

A GUIDE TO  
Managing Your  
**Inherited  
Account**



# When you inherit a Minnesota Deferred Compensation Plan (MNDCP) account,

careful consideration must be taken when choosing what to do with the inherited assets. 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.

This brochure presents your options as the beneficiary of a MNDCP account in which the original account holder died on/after January 1, 2022.

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



Online at: **[www.msrs.state.mn.us](http://www.msrs.state.mn.us)**

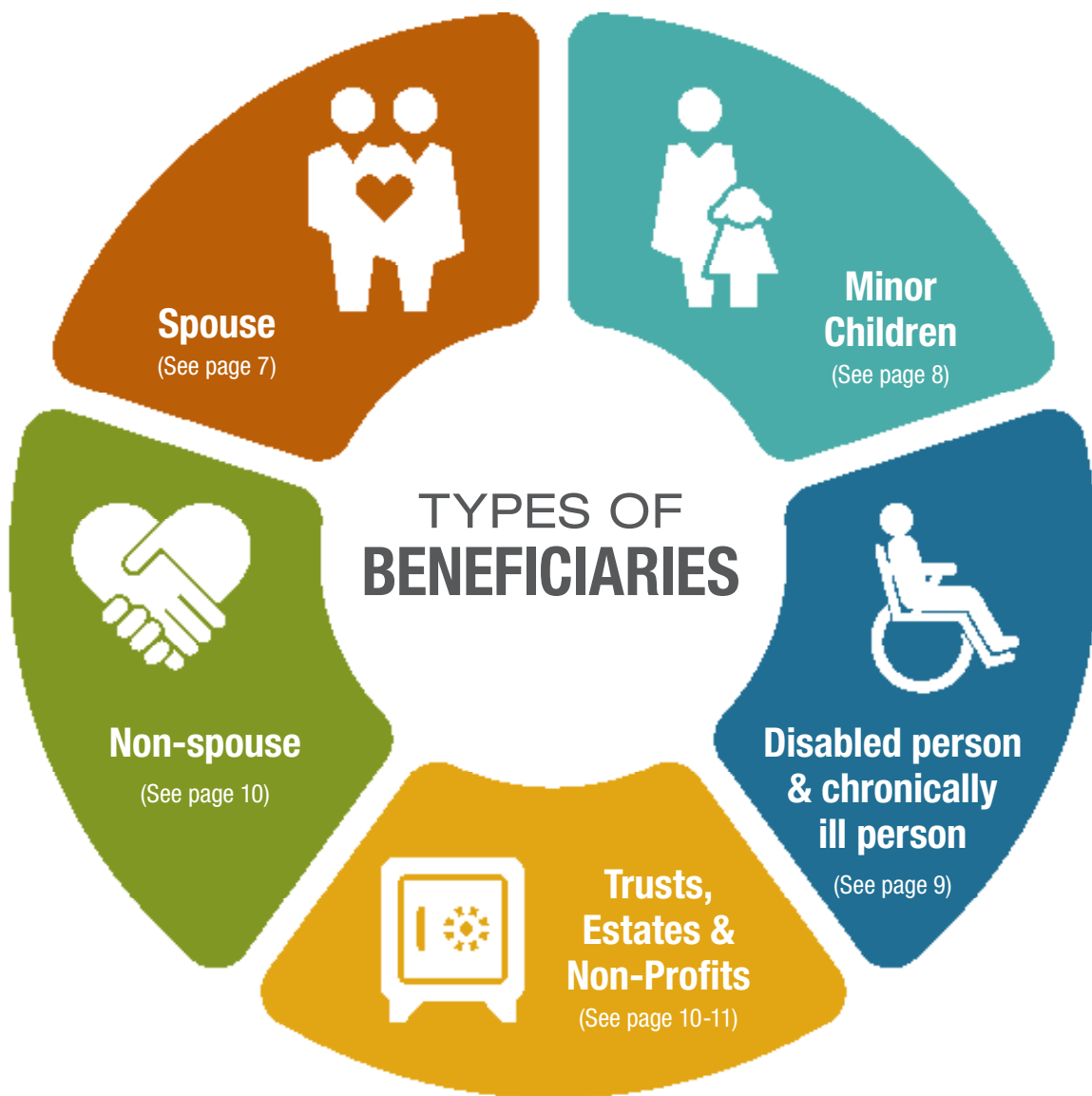


Speak to an MSRS Service Center Representative:  
**1.800.657.5757** or **651.296.2761**



# Your relationship with the original account owner matters

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.

# Your Options

As a beneficiary, you generally have the following options. We will discuss the options in greater detail on the following pages.



## 1 Maintain an MNDCP account

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 prior to age 59½ are exempt from the 10% IRS early withdrawal penalty.

## 2 Rollover to an Inherited IRA

You can choose when you want to withdraw money from the Inherited IRA each year. Withdrawals from an Inherited IRA prior to age 59½ are also exempt from the 10% IRS early withdrawal penalty.

## 3 Rollover to your own IRA (for spousal beneficiaries only)

If you are a spousal beneficiary, you can rollover inherited MNDCP 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 prior to age 59½.

## 4 Take a lump-sum withdrawal

All inherited MNDCP account assets are distributed to you at once. If the MNDCP account consists of pre-tax assets, the withdrawal is taxable which may move you into a higher tax bracket. You should discuss your options with a financial or tax professional before proceeding.

## 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.

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.

# Required Minimum Distribution (RMD) rules

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

- The timing when you must begin taking RMDs is determined by whether or not the original account owner reached age 73 upon their death
- The RMD amount you must withdraw each year is typically based on your life expectancy and the prior year-end value of the account
- If you do not take RMDs when required, the IRS may impose a penalty tax on the RMD amount

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





## Surviving spouse as beneficiary (after January 1, 2024)

Option 1: Maintain MNDCP Account OR Rollover to your own IRA	
Features	Required Minimum Distribution (RMD)
<ul style="list-style-type: none"><li>• Continues tax deferral of your pre-tax assets until you turn age 73</li><li>• Withdraw your account balance at any time or frequency</li><li>• MNDCP withdrawals prior to age 59½ are not subject to a 10% IRS penalty</li><li>• IRA withdrawals prior to age 59½ may be subject to a 10% IRS penalty</li><li>• Withdrawal of pre-tax account assets is taxable</li><li>• May designate your own beneficiaries</li></ul>	<ul style="list-style-type: none"><li>• You may delay RMD payments until you attain age 73.</li><li>• RMD payments are based on your life expectancy.</li></ul>
Option 2: Take a lump-sum withdrawal of the entire account balance	
Features	Required Minimum Distribution (RMD)
<ul style="list-style-type: none"><li>• Receive the total account balance all at once</li><li>• MNDCP withdrawals prior to age 59½ are not subject to a 10% IRS penalty</li><li>• Withdrawal of pre-tax account assets is subject to mandatory federal income tax withholding</li><li>• Since you must pay income tax on the entire withdrawal amount, you may move to a higher tax bracket depending on the amount of the withdrawal and your current income level</li></ul>	N/A



## Minor children<sup>1</sup> (under age 21) as beneficiary

Option 1: Maintain MNDCP Account <b>OR</b> Rollover to an Inherited IRA	
Features	Required Minimum Distribution (RMD)
<ul style="list-style-type: none"> <li>• <i>Withdrawals prior to age 59½ are not subject to a 10% IRS penalty</i></li> <li>• <i>Withdraw your account balance at any time or frequency</i></li> <li>• <i>Withdrawal of pre-tax account assets is taxable</i></li> <li>• <i>May designate your own beneficiaries</i></li> </ul>	<p><b>If original account owner's death was PRIOR to age 73</b></p> <ul style="list-style-type: none"> <li>• <i>RMD payments (based on your life expectancy) must begin by December 31 of the year following the original account owner's death; AND</i></li> <li>• <i>The entire account balance must be withdrawn by December 31 of the year you attain the age of majority +10 years (age 31)</i></li> </ul> <p><b>If original account owner's death was AFTER age 73</b></p> <ul style="list-style-type: none"> <li>• <i>RMD payments must continue to be made each year over the longer of the original account owner's life expectancy or your life expectancy; AND</i></li> <li>• <i>The entire account balance must be withdrawn by December 31 of the year you attain the age of majority +10 years (age 31)</i></li> </ul>
Option 2: Take a lump-sum withdrawal of the entire account balance	
Features	Required Minimum Distribution (RMD)
<p><b>Upon attainment of the age of majority (in your State of residence):</b></p> <ul style="list-style-type: none"> <li>• <i>Receive the total account balance all at once</i></li> <li>• <i>MNDCP withdrawals prior to age 59½ are not subject to a 10% IRS penalty</i></li> <li>• <i>Withdrawal of pre-tax assets is subject to mandatory federal income tax withholding</i></li> <li>• <i>Since you must pay income tax on the entire withdrawal amount, you may move to a higher tax bracket depending on the amount of the withdrawal and your current income level</i></li> </ul>	N/A

<sup>1</sup>Must be a child of the account owner. Grandchildren do not count.





## Person with a disability<sup>2</sup>, person with a chronic illness<sup>3</sup>, or beneficiary not more than 10 years younger

Option 1: Maintain MNDCP Account OR Rollover to an Inherited IRA	
Features	Required Minimum Distribution (RMD)
<ul style="list-style-type: none"> <li>• <i>Withdrawals prior to age 59½ are not subject to a 10% IRS penalty</i></li> <li>• <i>Withdraw your account balance at any time or frequency</i></li> <li>• <i>Withdrawal of pre-tax account assets is taxable</i></li> <li>• <i>May designate your own beneficiaries who must withdraw the entire account balance within the tenth anniversary of your death.</i></li> </ul>	<p><b>If original account owner's death was PRIOR to age 73</b></p> <ul style="list-style-type: none"> <li>• <i>RMD payments (based on your life expectancy) must begin by December 31 of the year following the original account owner's death</i></li> </ul> <p><b>If original account owner's death was AFTER age 73</b></p> <ul style="list-style-type: none"> <li>• <i>RMD payments must continue to be made each year over the longer of the original account owner's life expectancy or your life expectancy</i></li> </ul>
Option 2: Take a lump-sum withdrawal of the entire account balance	
Features	Required Minimum Distribution (RMD)
<ul style="list-style-type: none"> <li>• <i>Receive the total account balance all at once</i></li> <li>• <i>MNDCP withdrawals prior to age 59½ are not subject to a 10% IRS penalty</i></li> <li>• <i>Withdrawal of pre-tax assets is subject to mandatory federal income tax withholding</i></li> <li>• <i>Since you must pay income tax on the entire withdrawal amount, you may move to a higher tax bracket depending on the amount of the withdrawal and your current income level</i></li> </ul>	N/A

<sup>2</sup>As defined by IRC Section 72(m)(7) Beneficiary must be disabled as of the date of death

<sup>3</sup>As defined by IRC Section 7702B(c)(2)



## Non-spouse as beneficiary

### Option 1: Maintain MNDCP Account OR Rollover to an Inherited IRA

Features	Required Minimum Distribution (RMD)
<ul style="list-style-type: none"> <li>• <i>Withdrawals prior to age 59½ are not subject to a 10% IRS penalty</i></li> <li>• <i>Withdraw your account balance at any time or frequency</i></li> <li>• <i>Withdrawal of pre-tax account assets is taxable</i></li> <li>• <i>May designate your own beneficiaries (rules apply to when the account assets must be fully distributed)</i></li> </ul>	<p><b>If original account owner's death was PRIOR to age 73</b></p> <ul style="list-style-type: none"> <li>• <i>The entire account balance must be withdrawn by December 31 of the tenth year following the death of the original account owner</i></li> <li>• <i>Withdrawals are not mandatory and can be made at any time in any amount over the course of ten years</i></li> </ul> <p><b>If original account owner's death was AFTER age 73</b></p> <ul style="list-style-type: none"> <li>• <i>RMD payments must continue to be made each year over the longer of the original account owner's life expectancy or your life expectancy; AND</i></li> <li>• <i>The entire account balance must be withdrawn by December 31 of the tenth year containing the original account owner's death</i></li> </ul>

### Option 2: Take a lump-sum withdrawal of the entire account balance

Features	Required Minimum Distribution (RMD)
<ul style="list-style-type: none"> <li>• <i>Receive the total account balance all at once</i></li> <li>• <i>MNDCP withdrawals prior to age 59½ are not subject to a 10% IRS penalty</i></li> <li>• <i>Withdrawal of pre-tax assets is subject to mandatory federal income tax withholding</i></li> <li>• <i>Since you must pay income tax on the entire withdrawal amount, you may move to a higher tax bracket depending on the amount of the withdrawal and your current income level</i></li> </ul>	N/A



## Non-profit as beneficiary

### Take a lump-sum withdrawal of the entire account balance

Features	Required Minimum Distribution (RMD)
<ul style="list-style-type: none"> <li>• <i>Receive the total account balance all at once</i></li> <li>• <i>Not subject to taxation</i></li> </ul>	<p><b>If original account owner's death was PRIOR to age 73</b></p> <ul style="list-style-type: none"> <li>• <i>The entire account balance must be withdrawn by December 31 of the fifth year after the original account owner's death</i></li> </ul> <p><b>If original account owner's death was AFTER to age 73</b></p> <ul style="list-style-type: none"> <li>• <i>The entire account balance must be withdrawn by the end of the year immediately following the year of the original account owner's death</i></li> </ul>



## Qualified (e.g., see-through) trust as beneficiary

Option 1: Maintain MNDCP Account OR Rollover to an Inherited IRA	
Features	Required Minimum Distribution (RMD)
<ul style="list-style-type: none"> <li>• <i>Withdrawal prior to age 59½ is not subject to a 10% IRS penalty</i></li> <li>• <i>Account assets transfer into the name of the trust</i></li> <li>• <i>The trust or trust's beneficiaries pay taxes on the withdrawal</i></li> </ul> <p><b>A trust is considered qualified if:</b></p> <ul style="list-style-type: none"> <li>• <i>The trust is valid under state law, or would be but for the fact it has not been funded</i></li> <li>• <i>The trust is irrevocable, or will be irrevocable upon the account owner's death</i></li> <li>• <i>The beneficiaries of the trust are identifiable</i></li> <li>• <i>MSRS has been provided a copy of the trust document</i></li> </ul>	<p><b>If original account owner's death was PRIOR to age 73</b></p> <ul style="list-style-type: none"> <li>• <i>The entire account balance must be withdrawn by December 31 of the fifth year after the original account owner's death</i></li> </ul> <p><b>If original account owner's death was AFTER to age 73</b></p> <ul style="list-style-type: none"> <li>• <i>and the spouse is the sole designated beneficiary of the trust, follow rules on page 7</i></li> <li>• <i>and a minor child is the sole designated beneficiary of the trust, follow rules on page 8</i></li> <li>• <i>and a non-spouse (not more than ten years younger than the original account owner) or a disabled or chronically ill individual is the sole designated beneficiary of the trust, follow rules on page 9</i></li> <li>• <i>and the trust has multiple beneficiaries, contact MSRS to speak with a MNDCP specialist regarding rules and options</i></li> </ul>
Option 2: Take a lump-sum withdrawal of the entire account balance	
Features	Required Minimum Distribution (RMD)
<ul style="list-style-type: none"> <li>• <i>Receive the total account balance all at once</i></li> <li>• <i>MNDCP withdrawals prior to age 59½ are not subject to a 10% IRS penalty</i></li> <li>• <i>The trust or trust's beneficiaries pay taxes on the withdrawal all at once</i></li> </ul>	N/A



## All other trusts & estates as beneficiary

Take a lump-sum withdrawal of the entire account balance	
Features	Required Minimum Distribution (RMD)
<ul style="list-style-type: none"> <li>• <i>Receive the total account balance all at once</i></li> <li>• <i>MNDCP withdrawals prior to age 59½ are not subject to a 10% IRS penalty</i></li> <li>• <i>The trust or the estate will pay taxes on the withdrawal all at once</i></li> </ul>	<p><b>If original account owner's death was PRIOR to age 73</b></p> <ul style="list-style-type: none"> <li>• <i>The entire account balance must be withdrawn by December 31 of the fifth year after the original account owner's death</i></li> </ul> <p><b>If original account owner's death was AFTER to age 73</b></p> <ul style="list-style-type: none"> <li>• <i>The entire account balance must be withdrawn by the end of the year immediately following the year of the original account owner's death</i></li> </ul>

The Minnesota State Retirement System (MSRS) administers the MNDCP. MSRS also administers the Health Care Savings Plan (HCSP)—a tax-free medical expenses savings plan—and various pension plans for state employees.

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The tax information provided is based on current laws, which are subject to change and interpretation.

## Questions?



Contact the MSRS Service Center:  
**1.800.657.5757 or 651.296.2761**



Go online:  
**[www.msrs.state.mn.us](http://www.msrs.state.mn.us)**



Email us:  
**[info@msrs.us](mailto:info@msrs.us)**



Make an appointment to speak with a retirement specialist at one of our offices.

## Locations

### St. Paul -

#### Main Office

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

#### Additional Offices

Addresses and hours of operation available online.

- Duluth
- Mankato
- St. Cloud
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