

A Guide to Inherited IRAs

What is an Inherited IRA?

An Inherited IRA is an individual retirement account opened by a beneficiary after the original account owner has passed away. Assets from a Traditional IRA, Roth IRA, or other qualified retirement plan can be transferred into an Inherited IRA, **subject to special distribution rules.**

Recent Legislative Changes to How Retirement Accounts are Inherited

Several legislative changes in recent years have significantly impacted how beneficiaries inherit retirement accounts:

- **SECURE Act (2019)** – Eliminated the traditional “stretch IRA” for most non-spouse beneficiaries, replacing it with a 10-year payout rule. Exceptions were created for Eligible Designated Beneficiaries (EDBs), such as spouses, minor children, disabled or chronically ill individuals, and beneficiaries less than 10 years younger than the decedent.
- **SECURE Act 2.0 (2022)** – Increased the required minimum distribution (RMD) starting age (to 73, and later 75), reduced penalties for missed RMDs, and allowed new spousal elections to be treated as the decedent for payout purposes
- **IRS Guidance (2022-2024)** – Clarified that some beneficiaries under the 10-year rule must still take annual RMDs if the original owner died after their RBD, and provided temporary penalty relief while final regulations are pending.
- **Successor Beneficiaries** – When a beneficiary passes away, their successor must generally empty the account within 10 years, regardless of the original owner’s date of death.

These changes mean most beneficiaries no longer have decades to “stretch” distributions for tax deferral and must plan for accelerated income recognition.

Beneficiary Categories

- Non-Designated Beneficiary (NDB)
- Non-Eligible Designated Beneficiary (NEDB)
- Eligible Designated Beneficiary (EDB)



First Class

Eligible Designated Beneficiary (EDB)

- Surviving spouse
- Minor child of the account owner (until age 21)
- Disabled individual - strict IRS definition
- Chronically ill individual
- Beneficiary not more than 10 years younger than the decedent



Can use life expectancy payout, or "stretch" payments over their lifetime.

After the EDB no longer qualifies, the 10-year rule applies.

Premium Economy

Non-Eligible Designated Beneficiary (NEDB)

- Adult children
- Grandchildren
- Some trusts



10-Year Rule

Account must be fully distributed by the end of the 10th year following death.

If the owner died on or after their Required Beginning Date, annual RMDs are required for years 1-9.

Back of the Plane

Non-Designated Beneficiary (NDB)

- Estates
- Charity
- Some trusts



If owner dies before Required Beginning Date (RBD): 5-year rule (full distribution by end of year 5)

If owner dies on or after RBD: Distributions over the deceased owner's remaining life expectancy ("ghost life expectancy").

- **Required Beginning Date:** generally April 1 of the year after 73rd birthday
- **EDB Status Determination Date:** determined at date of owner's (or plan participant's) death and cannot be changed.
- **Year-of-Death RMD of Account Owner:** when an IRA or plan account has multiple beneficiaries, any beneficiary can take the year-of-death RMD that the account owner did not take before death. Also, the deadline for taking a year-of-death RMD is extended until the end of the calendar year following the year of death.

Spousal Beneficiary Options

Spouses have unique options:

- Treat as their own IRA (rollover or transfer)
- Remain as beneficiary and take RMDs based on their life expectancy (see Expanded Uniform Life Table)
- 5-year rule (if owner died before RBD)
- Surviving spouses can also elect under SECURE 2.0 to be treated as if they were the decedent, which may reduce RMD amounts

Tax Treatment of Inherited IRAs

- **Traditional Inherited IRAs:**
 - Distributions are taxable as ordinary income
- **Roth Inherited IRAs:**
 - Distributions are tax-free if the original owner met the 5-year Roth rule
- **Inherited IRAs are exempt from the 10% early withdrawal penalty, regardless of the beneficiary's age**

Disclaimer

This material is for informational and educational purposes only and should not be construed as individualized investment, tax, or legal advice. Distribution strategies and tax implications for inherited IRAs can vary based on your personal circumstances and are subject to change as tax laws and IRS guidance evolve. Before making any decisions regarding inherited retirement accounts, you should consult with a qualified tax professional and/or attorney.

Sources: IRS.gov, SECURE Act (Congress.gov), Ed Slott IRA Updates (Kitces, EdSlott.com).