



Eligible Designated Beneficiaries

- 1) Surviving spouse
- 2) Disabled or chronically ill individual
- 3) An individual that is not more than 10 years younger than the IRA owner
- 4) Minor children
- 5) Certain trusts

Non-Eligible Designated Beneficiaries

- 1) An individual that doesn't meet the requirements for EBD (e.g. an adult child)
- 2) Certain trusts

Non-Designated Beneficiaries

- 1) Charities
- 2) Estates
- 3) Certain trusts

Distribution Methods

- 1) **Lump-sum method**
The beneficiary withdraws the entire balance of the account at once. Depending on the original retirement account type, the withdrawal may be subject to income taxes. If the sum withdrawn is large enough, it may even push you into a higher marginal tax bracket, which would apply to the withdrawal. For Roth IRAs, a lump-sum withdrawal will be tax-free so long as the 5-year rule has been met. In addition to the tax implications, a major consideration to withdrawing a lump-sum is that, if the account is invested (which most are), you are eliminating the possibility for future investment growth. All beneficiaries have the option to use the lump-sum method of distribution.
- 2) **5-year method**
The beneficiary of an inherited IRA must distribute the entire balance of the account within five years of the death of the original owner. (Not to be confused with the 5-year rule, which governs taxation and requires a delay of five years after the first contribution to a Roth IRA before the first distribution of earnings can be made without penalty.)
- 3) **10-year method**
Introduced by the SECURE Act of 2019, this option requires the beneficiary of an inherited IRA to distribute the entire balance of the account within 10 years of the death of the original owner. There has been quite a bit of confusion over whether RMDs would be required in years 1-9. At present, Notice 2022-53 suggests that if the original account owner was subject to RMDs at their passing (i.e., over age 72), then the beneficiary would have to continue those RMDs in years 1-9 and then ensure the account balance is fully distributed by the end of year 10. An important note here is that if you inherited an IRA and did not make distributions in 2021 or 2022, you will not be penalized.
- 4) **Life expectancy method**
The beneficiary of an inherited IRA must take RMDs each year. The life expectancy factor used to determine RMDs depends on your relationship with the original account owner and the age at death. This distribution method is an option for most IRA beneficiaries, but not all.
- 5) **Stretch IRA**
A non-spouse beneficiary of an IRA withdraws *only* the RMD amount each year from an inherited IRA. This strategy would allow the IRA to continue growing and the beneficiary to take full advantage of tax deferral.