



LM Federal Credit Union

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**Wealth Management &
Financial Planning Services**

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In general, your retirement plan benefits pass to the beneficiaries you designate on the plan beneficiary designation form. It is generally recommended that you designate beneficiaries, the percentage of the total that each will receive, and any backup beneficiaries on the plan beneficiary form. However, if you are married or have been married, your spouse or former spouse may have certain rights in your retirement benefits.

If you have a large taxable estate (generally, over \$11,400,000 in 2019), your retirement benefits could be subject to estate tax or generation-skipping transfer (GST) tax at your death. The GST tax may apply if you transfer your retirement benefits to someone who is two or more generations younger than you, such as your grandchild.

After your death, your beneficiaries will generally be required to take minimum distributions from your retirement plan over their life expectancies. (Of course, your beneficiaries can always withdraw more than the required minimum amounts.) The rules may be more favorable if your surviving spouse is the beneficiary of your retirement plan.

In general, for income tax purposes, your beneficiaries will include distributions from the retirement plan in income when received. Your beneficiaries can take an income tax deduction for estate tax (if any) attributable to the retirement plan benefits; the deduction is apportioned and taken into account as distributions are received and included in taxable income.

If you have made any nondeductible contributions, your beneficiaries can generally exclude a portion of the distributions from taxable income. However, if you have not made any nondeductible contributions, the entire distribution will generally be included in the beneficiary's taxable income. On the other hand, distributions made after your death from a Roth 401(k) plan or a Roth IRA will generally be qualified distributions that are not taxable income to your beneficiaries (as long as certain five-year holding periods are met).

Your retirement benefits may also be subject to state estate, inheritance, GST, or income taxes.

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