November 2024

SECURE Act and Inherited IRA Rules

Prior to the SECURE Act in 2020, most beneficiaries of IRAs and certain other retirement plans could distribute inherited accounts over their lifetimes (known as the “stretch rule”) or within five years (the "five-year rule").

The SECURE Act changed the distribution requirements for certain beneficiaries. For accounts inherited from original owners who passed away on or after January 1, 2020, the SECURE Act classifies retirement account beneficiaries into three types based on their relationship to the account owner, their age, and whether they are an individual or non-person entity:

- Eligible Designated Beneficiary (EDB)
    - Spouse or minor child of the deceased account holder
    - Disabled or chronically ill individual
    - Individual who is not more than 10 years younger than the IRA owner or plan participant

- Non-Eligible Designated Beneficiary (NEDB)
    - Most non-spouse beneficiaries
    - Some see-through trusts benefiting Eligible Designated Beneficiaries listed above

- Non-Designated Beneficiaries (NDB)
    - Charities
    - Estates
    - Non-see-through trusts

To qualify as a see-through trust for distribution purposes, the trust must meet the following requirements:

1. The trust must be considered valid under state law, which typically means the creation of the trust document must be witnessed and notarized.
2. The trust must be irrevocable or become irrevocable upon the plan owner’s death (meaning that the listed beneficiaries can be changed up to the point where the IRA owner passes away, but not after).
3. The beneficiaries of the trust must be identifiable from the trust document.
4. A copy of the trust must be provided to the custodian by October 31 the following year after the account holder's death.

Eligible Designated Beneficiaries (EDBs) follow either 1) the stretch rule, which allows beneficiaries to take life expectancy distributions, or 2) the 10-year rule, which requires the beneficiary to liquidate the account by the end of the 10th year following the year of death of the IRA owner. For beneficiaries who follow the stretch rule, required minimum distributions (RMD) are required.

Non-Eligible Designated Beneficiaries (NEDBs) must follow the 10-year rule. In July 2024, the IRS further clarified that certain beneficiaries are required to take required minimum distributions (RMDs); these beneficiaries must use the RMD stretch calculation over the longer of their or the decedent's life expectancy, and they must distribute all assets in the account by the end of the 10th year.

Non-Designated Beneficiaries (NDBs) must follow either the stretch rule (distributions taken over the decedent's lifetime) or the five-year rule, where the Inherited IRA must be emptied by the end of the fifth year following the year of the account holder's death.

For all beneficiaries, the key to determining if the stretch rule applies and/or if RMDs are required for an Inherited IRA is if the original account holder passed away before or after reaching his or her required beginning date (RBD) for RMDs. The required beginning date is April 1st of the year following the year in which the owner reached RMD age.

The RMD age is based on the original account holder's birth year:

Birth Year	RMD Age
Before 1951	72
1951-1959	73
1960 or later	75

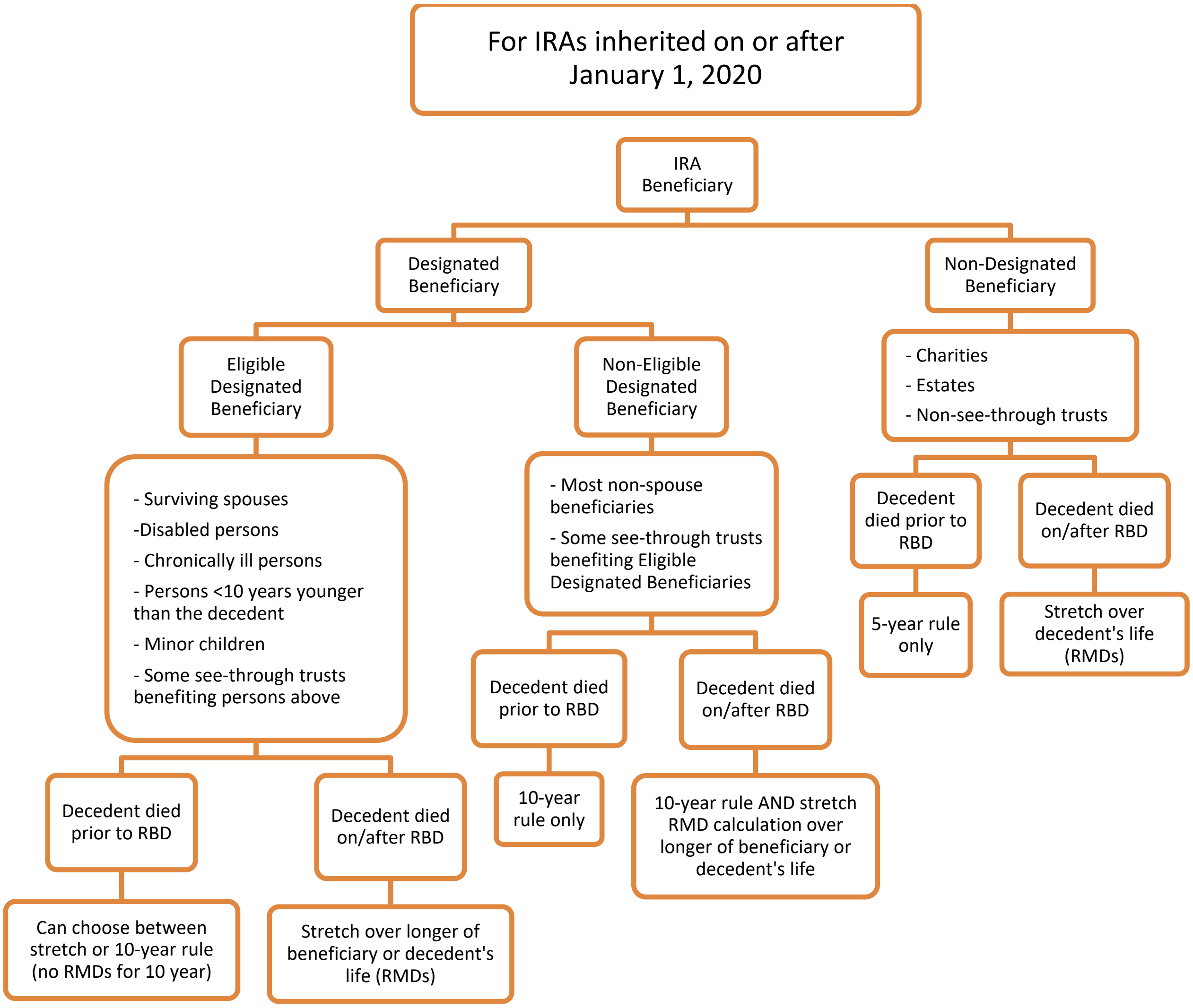
For example, if the original account holder turned 73 in 2024, his or her required beginning date is April 1, 2025.

If the original account holder dies on or after his or her RBD, the beneficiaries will be required to take RMDs. See the flowchart on page 3 for a summary of Inherited IRA distribution rules if the original owner passed away on or after January 1, 2020.

Since the IRS waived the penalty for not taking RMDs in 2020-2024 while it finalized regulations related to RMDs and the 10-year rule, the calculation for the 10-year rule RMDs starting in 2025 (for those who inherited between 2020 and 2024) is as follows:

- Use the IRS Single Life Table to figure out the baseline life expectancy in the year following the year of death based on the inheritor's age at that time.
- Subtract 1.0 for each subsequent year up to 2025 to determine the life expectancy factor for 2025.
- Subtract 1.0 for each subsequent year.

Beneficiaries can take out more than the required minimum amount (for example, taking equal distributions each year during the 10 years) if this benefits their tax situation. The best distribution strategy will vary by client depending on a client's tax situation, goals, and more, and there are many planning opportunities to help clients navigate these new rules.


For IRAs inherited on or after January 1, 2020
IRA Beneficiary
Designated Beneficiary
Non-Designated Beneficiary
Eligible Designated Beneficiary
Non-Eligible Designated Beneficiary
- Charities
- Estates
- Non-see-through trusts
- Surviving spouses
-Disabled persons
- Chronically ill persons
- Persons <10 years younger than the decedent
- Minor children
- Some see-through trusts benefiting persons above
- Most non-spouse beneficiaries
- Some see-through trusts benefiting Eligible Designated Beneficiaries
Decedent died prior to RBD
Decedent died on/after RBD
5-year rule only
Stretch over decedent's life (RMDs)
Decedent died prior to RBD
Decedent died on/after RBD
10-year rule only
10-year rule AND stretch RMD calculation over longer of beneficiary or decedent's life
Decedent died prior to RBD
Decedent died on/after RBD
Can choose between stretch or 10-year rule (no RMDs for 10 year)
Stretch over longer of beneficiary or decedent's life (RMDs)