



LEGAL UPDATES

Estate Planning Alert: Impact of the SECURE Act on Inherited IRAs

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The SECURE Act, enacted December 20, 2019, contains significant changes affecting inherited (“stretch”) IRAs, for deaths occurring after December 31, 2019.

Prior law allowed a designated beneficiary to take required minimum distributions from an inherited IRA over the life expectancy of the beneficiary. This often allowed for a long and beneficial income tax deferral, as the investments in the inherited IRA would grow on a tax-free basis and were subject to income tax only when withdrawn. Designated beneficiaries could be an individual or a trust that qualified as either as an accumulation trust or conduit trust.

SECURE changed the required minimum distribution period to 10 years after the owner’s death for many beneficiaries, including adult children and qualified trusts for them. This change obviously reduces the income tax benefits of an inherited IRA. But the change particularly impacts conduit trusts.

A conduit trust provides that all required minimum distributions from an inherited IRA to the trust must then be distributed from the trust to the beneficiary. This worked well under the old law, as the required distributions were generally smaller payments spread over the many years of a child’s life expectancy. Under SECURE, however, if a conduit trust is the designated beneficiary, everything in the owner’s account must be distributed to the trust and then from the trust to the beneficiary no later than the tenth year after the owner’s death. As the purpose of a conduit trust is to protect the retirement assets, for example from a child’s creditors or the child’s inability to invest or spend wisely, distribution of the owner’s account to the child within 10 years may significantly disrupt this purpose.

The following eligible designated beneficiaries can still take life expectancy distributions: A surviving spouse (who can also roll over to his/her own IRA); individuals not more than 10 years younger than the account owner; minor children of the account owner (until age of majority or in some cases 26); disabled and chronically ill individuals (subject to meeting the criteria and being certified as such). If the beneficiary is a trust for minors, disabled, or chronically ill individuals, the trust must meet certain requirements.

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If you have named a trust as the beneficiary of your retirement plans or IRAs (either primary, or secondary after your spouse), you should contact us as soon as possible to discuss your options.

Planning options to minimize the income tax impact of SECURE will be discussed in a later newsletter.