

# BENEFICIARY OPTIONS



## Traditional and Roth IRA

A variety of factors can affect an IRA beneficiary's options as well as the required minimum distribution (RMD) rules.<sup>A</sup> The type of IRA, the IRA agreement, the type of beneficiary, the custodian's or trustee's policy, the beneficiary designation document, and the timing of an IRA owner's death can all play a role. This brochure is designed to help you understand some of these complexities.

### What is an IRA beneficiary?

An IRA owner can designate specific individuals or other entities—including, but not limited to, an estate, a trust, or a charitable organization—as IRA death beneficiaries. The named beneficiaries that survive an IRA owner inherit any assets remaining in the IRA after an IRA owner's death.

### Are there different types of IRA beneficiaries?

Yes, and understanding the different types of beneficiaries is important to knowing which beneficiary options might be available. When an IRA owner dies in 2020 or later, there are designated beneficiaries, eligible designated beneficiaries and those that are not designated beneficiaries.

Generally, a 'designated beneficiary' is any *individual* named as a beneficiary by the IRA owner. It is also possible for a trust to be a designated beneficiary.

An 'eligible designated beneficiary' is a designated beneficiary who is:

- The IRA owner's surviving spouse;
- An IRA owner's minor child;
- Disabled;
- A chronically ill individual; or
- An individual who is not more than 10 years younger than the IRA owner.

Certain qualifying trusts can also be an eligible designated beneficiary.

Those who are 'not designated beneficiaries' include estates, charitable organizations, and nonqualifying trusts.

### Are the available beneficiary options different depending on the year of the IRA owner's death?

Yes. Because of the SECURE Act, the beneficiary rules are in the process of being finalized. This means the options available to you depend in part on the IRA owner's year of death. The rules may be significantly different if the year of death was 2019 or earlier compared to if the year of death is 2020 or later.

### What is the required beginning date (RBD)?

The required beginning date (RBD) is the date by which an IRA owner must take his/her first RMD. Beginning for tax year 2023, a traditional (including SEP) and/or SIMPLE IRA owner's RBD is April 1 of the year following the year he/she reaches age 73<sup>B</sup>. Because Roth IRA owners do not have to take RMDs, for purposes of these beneficiary rules, death is always considered to occur before the RBD.

### What options are available to me if I am a spouse beneficiary?

If an IRA owner dies before his/her RBD or it is a Roth IRA, you have the following options:

- Treat the IRA as your own IRA
- Have the IRA assets distributed over your single life expectancy
- Have the assets distributed within a five-year period (the five-year rule) if the IRA owner died in 2019 or earlier
- Have the assets distributed within a ten-year period (the ten-year rule) if the IRA owner died in 2020 or later
- Take a total or partial distribution that is greater than the RMD amount, if any
- Roll over a total or partial distribution that is greater than the RMD amount

If an IRA owner dies on or after his/her RBD, distributions must continue to you at least as rapidly as the IRA owner's distribution method before his/her death. You have the option to:

- Treat the IRA as your own

- Have the assets distributed using the longer of either your, or the deceased IRA owner's, single life expectancy divisor
  - Take a total or partial distribution that is greater than the RMD amount
  - Roll over a total or partial distribution that is greater than the RMD amount
- Note:** You must also take, by the end of the year of the IRA owner's death, your share of the IRA owner's RMD not taken before the IRA owner's death.

### What options are available to me if I am a nonspouse beneficiary?

A nonspouse individual beneficiary must take, by the end of the year of the IRA owner's death, his or her share of the IRA owner's RMD not taken before the IRA owner's death, if any. You cannot treat an inherited IRA as your own IRA. You also cannot roll over any portion of a distribution from an inherited IRA.

#### IRA Owner Dies in 2020 or Later

If you are an eligible designated beneficiary and the IRA owner dies before his or her RBD, or it is a Roth IRA, you can:

- Have the assets distributed over your single life expectancy beginning in the year following death
- Have the assets distributed within a ten-year period
- Take a total or partial distribution that is greater than the RMD amount

If you are an eligible designated beneficiary and the IRA owner dies on or after the RBD, you can:

- Have the assets distributed using the longer of either your, or the deceased IRA owner's, single life expectancy divisor
- Take a total or partial distribution that is greater than the RMD amount

If you are an eligible designated beneficiary who is a minor child of the IRA owner, upon reaching the age of majority, you must take out any remaining interest you have in the IRA assets within ten years, even if you initially chose to receive life expectancy payments.

If you are a designated beneficiary who is not an 'eligible designated beneficiary,' you will have to withdraw all of the inherited IRA assets within a ten-year period. Under IRS proposed rules, there may be an expectation for certain 'designated beneficiaries,' where the IRA owner died after their RBD, that annual distributions be taken within the ten-year period, even before those proposed rules are finalized. Consult your tax or legal professional as to the application of this annual distribution.

#### IRA Owner Died in 2019 or Earlier

If an IRA owner died before his/her RBD, or it is a Roth IRA, your options were to:

- Have the assets distributed over your single life expectancy beginning in the year following death
- Have the assets distributed within a five-year period
- Take a total or partial distribution that is greater than the RMD amount

If an IRA owner died on or after the RBD, you could have had the assets distributed using the longer of either your, or the deceased IRA owner's, single life expectancy.

### What options are available to a nonindividual that is not a designated beneficiary?

If a nonindividual, such as an estate, charity, or a nonqualifying trust, is the beneficiary of an IRA and an IRA owner dies before the RBD, or it is a Roth IRA, the beneficiary can:

- Have the assets distributed within a five-year period
- Take a total or partial distribution earlier than required

If an IRA owner dies on or after the RBD, only one RMD option exists—single life expectancy. The RMD calculation after the year of death uses the remaining single life expectancy of the deceased IRA owner. The deceased owner's single life expectancy divisor is determined in the year of death using his/her age at the end of that year

and is then reduced by one for each subsequent-year's calculation. Note that you can always take a total or partial distribution that is greater than the RMD amount.

### What if a trust is named as the beneficiary?

A trust named as IRA beneficiary could fall into any of the beneficiary categories. The available categories depend on when the IRA owner died (i.e., prior to 2020 or in 2020 or later). Thus, a tax or legal professional should be consulted for additional information about a trust's options.

### What is the ten-year rule?

Under the ten-year rule generally, you must withdraw all of the inherited IRA assets by December 31 of the tenth year following the year of death or within ten years of the date of death. Distributions can be taken at any time. However, under IRS proposed rules, there may be an expectation for certain 'designated beneficiaries', where IRA owner died after the RBD, that annual distributions be taken within the ten-year period, even before those proposed rules are finalized. Consult your tax or legal professional as to the application of this annual distribution requirement to your circumstances. Note that for an eligible designated beneficiary who is a minor child, the inherited IRA assets must be completely distributed within ten years following the date the child reaches the age of majority.

### What is the five-year rule?

Under the five-year rule, you must withdraw all of the inherited IRA assets by December 31 of the fifth year following the year of death. You can take distributions periodically or sporadically before the end of the five years or in a lump sum at any time. There are no required distributions until the end of the fifth year.

### How is an RMD calculated for a beneficiary using the single life expectancy method?

The beneficiary's RMD is calculated using the previous year-end balance, or fair market value of the IRA, generally divided by the beneficiary's single life expectancy divisor.

### How is a beneficiary's single life expectancy divisor determined?

Determining the single life expectancy divisor usually involves finding your age (at the end of the year following the year the IRA owner died) on the current Single Life Table and then using the appropriate method to determine life expectancies for subsequent year calculations. A surviving spouse beneficiary uses the "attained age method." A nonspouse beneficiary who is able to use the single life expectancy method, uses the "reduction method."

**Attained Age Method** – A spouse beneficiary uses his/her age at the end of each distribution year to determine a single life expectancy divisor from the Single Life Table.

#### Example

Pete, age 74 when he died in 2023, named his wife, Penny, as sole beneficiary of his IRA. Penny was age 65 in the year he died. In the year after Pete's death Penny will reach age 66, and the divisor she will use from the Single Life Table is 22.0. Each subsequent year, Penny returns to the Single Life Table to determine a new divisor based on her age that year.

2022 <sup>P</sup> Single Life Expectancy Divisors	
62	25.4
63	24.5
64	23.7
65	22.9
66	22.0
67	21.2
68	20.4
69	19.6

**Reduction Method** – The reduction method is used to determine a single life expectancy for a nonspouse individual beneficiary that uses the single life expectancy option. A nonspouse beneficiary generally uses his/her age at the end of the year following the year of death to determine the initial single life expectancy divisor and reduces this number by one for each following year's RMD calculation.

#### Example

Brenda named her sister Molly as the beneficiary of her IRA. Brenda died in 2023 at age 55. In that same year, Molly attained age 50. Because Molly is an eligible designated beneficiary, she can choose the single life expectancy option. Molly will start her distributions the year after her sister's death, when she is age 51. Her divisor for that first RMD calculation is 35.3

2022 <sup>P</sup> Single Life Expectancy Divisors	
50	36.2
51	35.3
52	34.3
53	33.4
54	32.5
55	31.6
56	30.6
57	29.8
58	28.9
59	28.0

### What is treat as own?

If you are a spouse beneficiary of the IRA owner with an unrestricted right to an IRA's assets you can treat the IRA as your own IRA. If you elect to treat the inherited IRA as your own, the IRA is treated as your personal IRA.

### What is separate accounting?

Separate accounting may apply to IRAs when more than one beneficiary has been designated on an IRA. Applying separate accounting after an IRA owner's death effectively treats each beneficiary as if he/she were the only IRA beneficiary of his/her share. For purposes of this brochure, the use of separate accounting is assumed.

### What is the deadline for making an election regarding the method to receive assets?

If the IRA owner died in 2020 or later, the concept of an election deadline is only applicable for an eligible designated beneficiary (EDB) where the IRA owner dies before his/her RBD. This is because, for all other circumstances and beneficiary types, only one RMD method is available.

**Spouse** – The deadline is the earlier of December 31 of the tenth year following the year of an IRA owner's death or December 31 of the year the IRA owner would have reached age 73. Alternatively, if an IRA owner reached age 73 in his/her year of death, December 31 of the year following the year of death. Subject to further IRS guidance or regulation, a spouse beneficiary who fails to make an election by the deadline defaults automatically to the single life expectancy method.

A spouse beneficiary can make an election to treat the decedent's IRA as his/her own IRA, even if he/she made an earlier single life expectancy, five-year rule, or ten-year rule election (or defaulted to one of those rules).

**Nonspouse EDB** – The deadline is December 31 of the year following the year of death. Subject to further IRS guidance or regulation, a nonspouse EDB who fails to make an election by this deadline, defaults to the single life expectancy and distributions must begin by the end of the year following the year of death.

**Nonspouse Beneficiaries of 2019 Decedent's** – For a death in 2019, the election deadline was generally December 31, 2021.

### What if a beneficiary doesn't take the RMD?

A surviving spouse who does not take a required RMD by the end of a calendar following the year of death, will be deemed to be the IRA account owner (i.e., deemed to have treated the IRA as his or her own). For other beneficiaries any portion of the RMD that is not taken in a year is subject to a 25 percent excess accumulation penalty tax. However, the penalty may be reduced to 10% if the failure is resolved within the correction window.

### Will a beneficiary have to pay income taxes or penalty taxes on the distributions?

The IRS assumes that traditional IRA distributions are fully taxable to you unless you can prove that some assets in the decedent's account were after-tax assets. The deceased IRA owner's tax professional or copies of the decedent's previous IRS Forms 1040 and 8606 may provide this information. Distributions to you are not subject to the 10 percent early-distribution penalty tax.

Distribution of Roth IRA regular tax-year contributions and converted assets are not subject to income tax. Roth IRA earnings are not subject to income tax if five years have passed since a decedent's first Roth IRA contribution or conversion. The deceased Roth IRA owner's tax professional (or copies of the decedent's previous IRS Forms 1040 and 8606) may provide this information. Distributions to you are not subject to the 10 percent early-distribution penalty tax.

#### Footnotes

- A** Note: IRA custodians/trustees are not required to calculate RMDs for beneficiaries.
- B** For tax years 2019 and earlier, the required beginning date (RBD) was April 1 following the year the IRA owner attained age 70½, and for tax years 2020, 2021 and 2022, RMDs had to begin at age 72.
- C** References to a traditional IRA generally include SEP and SIMPLE IRAs. SEP stands for "Simplified Employee Pension." SIMPLE stands for "Savings Incentive Match Plan for Employees of Small Employers."
- D** Single life expectancy divisors were revised for RMD calculations for years beginning January 1, 2022, and for tax years 2020, 2021 and 2022, RMDs had to begin at age 72.

*This brochure is intended to provide general information on federal tax laws governing IRA beneficiary options. The brochure does not address successor beneficiary options (i.e., the rules relating to the beneficiary of a beneficiary). It is not intended to provide recommendations, legal advice, or to be a detailed explanation of the rules or how such rules may apply to your individual circumstances. In addition, many answers in this brochure are intended to provide a general explanation regarding the impact to inherited IRAs resulting from the Setting Every Community Up for Retirement Enhancement Act of 2019 (i.e., the SECURE Act) and SECURE 2.0 Act of 2022. These explanations are subject to further modification or clarification based on future rulemaking, guidance, and interpretation from the IRS. For specific information, you are encouraged to consult your tax or legal professional. You should also reference the beneficiary agreement and disclosure statement and/or amendments provided by the custodian/trustee. IRS Publication 590-B, Distributions from Individual Retirement Arrangements (IRAs), and the IRS's website, [www.irs.gov](http://www.irs.gov), may also provide helpful information.*