Required Distributions: Changes You Need to Know

The RMD 10-year rule substantially reduces the ability of most nonspouse beneficiaries to stretch distributions from an inherited defined contribution plan or IRA after the death of the original owner.

The Setting Every Community Up for Retirement Enhancement Act of 2019 (SECURE Act) changed the rules for taking distributions from retirement accounts inherited after 2019. The so-called *10-year rule* generally requires inherited accounts to be emptied within 10 years of the original owner's death, with some exceptions. Where an exception applies, the entire account must generally be emptied within 10 years of the beneficiary's death or within 10 years after a minor child beneficiary reaches age 21. This reduces the ability of most beneficiaries to spread out, or "stretch," distributions from an inherited defined contribution plan or an IRA.

In 2022, the IRS issued proposed regulations that interpreted the revised **required minimum distribution (RMD)** rules. Final regulations have now been issued and are generally applicable starting in 2025. They basically adopt the proposed regulations, while reflecting some changes made by the SECURE 2.0 Act of 2022 and including certain changes in response to comments received on the proposed regulations. Under these regulations, some beneficiaries could be subject to annual required distributions as well as a full distribution at the end of a 10-year period. Account owners and their beneficiaries may want to familiarize themselves with these changes and how they might be affected by them.

RMD basics

If you own an individual retirement account (IRA) or participate in a retirement plan like a 401(k), you generally must start taking RMDs for the year you reach your RMD age. RMD age is 70½ (if born before July 1, 1949), 72 (if born July 1, 1949, through 1950), 73 (if born in 1951 to 1959), or 75 (if born in 1960 or later). If you are still working for the employer that maintains the retirement plan, you may be able to wait until the year you retire to start RMDs from that account. Failing to take an RMD can be costly: a 25% penalty tax (50% prior to 2023) generally applies to the extent an RMD is not made.

The **required beginning date (RBD)** for the first year you are required to take a lifetime distribution is no later than April 1 of the next year. After your first distribution, annual distributions must be taken by the end of each year. (Note that if you wait until April 1 to take your first-year distribution, you would have to take two distributions for that year: one by April 1 and the other by December 31.)

Lifetime distributions are not required from Roth accounts and, as a result, Roth account owners are always treated as dying before their RBD. Prior to 2024, these two special rules for Roth accounts applied to Roth IRAs, but not to Roth employer retirement plans.

When you die, the RMD rules also govern how quickly your retirement plan or IRA will need to be distributed to your beneficiaries. The rules are largely based on two factors: (1) the individuals you select as beneficiaries of your retirement plan, and (2) whether you pass away *before* or *on or after* your RBD.

Who is subject to the 10-year rule?

The SECURE Act still allows certain beneficiaries to "stretch" distributions, at least to some extent. These **eligible designated beneficiaries (EDBs)** include your surviving spouse, your minor children, any individual not more than 10 years younger than you, and certain disabled or chronically ill individuals.

Generally, EDBs are able to take annual required distributions based on remaining life expectancy. However, once an EDB dies, or once a minor child EDB reaches age 21, any remaining funds must be distributed within 10 years. Significantly, though, the SECURE Act requires that if your designated beneficiary is not an EDB, the entire account must be fully distributed within 10 years after your death.

What if your designated beneficiary is not an EDB?

If you die *before* your RBD, no distributions are required during the first nine years after your death, but the entire account must be distributed in the 10th year.

If you die *on or after* your RBD, annual distributions based on remaining life expectancy are required in the first nine years after the year of your death, then the remainder of the account must be distributed in the 10th year. Annual distributions after your death will be based on the greater of (a) what would have been your remaining life expectancy or (b) the beneficiary's remaining life expectancy.

What if your beneficiary is a nonspouse EDB?

After your death, annual distributions will be required based on remaining life expectancy. If you die *before* your RBD, required annual distributions will be based on the EDB's remaining life expectancy. If you die *on or after* your RBD, annual distributions after your death will be based on the greater of (a) what would have been your remaining life expectancy or (b) the beneficiary's remaining life expectancy.

After your beneficiary dies or your beneficiary who is your minor child turns age 21, annual distributions based on remaining life expectancy must continue during the first nine years after the year of such an event. The entire account must be fully distributed in the 10th year.

What if your designated beneficiary is your spouse?

There are many special rules if your spouse is your designated beneficiary. The 10-year rule generally has no effect until after the death of your spouse, or possibly until after the death of your spouse's designated beneficiary.

What life expectancy is used to determine RMDs after you die?

Annual required distributions based on life expectancy are generally calculated each year by dividing the account balance as of December 31 of the previous year by the applicable denominator for the current year (but the RMD will never exceed the entire account balance on the date of the distribution).

When your life expectancy is used, the applicable denominator is your life expectancy in the calendar year of your death, reduced by one for each subsequent year. When the nonspouse beneficiary's life expectancy is used, the applicable denominator is that beneficiary's life expectancy in the year following the calendar year of your death, reduced by one for each subsequent year. (Note that if the applicable denominator is reduced to zero in any year using this "subtract one" method, the entire account would need to be distributed.) And at the end of the appropriate 10-year period, any remaining balance must be distributed.

Relief for certain RMDs from inherited retirement accounts for 2024

The IRS has announced that it will not assert the penalty tax in certain circumstances where individuals affected by the RMD changes failed to take annual distributions in 2024 during one of the 10-year periods. (Similar relief was previously provided for 2021, 2022, and 2023.) For example, relief may be available if the IRA owner or employee died in 2020, 2021, 2022, or 2023 and *on or after* their RBD and the designated

beneficiary who is not an EDB did not take annual distributions for 2021, 2022, 2023, or 2024 as required (during the 10-year period following the IRA owner's or employee's death). Relief might also be available if an EDB died in 2020, 2021, 2022, or 2023 and annual distributions were not taken in 2021, 2022, 2023, or 2024 as required (during the 10-year period following the EDB's death).

The rules relating to required minimum distributions are complicated, and the consequences of making a mistake can be severe. Talk to a tax professional to understand how the rules, and the new regulations, apply to your individual situation.

The Fed Finally Cut Interest Rates. What Could It Mean for Your Finances?

On September 18, 2024, the Federal Reserve's Federal Open Market Committee (FOMC) lowered the benchmark federal funds rate one-half percentage point to a range of 4.75% to 5.0%. It was the first rate cut since the Fed raised the funds rate aggressively from March 2022 to July 2023 to help control inflation.[1]

The long-awaited policy shift suggests that a soft landing — the rare feat of bringing down inflation without causing a recession — is in sight. It also marks a critical juncture for the economy, with significant implications for consumers, businesses, and investors.

"The U.S. economy is in a good place. And our decision today is designed to keep it there." — Fed Chair Jerome Powell

Why now?

The Federal Reserve operates under a dual mandate to foster maximum employment and stable prices for the benefit of the American public. For a couple of years rising prices have been considered the more serious threat, but the inflation rate has moved much closer to the Fed's 2.0% target.

Officials now see these two risks as "roughly in balance." In his post-meeting press conference, Fed Chair Jerome Powell said, "The labor market has cooled from its formerly overheated state, inflation has eased substantially from a peak of 7% to an estimated 2.2%, as of August."[2]

In recent months, job gains have slowed considerably, and unemployment climbed from 3.8% in March to 4.2% in August. Powell maintained that employment data remains at solid levels, but recent changes suggest the downside risks have increased.[3–4]

Relief for borrowers

Lowering the federal funds rate helps to reduce borrowing costs across the board, creating breathing room in the budgets of many households and businesses.

The prime rate, which commercial banks charge their best customers, typically moves with the federal funds rate. Though actual rates can vary widely, small-business loans, adjustable-rate mortgages, home equity lines of credit, auto loans, credit cards, and other forms of consumer credit are often linked to the prime rate, so the rates on these types of loans should adjust lower relatively soon after a Fed rate cut.

Borrowers with home equity lines of credit, adjustable-rate mortgages, credit card balances, or other outstanding loans with variable interest rates should see their monthly payments fall as well, in many cases within a couple of billing cycles.

Mortgage rates are influenced by a mix of complex factors that includes Fed policies, longer-term inflation expectations, and government bond market dynamics. The rates

for 30-year fixed mortgages, which tend to track the yield on the 10-year Treasury note, fell steeply in August after government reports confirmed that inflation and the job market were cooling.[5]

The average rate on a 30-year fixed-rate mortgage was 6.09% on September 19, the lowest in 19 months. This is down from a recent peak of 7.22% in early May. Aspiring home buyers have gained significant purchasing power since last spring and mortgage rates may continue to fall gradually, but it's also possible that much of the anticipated decline in interest rates has already been priced in.[6]

Too much cash on hand?

Savers have enjoyed being rewarded for holding cash in high-yield savings accounts and short-term certificates of deposits (CDs). Although it may not happen overnight, they should be prepared for the yields on these accounts to follow the Fed funds rate downward.

Investors who have more cash savings than they expect to need in the next couple of years might consider locking into today's relatively high yields by shifting money into CDs or bonds with fixed interest rates and longer terms. For example, someone could purchase bonds that mature when the money is likely to be needed for retirement expenses or to pay for a child's college education.

Moving more money into stocks, which have historically generated higher average returns over time, is a riskier option that may be appropriate for investors who intend to hang on to them for the long haul, but only if they can endure frequent price swings.

Rate cuts in a strong economy

Past rate-cutting cycles have aimed to boost growth when the economy was in trouble, which doesn't appear to be the case this time around. Powell stated clearly, "The U.S. economy is in a good place. And our decision today is designed to keep it there."[7]

In the second quarter of 2024, U.S. gross domestic product (GDP) expanded at a healthy 3.0% annual rate, and recent forecasts based on the Atlanta Fed's GDPNow model indicate that the economy grew at a similar pace in the third quarter.[8–9]

The September rate cut — which officials hope will keep job market conditions from worsening — is presumably a starting point. The Fed plans to keep cutting interest rates until they reach a neutral stance that should no longer impact the economy for better or worse. According to current FOMC projections, the fed funds rate could drop an additional 0.50% by the end of 2024, and another 1.0% over 2025.[10]

It can take time for borrowing rates to respond to changes in the fed funds rate and noticeably impact the decisions of consumers and businesses. This "lag" in the effects of monetary policy is one reason that some people fear the economy is not out of the woods.

Whatever happens next, the Committee intends to make policy decisions "meeting by meeting based on the incoming data, the evolving outlook, and balance of risks."[11]

The FDIC insures CDs and bank savings accounts, which generally provide a fixed rate of return, up to$250,000 per depositor, per insured institution. The return and principal value of an investment in bonds or stocks fluctuate with changes in market conditions and, when sold, these securities may be worth more or less than their original cost. Investments seeking to achieve higher yields also involve a higher degree of risk. Forecasts are based on current conditions, subject to change, and may not come to pass.

1, 9–10) The Federal Reserve, 2024

2, 4, 7, 11) *The Wall Street Journal,* September 18, 2024

3) U.S. Bureau of Labor Statistics, 2024

5) *The New York Times,* August 8, 2024

6) Freddie Mac, 2024

8) U.S. Bureau of Economic Analysis, 2024

Be aware that after a data breach, scammers may step up impersonation attempts, even if they don't actually have access to stolen data. For example, someone allegedly from the Social Security Administration or IRS might contact you and ask you to verify your Social Security number or provide or update your personal information. However, government agencies will never send you an email or call you to ask for these types of information. Don't respond, and promptly contact the appropriate government agency to report an identity theft attempt.

For more information about how to report and recover from identity theft, visit the Federal Trade Commission's website IdentityTheft.gov.

After a Massive Breach, Is Your Data in Danger?

National Public Data, a consumer data broker, confirmed recently that a hacker had targeted the company in December 2023, "with potential leaks of certain data in April 2024 and summer 2024."[1] Other reports indicate that this leaked data had been found on the dark web and could include the names, addresses, phone numbers, and Social Security numbers of millions of Americans.[2] A data breach of this magnitude is especially worrisome, and is the latest in a string of major data breaches this year.[3] If you're wondering what you can do to help protect yourself against the growing threat of identity theft, here are some steps to consider.

Place fraud alerts and credit freezes

One way to reduce your risk after a data breach is to place a fraud alert or a credit freeze on your credit report. Both are free tools that can help you prevent fraud, but they work somewhat differently.

A fraud alert is a notice placed on your credit report that warns potential creditors that your identity has been compromised. It allows them to check your credit but requires them to take extra steps to verify your identity before issuing new credit in your name. You can place a fraud alert by contacting one of the three major credit bureaus (Equifax, Experian, and TransUnion), and that agency will notify the others. An initial alert will last for one year, but can be extended to seven years if you have become an actual, rather than potential, victim of fraud.

A credit freeze (sometimes called a security freeze) may also help protect you if you suspect your personal information was stolen, but it's more stringent. Once you have a credit freeze in place, potential creditors won't be able to access your credit report or credit score (there are some exemptions). This helps prevent identity thieves from opening fraudulent accounts in your name. To request a credit freeze, you will need to contact each of the three major credit reporting agencies. The credit freeze will stay in place until you decide to lift it, which you will need to do at least temporarily, before applying for credit.

A fraud alert or credit freeze can be set up online, by phone, or by mail, following each credit bureau's instructions. This may also be a good time to request a free credit report so that you can check recent credit activity. Here are the website addresses and phone numbers for each of the three major credit bureaus.

- Equifax, at Equifax.com 888-298-0045
- Experian at Experian.com 888-397-3742
- TransUnion at Transunion.com 800-916-8800

Continue to monitor your personal and financial information

- Consider subscribing to a credit monitoring service if you need extended support. These services come at a cost, but may bundle together credit report monitoring, credit report locks, scans of the dark web, help with recovering from identity theft, and identity theft insurance.

- Periodically review your credit reports to spot suspicious activity. You can receive free weekly online reports from all three credit bureaus at the official site annualcreditreport,com.
- Sign up for alerts for your bank, financial, and credit card accounts that will notify you when a transaction has occurred or someone has signed into your account. Check your accounts frequently and review your statements.
- Pick strong passwords that are different for each account, and change them periodically. For an extra layer of protection, use a password manager that generates strong, unique passwords that you control through a single master password.
- Enable multifactor authentication when offered. For example, in addition to providing a password, you may be required to enter a code sent to your phone or email, answer a security question, use a physical security key, or sign in using a facial or fingerprint scan.
- Keep your device and security software up to date. Operating system and software updates may include security fixes. An easy way to do this is to turn on automatic updates.
- Watch out for phishing attempts from scammers looking to attempt to obtain passwords or financial information. Be cautious if you receive a link or attachment in your email or via social media. Don't click on it until you can verify that it's legitimate. Let unsolicited phone calls go to voicemail, and double-check phone numbers, even if they appear familiar or seem to come from a company that you normally do business with.

1) National Public Data, August, 2024

2) KrebsonSecurity.com, August 15, 2024

3) Identity Theft Resource Center, 2024

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