

## Roth Accounts and RMDs

**Quick-Take:** There continues to be some confusion when it comes to inheriting a Roth IRA and the distributions that the beneficiary must take from that inherited retirement account. This confusion stems from the beneficiary's classification variable that must be considered.

**Background:** The beneficiary of an inherited Roth IRA, unlike its owner, is subject to required minimum distributions (RMDs). However, the RMD amount and timing in which to take the RMD depends on the type of beneficiary who inherits the Roth IRA.

**Normal Rule:** If the beneficiary of an inherited Roth IRA is a non-eligible designated beneficiary (NEDB), the SECURE Act's 10-year distribution applies, and there is no *annual* RMD requirement for the 10-year period. The final payment or distribution taken by the NEDB at the end of the 10<sup>th</sup> year is considered the sole RMD for the Roth IRA. Consequently, while most folks usually interpret the term 'RMD' to mean a required *annual* minimum distribution, that is not the case.

**Special EDB Rule:** If the beneficiary of the Roth IRA is the Roth IRA owner's surviving spouse, his/her minor child (until age 21), disabled or chronically ill, or an individual who is not more than 10 years younger than the Roth IRA owner, he/she is classified as an *eligible designated beneficiary* (EDB). An EDB has a choice regarding RMDs.

**Election:** A EDB can elect the SECURE Act's 10-year distribution rule, with no *annual* RMDs taken by the EDB, until the 10<sup>th</sup> year after the Roth IRA owner's death.

**Stretch:** The other option is that the EDB can elect a full lifetime *stretch* distribution, which entails taking *annual* RMDs over that EDB's single life expectancy.

**RMD Calculation:** Excluding a surviving spouse who inherits the Roth IRA, since he/she has a special set of rules, if the non-spouse EDB chooses the full lifetime *stretch* distribution option, that EDB uses his/her age in the year *after* the year of the Roth IRA owner's death to determine his/her initial RMD factor from the IRS's Single Life Expectancy

Table. This factor is then divided into the prior year-end Roth IRA balance to determine the EDB's *annual* RMD. The initial RMD factor is then reduced by 1.0 each following year. This is the same way RMDs on inherited IRAs have been calculated for many years now.

Accordingly, when an inherited Roth IRA is subject to the full lifetime *stretch* RMD, based on the beneficiary's EDB status, there will be *annual* RMDs, and the payout from the inherited Roth IRA will follow the standard beneficiary RMD calculation that applies to inherited traditional IRAs.

**Conclusion:** Injecting different beneficiary classifications into the RMD rules creates confusion, added to which is the election option that is available to an EDB. I guess nothing is simple when it comes to taking distributions from an inherited IRA, either traditional or Roth.

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