

Key Wealth Institute

# Inherited IRA Rules: Navigating the Post-SECURE Act Landscape

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Over the next 20 years, it is estimated up to \$90 billion of generational wealth will pass on to heirs, some of which is underway now in the form of inherited IRAs.<sup>1</sup>

An inherited IRA is an account that is created when an individual retirement account (IRA) is transferred to a beneficiary after the owner of the IRA has passed away. Individuals create and fund IRAs during their employment and typically name a spouse and/or children as their primary and contingent beneficiaries.

Beneficiaries of IRAs previously could stretch their inherited IRA by taking distributions over their lifetimes. However, that changed when Congress enacted the Setting Every Community Up for Retirement Enhancement (SECURE) Act in December 2019.

Because the regulations were only in proposed form and years passed without final clarification, several transition rules were implemented. The final regulations were issued on July 18, 2024, almost five years after the death of the stretch IRA, offering clarification on post-death minimum distributions rules for the foreseeable future.

As a reminder, the SECURE Act eliminated the stretch and mandated that non-eligible designated beneficiaries who inherit an IRA beginning in January 2020 are subject to the 10-year rule. The 10-year rule requires the beneficiary of an inherited IRA to distribute the entire balance of the account within 10 years, beginning in the year following the IRA owner's death.



This article describes the current rules for an inherited IRA for selected classes of beneficiaries. Trusts as beneficiaries and disabled or chronically ill individual beneficiaries and beneficiaries of inherited employer retirement accounts are not covered in this article.

There are several important questions to answer in determining how the current rules apply to an inherited IRA beneficiary, including:

**1. When did the IRA owner die? Did the IRA owner die before January 1, 2020?**

The SECURE Act is effective for deaths after December 31, 2019.

**2. How old was the deceased? Did the IRA owner die before or after their required beginning date (RBD) for RMDs?**

The RBD is April 1 of the year following the year the IRA owner reaches the first RMD year. Obtaining the decedent's birthday helps determine the age RMDs are required to begin.

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### 3. Is the beneficiary an eligible designated beneficiary, a non-eligible designated beneficiary, or a non-designated beneficiary?

This determination is made on the date of death of the IRA owner and cannot be changed.

### 4. Is the individual a primary beneficiary or a successor beneficiary?

The primary beneficiary inherits an account from the original owner. The successor beneficiary is the primary beneficiary's own beneficiary (inherits after the primary beneficiary's death.)

Let's take a look at the different types of beneficiaries:



## 1. Surviving spouses

- Surviving spouses fall into the category of eligible designated beneficiaries, so they are exempt from the 10-year rule.
- Surviving spouses can choose to be treated as the beneficiary of the IRA or elect to be treated as owner (i.e., the IRA account was his or hers all along).
- SECURE 2.0 Proposed Regulations issued in July 2024 introduced a new spousal election option that combines the characteristics of the spousal rollover and the spousal inherited account option.
- If the surviving spouse is older than the deceased spouse, choosing to be treated as the beneficiary of an IRA could result in a smaller RMD.
- If the spouse elects to be treated as a beneficiary and the decedent died before the RBD, RMDs begin on the decedent's Required Beginning Date and:
  - The surviving spouse can stretch distributions over their own single life expectancy,<sup>2</sup> which typically will result in a much smaller taxable distribution.
  - Or the spouse can follow the 10-year rule. There would be no RMDs during years one through nine and the account would only need to be fully distributed by the end of the 10th year. If the spouse chooses this strategy and later decides to do a spousal rollover, possibly to avoid the lump sum distribution in year 10, the spouse must calculate hypothetical RMDs. These are the RMDs that should have been taken during those years. This amount is not available to be rolled over to the spouse's own IRA and must be taken as a taxable distribution before rolling the balance over to the spouse's own IRA.
- Or the surviving spouse can elect to be treated as the decedent and take distributions over the spouse's life expectancy, determined using the Uniform Lifetime Table.
- If the spouse elects to be treated as a beneficiary and the decedent died on/after the RBD, RMDs will begin the year after death and:
  - The spouse can stretch over the longer of either the spouse's single life expectancy (using the Single Life Table) or the decedent's remaining life expectancy (using the Single Life Table).
  - Or the surviving spouse can elect to be treated as the decedent and take distributions over the longer of the spouse's life expectancy, determined using the Uniform Lifetime Table<sup>3</sup> or the decedent's life expectancy, determined using the Single Life Table.
- If the spouse is younger, the more favorable strategy would be to elect to be treated as the IRA's original owner. In this case, RMDs would be based upon the younger spouse's life expectancy and distributions would not need to begin until the spouse reaches their RBD. However, if a younger surviving spouse may need to take distributions from the IRA before age 59½, consider electing to be treated as beneficiary of an inherited IRA so distributions would not be subject to the 10% penalty for early withdrawals.
- If a surviving spouse has beneficiaries who would be eligible designated beneficiaries, the spousal rollover option may be the favorable strategy rather than the inherited account option. This would allow the successor beneficiaries to retain the stretch treatment instead of having to fully distribute the account by the 10th year after death.

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## 2. Sibling/child/other individual

- If not more than 10 years younger (or older) than the IRA owner, they are considered eligible designated beneficiaries and exempt from the 10-year rule.
- The actual age of the decedent and beneficiary must be used to determine whether they are eligible designated beneficiaries (not just calendar years). So, for example, if an owner's date of birth is October 1, 1953, then the beneficiary is not more than 10 years younger than the owner if the beneficiary was born on or before October 1, 1963.
- If the beneficiary is not more than 10 years younger (or older) and the decedent died before the RBD, they can:
  - Stretch distributions over the longer of the beneficiary's or the decedent's single life expectancy, which will normally result in a much smaller taxable distribution.
  - Or follow the 10-year rule. There would be no RMDs during years one through nine and the account would only need to be fully distributed by the end of the 10th year.
- If not more than 10 years younger (or older) and the owner died on/after the RBD, they can:
  - Stretch distributions over the longer of the beneficiary's or decedent's life. The 10-year rule does not apply.
- If the beneficiary is more than 10 years younger and the decedent died before the RBD:
  - The 10-year rule applies. There would be no RMDs during years one through nine and the account would only need to be fully distributed by the end of the 10th year.
- If the beneficiary is more than 10 years younger and the decedent died on/after the RBD:
  - The 10-year rule applies and annual RMDs during the 10-year period are required. RMDs would be calculated over the longer of the beneficiary's or the decedent's life. This gives the beneficiary a longer life expectancy to use in the calculation and results in a smaller RMD.



## 3. Minor child of the account owner

- Anyone younger than 21 is considered a minor child regardless of the age of majority as defined by state law.
- In these cases, it is most likely that the parent died before reaching their required beginning date. Thus, in most situations, before the beneficiary reaches age 21, use stretch RMD rules based on the beneficiary's life expectancy. Until the child reaches age 21, the 10-year rule does not apply.
- When the child reaches age 21, the 10-year countdown begins. However, during this 10-year period (until age 31), whether the decedent dies before, on or after their required beginning date, the child must continue taking stretch-style RMDs. This is because of the ALAR rule mentioned previously. The account must be emptied by the end of the 10th year.



## 4. Charities/estates/ no designated beneficiary

- These are treated as non-designated beneficiaries with these options:
  - If the decedent died before the RBD, the five-year rule applies and the account must be fully distributed by December 31 of the fifth year following the year of death, but no annual RMDs are required during the five-year period.
  - If the decedent died on/after the RBD, annual RMDs must continue over the deceased IRA owner's remaining single life expectancy (the ghost life rule). This can produce a post-death payout period exceeding 10 years.



## 5. Multiple beneficiaries

- If there are multiple beneficiaries, each beneficiary must take their portion of the RMD. One beneficiary cannot satisfy the entire RMD amount or the shortfall of another beneficiary.
- Designated beneficiaries are determined as of September 30 of the year following the owner's death. If a beneficiary is eliminated by distribution of the benefit, through segregation of the account before September 30 of the year following the year of death, that beneficiary is disregarded.

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- Separate accounts must be established by December 31 of the year following the owner's death. If separate accounts are established, the RMD rules are applied separately with respect to the separate interest of each beneficiary.
- The following rules apply if the account has not been divided into separate accounts:
  - If a charity or an estate is one of the beneficiaries, RMDs must be calculated as if there was no designated beneficiary (see previous section Charities/Estates/No Designated Beneficiary).
  - If there is more than one designated beneficiary, the applicable distribution period will be based on the life expectancy of the oldest designated beneficiary (which is the shortest life expectancy of all the designated beneficiaries) determined as of the date of death reduced by one for each year thereafter. If any of the designated beneficiaries are non-eligible designated beneficiaries, the 10-year rule applies.
- If there are multiple beneficiaries with a significant age difference, the best strategy may be to divide the account into separate shares for each beneficiary by the December 31 deadline. That way the younger beneficiaries can stretch out the RMD as long as allowable. Consider the consequences of taking a bigger distribution later versus spreading out the distribution over any required 10-year period.
- The successor beneficiary is subject to the 10-year rule if the primary beneficiary died after the SECURE Act's effective date, December 31, 2019, and was stretching distributions (because they inherited from the decedent before the SECURE Act's effective date or because they were an eligible designated beneficiary) and the original owner died before their RBD. There is a re-start of the 10-year clock for the successor beneficiary. RMDs for years one through nine are based on the life expectancy of the most recent owner.
- The successor beneficiary will finish out the primary beneficiary's RMDs if the primary beneficiary dies after the SECURE Act's effective date (after December 31, 2019) and was inherited from the decedent before the SECURE Act's effective date and the original owner died on/after the RBD. The successor beneficiary can use whichever option the primary beneficiary was following. The successor beneficiary is subject to the 10-year rule and there is a re-start of the 10-year clock.
- The successor beneficiary is subject to the 10-year rule if the primary beneficiary dies after the SECURE Act's effective date (after December 31, 2019) and was inherited from the decedent after the SECURE Act's effective date and the original owner died before the RBD. In this case, the 10-year clock will start the year after the original owner's death. The successor beneficiary will not be subject to RMDs for years one through nine.
- If the primary beneficiary dies after the SECURE Act's effective date (after December 31, 2019) and the account was inherited from the decedent after the SECURE Act's effective date and the original owner died on or after the RBD, then the primary beneficiary was subject to the 10-year rule and stretch RMDs. The successor beneficiary will finish out the primary beneficiary's 10-year period and continue to take out RMDs (same calculation as if the primary beneficiary was still alive) during years one through nine.



## 6. Successor beneficiaries

- Successor beneficiaries are the beneficiaries of a beneficiary. They basically "step into the shoes" of the primary beneficiary.
- These rules depend on whether the original account owner died before or after the SECURE Act's effective date (deaths after 2019), whether the primary beneficiary died before or after the SECURE Act's effective date, whether the primary beneficiary was an eligible designated beneficiary or a non-eligible designated beneficiary, and whether the retirement account owner died before, on, or after their RBD.



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## A few other important notes to consider

- Individuals who inherited before 2020 are exempt from the 10-year rule. They follow the prior rules that still allow stretch IRA distributions.
- It is important to note that inherited Roth IRAs are subject to the 10-year rule but required minimum distributions are not required during years one through nine. Roth IRA owners are always considered to have died before their RBD. Roth beneficiaries aren't taxed on distributions.
- Under SECURE 2.0, after January 1, 2023, the first RMD year is age 73.
- Because of various transition rules (IRS notices that effectively waived the RMD requirements for beneficiaries affected by the 10-year rule), the intra-10-year rule annual RMDs don't apply until 2025. Although RMDs were not required for years between 2020 and 2024, those years still count toward the beneficiary's total time for the 10-year rule. The account still needs to be emptied by the end of the 10th year after death, not 10 years after beginning annual distributions. The missed RMDs for these beneficiaries of inherited IRAs don't have to be made up.
- Inheriting from an employer retirement account plan may have different rules than those that apply to IRAs. Check with what the plan agreement says.
- RMDs are calculated using the account balance at the end of the prior year and using the distribution period listed next to the age (as of your birthday in the RMD year) in the appropriate life expectancy table (see IRS Publication 590-B) and reduced by one each year thereafter.
- Distribution rules for original IRA owners are different from those for beneficiaries of inherited IRAs.
- Be mindful of the tax squeeze when following the 10-year rule. Consider taking voluntary withdrawals to spread the tax liability of distributions over the 10-year window.
- For 2023 and later years, the penalty for not taking an RMD is 25% (reduced from 50% as a result of SECURE 2.0) of the amount not withdrawn. The penalty rate is reduced to 10% if the error is corrected within two years. Missed RMDs are reported on Form 5329, Additional Taxes on Qualified Plans (Including IRAs) and Other Tax-Favored Accounts, with an individual's federal income tax return for the year of the missed RMD.

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Understanding the IRS rules is important but just understanding them doesn't mean that your current and future financial goals will be reached. Deferring or making minimum distributions from an inherited IRA may offer current income tax relief but it may lead to much higher taxes in the future.

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Those who are fortunate enough to inherit assets may not realize the long-term benefits of a windfall without planning ahead. Before determining how beneficiary RMDs should be distributed, consider reaching out to an advisor to build your financial plan. Your KeyBank advisor can assist you with managing your wealth and help you prioritize what's most important to you and your family.

## Examples: RMDs for non-spouse beneficiaries if owner died after RBD

### Example one

John, age 75, dies in 2023. His 49-year-old daughter, Meredith, is the beneficiary of his IRA, which had a balance on December 31, 2023, of \$1 million. Meredith is more than 10 years younger, so she is a non-eligible designated beneficiary and subject to the 10-year rule. If John was 75 in 2023, that means he was born before June 30, 1949, and his RBD was age 70½. Since John died after his RBD, Meredith must receive RMDs beginning in 2024 using the Single Life Table based on her age in 2024 (50) and reduced by one each year after

that. Meredith would compute her 2024 RMD by using a factor of 36.2, resulting in an RMD of \$27,624 (\$1 million divided by 36.2). She may not actually have taken this distribution in 2024 as a result of the waiving of the penalty for missed RMDs on inherited IRAs. In 2025, she would use the account balance at December 31, 2024, and a factor of 35.2. She would continue to reduce the factor by one for every year until 2033 (the 10th year following John's death). At that time, she would need to withdraw any remaining balance in the IRA.

### VARIATION ONE

John's sister, 78-year-old Angela, is his beneficiary. Since she is not more than 10 years younger than John (she is older than John) she is an eligible designated beneficiary and is not subject to the 10-year rule. If her 2024 RMD was computed using her age in the year following John's death, Angela would use a factor of 11.9, resulting in a 2024 RMD of \$84,034. However, she may compute the RMD using the factor for John's age in the year of death and reducing it by one. Therefore, she may use a factor of 13.8 (14.8 – 1), resulting in an RMD of \$72,464. Because the penalty was waived for missed RMDs or inherited IRAs, she may not actually have taken this distribution in 2024. Her factor for 2025 would be 12.8 and would continue to be reduced by one each year.

### VARIATION TWO

John, age 75, dies in 2023. John had named his granddaughter, Elizabeth, as beneficiary. At the time of John's death, Elizabeth was 18. Although she is a minor, she is not his child, so she would be subject to the 10-year rule. She may compute RMDs by using her single life expectancy based on her age in 2024 (19) and the Single Life Table, reduced by one each year after that. She would compute her 2024 RMD by using a factor of 66, resulting in an RMD of \$15,151. Because the penalty for missed RMDs on inherited IRAs was waived, she may not actually have taken this distribution in 2024. The factor for 2025 would be 65 and would continue to be reduced for every year until 2033 (the 10th year following John's death). At that time, she would need to withdraw any remaining balance in the IRA.

### VARIATION THREE

John, age 75, dies in 2023. John had named a charity as his beneficiary. As a result, the rules for when there is no designated beneficiary should be used. The charity may compute its RMDs by using John's single life expectancy calculated in the year of death (2023) and the Single Life Table, reduced by one each year after that. The charity could compute its 2024 RMD, by using a factor of 13.8 (14.8 – 1), resulting in an RMD of \$72,464. The factor for 2025 would be 12.8 and would continue to be reduced by one each year. John's account must be distributed over the participant's remaining life expectancy. Because of John's age, this produces a post-death payout period exceeding 10 years. The practicality of the charity stretching the distributions is peculiar because the distributions would not be taxed to the charity. The charity would most likely take a full distribution as early as possible to use the funds for its mission.

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## Examples: RMDs for non-spouse beneficiaries if owner died after RBD

### Example two

Amy dies on November 1, 2019, after her RBD. She named her daughter, Betty, as the primary beneficiary. Betty was age 48 at the time of Amy's death. Although Betty is not an eligible designated beneficiary, since Amy died before the enactment of the SECURE Act, Betty was able to take advantage of the old stretch rules. Betty had elected to take distribution over her remaining single

life expectancy. Betty, unexpectedly dies on January 1, 2020, with her grandchild, Catherine, as primary beneficiary. Catherine must distribute the remaining IRA by the end of the 10th year following Betty's death (December 2030). Catherine must still take RMDs for years one through nine based on Betty's remaining life expectancy.

### General Rules

Owner's death before RBD	Owner's death after RBD
<b>No designated beneficiary</b>	
Five-year rule applies and the entire balance must be distributed by December 31 of the fifth year following the year of death.	Distribute over decedent's life expectancy. No five-year requirement to fully distribute the account applies.
<b>Non-spouse eligible designated beneficiary</b>	
RMDs must begin by December 31 of the year after the year in which the owner died and are made over the beneficiary's single life expectancy. A beneficiary can elect to use the 10-year rule. If so, no RMD requirement for years one through nine.	RMDs must begin by December 31 of the year after the year in which the owner died and are made over the longer of the beneficiary's or owner's single life expectancy. The 10-year rule does not apply.
<b>Non-eligible designated beneficiary</b>	
The 10-year rule applies and the entire balance must be distributed by December 31 of the 10th year following the year of death. No RMD requirement for years one through nine.	The 10-year rule applies and the entire balance must be distributed by December 31 of the 10th year following the year of death. RMDs during years one through nine must be taken and made over the longer of the beneficiary's or the owner's single life expectancy.

For more information, [please contact your advisor.](#)

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## About the Author

Stephen Augstell is a Regional Director of Planning with Key Private Client in Albany, New York. Additionally, Augstell has served as a lecturer in finance at Siena College since 2010, as well as Vice President and Regional Consultant with McDonald Investments in Albany. Augstell holds a B.S. in Finance from LeMoyne College in Syracuse, New York, and received a Master of Science with Honors in Financial Planning from the College for Financial Planning. Augstell holds the Certified Financial Planner designation from the College for Financial Planning.



## About the Author

In her role, Tina Myers is responsible for managing the Central Planning Team and overseeing the Key Wealth Institute and any financial planning content distributed. She works with our Regional Planning Strategists to help facilitate our best thinking and advice delivery to clients.

Before joining Key, Tina worked in the public accounting industry, where she focused on taxes, specifically individual, trust, estate, and gift tax planning. She also held roles at a small public accounting firm, a regional firm, and the private client group of a large multi-national firm.

Tina earned an M.Tax from Virginia Commonwealth University and holds several industry-standard licensures. She received the Circle of Excellence Award for Key Private Bank in 2016 and 2018. She was selected to attend the 2024 Key Wealth Education Symposium, which recognizes top performance and extraordinary commitment to serving our clients and growing our business.



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<sup>1</sup> Keven DuComb: "Who Will Manage Your Clients' Wealth When It Passes To Their Heirs?" Financial Advisor Magazine, August 8, 2024

<sup>2</sup> All references to the Single Life Expectancy Table refer to IRS Publication 590-B Distributions from Individual Retirement Arrangements (IRAs)

<sup>3</sup> Depending on whether the spouse was more or less than 10 years younger, use either the IRS's Table II Joint Life and Last Survivor Expectancy or Table III Uniform Lifetime Table.

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