

# The SECURE Act's New IRA Rules

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- Required Minimum Distributions (“RMDs”) began at age 70 ½
- IRA Owner could only contribute until age 70 ½
- Upon the IRA Owner’s death, the IRA would be distributed to the beneficiary(ies) named by the owner or to the IRA’s default beneficiaries
- Individuals and See-Through Trusts = Designated Beneficiaries
- Estates, other types of Trusts, and Charities = Non-Designated Beneficiaries
  - IRAs left to charities would pass tax free

- If IRA Owner died before RMDs began, the 5-Year Rule Applied
  - 5-Year Rule: IRA must be distributed to the Non-Designated Beneficiary by December 31<sup>st</sup> of the 5<sup>th</sup> year following the IRA Owner's death
  - The IRA could be distributed in any increments as long as it was completely distributed by December 31<sup>st</sup> of the 5<sup>th</sup> year
- If IRA Owner died after RMDs began, RMDs would continue to pay out to the Beneficiary over Owner's life expectancy

- **Three Categories of Designated Beneficiaries:**
  - Surviving Spouse
  - Other Individuals
  - See-Through Trusts
- With some nuances, a Designated Beneficiary typically would “stretch” the IRA distributions over his or her life expectancy

## • **Inherited IRA**

- If IRA Owner died before RMDs began, deferred until IRA Owner would have turned 70 ½
- Recalculation Method – Surviving Spouse's life expectancy, recalculated annually
- BUT If Surviving Spouse was older than IRA Owner at death and IRA Owner was over 70 ½ - IRA Owner's life expectancy, reduced by one each year

## • **Rollover IRA**

- If IRA Owner died before RMDs began, deferred until Surviving Spouse would turn 70 ½
- Recalculation Method – Surviving Spouse's life expectancy, recalculated annually

- Named outright beneficiaries of an IRA would take RMDs based upon their life expectancies
- Multiple IRA beneficiaries:
  - If IRA was split into individual accounts within a certain time period, each individual beneficiary would use his or her life expectancy
  - If IRA was not split into individual accounts, RMDs based on oldest beneficiary's life expectancy

- **Conduit Trust**

- Beneficiary of Trust must be an individual, and that individual would be considered the sole beneficiary of Trust
- RMDs required to be paid out more or less immediately to Beneficiary
- RMDs based on Beneficiary's life expectancy

- **Accumulation Trust**

- Trustee could accumulate RMDs in Trust for later distribution
- All Beneficiaries who might be entitled to receive the trust property “counted” for purposes of calculating RMDs
- RMDs based on life expectancy of oldest countable Beneficiary

- Effective December 31, 2019
- RMDs now begin at age 72
- IRA Owner can contribute indefinitely as long as he or she is still working
- Distinction between Designated and Non-Designated Beneficiaries remains the same
- Distributions for Non-Designated Beneficiaries remain the same
- IRAs can still be left to charities tax free



- **Distributions to Designated Beneficiaries**
  - Designated Beneficiary will no longer receive “life expectancy” or “stretch” treatment, unless he or she is an *Eligible* Designated Beneficiary
  - 10-Year Rule
    - IRAs left to Designated Beneficiaries must now be distributed by December 31<sup>st</sup> of the 10<sup>th</sup> year following the IRA owner’s death, with limited exceptions
    - Equates to 11 taxable years
    - Similar to the 5-Year Rule for Non-Designated Beneficiaries
    - The IRA can be distributed in any increments as long as it is 100% paid out by December 31<sup>st</sup> of the 10<sup>th</sup> year

- RMDs for IRAs left outright to Eligible Designated Beneficiaries calculated based upon the old IRA rules
- Eligible Designated Beneficiaries:
  - **Spouse** – inherited IRA election and rollover rules are not changed. If paid to a conduit trust for the spouse, the spouse's life expectancy is used.
  - **Minor Children of IRA Owner**
  - **Disabled Persons**
  - **Persons with Chronic Illnesses**
  - **Persons less than 10 Years Younger than the IRA Owner**

10-year rule takes effect as soon as beneficiary dies or reaches majority (with certain exceptions for education)

- Conduit Trusts can still be used to take advantage of life expectancy distributions for each type of Eligible Designated Beneficiary
- Only disabled beneficiaries or beneficiaries with chronic illnesses can use life expectancy payout with Accumulation Trusts, and that beneficiary must be only lifetime beneficiary
- Conduit Trusts can be used for any Designated Beneficiary
  - BUT IRA must be distributed by December 31<sup>st</sup> of 10<sup>th</sup> year unless distributed to an Eligible Designated Beneficiary

- **CAUTION:**
  - If a participant died before 2020, and the primary beneficiary subsequently dies in 2020 or thereafter, the successor beneficiary must follow the SECURE Act payout scheme