

Successor Beneficiary to an Inherited Roth IRA

Take-Away: A successor beneficiary always *steps-into-the-shoes* of the designated beneficiary of an inherited IRA, but with one narrow exception.

Background: Once again, we revisit the bewildering topic of retirement plan distributions and the myriad rules associated with those distributions. About a month ago a missive described the application of required minimum distribution (RMDs) rules to inherited Roth IRAs. This missive takes that one step further, to discuss the distribution rules applicable to a successor beneficiary to the designated beneficiary who inherits a Roth IRA.

Successor Beneficiaries- The *Step-Into the Shoes* Rule: This is a fairly straight forward rule. The beneficiary of a designated beneficiary, or a *successor beneficiary*, cannot use any of his/her own personal information, status, or relationship with the designated beneficiary to identify or alter the distribution rules that he/she must follow. It does not matter who the successor beneficiary is, or what the successor beneficiary's relationship is to the designated beneficiary. It is even irrelevant if the successor beneficiary is a spouse of the designated beneficiary, or disabled, or a minor child of the designated beneficiary, e.g., an *eligible designated beneficiary*. Accordingly, the status, or relationship, of the successor beneficiary has no bearing on the required distribution rules of an inherited IRA (either Roth IRA or traditional IRA.) This is the so-called *step-into-the-shoes* rule that applies to successor beneficiaries of inherited IRAs.

Example: Ginger dies owning a Roth IRA. The designated beneficiary of Ginger's Roth IRA is her adult son, Grant. Grant qualifies as a non-eligible designated beneficiary, i.e., he is not a minor, nor is he disabled or chronically ill. Grant must use the 10-year distribution rule under the SECURE Act. Grant decides to take no annual required distributions from his inherited Roth IRA, planning to wait until the 10th year after Ginger's death to empty the inherited Roth IRA. Sadly, Grant dies in a car accident 3 years after Ginger's death. Grant named his wife Betsy as the successor beneficiary to Grant's inherited Roth IRA. Betsy is the successor beneficiary to Grant. It is irrelevant that Betsy is Grant's spouse. Betsy steps into Grant's shoes, the first *designated beneficiary*. Betsy can continue with the existing 10-year period, now down to 7 years after Grant's death, which means that Betsy can further delay taking RMDs, but she must empty the inherited Roth IRA 7 years after Grant's death.

Betsy is not entitled to claim an additional ten years before she must empty the inherited Roth IRA after Grant's death.

Exception: As mentioned in the Take-Away, there is one exception to the distribution rule just explained, which applies when the designated beneficiary is an *eligible designated beneficiary*, e.g., disabled or chronically ill. This is best explained with another couple of examples.

Example: Ginger dies owning a Roth IRA. Ginger names her son Grant as the designated beneficiary of her Roth IRA. Grant is disabled, which qualifies him as an *eligible designated beneficiary* (EDB.) With that status as an EDB, Grant can stretch annual required minimum distributions (RMDs) over his single life expectancy. However, Grant dies 3 years after Ginger. Grant's successor beneficiary to the inherited Roth IRA is his wife, Betsy. Betsy is the successor beneficiary to the inherited Roth IRA. Betsy steps into Grant's shoes. Betsy must continue with Grant's exact same RMD factor, minus 1.0 each year. Moreover, Betsy must also initiate a 10-year distribution period. Betsy will have annual RMDs in years 1-9 and she must empty the inherited Roth IRA by the end of the 10th year after the year of Grant's death.

Example: Suppose Betsy dies after Grant, but before the 10-year distribution period comes to an end. Betsy has named their son, Greg, as the beneficiary of the inherited Roth IRA (after Grant's death.) Greg would be the *successor-to-the-successor* beneficiary of the inherited Roth IRA. Greg would step into Betsy's shoes and continue using the same RMD factor/process to determine the annual RMD amount. Greg would continue taking distributions from the inherited Roth IRA over the remaining years of the initial 10-year distribution period.

Conclusion: The step-into-the-shoes rule is pretty easy to follow, thankfully, but the rest of the byzantine required minimum distribution rules of the Tax Code and Regulations are not so easy to follow. If Congress ever decided to go back to work again, wouldn't it be nice if it spent some time and energy simplifying the retirement account distribution rules, particularly in light of the fact that so much wealth these days is held in retirement accounts.

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