

SECURE ACT

Retirement plan payouts to beneficiaries under the SECURE Act

Under the Setting Every Community Up for Retirement Enhancement (SECURE) Act, there are now three kinds of retirement plan beneficiaries for determining post-death payouts for deaths after 2019.

Retirement accounts affected

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

1 **Non-designated beneficiary (NDB)** (no change from prior law)

These are not people

Examples: Estate, charity or non-qualifying trust (non-see-through trust)

Post-death payout rules for NDBs

- If owner dies before the required beginning date (RBD), the account must be withdrawn by December 31 of the fifth year after death – the five-year rule. There are no annual RMDs during the five-year window.
- If owner dies on or after the RBD, RMDs must be taken over the deceased IRA owner's (or plan participant's) remaining single-life expectancy. (Note: This is referred to as a "ghost rule" and can produce a post-death payout exceeding 10 years. However, RMDs must be taken in each of those years.)
- The RBD is generally April 1 after the date the IRA owner turns required minimum distribution (RMD) age.

2 **Non-eligible designated beneficiary (NEDB)** (new 10-year rule)

All designated beneficiaries who do not qualify as EDBs

Examples: Grandchildren, older children, some see-through trusts

Post-death payout rules for NEDBs

- No stretch IRA for deaths after 2019
- If owner dies before the RBD, the entire account must be emptied by December 31 of the 10th year after death – the 10-year rule. No annual RMDs required.
- If owner dies after the RBD, the account must be emptied by December 31 of the 10th year after death. Annual RMDs based on beneficiary's single life expectancy, must be taken in years 1-9.

3 **Eligible designated beneficiary (EDB)** (stretch still applies)

EDBs are a new category of beneficiaries created under the SECURE Act

The SECURE Act exempts these beneficiaries from the 10-year rule.

Five classes of eligible designated beneficiaries

1. Surviving spouse
2. Minor children
3. Persons with disabilities
4. Persons with chronic illnesses
5. Individuals not more than 10 years younger than the IRA owner

EDBs must be designated beneficiaries.

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.

The foregoing summary of tax impacts resulting from the SECURE Act is not exhaustive. Rather, the information is a general discussion of some federal tax laws provided to promote ideas that may benefit a taxpayer. It is not intended for, nor can it be used for the purpose of avoiding federal tax penalties. Special rules may apply to situations not discussed here. Due to the complexity of the Act, you should discuss any issues with your tax advisor.

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F98418 Rev 9-2024 DOFU 11-2023

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