



CARDINAL ADVISORS

Inherited IRA? Which Beneficiary Are You?

In our video entitled “Inherited IRA? Which beneficiary are you?” Hans and Tom discuss this outlook of IRA’s using the following documents.

INHERITED IRA? WHICH BENEFICIARY ARE YOU?

<input type="checkbox"/> S.S.	NON-DESIGNATED BENEFICIARY (NDB) <ul style="list-style-type: none">- THESE ARE NOT PEOPLE (ESTATE, NON-QUALIFYING TRUST)- OWNER DIES BEFORE RMD- 5 YEAR RULE- OWNER DIES AFTER RMD, "GHOST LIFE RULE"	<input type="checkbox"/> INCOME
<input type="checkbox"/> MED	NON-ELIGIBLE DESIGNATED BENEFICIARY (NEDB) <ul style="list-style-type: none">- ALL DESIGNATED BENEFICIARIES WHO ARE NOT EDB'S (GRANDS, OLDER CHILDREN, SOME LOOK THROUGH TRUSTS)- 10 YEAR RULE	<input type="checkbox"/> ESTATE
<input type="checkbox"/> LTC	ELIGIBLE DESIGNATED BENEFICIARY (EDB) <ul style="list-style-type: none">- SURVIVING SPOUSES, MINOR CHILDREN OF ACCOUNT OWNER, DISABLED INDIVIDUALS, CHRONICALLY ILL, INDIVIDUALS NOT MORE THAN 10 YEARS YOUNGER- STRETCH APPLIES	<input type="checkbox"/> TAXES
<input type="checkbox"/> 401K/IRA		

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SECURE Act

Retirement Plan Payouts to Beneficiaries Under the SECURE Act

(for deaths *after* 2019*)

*Extended Effective Dates

The effective date for the elimination of the stretch and application of the 10-year rule is generally for deaths after December 31, 2019. But that effective date was extended for two years (for deaths after December 31, 2021) for governmental plans, including certain 403(b) and 457(b) plans, and the Thrift Savings Plan. It was also extended for as long as two years for collectively bargained plans, depending on the expiration date of the union contract.

Retirement Accounts Affected

The elimination of the stretch IRA and inclusion of the 10-year rule provisions apply to defined contributions plans, including 401(k), 403(b) and 457(b) plans, and traditional and Roth IRAs. They do not apply to defined benefit plans.

Under the SECURE Act, there are 3 kinds of retirement plan beneficiaries for determining post-death payouts after 2019:

1. **Non-Designated Beneficiary (NDB)**
2. **Non-Eligible Designated Beneficiary (NEDB)**
3. **Eligible Designated Beneficiary (EDB)**

1. Non-Designated Beneficiary (NDB)

These are not people. Examples: Estate, charity or non-qualifying trust (non-look-through trust)

Post-death Payout Rules for NDBs

Based on whether the IRA owner or plan participant dies before or after the owner's required beginning date (RBD). The RBD is generally April 1 after the year of the 72nd birthday. For those who turn age 72 after 2022, the RBD is April 1 after the year of the 73rd birthday.

If owner dies before the RBD, the account must be withdrawn by the end of the 5th year after death – the 5-year rule. There are no annual RMDs during the 5-year window.

If owner dies on or after the RBD, RMDs must be taken over the deceased's remaining single life expectancy – "*ghost life rule*." (Note: This can produce a post-death payout exceeding 10 years)

2. Non-Eligible Designated Beneficiary (NEDB)

10-year rule

All designated beneficiaries who do not qualify as EDBs (see #3 below).

Examples: grandchildren, older children, some look-through trusts

Post-death Payout Rules for NEDBs - depends on whether death occurs before or after the required beginning date (RBD)

- If owner dies **before** the RBD, there are no annual RMDs during the 10-year window.
- If owner dies **on or after** the RBD, annual (stretch IRA) RMDs must be taken for years 1-9.

Entire account must be emptied by the end of the 10th year after death – the 10-year rule.

3. Eligible Designated Beneficiary (EDB)

Stretch applies

The SECURE Act exempts these beneficiaries from the 10-year rule. However, if the account owner dies before the RBD, an EDB can elect the 10-year rule.

EDBs must be designated beneficiaries.

5 Classes of Eligible Designated Beneficiaries

1. Surviving spouses
2. Minor children of the account owner, until age 21 - but *not* grandchildren
3. Disabled individuals – under the strict IRS rules
4. Chronically ill individuals
5. Individuals not more than 10 years younger than the IRA owner. (Those older than the IRA owner also qualify.)

Plus - Any designated beneficiary (including qualifying trusts) who inherited **before** 2020. These beneficiaries are grandfathered under the pre-2020 stretch IRA rules. In addition, trusts for the sole benefit of these EDBs should qualify as an EDB.

EDB status is determined at date of owner's (or plan participant's) death and cannot be changed.

Post-death Payout Rules for EDBs

Once an EDB no longer qualifies as an EDB, or dies, the 10-year rule is applied for them, or for their beneficiaries (i.e., successor beneficiaries).