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Folks:

**Take-Away:** Beneficiaries of retirement accounts, both IRAs and employer qualified plans, must take required minimum distributions (RMDs) from their inherited IRA. When the RMD is an *annual* obligation, the IRS's Single Life Expectancy Table must be used to identify the denominator for the RMD's calculation.

**Background:** There is no required *annual* minimum distribution (RMD) calculation if an IRA owner dies before his/her required beginning date (RBD). Either the 5-year or 10-year distribution rule applies. The only requirement is that an inherited IRA must be fully distributed by the end of the applicable period, either 5 years or 10 years under the SECURE Act. There will be no RMD calculation because there is no *annual* RMD requirement. Accordingly, the IRS's life expectancy Tables are not used in these cases. Often the challenge is how to figure out which IRS Life Expectancy Table to use when calculating RMDs from a retirement account. It is also important to remember, too, that there is a 25% excise tax imposed for the owner or the beneficiary's failure to take an RMD.

**Life Expectancy Tables:** Three different IRS Life Expectancy Tables are available. These Tables are found at Appendix B to IRS Publication 590-B.

**Single Table:** The Single Life Expectancy Table is the one that must be used to calculate RMDs for the beneficiary of an inherited IRA if they do not fall within the 10-year distribution rule of the SECURE Act.

**Spouse- Recalculation:** If the IRA owner's spouse is the sole primary beneficiary of his/her IRA, the life expectancy for the surviving spouse is *recalculated* by visiting the Single Life Table each

year to determine the survivor's life expectancy.

**Example:** Karla is the named beneficiary of her late husband's IRA. Karla is age 57. Thus, this year Karla's life expectancy under the Table is 29.8 years. Karla's life expectancy for next year will require her to revisit the Table; there, Karla will find that her life expectancy factor for next year for her age 58 (which will be less than one year older by virtue of the *recalculation*.)

**Subtract by One:** In all other cases, a beneficiary's life expectancy for an inherited retirement account is *not recalculated*. Rather, one (1) is subtracted for each year after the year of the initial RMD's determination of the beneficiary's life expectancy factor.

**Example:** Charlie inherits his father's IRA. Charlie is a non-spouse beneficiary. Charlie's life expectancy in the year of his life expectancy determination is 41.9 years; the following year, Charlie's life expectancy factor will be 40.9 years [41.9 less 1.00 = 40.9.]

**New Tables in 2022:** The IRS's life expectancy Tables were updated starting in 2022. Except for spouse beneficiaries, who recalculate their life expectancy each year, those who inherited retirement accounts before 2021 must adjust their life expectancy factor to reflect the new life expectancy Table. These new Tables now apply to all other beneficiaries used to determine the owner or beneficiary's life expectancy factor used to calculate their RMD.

**Year of Life Expectancy Determination:** When determining the life expectancy factor for the beneficiary's inherited IRA, the key is the year in which the life expectancy factor is *first* determined.

**In the Year that Follows:** If the IRA owner died before his/her RBD, the eligible designated beneficiary (the *designated beneficiary* for retirement accounts inherited before the SECURE Act's 2020 change) who takes distributions over his/her life expectancy would

determine their life expectancy *in the year that follows the year in which the account owner died*. If the IRA owner died on or after his/her RBD, the beneficiary's life expectancy is used if the beneficiary is a *designated beneficiary* or an *eligible designated beneficiary* who is younger than the IRA owner. That factor would be determined in the year that follows the year in which the IRA owner died.

*Eligible Designated Beneficiary*: If the beneficiary is an *eligible designated beneficiary* who is older than the IRA owner, or a beneficiary who is not a *designated beneficiary*, e.g., a charity, or a non-designated beneficiary, e.g., the decedent's estate as the default beneficiary, the life expectancy of the deceased account owner would be used, meaning *the year of the account owner's death*.

**RBD**: The required beginning date (RBD) after which required minimum distributions (RMDs) must be taken are a series of ages attained by the account owner.

**Account Owner's Age**: If the date of birth is June 30, 1949, the RBD-RMD age is 70 ½. If the date of birth ranges from July 1, 1949, to December 31, 1950, the RBD-RMD age is age 72. If the date of birth ranges from January 1, 1951 to December 31, 1959, the RBD-RMD age is age 73. If the date of birth is January 1, 1959, or later, the RBD-RMD age is age 75.

**April 1**: Technically, the RBD is April 1 of the year that follows the calendar year in which the IRA owner attained his/her applicable RBD age, which is the latest date that the first RMD must be taken.

**Account Owners**: Account owners take *annual* RMD distributions that are calculated using the IRS's Life Expectancy Tables, with the Table selected dependent on the owner's then circumstances, i.e., married (Uniform Lifetime Table), or the Joint and Survivor Table if

the beneficiary is more than 10 years younger), or the Single Life Table.

**5-Year Distribution Rule:** If an IRA was inherited by a beneficiary before 2020 [when the SECURE Act and its 10-year distribution rule came into effect] the 5-year distribution rule would apply if there was no *designated beneficiary*, such as an estate, a charity, or if the beneficiary is a designated beneficiary who is subject to the 5-year distribution rule under the terms of the IRA custodial agreement. For IRAs that were inherited after 2019 from the owner who died before his/her RBD, the 5-year distribution rule would apply if the beneficiary were not a *designated beneficiary*, such as an estate or charity.

**10-Year Distribution Rule:** The 10-year distribution rule will apply if the beneficiary is a *designated beneficiary*, but not an *eligible designated beneficiary* as defined in the SECURE Act [e.g., a spouse, a minor child of the account owner, a disabled or chronically ill individual, or an individual who is less than 10 years younger than the deceased account owner.] An *eligible designated beneficiary* can use his/her life expectancy to determine their *annual* RMD obligation.

**Waivers:** Recall that Congress waived RMDs in both 2009 and 2020. Thus, there were no RMDs for those years. For beneficiaries who were subject to the 5-year distribution period, that period was simply extended to 6 years.

**SECURE Act Interpretation:** The Regulations created a problem in the interpretation of the Act's 10-year distribution rule, as has been previously reported (on several occasions.) That results when a beneficiary inherits an IRA from the owner who was beyond his/her RBD at the time of their death. While the SECURE Act provides for a 10-year distribution rule, meaning that the beneficiary does not have to take any distribution until the 10<sup>th</sup> year when the inherited IRA must be fully emptied, the Regulations provide that if the deceased account owner was older than his/her RBD when he/she died, then the beneficiary who inherits that IRA

must take *annual* RMDs, despite the language used in the SECURE Act itself.

**Example:** Bud inherited a traditional IRA from his 74-year-old aunt, Ann, in 2020. Bud was age 40 at the time he inherited Ann's IRA. Bud is neither disabled, nor chronically ill, and he is more than 10 years younger than Ann. Thus, Bud is not an *eligible designated beneficiary*. As a result, Bud is subject to the SECURE Act's 10-year distribution rule. Under that 10-year distribution rule as written, Bud must fully distribute his inherited IRA by the end of 2030. However, because Ann died after her RBD, Bud must take *annual* RMDs over his Single Life Expectancy, starting in 2021. Bud was 41 in 2021, making his life expectancy 42.7 years under the Single Life Expectancy Table. In 2022, Bud's life expectancy switched to the new Table, making his life expectancy 43.8, rather than 41.7. Due to this 'surprising' interpretation of the SECURE Act by the IRS in its proposed Regulations, the IRS waived the excise tax on the failure to take RMDs from 2021 through 2024. As a result, Bud did not take any RMDs for 2021 through 2024. When Bud resumes taking RMDs in 2025, he must use his life expectancy of 40.8, regardless of the waiver of the excise tax for the 4-year period.

**Conclusion:** While this provides a short background to the IRS's life expectancy Tables and how and when they are used to determine an owner or beneficiary's required minimum distribution (RMD) obligation, we should also be mindful that it is a required *minimum* distribution of taxable income. Sometimes it may make more sense to take more, rather than the bare minimum RMD amount, of the taxable distribution when various other circumstances and cash-flow needs are considered, including progressive federal income tax rates, not to mention Medicare premiums tied to an individual's reported income the prior two years. It may make more sense to take more than the required minimum distribution amount to keep reportable income lower in retirement years.

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