

# The IRA Digest

Retirement Account Strategies and Tips

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## The 5 Key Facts of the New 10-Year Rule for IRA Beneficiaries under the SECURE Act

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*The SECURE Act changed the distribution rules for beneficiaries of IRAs. One of the most significant changes is the limiting of the distribution period to 10 years for designated beneficiaries. The 10-year rule also applies in certain other cases.*



The Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act), was signed into law on December 20, 2019 as part of the Further Consolidated Appropriations Act, 2020. One of the more significant changes made by the SECURE Act is repealing the option that allows designated beneficiaries to take distributions over their life expectancies. Now, designated beneficiary must distribute IRAs they inherit within 10-years. An explanation of this new 10-year rule provided by the IRS in its Publication 590-B, has raised questions about how the 10-year rule works, making it necessary to revisit some key facts.

### Background

A designated beneficiary is a person or trust that meets certain specific requirements. If a designated beneficiary inherited an IRA before 2019, *generally* her distribution options are as follows:

- *If the owner died before the RBD\**: The 5-year rule or over her single life expectancy.
- *If the owner died on or after the RBD*: Over the longer of her life expectancy or the remaining life expectancy of the decedent.

**Note:** *\*The required beginning date (RBD), is April 1 that follows the year in which the IRA owner reached age 70 ½. For IRAs inherited after 2019, the age is increased to 72.*

Under the 5-year rule, distributions are optional until December 31 of the 5<sup>th</sup> year that follows the year in which the IRA owner died; at which time the entire balance must be distributed.

The SECURE Act changed the rules for IRAs inherited after 2019 by upgrading the 5-year rule to 10 years, effective for IRAs inherited after 2019, and removing the option that allowed designated beneficiaries to take distributions over their life expectancies. Changes were also made for successor beneficiaries, some of which are also highlighted.

### 1. The Age of IRA Owner at Death is Immaterial for Designated Beneficiary

Whereas the 5-year rule was an option for a beneficiary that inherited an IRA before 2020 only if the IRA owner

died before the RBD, the 10-year rule applies to a designated beneficiary regardless of the age at which the IRA owner dies.

## **2. Distributions Are Optional Until the End of Year 10**

As explained above, where the 5-year rule applies, distributions are optional until the end of the 5<sup>th</sup> year that follows the year of the IRA owner's death. The only change that the SECURE Act made to the 5-year rule was to extend it to 10 years for designated beneficiaries. Therefore, for designated beneficiaries who are subject to the 10-year rule, distributions are optional until December 31 of the 10<sup>th</sup> year that follows the year in which the IRA owner dies.

## **3. The 10-Year Rule Applies to a Successor Beneficiary of a Pre-2020 Beneficiary Taking Distributions over Her Life Expectancy Who Dies after 2019**

If a designated beneficiary inherited an IRA before 2020 and was taking distributions over her life expectancy, her successor beneficiary would take distributions over what remained of the designated beneficiary's life expectancy. However, this option to take distributions over what remained of the designated beneficiary's life expectancy applies only if the designated beneficiary died before 2020. If such a designated beneficiary dies after 2019, the successor beneficiary is subject to the 10-year rule.

## **4. The 10-year rule Applies to the Successor Beneficiary of an Eligible Designated Beneficiary Taking Distributions over Her Life Expectancy**

*Eligible designated beneficiary* is a new category of beneficiary that was created under the SECURE Act and applies only to IRAs inherited after 2019. These beneficiaries are **A.** the surviving spouse of the IRA owner **B.** a child of the IRA owner who has not reached the age of majority, as defined under state law. Once the child reaches the age of majority, that child becomes a regular designated beneficiary and has 10 years (after reaching the age of majority) to distribute the inherited IRA **C.** disabled- which generally means meeting the social security administration's definition of disability **D.** chronically ill - subject to meeting certain specific requirements, or **E.** an individual not described in any of the previous categories (**A** to **D**) who is not more than 10 years younger than the IRA owner.

An eligible designated beneficiary is eligible to take distributions over her life expectancy. When she dies, her successor beneficiary would then be subject to the 10-year rule.

## **5. An IRA Inherited by a Beneficiary Who is a Minor Would Later be Subject to the 10-Year Rule**

If the eligible designated beneficiary is a minor child of the IRA owner, she is eligible to take distributions over her life expectancy. However, distributions are switched to the 10-year rule when she reaches the age of majority. The age of majority is defined under state law.

## **Let Us Help You Figure Out Your Options**

Whether you are a designated beneficiary or you fall into another category, you must have a clear understanding of the distribution options that are available to you. In some cases, the options will depend on when the IRA owner died before 2020 and whether you are a primary beneficiary or a successor beneficiary. Failing to adhere to any restrictions that apply could cost you from 50% to 100% of your inherited IRA in IRS assessed penalties.

***Important Disclosure***

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