New RMD Rules Are Here - Part 2 [Richmond Refreshers]
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Hi, I'm Steve Kulchinski, Associate Financial Advisor with Richmond Brothers.

As Dan covered last week, the IRS recently issued new regulations that impact many parts of the required minimum distribution, or RMD, rules for retirement accounts. The final regulations are effective for 2025, and the proposed regulations can be used immediately as guidance.

Today, we are going to review a few more of the highlights that may affect you:

First, the IRS has retained the hypothetical RMD rule for spousal beneficiaries. The final regulations retain the rule that prevents surviving spouse beneficiaries from avoiding RMDs in certain circumstances when a retirement account owner dies before his Required Beginning Date. RMDs could be avoided by electing the 10-year payment rule and then later doing a spousal rollover.

The new regulations close this loophole and require that any "hypothetical RMDs" that would have had to be taken (if not for the election of the 10-year rule) must be taken prior to a spousal rollover.

The continued existence of this rule shows the IRS means business when it comes to annual RMDs. This loophole remains firmly closed.

Secondly, Section 327 of SECURE 2.0 allows a surviving spouse to be treated as the deceased employee for purposes of the RMD rules. A spouse beneficiary may delay RMDs until the deceased spouse would have reached RMD age. This election is considered automatically made by the beneficiary when the account owner dies before the Required Beginning Date.

The proposed regulations clarify that RMDs are then calculated using the Uniform Lifetime Table and the surviving spouse's age. The account is considered an inherited account, so any distributions would not be subject to the 10% penalty for early distributions. A spousal rollover can still be done at any time.

This is welcome guidance on a perplexing provision of SECURE 2.0. Some spouse beneficiaries will still be able to delay RMDs, sometimes for years, as under the old rules. And their RMDs will be smaller because they can now use the Uniform Lifetime Table, which was never before allowed for any beneficiaries.

Finally, A trustee is no longer required to provide documentation to the IRA custodian to satisfy the rules necessary for the trust to use either the 10-year rule or even a stretch payout for an Eligible Designated Beneficiary trust.

For trust beneficiaries of plans, documentation must still be provided by October 31 of the year following the year of death. However, the plan administrator can require the trustee to provide either the trust document or a list of trust beneficiaries with their entitlements.

RMD rules can now be applied separately to see-through trust beneficiaries if the trust will be terminated and divided into separate subtrusts immediately upon the death of the account owner.

This new rule expands the prior separate account rule that had applied only to certain special needs trusts. Each subtrust can now get the most favorable payout option without being separately named on the beneficiary form, which was required in the past.

Trusts are downgraded as a planning strategy after the SECURE Act was enacted, and the new regulations do not change that. However, the new final regulations do clear up some confusion and add some rules favorable to trust beneficiaries.

We understand this is a lot of technical information about RMD rules, but having awareness of these changes is a great first step. Please reach out if this brings up any questions about your unique situation. We are here to help you make sense of it all and how it relates to you and your personal goals.

Thank you for listening and make it a great day!

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