

## Inherited Retirement Plans

Whether you're a known beneficiary for someone else's retirement plan assets, you already inherited a retirement plan, and/or you have a retirement plan that you plan to leave for your spouse or someone else, there are several factors to consider for optimal distributions.

Factors include:

- Whether the decedent died before or after their required beginning date (RBD) for required minimum distributions (RMDs).
- Whether the beneficiary is a spouse, non-spousal heir, or an entity, such as an estate or charity.
- Whether there is one sole heir or multiple heirs for one account.
- The age of the beneficiary in relation to the age of the decedent at time of death.

Lastly, one must consider what type of retirement plan is being inherited as there are some unique features for certain plans. While there are numerous IRS rules concerning inherited retirement plans, NovaPoint has highlighted some of the most common scenarios below.

### **IRAs - Heir is the surviving spouse of decedent**

If a surviving spouse inherits an IRA from their deceased spouse, there are a few options for how the surviving spouse can receive this inherited IRA. They may treat the IRA as if it was their own and name themselves as the owner. They may retain the inherited account under the decedent's life expectancy and take distributions as a beneficiary. They may also roll over the IRA into their own IRA or other qualified retirement plans, this is a unique feature only for spousal heirs. The latter offers the most flexibility for the surviving spouse as the clock resets for RMDs under their life expectancy. Additionally, the surviving spouse can now name their own beneficiaries for the account.

If the surviving spouse chooses to distribute the inherited retirement plan under their life expectancy, then they must either begin distributions the year following the year of the decedent's death or the year they reach their RBD for RMDs. Per the Setting Every Community Up for Retirement Enhancement (SECURE) 2.0 Act passed in December 2022, the RBD has been increased for those born in 1951 or later. For all RBDs, RMDs must begin no later than April 1st of the year following the year of obtaining their RBD.

The current RBD determination is:

- 75 years old – all born in 1960 and later
- 73 years old – all born between 1951-1959
- 72 years old - all born between July 1<sup>st</sup> 1949 and December 31<sup>st</sup> 1950; already receiving RMDs.
- 70.5 years old - all born on June 30<sup>th</sup> 1950, and earlier; already receiving RMDs.

Once a spousal heir begins their RMDs they must use the IRS Single Life Expectancy Table I to determine their distributions each year. Additionally, if an IRA owner assigns their spouse as the sole heir and the spouse is more than 10 years younger, the owner can use the IRS Joint Life and Last Survivor Expectancy Table II. This ultimately reduces their RMD payments, thus preserving more of the balance of their account to be eventually inherited by the surviving spouse. The life expectancy tables can be found in [Appendix B of IRS Publication 590-B](#).

If the deceased spouse dies after their RBD and they were already taking RMDs and If the spousal heir chooses to take distributions under the deceased spouse's life expectancy, then the decedent's life expectancy number is fixed in the year of death. The decedent's RMD must still be taken by December 31<sup>st</sup> in the year of death and then for subsequent years the spousal heir would subtract one from the life expectancy number and so on for each following year to determine annual RMDs.

### **IRAs – Eligible designated beneficiaries**

As previously discussed, spousal heirs receive more flexibility in determining distributions. This same favorable treatment is also available to other eligible designated beneficiaries which includes non-spouse beneficiaries less than 10 years younger than decedent, a minor child of the decedent, and disabled and chronically ill persons. These beneficiaries can transfer the IRA into their own name and defer distributions until required to do so under their specific age and situation.

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### **IRA's - Heir is a non-spouse person and more than 10 years younger**

Per the passing of the SECURE Act, non-spousal heirs of IRAs, referred to as designated heirs, are now required to distribute all assets by December 31st in the year of the 10th anniversary of the date of death. Beneficiaries who are adult children of the decedent fall into this category.

If the non-spouse beneficiary is a minor, then the 10-year rule doesn't come into effect until the minor reaches their age of majority, generally age 18.

### **IRA early distribution exceptions and inheritance**

If the original IRA owner began early distributions before they attained 59.5 years old due to disability or terminal illness (determined by IRS standards) then the owner received an exception and is not subject to the 10% early distribution penalty. However, if a surviving spouse, then chooses to treat the inherited IRA as their own, then they must follow the normal distribution rules and would be subject to a 10% penalty if distributions are taken before the spousal heir is 59.5 years old. If the surviving spouse determines they need income from the inherited IRA before they are 59.5 years old, a special election for substantially equal periodic payments (SEPPs) may be used to avoid the 10% penalty. If elected, the surviving spouse must continue SEPPs for the later of five years or the date they reach 59.5 (excludes exceptions if heir becomes disabled or dies). If the surviving spouse does not meet the latter requirements, then the 10% penalty will come back and is applied to all distributions taken before reaching 59.5 years old.

### **IRA's – Heir is an entity**

If the decedent dies before reaching their RBD, and names a trust, their estate, or a charity as the beneficiary then the inherited assets generally must be completely withdrawn by December 31st of the fifth year following the year of death. However, if the decedent dies on or after reaching their RBD and their estate is the beneficiary then annual RMDs can be based on the deceased owner's single life expectancy as if they had survived. The estate would use the decedent's age at death as the initial factor and then subtract one for each successive year (use the IRS Single Life Expectancy Table I).

If a trust is named as an IRA beneficiary and the trust is determined to be a "see through" trust, then the RMDs will be determined by the nature and status of the trust beneficiaries (eligible designated or designated beneficiaries). The trustee would then follow the normal distribution rules that apply to that group.

### **Roth IRAs**

While there are no RMD requirements for original owners of Roth IRAs, if a Roth account is inherited then it follows the same distribution rules as inherited Traditional IRAs. Distributions will still be tax-free; however, if the inherited Roth IRA is less than five years old then earnings may be subject to income tax.

### **Inheriting a qualified retirement plan**

It is important to note that with qualified retirement plans, not IRA plans, the plan's documents determine the distribution options for beneficiaries. Beneficiaries should contact the plan administrator to determine their options. Generally, there are more options available for spousal heirs versus non-spousal heirs. Qualified retirement plans include defined benefit pensions, cash balance plans, money-purchase pensions, target benefit pensions, profit sharing plans and 401(k) provisions, stock bonus plans, employee stock option plans (ESOPs), and 403(b) plans where the employer makes contributions.

### **Final Thoughts**

At NovaPoint, our investment, wealth management, and tax experts can help advise you on the best distribution options available to you. If you want to explore your inherited retirement plan options or have a retirement plan that you want to leave to heirs, [contact us here](#).

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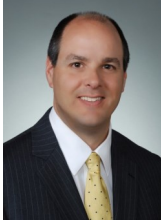
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Joe has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a portfolio manager at Spectrum Advisory Services and GMT Capital in Atlanta, and Epoch Investment Partners in New York. He has also worked as an equity research analyst at Merrill Lynch and ABN Amro. Before beginning his investment career, Joe was an Infantry officer in the U.S. Army. Joe holds a BS from the U.S. Military Academy at West Point and an MBA from the University of Chicago. He is both a Chartered Financial Analyst (CFA) and a Chartered Market Technician (CMT).



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Frederick has over 30 years of experience in the investment management industry. Prior to joining NovaPoint, Frederick was a Partner and Investment Advisor at Brightworth where he advised high net worth investors. Frederick began his investment career in 1991 at Balentine & Co where he rose to Partner. He also co-founded and served as Chief Investment Officer at Wright Investment Management and at Smith & Howard Wealth Management. Prior to beginning his investment career, Frederick served as an Engineer officer in the U.S. Army. He holds a BS from the U.S. Military Academy at West Point and an MBA from Emory University. Frederick is a Chartered Financial Analyst (CFA).



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