FREQUENTLY ASKED QUESTIONS

Inherited IRAs and the SECURE Act 2.0

FAQ: The SECURE Act's effect on inherited IRAs

The SECURE Act (Setting Every Community Up for Retirement Enhancement Act 2019) became effective on January 1, 2020. While the act is designed to expand opportunities for individuals to increase their retirement savings, it also includes important changes specific to IRAs. Expanding on this legislation, SECURE 2.0 was signed into law on December 29, 2022.[1]

Beginning in 2023, the age for owners of IRAs and other retirement accounts to start required minimum distributions (RMDs) increased from age 72 to age 73 and will increase to age 75 in 2033. SECURE 2.0 continues to eliminate the ability to "stretch out" or use life expectancy payouts of RMDs for inherited IRAs and retirement accounts. The following FAQ can help you become familiar with these rules for inherited IRAs and their potential effects.

What are the major changes to RMD rules for beneficiaries who inherit IRAs?

Unless the designated beneficiary is in an exempt category, they will be subject to the 10-year rule and must distribute all amounts in the inherited IRA within 10 years of the original owner's death. If the IRA owner's death occurs after RMDs have begun, the designated beneficiaries are required to take RMDs each year and must distribute all of the IRA assets by December 31st of the year of the 10th anniversary of the IRA owner's death.[2]

Which beneficiaries are exempt from the 10-year rule?

The following Eligible Designated Beneficiaries (EDBs) are exempt from the 10-year rule and are entitled to use the current life expectancy payout method:[3]

- The owner's surviving spouse, a disabled or chronically ill individual, or any other individual who is not more than 10 years younger than the original IRA owner. Upon the death of any of these EDBs, the life expectancy payout method terminates and the 10-year rule applies going forward for the estate or the next beneficiary.
- A minor child of the original IRA owner. However, once the minor child reaches the age of majority (as defined by state law)—or upon death prior to reaching age of majority—the life expectancy payout method terminates and the 10-year rule applies going forward.

Which beneficiaries are not exempt from the 10-year rule?

Designated Beneficiaries (DBs) who are individuals or see-through trusts that are not considered EDBs are not exempt from the 10-year rule. DBs must follow the 10-year rule and withdraw all of the IRA account value within 10 years of the original IRA owner's death.

Non-Designated Beneficiaries (Non-DBs) such as the original IRA owner's estate, charities or trusts that do not qualify as see-though trusts are also not exempt and remain under the previous 5-year rule. Non-DBs must distribute all amounts in the inherited IRA account within five years of the original IRA owner's death. Rules for Non-DBs were not changed by the SECURE Act.[4]

What type of trusts can qualify as see-through trusts, and what effect does this have on beneficiaries?

Conduit and accumulation trusts can still qualify as see-through trusts under the SECURE Act.[5]

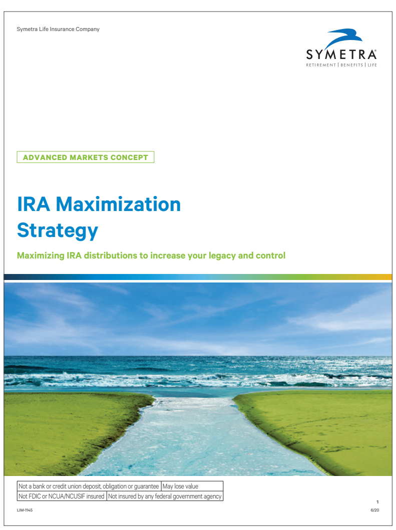
In a conduit trust, the trustee passes all distributions when received from the IRA to the designated beneficiary. With an accumulation trust, the trustee can accumulate the funds received from the IRA and decide when to make distributions to a designated beneficiary.

- Conduit trusts established for a sole designated beneficiary who qualifies as an EDB are generally exempt from the 10-year rule, and the trust will receive IRA distributions based on the life expectancy payout method. If the beneficiary is not an EDB, the trust will receive IRA distributions based on the 10-year rule.
- Accumulation trusts established for the benefit of disabled or chronically ill beneficiaries are exempt from the 10-year rule and are entitled to use the life expectancy payout method. For other beneficiaries of accumulation trusts, the trust must receive distributions from the IRA under the 10-year rule.

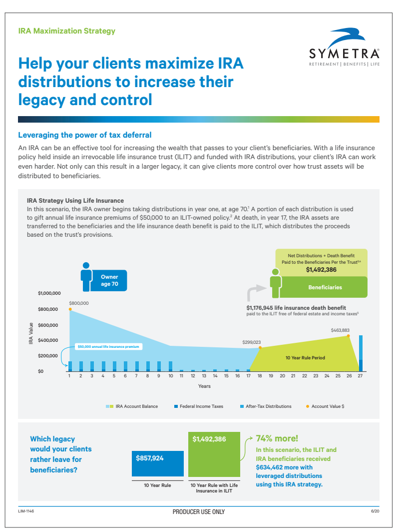
Life Insurance Solutions

With the elimination of the ability to “stretch” over life expectancy for inherited IRAs, traditional IRA owners should work with their financial professionals to determine if converting to a Roth IRA may be beneficial. In addition, if IRA owners plan to leave IRA assets to beneficiaries and retirement income needs are fully met by other sources without RMDs, life insurance can provide leverage and flexibility.

Using the net-after-tax distributions from an IRA may allow for the purchase of a significant life insurance death benefit for beneficiaries generally received free of federal income tax and estate tax if properly structured outside of the estate. A life insurance policy held inside an irrevocable life insurance trust (ILIT) relieves the issues of who the beneficiaries are and potential RMDs rules, and the distributions are based on the provisions of the trust. We can help you get started with our IRA Maximization Strategy sales kit below.



IRA Maximization Strategy Brochure



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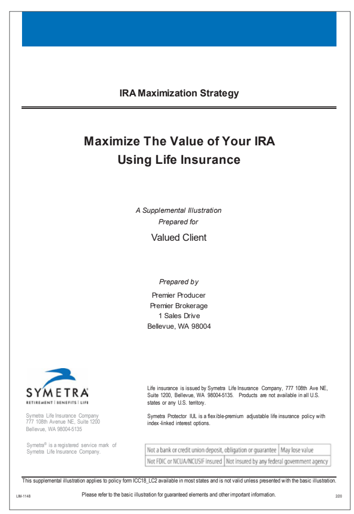

IRA Max Supplemental Illustration

Clients should work with their financial professionals to review existing trusts and determine if the use of see-through or other trusts are appropriate for their specific situations.

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777 108th Avenue NE, Suite 1200
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www.symetra.com

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This material is not intended to provide investment, tax or legal advice. Clients should consult their attorney or tax professional for more information.

Trust should be drafted by an attorney familiar with such matters. Failure to properly structure could result in adverse treatment of trust proceeds. Symetra Life Insurance Company does not provide tax advice.

[1] SECURE Act was part of the Further Consolidated Appropriations Act, 2020, P.L. 116-94. Refer to Sec. 401(a) of this Title V – Revenue Provisions of “Division O” and SECURE 2.0 was part of the Consolidated Appropriations Act, 2023, P.L. 117-328. Refer to Title 1 – Revenue Provisions of “Division T”.

[2] Refer to Reg. § 1.401(a)(9)(B)(iii).

[3] Required Minimum Distributions (RMDs) are calculated using life expectancies based on the IRS Uniform Lifetime Table and the recipient’s age at the beginning of each year.

[4] Refer to Sec. 401(a)(9)(B)(ii).

[5] Refer to Reg. §1.401(a)(9)-5, A-7(c)(3) and A-7(c)(1).