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Retirement Planning

Figuring the Final RMD after an IRA Owner's Death

Here's a look at the updated rules that apply for a "year-of-death" required minimum distribution from an account owner's IRA.

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This is an update of one of our most-requested articles, previously published in October 2021.

On July 18, 2024, the IRS released final regulations pertaining to required minimum distributions (RMDs). These regulations clarify the year-of-death RMD rules while also implementing changes that make taking a year-of-death RMD less burdensome for IRA beneficiaries.

The rules and regulations that apply to a year-of-death RMD are tricky. Interestingly, death gets a taxpayer out of responsibility for most tax-related items but not RMDs. To the extent that an individual had not yet satisfied their RMD for the year at the time of their death, the RMD must be satisfied by their beneficiary.

The owner of a traditional IRA is generally subject to RMDs in the year they turn age 73. Questions can arise concerning how to handle RMDs in the year in which an IRA account owner dies. This is where investors need to pay close attention. Here, we cover the rules that apply for a "year-of-death RMD," where an IRA account owner dies prior to fully satisfying their RMD in their year of death.

Required begin date for required minimum distributions

When an owner of a traditional IRA (including SEP and SIMPLE) reaches their required begin date (RBD), they must begin taking RMDs. An IRA owner's RBD is generally April 1 of the year after the year they turn age 73. Notably, if the IRA owner dies prior to their RBD, no minimum distributions are required for the year of death, even if the owner died in the year, they were due to turn 73. In other words, if the IRA owner is already age 73 but dies before their RBD, a year-of-death RMD is not required. The RMD for the year of death will only need to be taken if the IRA owner died *on or after* their RBD.

Example: Bart turns 73 in September 2025. He dies on December 1, 2025. A year-of-death RMD is not needed due to Bart passing prior to his RBD of April 1, 2026 (i.e., April 1 of the year following the year he turned age 73).

Workplace retirement plan accounts, such as 401(k), 403(b), and governmental 457(b) plans, are also subject to RMDs. However, should you continue to work past age 73 (for the employer sponsoring the retirement plan), there is an exception with respect to the first year RBD for some plan participants. Known as the "still-working" exception, it is available to those participants who are actively employed and do not own more than 5% of the company sponsoring the plan. In other words, when a participant in a workplace retirement plan remains working for their employer at the time they reach their RBD, their first-year RMD is April 1 following the year the individual retires.

What about Roth IRAs?

Roth IRAs are not subject to lifetime RMDs. Therefore, Roth IRA owners are always deemed to die before their RBD. In other words, Roth IRAs are of no concern with respect to year-of-death RMDs.

New IRS regulations on year-of-death RMDs (extended deadline and reduced penalty)

Government rules have always stipulated that the beneficiary must take an RMD for the year of death in the same manner as if the IRA owner had lived until the end of the year (December 31). If the RMD is not taken, a penalty tax would be assessed to the account beneficiary. Previously, the deadline for fulfilling the year of death RMD was December 31 of the year of the account owner's death. When death occurred late in the calendar year, this deadline was often neglected. Unfortunately, missing a year-of-death RMD could result in a 25% penalty on the amount — that should have been but was not taken — reduced to 10% if the missed RMD is corrected in a timely manner.

The IRS final regulations extend the deadline for the beneficiary to take the year-of-death RMD and be eligible for the automatic waiver. For most beneficiaries, this means the year-of-death RMD deadline is now December 31 of the year after the year of the account owner's death. According to the IRS release detailing the final regulations:

"The final regulations extend the deadline for the beneficiary to take the missed required minimum distribution and be eligible for the automatic waiver. The new deadline is the later of the tax filing deadline for the taxable year of the beneficiary that begins with or within the calendar year in which the individual died and the end of the following calendar year."

Example: Tom, age 75, owns a traditional IRA. His beneficiary is his daughter Tricia. Tom died on January 3, 2025, before taking his 2025 RMD. Tricia is responsible for taking Tom's 2025 year-of-death RMD. Per the IRS' final regulations, Tricia is eligible for an automatic waiver of the 25% RMD penalty if she takes the 2025 year-of-death RMD by December 31, 2026.

In this case, Tricia will receive a 2026 Form 1099-R and be subject to federal and state taxes (if applicable) on the distribution amount. The income will be reportable on Tricia's 2026 income tax returns.

Year-of-death RMD (multiple beneficiaries)

Who is responsible for the year-of-death RMD when the account owner names multiple beneficiaries, and the account owner did not take their year-of-death RMD before passing? Does each beneficiary just take their "share" of the decedent's remaining RMD? Or do they ensure that in totality, they've distributed the correct amount between them in any amount chosen?

The IRS' final regulations now provide a definitive answer.

An excerpt from the IRS' final regs on year-of-death RMD:

"If an individual who is required to take a distribution in a calendar year dies before taking that distribution and has named more than one beneficiary, then any of those beneficiaries can satisfy the individual's requirement to take a distribution in that calendar year, as opposed to each of the beneficiaries being required to take a proportional share of the unpaid amount."

In other words, an account owner's undistributed year-of-death RMD can be satisfied by multiple beneficiaries in any way they so elect, as opposed to each of the beneficiaries being required to take a proportional share of the unpaid amount.

Example: Lynda, 78, owns a SEP-IRA. She named her two daughters, Bari and Amy, as equal (50%) beneficiaries. Let's say Lynda's 2025 RMD is $30,000. Lynda dies in March, having distributed $20,000 of her $30,000 RMD prior to her passing.

Bari and Amy are responsible for fulfilling the remainder of Lynda's 2025 RMD ($10,000). Per the IRS' final regulations, even though they are equal beneficiaries, they do *not* have to satisfy the outstanding RMD amount in equal amounts. Instead, Bari and Amy can satisfy the remaining $10,000 year-of-death RMD in any proportion.

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How is the year-of-death RMD determined?

When the owner of an IRA dies *after* her RBD, the year-of-death RMD must be taken by the designated beneficiary. That RMD will be calculated as if the account owner was still alive. Typically, this means using the IRS Uniform Lifetime Table. The Uniform Lifetime Table is the life expectancy table used by all IRA *owners* to calculate lifetime distributions, unless the named beneficiary is a spouse who is more than 10 years younger than the account owner. In that case, you would use the actual joint life expectancy of you and your spouse based on the regular Joint Life Expectancy Table. The Uniform Lifetime Table is never used by IRA beneficiaries to determine RMDs for their inherited IRAs.

Example: Maggie, age 75, dies in 2025 prior to taking her RMD. Therefore, her year-of-death RMD taken by her beneficiary will be determined using the Uniform Lifetime Table and the life expectancy factor (24.6) that corresponds to Maggie's, age (75).

Questions? Please contact your Lord Abbett representative at 888-522-2388.

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Examples are for illustrative purposes only; actual results may vary and differ for each individual.

A **401(k)** plan is a qualified plan that includes a feature allowing an employee to elect to have the employer contribute a portion of the employee's wages to an individual account under the plan. The underlying plan can be a profit-sharing, stock bonus, pre-ERISA money purchase pension, or a rural cooperative plan. Generally, deferred wages (elective deferrals) are not subject to federal income tax withholding at the time of deferral, and they are not reported as taxable income on the employee's individual income tax return.

A **403(b) plan**, also known as a tax-sheltered annuity plan, is a retirement plan for certain employees of public schools, employees of certain Code Section 501(c)(3) tax-exempt organizations and certain ministers. A 403(b) plan allows employees to contribute some of their salary to the plan. The employer may also contribute to the plan for employees.

Plans of deferred compensation described in IRC section 457 are available for certain state and local governments and non-governmental entities tax exempt under IRC Section 501. They can be either eligible plans under IRC 457(b) or ineligible plans under IRC 457(f). Plans eligible under 457(b) allow employees of sponsoring organizations to defer income taxation on retirement savings into future years.

A **SIMPLE IRA** is a retirement plan that may be established by employers, including self-employed individuals. The employer is allowed a tax deduction for contributions made to the SIMPLE. The employer makes either matching or nonelective contributions to each eligible employee's SIMPLE IRA, and employees may make salary deferral contributions.

Traditional IRA contributions plus earnings, interest, dividends, and capital gains may compound tax deferred until you withdraw them as retirement income. Amounts withdrawn from traditional IRA plans are generally included as taxable income in the year received and may be subject to 10% federal tax penalties if withdrawn prior to age 59½, unless an exception applies.

A **Roth IRA** is a tax-deferred and potentially tax-free savings plan available to all working individuals and their spouses who meet the IRS income requirements. Distributions, including accumulated earnings, may be made tax free if the account has been held at least five years, and the individual is at least 59½, or if any of the IRS exceptions apply. Contributions to a Roth IRA are not tax deductible, but withdrawals during retirement are generally tax free.

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