

Understanding your choices when you inherit an IRA

When you inherit an Individual Retirement Account (IRA), you'll need to make decisions about when and how to distribute the account's assets.

It's important to be mindful of key deadlines that apply to your specific situation. Also, keep in mind that the decisions you make may affect the taxes you'll owe on the assets you inherit, so make sure you fully understand your available choices and the impact of each.

While you may not be prepared to make long-term decisions immediately, there are steps you'll need to take in the first few months of learning about the inheritance to help preserve the tax advantages of the assets, as well as meet any legally required deadlines.

This fact sheet is intended to provide educational information that can help you prepare before you discuss inherited IRA assets with your tax or other advisors.

What you need to know

- Distribution rules differ based on the date of death, the category of the beneficiary (see the charts on the following pages), and whether the original account owner died before or after their Required Beginning Date (RBD)¹ for Required Minimum Distributions (RMDs).
- Some entities (such as see-through trusts) will be subject to different rules.
- Lump-sum distribution is an option for all beneficiaries. Assets are available for immediate cash flow needs if you choose this option, however, they may be subject to taxes when withdrawn.
- In some instances, beneficiaries may be subject to the 10-year rule. Under this rule, you are required to take RMDs and distribute the entire account by the end of the 10th year following the decedent's date of death.
- The rules are complex, and distributions have tax implications. You must consult with appropriate professionals such as your tax or legal counsel before making any decisions.

Additional considerations:

Roth IRA Beneficiaries: Because Roth IRA owners are never required to take RMDs, beneficiary rules are always applied as though the original Roth IRA owner had died before reaching his or her RBD. Based on what the beneficiary chooses, however, they may be required to take RMDs.

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Special rules for spouses

Spouses have an additional option to roll the inherited IRA to an IRA in their own name ("Spousal Rollover"). By doing this:

- You are able to keep the tax-deferred status of the assets and name your own beneficiaries.

- Distributions will be based on your own life expectancy (using the IRS tables), and must begin April 1 of the year following the year you reach age 73.¹
- If you are younger than your spouse, this may be a good option because it potentially postpones the need to take RMDs and allows the inherited assets more time to grow tax deferred.

These rules apply regardless of whether the original IRA account owner died before or after their RBD.

Please note: If the surviving spouse wishes to treat the IRA as their own, they may need to calculate and withdraw "hypothetical RMDs" to account for the time period that passed following the IRA owner's death. Please consult your personal tax advisor for assistance with the spousal rollover rules.

SECURE Act distribution rules and requirements

The SECURE Act included significant changes to IRA Required Minimum Distribution (RMD) age requirements and inherited IRA distribution rules for non-spouse beneficiaries (applicable in cases where the original account holder died on or after January 1, 2020).¹




As a result, when you inherit an Individual Retirement Account (IRA), you'll now need to make several decisions about when and how to distribute the account's assets — some will need

to be made within the first few months of learning about the inheritance if you wish to preserve the account's tax deferral, meet legally required deadlines and control the tax implications of the assets you inherit.

The distribution rules governing inherited IRAs differ, however, based on the date of the original account owner's death, whether or not they had begun taking RMDs and the beneficiary's relationship to the original account owner.

If, for any reason, you miss the deadline for taking initial RMDs from your inherited IRA, please consult with your tax advisor to explore potential remedies.

There are three distinct categories of IRA beneficiaries:

|  Eligible Designated Beneficiaries |  Designated Beneficiaries |  Non-Designated Beneficiaries |
|---|--|--|
| <ul style="list-style-type: none">• Surviving spouses• Minor children of decedent• Disabled or chronically ill individuals• Individuals who are older (or not more than 10 years younger) than the original account owner• Certain trusts <p>See the distribution rules</p> | <ul style="list-style-type: none">• Non-spouse individuals (including adult children)• Individual beneficiaries who are more than 10 years younger than the original account owner• Certain trusts <p>See the distribution rules</p> | <ul style="list-style-type: none">• Charities• The original account owner's estate• Certain trusts <p>See the distribution rules</p> |

The rules governing multiple beneficiaries are complex, and distributions may involve significant tax implications. Therefore, you should consult with your tax advisor before making any inherited IRA distribution decisions.

The content on the following pages represents the required minimum distribution rules the beneficiary must follow; however, they always have the opportunity to take more. You should consult with a tax advisor prior to making any decisions as distributions have tax consequences.

The following applies to Individual Retirement Accounts inherited after an original account owner's death occurring on or after 1/1/2020.



Eligible Designated Beneficiaries (EDB)

| Beneficiary | Original account owner distribution status | Inherited IRA distribution options |
|---|--|--|
| Spouses and other EDBs excluding minor children | Before RBD | <p>Take annual distributions from the IRA over your own life expectancy (necessitating smaller RMDs each year if you are younger than the original account owner). Distributions must begin by December 31 of the year following the original account owner's death. The spouse may delay RMDs until December 31 of the year the decedent would have attained their RMD age.¹</p> <p>Adopt the 10-year rule allowing you to postpone distributions up until the end of the year in which the 10th anniversary of the original account owner's death occurs. Amounts must be fully depleted by December 31 of the year containing the 10th anniversary of the original account holder's death.</p> |
| | On or after RBD | <p>Continue taking annual distributions based on the longer of either the original account owner's or the beneficiary's remaining life expectancy. You must begin taking RMDs by December 31 of the year following the year in which the original account owner died.</p> |
| Minor children* | Before RBD | <p>Take distributions over the minor's life expectancy. Take RMDs based on the child's single life expectancy. Distributions must start by December 31 of the year following the year of the original account owner's death. Continue annual RMDs until the minor reaches 31 (depleting the account by December 31 of the year they turn age 31).</p> <p>Adopt the 10-year rule allowing you to postpone distributions up until the end of the year in which the 10th anniversary of the original account owner's death occurs. Amounts must be fully depleted by December 31 of the year containing the 10th anniversary of the original account holder's death.</p> |
| | On or after RBD | <p>Take distributions over the EDB's remaining life expectancy: Distributions must start by December 31 of the year following the year of the original account owner's death. The account must be fully distributed by December 31 of the year the minor turns age 31.</p> |
| Successor beneficiaries** | Before RBD | <p>Continue to stretch out distributions over the original EDB's remaining life expectancy. However, all amounts must be fully distributed by the earlier of (1) the end of the year containing the 10th anniversary of the original EDB's death or (2) in the case where the EDB was a minor at inheritance, the end of the year the EDB would have attained age 31.^{***}</p> |
| | On or after RBD | <p>Continue taking annual distributions based on the method the original EDB chose. However, all amounts must be fully distributed by the earlier of either (1) December 31 of the 10th anniversary year of the EDB's death, or (2) in the case where the EDB was a minor at inheritance, the end of the year the EDB would have attained age 31. ^{***}</p> |
| Additional option for all beneficiaries | | <p>Lump-sum distribution: Assets are available for immediate cash flow needs if you choose this option, however, assets may be subject to taxes when they are withdrawn.</p> |

* Regardless of state law, age 21 should be considered the age of majority.

** When an eligible designated beneficiary dies before their inherited IRA has been fully distributed.

*** If the original EDB elected the 10-year rule, all amounts must be fully distributed by December 31 of the 10th anniversary year of the original account holder's death.



Designated Beneficiaries

| Beneficiary | Original account owner distribution status | Inherited IRA distribution options |
|--|--|--|
| Designated beneficiaries | Before RBD | Adopt the 10-year rule allowing you to postpone distributions up until the end of the year in which the 10th anniversary of the original account owner's death occurs. Amounts must be fully depleted by December 31 of the year containing the 10th anniversary of the original account holder's death. |
| | On or after RBD | Continue taking annual distributions based on the longer of either the original account owner's or the beneficiary's remaining life expectancy. In all cases, however, amounts must be fully depleted by December 31 of the year containing the 10th anniversary of the <i>original account holder's</i> death. |
| Successor beneficiaries* | Before RBD | Continue the 10-year rule. Amounts must be fully depleted by December 31 of the year containing the 10th anniversary of the original account holder's death. |
| | On or after RBD | Continue taking annual distributions based on the method the original EDB chose. All amounts, however, must be <i>fully</i> distributed by December 31 of the year containing the 10th anniversary of the original account owner's death. |
| Additional option for all beneficiaries | | Lump-sum distribution: Assets are available for immediate cash flow needs if you choose this option, however, assets may be subject to taxes when they are withdrawn. |

* When a designated beneficiary dies before their inherited IRA has been fully distributed.



Non-Designated Beneficiaries

| Beneficiary | Original account owner distribution status | Inherited IRA distribution options |
|--|--|--|
| Non-Designated Beneficiary | Before RBD | Adopt the 5-year rule allowing you to postpone required distributions (if you prefer) until the end of the year containing the 5th anniversary of the original account owner's death. However, the account must be <i>fully</i> depleted by December 31 of that 5th anniversary year. |
| | On or after RBD | Continue taking annual RMDs over the original account owner's remaining life expectancy with no other cap on the distribution period. |
| Additional option for all beneficiaries | | Lump-sum distribution: Assets are available for immediate cash flow needs if you choose this option, however, assets may be subject to taxes when they are withdrawn. |

If the original account owner's death occurred prior to 1/1/2020, your distribution options for inherited IRAs will be somewhat different as outlined in the following table:

| Beneficiary type | Original account owner distribution status | Inherited IRA distribution options |
|--|--|---|
| Spouses | Before RBD | <p>Roll the assets into an IRA in your name. However, you must begin taking RMDs no later than April 1 of the year following the year you reach RMD age.¹</p> <p>Transfer assets to an inherited IRA: Distributions are based on your single life expectancy and must begin by the later of December 31 of the year following the year of your spouse's (as the account owner) death or the year your spouse would have reached RMD age.¹</p> <p>5-year rule: Distributions can be taken in any amount or frequency, as long as all account assets are fully distributed by December 31 of the fifth year after the account owner's death; allowing the account's tax-deferred status to continue for the 5-year period.</p> |
| | On or after RBD | <p>Roll the assets into an IRA in your name. However, you must begin taking RMDs no later than April 1 of the year following the year you reach RMD age.¹</p> <p>Transfer assets to an inherited IRA: Distributions are based on the longer of your life expectancy or your spouse's remaining single life expectancy — and must begin by December 31 of the year following the year of the account owner's death.</p> |
| Non-spouses and look-through trusts in which all beneficiaries are individuals | Before RBD | <p>Take distributions over your own life expectancy: Roll the assets into an inherited IRA and begin taking RMDs based on your single life expectancy. Note, however, you must begin taking distributions by December 31 of the year following the year in which the original account owner died.</p> <p>5-year rule: Distributions can be taken in any amount or frequency, as long as all account assets are fully distributed by December 31 of the fifth year after the account owner's death; allowing the account's tax-deferred status to continue for the 5-year period.</p> |
| | On or after RBD | <p>Take distributions over the longer of your life expectancy or the original account owner's remaining single life expectancy: Roll the assets into an inherited IRA in your name. However, you must begin taking RMDs by December 31 of the year following the year in which the original account owner died.</p> |
| Charities, trusts or other entities (including look-through trusts in which any of the beneficiaries are entities) | Before RBD | <p>5-year rule: Distributions can be taken in any amount or frequency, as long as all account assets are fully distributed by December 31 of the fifth year after the account owner's death; allowing the account's tax-deferred status to continue for the 5-year period.</p> |
| | On or after RBD | <p>Continue taking RMDs from the account based on the original owner's remaining single life expectancy: This means that the account's tax-deferred status can continue for any assets that still remain in the account.</p> |
| Additional option for all beneficiaries | | <p>Lump-sum distribution: All remaining account assets must be distributed by the end of the year following the original IRA account owner's death.</p> |

Successor Beneficiaries (of accounts originally inherited prior to 1/1/2020): Successor beneficiaries should consult a tax advisor to determine if they are subject to the 10-year rule (in full or as a continuation) or they are eligible, in very limited scenarios, to continue the stretch IRA option (RMDs).

The IRS rules governing inherited IRAs are complex. All beneficiaries, trustees and executors should therefore carefully consult with their tax advisor before making any distribution elections.

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¹ The required beginning date is April 1 of the year after the year in which the account owner turns age 73, or the applicable RMD age (From 1/1/2020-12/31/2022 the applicable RMD age was 72. From 1/1/2023-12/31/2032 the applicable RMD age is 73. Starting 1/1/2033 the applicable RMD age is scheduled to change to 75). The account owner is required to take an RMD by December 31 each year after that. If the account owner delays their first RMD until April 1 of the year after the year in which the account owner turns 73. They will be required to take two RMDs in that year. They may be subject to additional taxes if RMDs are missed. Clients should see their tax advisor regarding their specific situation.

More specifically, the required beginning date (RBD) is age 70½ for individuals born before July 1, 1949, age 72 for those born on or after July 1, 1949 and before January 1, 1951, and age 73 for those born on or after January 1, 1951.

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