PacificCPE

COURSE
33454A

Inherited Retirement Plans: Pre-Required Beginning Date Deaths

When a retirement plan owner dies before reaching their required beginning date, the distribution rules for beneficiaries can be complex and high-stakes. This course examines how inherited retirement plans are handled in that scenario, including rules that applied before 2020 and how SECURE Act changes shifted the landscape. Topics include reporting requirements, trust considerations, and estate planning implications. CPAs and tax professionals who work with estates, trusts, or clients who have recently inherited retirement accounts will find this course directly applicable to their practice.

CREDIT HOURS 2 | FIELD OF STUDY TAXES | EXAM QUESTIONS 10

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Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Recognize the various methods used for distributing retirement plan benefits if the plan holder dies before their required beginning date (RBD).

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Chapter 1: DISTRIBUTIONS TO YOUR BENEFICIARY IF YOU DIE BEFORE YOUR REQUIRED BEGINNING DATE

Chapter Objective

After completing this chapter, you should be able to:

- Recognize the various methods used for distributing retirement plan benefits if the plan holder dies before their required beginning date (RBD).

The law says you must start taking money out of your retirement plan by a certain date, called your "required beginning date" (RBD). For most people, the RBD is April 1 of the year after reaching their RMD age. But what if you never make it to that date? What would your premature death mean for your beneficiaries (other than the obvious sadness), and how can you prepare for it?

In this chapter, we look at the answers to those questions, paying particular attention to the ways you can help your beneficiaries avoid onerous taxes and penalties.

Caution!

The age at which you must begin required minimum distributions (RMDs) depends on the year you were born. If you were born in 1950 or earlier, your RMDs had to begin when you reached age 72. If you were born after 1950 but before 1960, your RMD age (known as the "applicable age" in the tax code) is 73. Under proposed regulations, if you were born after 1960, your retirement age will be 75. For purposes of the discussion and examples in this chapter, we will assume you were born after 1950 and your RMD age is 73. (See Chapter 2 of course 33453G for information about determining your RBD.)

DETERMINING THE DESIGNATED BENEFICIARY

First, let's look at why the designated beneficiary is important.

If you die before your RBD, just how rapidly your beneficiary must distribute (withdraw) the assets—and according to what schedule—depends primarily on who the beneficiary is. So before we look at distribution methods, let's see how the IRS will determine who your beneficiary is.

If one or more of your named beneficiaries isn't a designated beneficiary and separate accounts aren't created (see Chapter 2 of course 33453G), you're deemed to have no designated beneficiary, and distributions will be accelerated.

Helpful Terms

Accumulation trust. A trust that allows the distributions from a retirement account to accumulate in the trust instead of being immediately distributed to beneficiaries.

Annuity. A contract sold by an insurance company that promises to make monthly, quarterly, semiannual, or annual payments for life or for a specified period of time.

Applicable multi-beneficiary trust. A trust that has one or more beneficiaries, with at least one trust beneficiary being disabled or chronically ill.

Conduit trust. A type of trust that requires a trustee to distribute retirement account distributions to beneficiaries immediately when received.

Contingent beneficiary. A person or an entity that's entitled to receive the benefits of a retirement plan or an IRA when a specific event occurs, such as the death of a primary beneficiary.

Deferral period. The number of years over which distributions from a retirement plan or an IRA can be spread to defer paying taxes.

Disclaimer. A renunciation of or a refusal to accept property to which a person is entitled by gift, by contract, or under the terms of a will or a trust.

Distribution. A payout of property (such as shares of stock) or cash from a retirement plan or an IRA to the participant or a beneficiary.

Estate. All property that a person owns.

Hypothetical RMD. A term under IRS proposed rules for when a spouse is required to take any missed RMDs before being allowed to do a spousal rollover.

Irrevocable trust. A trust that can't be changed or terminated by the person who created it or by any other individual unless there's a court order or the trust assets have been fully distributed. Once assets are transferred to an irrevocable trust, the assets are subject to the terms of the trust for as long as the trust exists.

Primary beneficiary. A person or an entity entitled to receive benefits from a retirement plan or an IRA upon the death of the original participant.

Revocable trust. A trust that allows the grantor of the trust to alter its provisions, cancel it, or remove some or all of the property from the trust and return the property to the grantor.

See-through trust. A trust that qualifies to be considered a designated beneficiary under retirement plan distribution rules. Also known as a qualified trust.

Term certain. A fixed, identifiable period, such as a specific number of years. For example, a retirement plan that's distributable over a term certain of 10 years must be completely liquidated after 10 years.

Eligible Designated Beneficiaries

As described in Chapter 2 of course 33453G, there's a subcategory of designated beneficiary, known as an eligible designated beneficiary. Eligible designated beneficiaries include:

- Surviving spouses
- Minor children (biological, adopted, step, and eligible foster children)
- Beneficiaries who aren't more than 10 years younger than the account holder, and
- Individuals who have a disability or are chronically ill.

Eligible designated beneficiaries are generally permitted to spread distributions from inherited retirement accounts over a longer period of time than other designated beneficiaries. Whether or not your designated beneficiary qualifies as an eligible designated beneficiary is determined as of the date of your death.

For example, disabled individuals will be eligible designated beneficiaries only if they're disabled (as described in Chapter 1 of course 33452G) at the time of your death. Beneficiaries who become disabled sometime after the date of your death would not become eligible designated beneficiaries at that later date, even if they meet all the requirements at that time.

Multiple Beneficiaries

If you name multiple designated beneficiaries, some who are eligible and some who aren't, then you're generally deemed to have no eligible designated beneficiaries, unless you're able to correct that problem before the deadline, as described later.

Deadline for Determining Designated Beneficiary

The designated beneficiary of your retirement plan is determined as of September 30 of the year after your death. Although the determination date occurs after you die, this doesn't mean that someone can come along and name beneficiaries of your retirement plan after your death.

If you fail to name any beneficiary of your retirement plan, you generally will be deemed to have no designated beneficiary.

Since nobody can add a beneficiary after your death, why, you might ask, is the deadline for determining the beneficiary so long after your death? That's the issue that we address in the following section.

Changing Beneficiaries Before the Deadline

Even though no one can add beneficiaries to your retirement plan after you die, your beneficiary could change after your death. For example, suppose you name your spouse as primary beneficiary and your children as contingent beneficiaries. After your death, your spouse decides she has enough money to live on for the rest of her life without using any of your retirement plan assets. She might disclaim (renounce) her interest in your retirement plan. In that case, the plan assets would go to your children, the contingent beneficiaries.

The IRS inserted this extended deadline into the regulations as a relief provision. It gives beneficiaries an opportunity to do some postmortem planning, to allow less complex administration of distributions or to clean up a disadvantageous distribution strategy.

For example, suppose you named your wife and your favorite charity as equal beneficiaries of your retirement account. When you die, if the charity and your spouse are still equal beneficiaries on September 30 of the year after your death, you're deemed to have no designated beneficiary (because the charity isn't a designated beneficiary), and distributions to all beneficiaries must be accelerated. This could have disastrous tax consequences for your spouse.

As a cleanup measure, however, the charity can receive its entire distribution before September 30 of the year after death, leaving only your spouse as beneficiary. Then the post-death rules apply as though your spouse were sole beneficiary of the account. This would produce a much more favorable result.

DISTRIBUTION METHODS

If you die before your RBD, your retirement plan benefits will be distributed to your beneficiaries using one of four methods: the 10-year rule, the life expectancy rule, the five-year rule, or a spousal rollover. Read on to learn more about each of these methods.

Ten-Year Rule

With the passage of the SECURE Act in 2019, distribution options for beneficiaries of retirement plan accounts have been curtailed except for eligible designated beneficiaries. If the designated beneficiaries of your retirement plan aren't eligible designated beneficiaries, they must withdraw all of the assets of your retirement plan within 10 years of your death. Specifically, the account must be emptied by December 31 of the tenth year following the date of your death. For example, if you die on March 3, 2026, your retirement plan must be entirely distributed by December 31, 2036.

Tip

Actually, it can be a bit more than 10 years. Note that the 10-year rule provides that your account must be emptied, not by the tenth anniversary of your death, but by December 31 of the year containing the tenth anniversary.

Caution!

Defined benefit plans exempt from 10-year rule. If you have a defined benefit plan, it's exempt from the 10-year rule if benefits are being paid as an annuity. For example, if you're receiving your defined benefit plan assets as a joint and survivor annuity, which continues after your death, your designated beneficiary won't be subject to the 10-year rule. However, if you roll over your defined benefit plan into an IRA, the assets would then be subject to the IRA rules, and the exception for defined benefit plans would no longer apply.

Distributing the Account

Although the 10-year rule mandates that all assets be distributed from your retirement plan by December 31 of the year containing the tenth anniversary of your death, it places no restrictions on the distribution schedule. This means, for example, your designated beneficiary could receive the entire amount as a lump sum in the month after your death, or as monthly installments spread over the 10-year period, or perhaps nothing at all until the December 31 deadline in the tenth year.

Plan Requirements

Although the IRS would accept any of those distribution methods, the retirement plan itself might have more stringent requirements, in which case those are the rules the beneficiary must follow. (See below for more about plan rules.) Some plans allow beneficiaries to receive installment payments or to leave the funds in the plan until the 10-year period is up. If the plan requires immediate distribution of the entire account, however, then that's what your beneficiary will be stuck with unless the beneficiary opts for a rollover or transfer. (See below for more information about rollovers.)

Life Expectancy Rule

If your beneficiary is an eligible designated beneficiary, as defined in Chapter 2 of course 33453G, your beneficiary can spread distributions over their own life expectancy (after your death) if all of the following conditions are met:

- The beneficiary of your plan or IRA as of September 30 is a designated beneficiary.

- That designated beneficiary was also an eligible designated beneficiary on the date of your death.
- The plan itself either permits the life expectancy rule or is silent (meaning it doesn't indicate one way or another which rule should be used).

If your beneficiary qualifies as an eligible designated beneficiary, they can look up the appropriate life expectancy in the Single Life Table (Table I in Appendix C).

Tip

What if the plan specifies the 10-year rule? Even if the plan specifies that the retirement plan assets must be distributed to the beneficiary according to the 10-year rule, plans are required to offer a rollover or transfer option.

Distributions under the life expectancy rule generally must begin in the year after your death and continue until the entire account has been depleted. (Some unusual twists apply depending on what type of eligible designated beneficiary you name. See "Eligible Designated Beneficiaries," below.)

Five-Year Rule

The five-year rule is mandatory in cases where both of the following are true:

- You die before your RBD.
- Your retirement plan or IRA is deemed to have no designated beneficiary as of September 30 of the year after your death. (See Chapter 2 of course 33453G for more information about which beneficiaries qualify as designated beneficiaries.)

If the five-year rule applies, all of your retirement plan assets must be distributed within five years after your death.

However, spouse beneficiaries can roll over distributions from the retirement plan into an account in their own name, deferring taxes (see below).

Required Beginning Date

The five-year rule applies only if you die before your RBD. If you live past that milestone, a different set of rules will apply when you die without a designated beneficiary. If you've passed your RBD, you can forget about the five-year rule (you can read more about this situation in Chapter 1 of course 33455G). But be careful: It's your RBD that counts, not the year you turn 73. For example, if your RBD is April 1, 2026, but you die on March 15, 2026, the five-year rule will apply even though you've already passed age 73 and even if you've already taken a distribution for your first distribution year. Technically, you haven't begun required distributions until you pass your RBD.

Example

You turned 73 in June 2025, which makes your RBD April 1, 2026. On December 30, 2025 you withdrew $6,000 from your IRA, which was the amount of your first required distribution. But then you died on March 15, 2026, without having named a beneficiary, and before reaching your RBD. Because you died before your RBD, the five-year rule will apply even though you had already withdrawn an amount that would have satisfied your first required distribution.

Distributing the Account

The five-year rule mandates that all assets be distributed from your retirement plan by December 31 of the year containing the fifth anniversary of your death. And, as is the case with the 10-year rule, there's no restriction on the form of payment. Your beneficiary could receive monthly payments spread over the five-year period or perhaps nothing at all until the December 31 deadline in the fifth year.

Caution!

The rules are different if you die *after* your RBD. If you die after your RBD and your beneficiary is subject to the 10-year rule, your beneficiary must begin taking required minimum distributions in the year after your death. Your beneficiary doesn't have the option of waiting until the tenth year to take a distribution. (See Chapter 1 of course 33455G for more information about what happens if you die after your RBD.)

Again, however, the plan ultimately controls how distributions will be made. (See below for more about plan rules.)

Rollovers

If your spouse is the beneficiary of your retirement plan, your spouse will generally have an additional option. That option is to roll over their share of your retirement plan into an IRA in their own name. (See below for more information about spousal rollovers.)

If your beneficiary isn't your spouse, your beneficiary can still transfer your retirement plan assets into a traditional IRA or a Roth IRA. However, in this case, the IRA or Roth IRA into which the retirement plan is rolled can't be in the beneficiary's own name. Instead, the new IRA or Roth IRA must be titled as an inherited IRA; that is, it must remain in the name of the decedent (the deceased person). See below for more information about spousal and nonspousal rollovers.

Effect of the Retirement Plan's Rules