

IRA distribution options for beneficiaries



Wealth Management

Your distribution options as a beneficiary of an IRA or Roth IRA depend on a number of factors: the type and status of the beneficiary, when the IRA owner passed away and what age the original owner attained prior to passing.

Required beginning date (RBD)

The RBD is the date that an IRA owner must begin taking required minimum distributions (RMDs)—specifically, April 1 of the calendar year following the calendar year in which an account owner reaches age 73.

Date of death

The distribution options available to non-spouse designated beneficiaries depend on the death date of the IRA owner. If the owner passed away prior to January 1, 2020 (pre-SECURE Act), the beneficiary may have the option to stretch the IRA. This allows the beneficiary to transfer the remaining assets to their own beneficiary IRA and to take required minimum distributions based on their remaining single declining life expectancy. Your single declining life expectancy is calculated utilizing the Single Life Table ([IRS Table I](#)) based on the beneficiary's age in the year following death. In each subsequent year, the factor is reduced by 1.0.

If the owner passed away on or after January 1, 2020 (post-SECURE Act) and a non-spouse designated beneficiary was named, the beneficiary would generally be subject to the SECURE Act's 10-year rule, which in most cases will additionally require annual RMDs during that same 10-year period, provided the original IRA owner died post RBD.

Designated beneficiary

A designated beneficiary is the individual whose life expectancy is used to calculate RMDs (if applicable) after the death of an IRA owner. Beneficiary designations, for distribution purposes, do not become fixed until September 30 of the year following the year of an IRA

owner's death. This is referred to as the beneficiary designation date.

No new beneficiaries can be named after the death of an IRA owner. But beneficiaries who disclaim or have had their benefits paid out to them in full prior to this date will not be considered when determining death distribution options.

A beneficiary can disclaim all or a portion of their inherited IRA benefit. By disclaiming, the beneficiary is giving up rights to the assets, which then pass to the other beneficiaries. A valid disclaimer must meet specific requirements and generally must be executed within nine months of the IRA owner's death.

Successor beneficiaries

Upon inheriting an IRA, you can name subsequent or successor beneficiaries. If you die before the assets are fully distributed, your subsequent beneficiaries may take a lump sum distribution of the remaining assets if they so desire. Otherwise, the successor beneficiaries of the original beneficiary are generally subject to the 10-year rule.

Successor beneficiaries of a pre-SECURE Act beneficiary are generally subject to the SECURE Act's 10-year rule. However, since the first pre-SECURE Act beneficiary was subject to annual RMDs, the successor or subsequent beneficiary will also be subject to RMDs during this 10-year period. The RMD requirements during this new 10-year period will continue to be based on the first beneficiary's life expectancy.

Note: If the original pre-SECURE Act beneficiary also died before 2020, then the successor beneficiary may continue taking RMDs according to the schedule of the remaining single declining life expectancy of the first beneficiary.

Investment and insurance products offered through RBC Wealth Management are not insured by the FDIC or any other federal government agency, are not deposits or other obligations of, or guaranteed by, a bank or any bank affiliate, and are subject to investment risks, including possible loss of the principal amount invested.

Successor beneficiaries of a post-SECURE Act beneficiary, where the 10-year rules applied to the first inheritor will require the successor beneficiary to “step into the shoes” of the original beneficiary’s 10-year window. If the first beneficiary inherited assets from a post-RBD decedent, where annual RMDs are required during the 10-year period, the successor beneficiary will continue to utilize the life expectancy of the first beneficiary. The annual RMD during the remainder of the first inheritor’s 10-year period does not recalculate to the successor beneficiary’s life expectancy.

Eligible designated beneficiaries

The passage of the SECURE Act created a new class of beneficiaries termed eligible designated beneficiaries (EDBs) who are generally not subject to the SECURE Act’s 10-year rules. EDB distribution options generally mirror the rules available to pre-SECURE Act designated beneficiaries, where annual RMDs would be satisfied based on the beneficiary’s single declining life expectancy.

Eligible designated beneficiaries include

- Surviving spouses
- Minor children of the decedent, but only until the age of majority (age 21)
- IRS-defined disabled or chronically ill individuals
- Individuals who are not more than 10 years younger than the original IRA owner or are older than the original IRA owner

SECURE 2.0 Act impacts to beneficiaries

On December 29, 2022, as part of the Consolidated Appropriations Act of 2023 (P.L. 117-328), President Joe Biden signed the SECURE 2.0 Act into law.

Section 302 of the SECURE 2.0 Act (effective 2023) created new rules related to the penalties for missed RMDs. Previously any missed RMD was subject to 50% excise penalty. The SECURE 2.0 Act modifies these rules by reducing the penalty for missed RMDs to 25% and further reduces to 10% if the missed RMD is corrected between January 1 of the year following the year of the missed RMD and upon the earliest of the following dates:

- When the notice of deficiency is mailed to the client
- When the tax is assessed by the IRS
- The last day of the second tax year after the tax is imposed

Section 327¹ (effective 2024) provides for an additional RMD calculation method for surviving spouses. In the event the deceased IRA owner was younger than the surviving spouse beneficiary, it may be beneficial for the surviving spouse to assume assets into an inherited IRA where there is no RMD requirement until the year the decedent would have reached age 73.

This strategy known as “spousal delay” can help delay RMDs on those inherited assets in the years following the account owner’s death. If employing this spousal delay strategy, it is important that before January 1 of the year in which the decedent would have reached 73, you transfer the inherited IRA proceeds to a traditional IRA in the beneficiary’s sole name. The reason why you transfer the inherited assets in a timely manner is to ensure that when RMDs are required, they are based on the IRS Uniform Lifetime Table (Table III). If you do not transfer the inherited IRA in a timely manner to a traditional IRA, the first year RMD will be based on the more accelerated IRS Single Life Table (Table I).

Section 327 of the SECURE 2.0 Act removes the onerous timing component of transferring the assets from an inherited to traditional IRA and provides an additional RMD option that may be beneficial to surviving spouses who were older than the decedent. Starting in 2024, surviving spouse beneficiaries who assume assets into an inherited IRA who are employing “spousal delay” have the option to base their RMDs, when due, on the decedent’s life expectancy utilizing the Uniform Lifetime Table (IRS Table III). This option allows for the RMDs to be based on the longer life expectancy of the younger decedent, as opposed to the older surviving spouse beneficiary.

Section 327 of the Act provides additional benefits to surviving spouses who assume assets into an inherited IRA. In the event of death of the surviving spouse, who assumed assets into an inherited IRA the subsequently named beneficiaries will be treated as ‘original beneficiaries’ preserving their option to employ SECURE Act distribution rules. Without this benefit the successor or subsequent beneficiaries may be required to satisfy RMDs based on the decedent’s life expectancy and not their own.

Required distribution rules for inherited IRAs

If you are the designated beneficiary of a pre-SECURE Act deceased IRA owner or an eligible designated beneficiary, you can still stretch the RMDs over your remaining single declining life expectancy rather than being subject to the SECURE Act’s new 10-year rule.

Distributions you take as a beneficiary are generally taxable as ordinary income but are exempt from the 10% premature distribution penalty—regardless of your age.

If you are not a designated beneficiary of a pre-SECURE Act death or an EDB of a post-SECURE Act death, your distribution rules are dependent upon the decedent’s age at death, namely, either pre-RBD or post-RBD.

For pre-RBD client death scenarios: if a designated beneficiary is not considered an EDB, they will be subject to the SECURE Act’s 10-year rule, where annual distributions are not required. The SECURE Act’s 10-year rule stipulates that the beneficiary IRA account must be fully withdrawn within 10 years and by no later than

December 31 of the tenth year following the year in which the original IRA owner died.

For post-RBD client death scenarios: if a non-spouse designated beneficiary is named as the beneficiary and is not considered an EDB, they will be subject to the SECURE Act's 10-year rule, where annual required minimum distributions are required based on the beneficiary's actuarial single declining life expectancy (employing IRS Table I). In addition, all assets must be withdrawn by no later than December 31 of the tenth year following the year in which the original IRA owner died.

Roth IRA beneficiaries

There is no required beginning date for Roth IRAs because a Roth IRA owner isn't required to take RMDs during his or her lifetime. A Roth IRA is not subject to a required distribution period until a non-spouse beneficiary inherits the assets. When a non-spouse beneficiary inherits Roth IRA assets, they are subject to the SECURE Act's 10-year rule, where annual distributions are not required. The SECURE Act's 10-year rule stipulates that the inherited or decedent beneficiary IRA account must be fully withdrawn within 10 years and by no later than December 31 of the tenth year following the year in which the original IRA owner died.

In the event the named Roth IRA beneficiary qualifies as an EDB, they will not be subject to the SECURE Act's 10-year rule, but would be subject to pre-SECURE Act beneficiary distribution rules where annual RMDs would be required based on the beneficiary's single declining life expectancy (IRS Table I).

Trust

Generally, only living individuals can be designated beneficiaries. However, even though a trust is a non-living entity, a special rule may be applied to certain trusts—notably, special needs or supplemental needs trusts, which are trusts established for the benefit of either a disabled individual, as defined under Tax Code Section 72(m) (7) or a chronically ill individual, as defined under tax Code Section 7702B(c)(2).

Under this rule, the special needs individual who is the trust beneficiary will be treated as the eligible designated beneficiary and be permitted to stretch RMDs over their own single declining life expectancy; calculation based on the IRS Single Life Table (Table I). The following regulatory requirements must be met to also create a valid look-through trust:

- The trust is valid under state law and is irrevocable or will, by its terms, become irrevocable upon the death of the IRA owner.
- The trust beneficiaries must be individuals clearly identifiable (from the trust document) as designated beneficiaries as of September 30 of the year following the year of the IRA owner's death.

- The IRA custodian is provided with a list of beneficiaries (including contingent remainder beneficiaries) along with a written certification that the list is accurate and the trust is a valid look-through trust by meeting the above requirements by October 31 of the year following the year of the IRA owner's death.
- A copy of the trust instrument is provided to the IRA custodian upon demand.

Additional guidance from the IRS/Department of the Treasury is still needed to determine whether or to what extent trusts named as beneficiaries of IRAs may also be permitted to allow an EDB of a trust to stretch RMDs over their own remaining single declining life expectancy (see IRS Table I)². In this regard, eligible designated beneficiaries may also potentially include a surviving spouse, a minor-aged child of the deceased IRA owner, but only until the age of majority (age 21), and an individual who is not greater than 10 years younger than the original IRA owner.

Beneficiaries of qualified plan assets

A spouse beneficiary can generally roll over death benefits inherited from a qualified retirement plan, such as a 401(k), pension or profit-sharing plan, into their own IRA. Keep in mind that if the plan participant was past their RBD when they passed away, their current year RMD must be distributed to their beneficiary(ies) and is not eligible to be rolled over.

In the case of a non-spouse beneficiary that is a living person, or a qualifying look-through trust, they can roll over their inheritance into a beneficiary IRA. The rollover must be done via a direct rollover—no 60-day rollovers are permitted. The beneficiary IRA must be a traditional IRA (unless you inherit designated Roth 401(k) account or designated Roth 403(b) account assets) and will be subject to the required distribution rules applicable to a non-spouse beneficiary.

The ability to do the direct rollover is significant because qualified plans often require faster payouts to non-spouse beneficiaries than the law requires, thus accelerating taxation. For a non-spouse beneficiary to take advantage of utilizing their own life expectancy (if applicable) it is important that the direct rollover occur in a timely manner, generally by December 31 of the year following the year of the plan participant's death. If you inherit qualified plan assets, your first step should be to consult the administrator of the qualified plan regarding your post-death options as a beneficiary.

Making important decisions

Making a decision regarding a retirement plan inheritance can seem very overwhelming in the midst of losing a loved one. Your financial advisor, along with your tax or legal advisor, can walk you through each of the above options and help you make the decision that best fits your needs.

Beneficiary distribution options for deaths that occur on or after January 1, 2020

Beneficiary distribution options ³		
	Beneficiary	Distribution options
Death before required beginning date	Spouse ³	<ol style="list-style-type: none"> Transfer or rollover to own IRA <ul style="list-style-type: none"> Lump sum distribution RMDs over their life expectancy beginning at 73 Follow the 10-year rule Distribute assets over their life expectancy in inherited IRA structure <ul style="list-style-type: none"> Distributions are required to begin by December 31 of the year following the year the decedent account owner would reach age 73. Distributions are based on the life expectancy of the surviving spouse utilizing the Single Life table (IRS Table I) No 10% penalty for distributions from inherited IRA structure Distribute assets over the decedent's life expectancy in inherited IRA structure <ul style="list-style-type: none"> Distributions are required to begin by December 31 of the year following the year the decedent account owner would have reach age 73 Distributions are based on the decedent's life expectancy in the year following death utilizing the Uniform Life Table (IRS Table III) (effective 2024)¹ No 10% penalty for distributions from inherited IRA structure
	Non-spouse—designated beneficiary	All assets must be distributed by December 31 of the tenth year following the year of the original account owner's death unless the non-spouse beneficiary is an eligible designated beneficiary. If so, then the eligible designated beneficiary may distribute RMDs over the longer of their own life expectancy and the original account owner's life expectancy or alternatively can opt-in to the 10-year rule.
	Non-spouse—no designated beneficiary	The full balance of the account must be distributed by December 31 of the fifth year following the year of the original account owner's death.
Death after required beginning date ⁴	Spouse ³	<ol style="list-style-type: none"> Transfer or rollover to own IRA <ul style="list-style-type: none"> Lump sum distribution RMDs over their life expectancy beginning at 73 Distribute assets in inherited IRA structure <ul style="list-style-type: none"> Distributions may be based on the greater of: the single declining life expectancy of the surviving spouse (IRS Table I) or the single declining life expectancy of the deceased IRA owner (IRS Table I) No 10% penalty for distributions from inherited IRA structure Distribute assets over the decedent's life expectancy in inherited IRA structure (Uniform Life Table IRS Table III) <ul style="list-style-type: none"> Distributions may be based on the decedent's life expectancy in the year following death utilizing the Uniform Life Table (IRS Table III) (effective 2024)¹ No 10% penalty for distributions from inherited IRA structure
	Non-spouse—designated beneficiary	All assets must be distributed by December 31 of the tenth year following the year of the original account owner's death while additionally satisfying annual RMDs generally based on the beneficiary's single declining life expectancy (see IRS Table I). If the non-spouse designated beneficiary is an eligible designated beneficiary, the eligible designated beneficiary is subject to annual RMDs based on the longer of their own life expectancy or the original account owner's life expectancy.
	Non-spouse—no designated beneficiary (Charity, estate, or non-look-through trust)	All assets must be distributed based on the remaining single declining life expectancy of the deceased IRA owner commencing in their year of death.

1. Additional guidance from the IRS is still needed regarding certain aspects of section 327 of SECURE 2.0 Act.

2. Trust must be administered as "conduit" trust to allow for stretch distributions based on single declining life expectancy (IRS Table I).

3. See Section 327 of SECURE 2.0 Act in body of fact sheet.

4. If an account owner dies after their RBD but prior to satisfying their current year RMD, their beneficiaries must satisfy the current year RMD.

RBC Wealth Management does not provide tax or legal advice. All decisions regarding tax or legal implication of your investments should be made in consultation with your independent tax or legal advisor. No information, including but not limited to written materials, provided by RBC WM should be construed as legal, accounting or tax advice.



**Wealth
Management**