

Inheriting IRAs – Post SECURE Act 2019

There are two types of IRA Beneficiaries: Designated and Non-Designated

1. Designated IRAs

The IRS classifies beneficiaries based on their relationship to the deceased.

- Eligible Designated Beneficiary – You fall into this category if you are:
 - The spouse of the deceased
 - A minor child of the deceased
 - Less than 10 years younger than the deceased (often a sibling or friend)
- Designated Beneficiary – Anyone who does not fall into any of the above categories. For example, an adult child of the deceased.

The second piece of information you need is whether the IRA owner had started taking Required Minimum Distributions (RMDs). This is based on age. Currently, RMDs begin at age 72.

Another important note: There is a “10-Year Rule” that says all funds must be distributed within 10 years of the IRA owner’s death. Failure to do so will result in a 50% penalty for any funds still in the account. See below to determine when this rule applies to you.

Eligible Designated Beneficiary

If you are an adult, and the IRA owner was under 72 when they passed, you have two options:

1. You can start taking RMDs over your life expectancy. (The 10 year rule does not apply in this case.)
2. You can leave the funds in the account, and access them any time penalty-free, but you must follow the 10-Year Rule.

If the IRA owner was 72 or over – You must continue to take RMDs and the 10-Year Rule applies.

But what if the Eligible Designated Beneficiary is a minor? Their options are the same, but the 10-Year Rule is paused: it begins when they legally become an adult.

Special Option for Spouses – If you are inheriting your spouse’s IRA, you have a third option: roll the Inherited IRA into a new IRA in your own name.

- Advantage: Funds have no withdrawal rules or requirements until you reach age 72.
- Disadvantage: If you are under 59 ½, taking funds from your IRA will incur an early-distribution penalty of 10%.

Designated Beneficiary

If the IRA owner was under 72 at the time of death:

You can distribute any amount of funds penalty free at any time, or you can leave the funds in the account if you choose. But the 10-Year Rule applies: everything must be distributed within 10 years.

The IRA owner was 72 or over – You must continue to take RMDs and the 10-Year Rule applies.

2. Non-Designated IRAs

Types of non-designated beneficiaries:

- Charities
- Estates
- Non-See-Through Trusts

If the IRA owner was under 72 when they passed

- Must distribute entire account within 5 years.

If the IRA owner was 72 or over when they passed

- 5-year rule and stretch for some cases.

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