

Options for IRA Beneficiaries who Inherited in 2019 or Earlier

For many clients, the most important part of their IRA is what happens to it after death. For this reason, knowing the rules for what happens when beneficiaries inherit IRAs is critical for advisors.

The options in this table are only available to beneficiaries of IRA owners who died in 2019 or earlier. If a beneficiary using these options dies in 2020 or later, a successor beneficiary is subject to the 10-year rule under the SECURE Act. The options in this table represent the slowest allowable manner for an IRA to be drawn down by the beneficiary per IRS regulations. Any quicker draw-down method is acceptable (i.e., a lump sum distribution), but this may result in the inclusion of the entirety of the funds in the beneficiary's taxable income for the year in which they are withdrawn.

Reminder: The required beginning date (RBD) for required minimum distributions (RMDs) for IRA owners who died in 2019 or earlier is April 1 of the year after the year the IRA owner turned 70½.

Who is the Beneficiary?	Traditional IRA Owner Died Before RBD; or Roth IRA Owner Died at Any Age	Traditional IRA Owner Died <u>on or After</u> RBD
Spouse	<p>A surviving spouse has <i>three</i> options:</p> <ol style="list-style-type: none"> Choose to do a spousal rollover, transfer, or treat the account as the spouse's own account. Create a "stretch IRA" (inherited IRA). Begin taking RMDs based on surviving spouse's single life expectancy, recalculated. Payments must start by either the later of December 31 of the year after the year of the original IRA owner's death or December 31 of the year the original IRA owner would have turned 70½. Utilize the "5-Year Rule." Close the inherited IRA by December 31 of the 5th year after the year of death. There is not a set amount or percentage that must be taken each year, but all assets must be removed by the end of the 5-year window. 	<p>A surviving spouse <i>must</i> take the original account owner's RMD by December 31 of the year of death if not already withdrawn.</p> <p>Then, a surviving spouse has <i>two</i> options:</p> <ol style="list-style-type: none"> Choose to do a spousal rollover, transfer, or treat the account as the spouse's own account. Create a "stretch IRA" (inherited IRA). Begin taking RMDs based on <i>either</i> a period no longer than the surviving spouse beneficiary's single life expectancy, recalculated, <i>or</i> the deceased account owner's single life expectancy (had he survived), non-recalculated. RMD payments must begin by December 31 of the year after the original owner's death.
Non-Spouse	<p>A surviving non-spouse has <i>two</i> options:</p> <ol style="list-style-type: none"> Create a "stretch IRA" (inherited IRA). Begin taking RMDs based on surviving non-spouse's single life expectancy, non-recalculated. Payments must start by December 31 of the year after the year of the original IRA owner's death. <i>Note: If there are multiple beneficiaries, separate inherited IRA accounts must be established for each beneficiary by December 31 of the year following the account owner's death or the oldest beneficiary's life expectancy must be used.</i> Utilize the "5-Year Rule." Close the inherited IRA by December 31 of the 5th year after the year of death. There is not a set amount or percentage that must be taken each year but all assets must be removed by the end of the 5-year window. 	<p>A surviving non-spouse <i>must</i> take the original account owner's RMD by December 31 of the year of death if not already withdrawn.</p> <p>Then, a surviving non-spouse <i>must</i>:</p> <ul style="list-style-type: none"> >Create a "stretch IRA" (inherited IRA). Close the account with RMD payments based on either a period that is no longer than the non-spouse beneficiary's single life expectancy, non-recalculated (using the age in the year after the year of death and reduced by one each year thereafter) or the deceased account owner's single life expectancy (had he survived), non-recalculated; use the age in the year of death and reduce by one each year thereafter. RMD payments must begin by December 31 of the year after the original account owner's death.
Non-Person (i.e., Estate, Charity, Nonqualifying Trust)	<p>A non-person <i>must</i>:</p> <ol style="list-style-type: none"> Utilize the "5-Year Rule." Close the inherited IRA by December 31 of the 5th year after the year of death. There is not a set amount or percentage that must be taken each year but all assets must be removed by the end of the 5-year window. 	<p>A non-person <i>must</i> take the original account owner's RMD by December 31 of the year of death if not already withdrawn.</p> <p>Then, a non-person <i>must</i>:</p> <ul style="list-style-type: none"> >Create an inherited IRA. Close the account with RMD payments based on the deceased account owner's single life expectancy (had he survived), non-recalculated; use the age in the year of death and reduce by one each year thereafter. RMD payments must begin by December 31 of the year after the original account owner's death.