate your own beneficiary(ies).* • *You can withdraw assets at any time.* • *Withdrawals of pre-tax assets are taxable.*	**If original account owner's death was PRIOR to age 70 ½, you have two options:** *1. RMD must begin by December 31 of the calendar year the original account owner would have turned age 70 ½, OR by December 31 of the calendar year following the date of death, whichever is later.* *OR* *2. You can delay withdrawals until December 31 of the fifth year after the year of the account owner's death, at which point all assets must be withdrawn.* **If original account owner's death was AFTER age 70 ½:** *RMD must begin by December 31 of the calendar year following the year of death.* *Your life expectancy may be used to calculate RMD.*

Option 2: Rollover to your own IRA

Features	Required Minimum Distribution (RMD)
• *Withdrawals from your own IRA prior to age 59 ½ may be subject to 10% IRS penalty.* • *Pre-tax assets continue to grow tax-deferred.* • *You can designate your own beneficiary(ies).* • *You can withdraw assets at any time.* • *Withdrawals of pre-tax assets are taxable.*	*Not required until you attain age 70 ½.* *The RMD calculation is based on your life expectancy using the Uniform Life table.*

Option 3: Take a lump sum withdrawal of the entire account balance

Features	Required Minimum Distribution (RMD)
• *Withdrawal is not subject to 10% IRS penalty, even if taken before age 59 ½.* • *You will receive the funds all at once.* • *A withdrawal of pre-tax account assets is subject to 20% mandatory federal income tax withholding.* • *Since you will pay income tax on the withdrawal all at once, you may move to a higher tax bracket depending on the amount of the withdrawal and your current income level.*	*N/A*

Non Spouse as Beneficiary

Option 1: Rollover to an Inherited IRA **OR** Maintain an MNDCP account and take withdrawals as needed	
Features	**Required Minimum Distribution (RMD)**
• *An Inherited IRA is not subject to 10% IRS penalty on withdrawals before age 59 ½.* • *Pre-tax assets continue to grow tax-deferred.* • *You can designate your own beneficiary(ies).* • *You can withdraw assets at any time.* • *Withdrawals of pre-tax assets are taxable.*	**If original account owner's death was PRIOR to age 70 ½, you have two options:** *A. RMD must begin by December 31 of the calendar year following the date of death and then by the end of each calendar year thereafter. If withdrawals have not started by this time, option B below will apply.* *The advantage of this option is that it decreases the amount required to be withdrawn each year (compared to option B below).* *OR* *B. You can delay withdrawals until December 31 of the fifth year after the year of the account owner's death, at which point all assets must be withdrawn.* *If you elect this option, a direct rollover to an Inherited IRA must be completed within the first four years of the five-year period. On or after January 1 of the fifth year, no amount payable is eligible for rollover.* *NOTE: Under either option, no withdrawal is required in the year of the original account owner's death.* **If original account owner's death was AFTER age 70 ½:** *RMD payments should have already begun and must continue.* *Your life expectancy may be used to calculate the RMD.*

Option 2: Take a lump sum withdrawal of the entire account balance	
Features	**Required Minimum Distribution (RMD)**
• *Withdrawal is not subject to 10% IRS penalty, even if taken before age 59 ½.* • *You will receive the funds all at once.* • *A withdrawal of pre-tax account assets is subject to 20% mandatory federal income tax withholding.* • *Since you will pay income tax on the withdrawal all at once, you may move to a higher tax bracket depending on the amount of the withdrawal and your current income level.*	N/A

Trusts & Estates as Beneficiary

Qualified Trusts Only: rollover to an Inherited IRA, maintain an MNDCP account, or take a lump-sum withdrawal	
Features	**Required Minimum Distribution (RMD)**
• *Not subject to 10% IRS penalty on withdrawals, even if before age 59 ½.* • *Assets transfer into the name of the trust.* • *The trust or the trust's beneficiaries will pay taxes on the taxable portion of the withdrawal.*	**If original account owner's death was PRIOR to age 70 ½:** • *The entire account balance must be withdrawn no later than December 31 of the fifth year after the year of the account owner's death.* **If original account owner's death was AFTER age 70 ½:** • *Follow spouse beneficiary rules if spouse is sole designated beneficiary of the trust (see page 8).* • *Follow non-spouse beneficiary rules if non-spouse is designated beneficiary of the trust (see page 9).* • *If the trust has multiple beneficiaries, follow the non-spouse beneficiary rules to determine whether to use the remaining life expectancy of the deceased participant or the life expectancy of the beneficiary in computing the RMD, using the life expectancy of the oldest beneficiary only.*

All Other Trusts and Estates: take a lump-sum withdrawal	
Features	**Required Minimum Distribution (RMD)**
• *Must take a lump sum payment.* • *Not subject to 10% IRS penalty on withdrawals, even if before age 59 ½.* • *The trust, the trust's beneficiaries, or the estate will pay taxes on the withdrawal all at once.*	**If original account owner's death was PRIOR to age 70 ½:** • *The entire account balance must be withdrawn no later than December 31 of the fifth year after the year of the account owner's death.* **If original account owner's death was AFTER age 70 ½:** • *The entire account balance must be withdrawn by the end of the year immediately following the year of the original account owner's death.*

What is a qualified trust?

Distribution options depend on whether a trust is qualified or non-qualified. A trust is considered qualified if it meets the following criteria:

- The trust is valid under state law, or would be but for the fact it has not yet been funded.
- The trust is irrevocable, or will be irrevocable upon the account owner's death.
- The beneficiaries of the trust are identifiable.
- The trust document has been provided to Minnesota State Retirement System, the MNDCP Administrator.

Non Profit as Beneficiary

Take a lump sum withdrawal	
Features	**Required Minimum Distribution (RMD)**
• *Must take a lump sum payment.* • *Not subject to taxation.*	**If original account owner's death was PRIOR to age 70 ½:** • *The entire account balance must be withdrawn no later than December 31 of the fifth year after the year of the account owner's death.* **If original account owner's death was AFTER age 70 ½:** • *RMD payments should have already begun. The entire account balance must be distributed by December 31 in the year of death.*

Contact Us – We're Here To Help

Phone: **1.800.657.5757 or 651.296.2761**
Web: **www.msrs.state.mn.us** Email: **info@msrs.us**

60 Empire Drive, Suite 300 St. Paul, MN 55103
Hours: Monday – Friday, 8:00 a.m. - 4:30 p.m.

Minnesota State Retirement System
MNDCP Minnesota Deferred Compensation Plan
HCSP Health Care Savings Plan

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