

Required Minimum Distribution After Owner's Death

In brief

Death on or after January 1, 2020

Upon the death of an owner/participant of a qualified retirement plan or Individual Retirement Account (IRA), rules exist for how quickly the funds need to be distributed from the account. These Required Minimum Distribution (RMD) rules establish a minimum amount for distribution (or maximum period for retaining the funds in the account), but the beneficiary can always take out the funds faster.

The tables below describe a beneficiary's post-death options if the owner/participant of an IRA, defined contribution plan, or account balance plan dies on or after January 1, 2020. Different rules potentially apply to collectively bargained plans and government plans.

More limitations with a defined benefit and annuitized plan

If the owner/participant dies with a defined benefit / annuitized plan, the options are more limited: (i) a non-spouse beneficiary can use only the "at least as rapidly rule" option (Treasury Regulation § 1.401(a)(9)-6, Q&A-10(a)); and (ii) a spousal beneficiary has the additional option of a rollover / treat as own, if the plan permits the spouse to withdraw the account's entire value.

Trust concepts

General observations

- Naming a trust as beneficiary might limit a spouse's ability to roll the account to his/her own IRA.
- After qualified plan or IRA distributions are made to a trust, any subsequent distributions from the trust to the trust beneficiaries are governed by the trust instrument.

Look-through (aka permissible or see-through) trust

If the account beneficiary is a trust which meets certain criteria, the RMD rules permit "looking through" the trust to individual beneficiaries. To qualify as a look-through trust, (i) the trust must be valid under state law, (ii) the trust must be irrevocable or become so at death, (iii) all trust beneficiaries must be individuals (as of September 30 of the year after death) and identifiable from the trust instrument, and (iv) a copy of the trust or beneficiary list must be provided to the plan administrator or IRA custodian by October 31 of the year after the owner's death.

Conduit trust

All plan distributions received by the trust annually are distributed in that same tax year to the individual trust beneficiary. There is no trustee discretion in the distribution of income in a conduit trust. All conduit trusts are look-through trusts.

Accumulation trust

Accumulation trusts can accrue the qualified plan or IRA distributions inside the trust. Distributions from the trust are generally made to the trust beneficiaries at the discretion of the trustee.

Death of account owner on or after January 1, 2020

	Death before Required Beginning Date	Death on or after Required Beginning Date
No individual designated beneficiary	<p>5-YEAR RULE</p> <p>Entire account must be distributed by the end of the 5th year following year of death (i.e., 5 years, plus to December 31). There is no requirement for annual distributions.</p>	<p>AT LEAST AS RAPIDLY RULE</p> <p>Distributions must occur annually and are calculated using the Single Life Table based on the deceased owner's age at the end of the year of death (i.e., at least as rapidly as before death).¹ For subsequent years, the life expectancy factor is reduced by 1.</p>
Designated beneficiary is an individual or "look-through" trust	<p>10-YEAR RULE</p> <p>Entire account balance must be distributed within 10 years following the date of death. There is no requirement for annual distributions, merely that the entire account be distributed within 10 years.</p> <p>If the trust is a conduit trust, the RMDs are the same as if the beneficiary of the trust were the designated beneficiary of the account.</p>	
<p>Eligible designated beneficiary is:</p> <ul style="list-style-type: none"> • chronically ill, • disabled, or • not more than 10 years younger than the account owner/plan participant 	<p>STRETCH PLANNING (SPREAD OVER BENEFICIARY'S LIFE)</p> <p>Payments can be stretched over the life or life expectancy of the "eligible designated beneficiary", as long as payments begin by end of the year following the year of death (i.e., 1 year, plus to December 31).</p> <p>Payments are calculated using the Single Life Table based on the individual beneficiary's age at the end of year after the year of the owner/participant's death, and then subtracting 1 each year thereafter.</p>	
Eligible designated beneficiary is the minor child of the account owner/plan participant	<p>STRETCH PLANNING UNTIL AGE OF MAJORITY, THEN 10-YEAR RULE</p> <p>Annual payments can be stretched no slower than over the life expectancy of the minor, using the Single Life Table based on the minor's age at the end of year after the year of the parent's death, and then subtracting 1 each year thereafter. The 10-year rule applies when the child reaches the age of majority (it is unclear what constitutes "age of majority"). Upon reaching age of majority, there is no requirement for annual distributions, merely that the entire account be distributed within 10 years.</p>	
Eligible designated beneficiary is surviving spouse	<p>SPOUSAL ROLLOVER / TREAT AS OWN</p> <p>If beneficiary is surviving spouse who has power to withdraw the entire account, the spousal beneficiary can treat it or retitle it as the spouse's own IRA (e.g., through rollover or trustee-to-trustee transfer). Surviving spouse can then keep the account in deferral just as if surviving spouse had owned it from inception.</p>	
	<p>WAIT UNTIL OWNER WOULD HAVE REACHED AGE 72</p> <p>In addition to options above, a spouse beneficiary can delay distributions until the deceased owner would have reached age 72, then base payments on surviving spouse's own age using the Single Life Table.</p>	

¹RMDs are waived in 2020.

Special trust rules for beneficiaries with disabilities or illness

The general rule for accumulation trusts is to require payout over 10 years, as long as the trust is a look-through trust. However, if the trust terms state that no individual, other than an eligible designated beneficiary who is disabled or chronically ill, has any right to the IRA owner's interest in the plan until the death of all these disabled or chronically ill eligible designated beneficiaries, then the distribution will be over the life or life expectancy of the disabled or chronically ill trust beneficiary, and any successor beneficiary who is not a disabled or chronically ill eligible designated beneficiary will be treated as a beneficiary of the eligible designated beneficiary upon the death of that eligible designated beneficiary.

If a disabled or chronically ill beneficiary is just one of multiple beneficiaries of an accumulation trust, the RMDs for any share allocated to the disabled or chronically ill beneficiary can be stretched over that disabled or chronically ill eligible designated beneficiary's life expectancy as long as the trust terms state that the trust is to be divided immediately upon the death of the IRA owner into separate trusts for each beneficiary.

Successor beneficiaries

- Upon the death of an eligible designated beneficiary, the entire account balance must be distributed to the successor beneficiary within 10 years of the eligible designated beneficiary's death, even if the successor beneficiary would have otherwise qualified as an eligible designated beneficiary. There is no requirement for annual distributions, merely that the entire account balance be distributed within 10 years of the eligible designated beneficiary's death.
- If a minor child beneficiary dies before reaching the age of majority, the entire account balance must be distributed to the successor beneficiary within 10 years of the minor child's death. There is no requirement for annual distributions, merely that the entire account be distributed within 10 years of the minor child's death.
- If a minor child beneficiary dies after reaching the age of majority, the entire account balance must be distributed to the successor beneficiary within the 10 year period that commenced upon the child reaching the age of majority. There is no requirement for annual distributions, merely that the entire account be distributed within 10 years of the child's reaching the age of majority.
- Upon the death of a designated beneficiary, the remaining account balance must be distributed to the successor beneficiary by the end of the original 10 year period which commenced upon the death of the account owner. In other words, the original 10 year period does not reset, but continues.

Required Minimum Distributions in 2020

RMDs from IRAs and defined contribution plans, including inherited accounts, are waived in 2020. RMDs from defined benefit plans and nonqualified annuities are not waived.

Income and estate tax – facts and planning

Distributions in year of death — If the deceased owner did not take an RMD in the year of death, that RMD must be taken by the designated beneficiary in the year of the owner's death (except in 2020).

Ordinary rates — Qualified plan and IRA distributions are taxed at ordinary income tax rates. Distributions from Roth IRAs and Designated Roth Accounts are generally income tax-free.

Pro-rata basis — If the plan or IRA contains only pre-tax (deductible) contributions, any distribution will be entirely taxable. If it contains after-tax (nondeductible) contributions, a pro rata portion of the distribution is generally nontaxable as a recovery of basis.

Spousal rollover — Taking distributions after the owner/participant's death is an exception to the 10% early withdrawal penalty tax that normally applies to qualified plans or IRAs.

- When a surviving spouse is the designated beneficiary and executes a "spousal rollover" to treat the account as the surviving spouse's own, the 10% early withdrawal penalty tax applies just as if the account had been owned originally by the surviving spouse.
- If the surviving spouse beneficiary is under age 59½ and would like to take distributions, it might be wise to re-title the account as an Inherited IRA instead. Distributions then satisfy the "after death of owner" exception to the 10% early withdrawal penalty.

Roth account distributions — Distributions from Roth IRAs and Designated Roth Accounts are generally income tax-free.

- Qualified plans can be converted to a Roth IRA by a spouse beneficiary or non-spouse beneficiary.
- IRAs can be converted to Roth IRAs only by a spouse beneficiary; non-spouse beneficiaries of IRAs cannot convert to a Roth IRA.
- To make a Roth IRA available to a non-spouse beneficiary (e.g., child), a surviving spouse beneficiary of a traditional IRA could convert to a Roth IRA. To help the surviving spouse pay the income tax generated by the conversion to the Roth, a married couple could own two separate life insurance policies, one insuring each spouse.

Double tax — If the retirement plan owner has an estate tax issue upon death, qualified plans and IRAs are subject to both estate and income tax when received by the beneficiary. The beneficiary is entitled to an income in respect of decedent (IRD) income tax deduction based upon the estate tax owed on the income taxable (non-basis) portion of the plan or IRA.

To mitigate the effect of these two taxes, the owner/participant can take distributions in excess of the RMD amounts, pay the income tax, and give the post-tax amount to an irrevocable trust which buys life insurance on the owner/participant. Properly structured, the life insurance proceeds in the irrevocable trust will not be subject to estate tax, will not be subject to income tax (mimicking a basis step-up), and will have no required minimum distributions.

Single Life Table for post-death beneficiaries

AGE	LIFE EXPECTANCY	AGE	LIFE EXPECTANCY	AGE	LIFE EXPECTANCY	AGE	LIFE EXPECTANCY	AGE	LIFE EXPECTANCY
0	82.4	23	60.1	46	37.9	69	17.8	92	4.9
1	81.6	24	59.1	47	37.0	70	17.0	93	4.6
2	80.6	25	58.2	48	36.0	71	16.3	94	4.3
3	79.7	26	57.2	49	35.1	72	15.5	95	4.1
4	78.7	27	56.2	50	34.2	73	14.8	96	3.8
5	77.7	28	55.3	51	33.3	74	14.1	97	3.6
6	76.7	29	54.3	52	32.3	75	13.4	98	3.4
7	75.8	30	53.3	53	31.4	76	12.7	99	3.1
8	74.8	31	52.4	54	30.5	77	12.1	100	2.9
9	73.8	32	51.4	55	29.6	78	11.4	101	2.7
10	72.8	33	50.4	56	28.7	79	10.8	102	2.5
11	71.8	34	49.4	57	27.9	80	10.2	103	2.3
12	70.8	35	48.5	58	27.0	81	9.7	104	2.1
13	69.9	36	47.5	59	26.1	82	9.1	105	1.9
14	68.9	37	46.5	60	25.2	83	8.6	106	1.7
15	67.9	38	45.6	61	24.4	84	8.1	107	1.5
16	66.9	39	44.6	62	23.5	85	7.6	108	1.4
17	66.0	40	43.6	63	22.7	86	7.1	109	1.2
18	65.0	41	42.7	64	21.8	87	6.7	110	1.1
19	64.0	42	41.7	65	21.0	88	6.3	111+	1.0
20	63.0	43	40.7	66	20.2	89	5.9		
21	62.1	44	39.8	67	19.4	90	5.5		
22	61.1	45	38.8	68	18.6	91	5.2		

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