Details of the SECURE Act: Inherited IRA

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In late December of 2019 President Trump signed into law a budget bill to fund the government for the remainder of the fiscal year. Included as an addition to the bill was the SECURE Act (Setting Every Community Up for Retirement Enhancement Act of 201). Some of the changes within the SECURE ACT addressed distributions due to a participant's death.

Section 401 of the Act limited the timing of distributions from an inherited IRA.

Prior to the SECURE Act, IRA owners were allowed to name anyone the beneficiary of their IRAs. The beneficiaries were required to take a minimum distribution each year based on their life expectancy. Typically, if the participant named a much younger beneficiary the required distribution would be over a much longer period.

The Secure Act revised the rules so that inherited IRA must be completely distributed within ten years. The only exemption to the ten-year distribution rule would be available to "Eligible Designated Beneficiaries."

The Secure Act defined the five classes of eligible designated beneficiaries as:

1. Surviving Spouse - A surviving spouse can roll over the IRA to their own IRA unless they decided to treat it as an inherited IRA. Either option allows withdrawals to be calculated over the spouse's life expectancy.
2. A person who is not more than 10 years younger than the participant – This beneficiary does not have to be related to the participant and allows withdrawals to be calculated over the beneficiary's life expectancy.
3. Minor child of the participant - The required annual distribution will be based on the child's life expectancy until the child reaches the age of 18 (depending on the age of majority for that state). Then, the 10-year rule applies, and the entire remaining IRA must be withdrawn by the end of the next 10 years.
4. Disabled person – This beneficiary does not have to be related to the participant. They meet the disabled definition in the act if they are unable to "engage in any substantial gainful activity by reason of a medically determinable physical or mental impairment that can be expected to result in death or to be of long, continued and indefinite duration".
5. Chronically ill person - This person does not have to be related to the participant. The beneficiary must be unable to perform (without assistance) at least two activities of daily

living such as feeding or dressing for at least 90 days or require assistance due to a severe cognitive impairment.

The act requires complete distribution of the inherited IRA within 10 years if the beneficiary is not an eligible designated beneficiary. This change in the law reduced years available for tax deferred growth in the inherited IRA.

Authors Note: A "stretch IRA" was a popular income tax strategy, it did allow for income tax deferral of the IRA over a longer period of time. All distributions from a traditional IRA, unlike a Roth IRA, are taxed as ordinary income. Therefore, beneficiaries should contact their tax advisor to determine the best strategy for their particular situation.

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