

# The IRA Digest

Retirement Account Strategies and Tips

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## 3 Essential 2020 Beneficiary Moves That Protect 2019 IRA Beneficiaries from SECURE Act Limitations

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*The SECURE Act changed the options that are available to designated beneficiaries. But, for those who inherited IRAs in 2019, the year 2020 might be a last chance to hang on to the older and more beneficial beneficiary distribution options.*



One of the most impactful changes made under the Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) is the elimination of the life expectancy distribution option for designated beneficiaries. These changes are effective for designated beneficiaries who inherit IRAs after 2019. Those who inherited IRAs in 2019 are the last set of designated beneficiaries to benefit from the *generally* more beneficial pre-SECURE Act life expectancy options; but for some, certain steps must be taken during 2020 to preserve that benefit.

**Please note:** *Because a spouse beneficiary has the option of moving an inherited IRA to the spouse beneficiary's own IRA, this article focuses on nonspouse beneficiaries.*

### Distribution Options for Designated Beneficiaries Who Inherit IRAs before 2020

A designated beneficiary who inherits an IRA before 2020, is eligible to take distributions as follows:

- A. If the IRA owner died before the RBD- which -for beneficiaries who inherit IRAs before 2020 is April 1 of the year that follows the year in which the retirement account owner reached age 70 ½:
  - (a) over the designated beneficiary's life expectancy; or
  - (b) under the 5-year rule.
  
- B. If the IRA owner died on/after the RBD, the designated beneficiary may take distributions over the longer of:
  - (a) the decedent's remaining life expectancy; or
  - (b) the life expectancy of the designated beneficiary.

The life expectancy option could be limited by the provisions of the governing IRA agreement and when there are multiple beneficiaries of an IRA. In those cases, a designated beneficiary might need to take action, to preserve the life expectancy option.

**Reminder:** *For 2020, the Coronavirus Aid, Relief, and Economic Security Act waives RMDs for IRAs and defined contribution plans - for account owners and beneficiaries.*

## Action Might Be Needed in 2020 to Preserve Designated Beneficiary Options for 2019 Beneficiaries

If a designated beneficiary is the sole primary beneficiary of an IRA, and the IRA agreement defaults to the life expectancy option, then the life expectancy option is automatically preserved. But, if that is not the case, there are factors that could limit the designated beneficiary's options. The good news is, for 2019 beneficiaries, these limitations can be overridden if the appropriate action is taken in 2020. The following is a high-level explanation of these limitations and how they can be overridden.

### 1. Limitation 1: When There Are Multiple Designated Beneficiaries

If there are multiple designated beneficiaries of an IRA, the life expectancy of the oldest beneficiary is used for beneficiary RMD purposes. This puts younger beneficiaries at a disadvantage, as it forces them to take larger RMD amounts which depletes the account faster than if they were eligible to use their own life expectancies; thus, reducing the period over which eligible amounts may continue to grow tax-deferred.

**Solution for 2019 beneficiaries:** *Perform separate accounting by December 31, 2020*

If separate accounting occurs by December 31 of the year following the year of the account owner's death, each designated beneficiary may use his own life expectancy.

### 2. Limitation 2: When There Are Multiple Beneficiaries That Include Individuals and Nonpersons

If there are multiple beneficiaries of an IRA, and a nonperson is one of the beneficiaries, the account is treated as not having a designated beneficiary (except for certain trusts).

This would require the inherited IRA to be distributed under the 5-year rule if the owner died before the RBD and over the remaining life expectancy of the decedent, if death occurred on/after the RBD. For Roth IRAs, the 5-year rule would apply regardless of the age of the owner at death.

**Solution for 2019 beneficiaries:** *Have nonperson beneficiaries take full distributions of their share by September 30, 2020*

The determination of whether a retirement account has a designated beneficiary is made by September 30 of the year that follows the year in which the retirement account owner dies. Any beneficiary that takes a full distribution or makes a full disclaimer of that beneficiary's share by this September 30<sup>th</sup> date, is disregarded for purposes of determining the period over which beneficiaries may take distributions. **Reminder.** *Disclaimers must meet the requirements of IRC § 2518*

### 3. Limitation 3: IRA Agreement Defaults to the 5-Year Rule

When a designated beneficiary inherits an IRA from an owner who died before 2020 and death occurred before the RBD, the options are the life expectancy rule and the 5-year rule. For a Roth IRA, the options are the same regardless of the age of the account owner at the time of death.

However, while the regulations and the tax code default to the life expectancy rule, an IRA agreement may default to the 5-year rule.

**Solution:** *Override 5-year rule by making an election or moving the account by December 31, 2020*

### Moving Forward

Much ado is made about the changes to beneficiary options made by the SECURE Act- and rightfully so, as they limit the distribution period to the new 10-year rule for many designated beneficiaries. But, for those who inherited retirement accounts in 2019, there are still opportunities to take distributions under the life expectancy method. When consulting with beneficiaries, advisors must determine whether the account was inherited before 2020, as that drives the distribution options.

***Important Disclosure***

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