

SNAPPED INSTEAD OF STRETCHED: Introduction to Our Post-Death IRA Beneficiary Distribution Guide

Throughout the final decades of the last century and the first two decades of this one, the “Stretch IRA” played a vital role in estate planning for IRAs and retirement accounts. Combining extended tax deferral with the long-term power of compounded investment returns, many IRA owners and their beneficiaries used this strategy to amass substantial wealth over multiple generations.

Then came the Secure Act (“SECURE”) of 2019. SECURE snapped the Stretch, for many non-spousal retirement account beneficiaries inheriting after post-2019 deaths. Among its provisions, SECURE introduced a 10-year period for account depletion, curtailing life expectancy-based payouts for most non-spousal beneficiaries and perhaps moving future income into higher tax brackets.

As the 10-year rule’s guidelines have evolved, so have sophisticated tax planning responses. Members of a new class of beneficiaries are still permitted to stretch lifelong withdrawals. For other non-spousal beneficiaries, innovative methods to effectively replace Stretch IRAs in legacy planning have appeared.

Whether you are a retirement account beneficiary or an IRA owner planning for your future heirs, you can find the available options in this guide. Keep in mind that this publication is designed as a reference tool and should not be relied upon for tax or legal advice. Always consult your tax professional before taking any meaningful course of action.

IRA BENEFICIARY DISTRIBUTION GUIDE FOR DEATHS AFTER 2019

| SPOUSE | | ELIGIBLE DESIGNATED BENEFICIARY OTHER THAN SURVIVING SPOUSE | | DESIGNATED BENEFICIARY | | NON-DESIGNATED BENEFICIARY | |
|---|--|---|---|---|--|--|---|
| DEATH BEFORE THE RBD | DEATH AFTER RBD* | DEATH BEFORE RBD | DEATH AFTER RBD* | DEATH BEFORE RBD | DEATH AFTER RBD* | DEATH BEFORE RBD | DEATH AFTER RBD* |
| Option 1: Treat the IRA as own or roll into surviving spouse's IRA and begin RMDs at surviving spouse's RBD using Uniform Lifetime Table. | Option 1: Satisfy deceased spouse's RMD in year of death if not already satisfied. Then treat the IRA as own IRA or roll into surviving spouse's IRA. Future RMDs begin when the surviving spouse reaches RMD age. | Option 1: Treat as an Inherited IRA and take annual RMDs beginning the year following death using the beneficiary's age as per the single life expectancy table; reduce the divisor by 1 for each subsequent year. *A minor EDB must withdraw the remaining balance annually within 10 years upon reaching the age of 21. | Option 1: Satisfy deceased owner's RMD in year of death if not already satisfied. Treat as an Inherited IRA and take annual RMDs beginning the year following death using the beneficiary's age as per the single life expectancy table or the deceased' life expectancy, if longer; reduce the divisor by 1 for each subsequent year. *A minor EDB must withdraw the remaining balance annually within 10 years upon reaching the age of 21. | Option 1: 10-year rule. The entire balance must be distributed by December 31st containing the tenth anniversary of death. No RMDs required annually. | Option 1: Satisfy deceased owner's RMD in year of death if not already satisfied. The 10-year rule applies with annual RMDs using the single life expectancy of the DB beginning the year following death and reducing by 1 each year thereafter. The Inherited IRA must be distributed in full by 12/31 of the 10th year. | Option 1: 5-year rule. The entire balance must be distributed by December 31st containing the fifth anniversary of death. No annual RMDs required. | Option 1: Satisfy the deceased owner's RMD for year of death if not already satisfied. Then take annual RMDs using the deceased owner's remaining life expectancy under the single life expectancy table. |
| Option 2: Treat as an Inherited IRA and delay annual RMDs until deceased spouse would have reached RBD age using the single life expectancy table. Any withdrawals as an Inherited IRA will not be subject to the 10% early withdrawal penalty. | Option 2: Treat as an Inherited IRA. Surviving spouse must begin annual RMDs the year following the deceased spouse's death using the single life expectancy table and the longer of: the surviving spouse's life expectancy, or the deceased spouse's life expectancy. 10% early withdrawal penalty does not apply. | Option 2: Elect the 10-year rule. No annual RMDs required. The entire balance must be distributed by December 31st containing the tenth anniversary of death. | Option 2: Lump Sum | Option 2: Lump Sum | Option 2: Lump Sum | Option 2: Lump Sum | Option 2: Lump Sum |
| Option 3: Elect to be treated as the deceased spouse and commence RMDs when the deceased spouse would have reached RMD age using the Uniform Lifetime Table | | Option 3: Lump Sum | | | | | |
| Option 4: Elect the 10-year rule. The entire balance must be distributed by December 31st containing the tenth anniversary of death. No annual RMDs required. | | | | | | | |

***Special Note on Roth IRAs:** Does not apply to Roth IRAs as they are not subject to lifetime required minimum distributions.

As such, all beneficiaries (surviving spouse, EDBs other than surviving spouse, designated beneficiaries, and non-designated beneficiaries use the rules that applicable to death before the required beginning date (RBD).

IRA BENEFICIARY DISTRIBUTION GUIDE FOR DEATHS AFTER 2019

POST-DEATH DISTRIBUTIONS GLOSSARY OF TERMS

10-Year Rule: The distribution period that applies to designated beneficiaries who are not eligible designated beneficiaries, for IRA owners who died after 2019, per the SECURE Act 1.0. If the IRA owner dies before his/her required beginning date (or the IRA inherited is a Roth IRA), the only RMD that is required is by December 31st of the year containing the tenth year of the IRA owner's death. If the IRA owner dies after the required beginning date, the 10-year rule still applies but the designated beneficiary must take annual RMDs in years 1-9 and the remaining balance must be distributed by the end of year ten.

5-Year Rule: For deaths after 2019, the 5-year rule applies only if the beneficiary is a non-designated beneficiary and the IRA owner died before the required beginning date (or is a Roth IRA). The Inherited IRA must be distributed by December 31st of the year containing the fifth anniversary of death.

'At Least as Rapidly' Rule: If the original traditional IRA owner was subject to annual RMDs, the beneficiary must continue taking annual RMDs at least as rapidly as the owner. So, for example, a designated beneficiary must still distribute the remaining balance by December 31st of the year containing the tenth anniversary of death but must take annual RMDs in years 1-9 based on the DB's life expectancy .

Inherited IRA, also referred to as a Stretch IRA: This is an IRA that is titled in the name of the decedent for the benefit of the IRA beneficiary such as *John Smith IRA deceased FBO Jane Smith as beneficiary*. The title indicates that the Inherited IRA is not owned by the beneficiary but rather is one that is subject to post-death required minimum distributions. A non-spousal designated beneficiary or non-spousal eligible designated beneficiary may only treat as an Inherited IRA if the non-spouse wishes to stretch post-death distributions in lieu of taking a lump sum distribution of the IRA. Any subsequent withdrawals from an Inherited IRA are never subject to the 10% early withdrawal penalty that otherwise generally applies to pre-59 ½ withdrawals. A surviving spouse may elect to treat the deceased spouse's IRA as an Inherited IRA if the surviving spouse either a.) needs income prior to age 59 ½ from the IRA to avoid the 10% early withdrawal penalty that would apply if the IRA were treated as his/her own or b.) wishes to delay RMDs from the IRA until the deceased spouse would have been subject to RMDs and the survivor is older than the deceased spouse. In most other cases, the surviving spouse would generally elect to treat the IRA as his/her own.

CATEGORIES OF BENEFICIARIES²:

Designated Beneficiary (DB): A beneficiary who is a person or a trust that qualifies as a see-through trust, allowing the life expectancy of a trust beneficiary to be used for RMD purposes.

Eligible Designated Beneficiary (EDB): This is a new category of beneficiary created under the SECURE Act 1.0 who is a designated beneficiary as of the date of the IRA owner's death and who is also:

- a.) A surviving spouse,
- b.) A child of the owner who has not reached the age of 21*,
- c.) A disabled beneficiary,
- d.) A chronically ill beneficiary, or
- e.) A beneficiary not described above who is more than 10 years younger than the IRA owner. This includes beneficiaries who are older than the deceased.

***Special Rule for Minor Children as an EDB:** Once the minor child of the IRA owner reaches the age of 21, the account must be fully distributed by the end of the tenth year. Annual RMDs must continue until the account is fully distributed by December 31st of the tenth year.

IRA BENEFICIARY DISTRIBUTION GUIDE FOR DEATHS AFTER 2019

Non-Designated Beneficiary: A beneficiary who does not meet the requirements to be a designated beneficiary, such as an estate, charity, or non-see-through trust.

Successor Beneficiary: A beneficiary who inherits the IRA after the original beneficiary.

IF THE ORIGINAL BENEFICIARY WAS:

A designated beneficiary or non-designated beneficiary: The successor beneficiary must deplete the inherited account in what remains of the original beneficiary's distribution period.

A surviving spouse or EDB who elected to stretch distributions over life expectancy: The successor beneficiary must deplete the remaining account balance by December 31st of the tenth year, with annual RMDs in years 1-9.

An EDB who elected the 10-year rule: the successor beneficiary must distribute the remaining balance within what remains of the original ten years.

IRS SINGLE LIFE EXPECTANCY TABLE³:

To be used by beneficiaries to calculate post-death required minimum distributions for years beginning in 2022 or later. In some cases, this table may also be used to recalculate future RMDs for certain beneficiaries in which the IRA account owner or surviving spouse died prior to 2022.

Designated beneficiary of an IRA owner who died after his/her required beginning date: Use this table to determine RMDs for years 1-9 of the 10-year required distribution period. The designated beneficiary uses the age based on his/her age in the year following death and reduces it by one for each year thereafter.

Eligible Designated Beneficiary, other than a Surviving Spouse: Use this table to determine the applicable distribution period beginning with the year following the death of the IRA owner using the EDB's attained age for that year. Reduce the distribution period by one for each subsequent year.

Surviving Spouse Who Elects to Treat as an Inherited IRA: This table is also used for a surviving spouse who does not elect to treat the IRA as his/her own; however, a surviving spouse refers to the table each year for the new divisor rather than reducing the first year's divisor by one for each subsequent year.

¹IRS Notice 2022-53

²<https://www.federalregister.gov/documents/2022/02/24/2022-02522/required-minimum-distributions>

³CFR § 1.401(a)(9)-9 - Life expectancy and distribution period tables; (b) Single Life Table.

IRA BENEFICIARY DISTRIBUTION GUIDE FOR DEATHS AFTER 2019

| AGE | LIFE EXPECTANCY FACTOR | AGE | LIFE EXPECTANCY FACTOR | AGE | LIFE EXPECTANCY FACTOR |
|-----|------------------------|-----|------------------------|------|------------------------|
| 0 | 84.6 | 41 | 44.8 | 82 | 9.9 |
| 1 | 83.7 | 42 | 43.8 | 83 | 9.3 |
| 2 | 82.8 | 43 | 42.9 | 84 | 8.7 |
| 3 | 81.8 | 44 | 41.9 | 85 | 8.1 |
| 4 | 80.8 | 45 | 41.0 | 86 | 7.6 |
| 5 | 79.8 | 46 | 40.0 | 87 | 7.1 |
| 6 | 78.8 | 47 | 39.0 | 88 | 6.6 |
| 7 | 77.9 | 48 | 38.1 | 89 | 6.1 |
| 8 | 76.9 | 49 | 37.1 | 90 | 5.7 |
| 9 | 75.9 | 50 | 36.2 | 91 | 5.3 |
| 10 | 74.9 | 51 | 35.3 | 92 | 4.9 |
| 11 | 73.9 | 52 | 34.3 | 93 | 4.6 |
| 12 | 72.9 | 53 | 33.4 | 94 | 4.3 |
| 13 | 71.9 | 54 | 32.5 | 95 | 4.0 |
| 14 | 70.9 | 55 | 31.6 | 96 | 3.7 |
| 15 | 69.9 | 56 | 30.6 | 97 | 3.4 |
| 16 | 69.0 | 57 | 29.8 | 98 | 3.2 |
| 17 | 68.0 | 58 | 28.9 | 99 | 3.0 |
| 18 | 67.0 | 59 | 28.0 | 100 | 2.8 |
| 19 | 66.0 | 60 | 27.1 | 101 | 2.6 |
| 20 | 65.0 | 61 | 26.2 | 102 | 2.5 |
| 21 | 64.1 | 62 | 25.4 | 103 | 2.3 |
| 22 | 63.1 | 63 | 24.5 | 104 | 2.2 |
| 23 | 62.1 | 64 | 23.7 | 105 | 2.1 |
| 24 | 61.1 | 65 | 22.9 | 106 | 2.1 |
| 25 | 60.2 | 66 | 22.0 | 107 | 2.1 |
| 26 | 59.2 | 67 | 21.2 | 108 | 2.0 |
| 27 | 58.2 | 68 | 20.4 | 109 | 2.0 |
| 28 | 57.3 | 69 | 19.6 | 110 | 2.0 |
| 29 | 56.3 | 70 | 18.8 | 111 | 2.0 |
| 30 | 55.3 | 71 | 18.0 | 112 | 2.0 |
| 31 | 54.4 | 72 | 17.2 | 113 | 1.9 |
| 32 | 53.4 | 73 | 16.4 | 114 | 1.9 |
| 33 | 52.5 | 74 | 15.6 | 115 | 1.8 |
| 34 | 51.5 | 75 | 14.8 | 116 | 1.8 |
| 35 | 50.5 | 76 | 14.1 | 117 | 1.6 |
| 36 | 49.6 | 77 | 13.3 | 118 | 1.4 |
| 37 | 48.6 | 78 | 12.6 | 119 | 1.1 |
| 38 | 47.7 | 79 | 11.9 | 120+ | 1.0 |
| 39 | 46.7 | 80 | 11.2 | | |
| 40 | 45.7 | 81 | 10.5 | | |

This piece is intended to be informational only and provide generalized guidance. It should not be construed as a recommendation of any type. Any examples provided are illustrative only and not intended to be advice specific to any individual situation. You should check with an appropriately licensed financial professional and/or your tax and legal advisor regarding your specific situation. Not affiliated with, or endorsed by, any government agency. ©2023 Brokers International, LLC. All rights reserved. #23-0340-050324