Required Minimum Distribution Rules for Beneficiaries

Important Information for Beneficiaries of Deceased Participants in 401(k), Profit Sharing, Money Purchase and 403(b) Plans

The Required Minimum Distribution (RMD) rules that apply during a retirement plan participant's lifetime cease to apply once the participant passes away. Beneficiaries also must take RMDs, but different rules apply to them than apply to participants. The rules for beneficiaries vary depending on whether the participant's death occurred prior to or after the participant's RBD and whether the beneficiary is a surviving spouse, other individual, or entity, such as an estate or trust.

Key Terms

Required Beginning Date (RBD) – The date by which a qualified plan participant must begin receiving required minimum distributions (see below) from his or her retirement account. This date occurs on April 1 following the calendar year the participant turns age 70½. In some cases, participants who have reached age 70½ may have the ability to delay the RBD until April 1 of the year following the year of retirement.

Required Minimum Distribution (RMD) – The minimum annual amount that a retirement plan participant must withdraw from his or her retirement account by the required beginning date (see RBD definition above). The RMD amount is calculated annually based upon the participant's account balance and life expectancy.

Surviving Spouse is the Sole Beneficiary

If the participant's surviving spouse is the participant's sole beneficiary, the following rules apply.

	THE DECEASED PARTICIPANT HAD NOT YET REACHED THE RBD	THE DECEASED PARTICIPANT'S RBD HAD ALREADY PASSED
BENEFIT PAYMENT TIMING	Benefits must commence by the later of: › December 31 of the year in which the participant would have attained age 70½, or › December 31 of the year following the year of death.	Benefit payments to the surviving spouse must begin in the year after the year of death. The normal RMD is paid to the beneficiary for the year of the participant's death if the participant didn't receive that RMD before he or she died.
MINIMUM BENEFIT PAYMENT CALCULATION	RMDs payable to the surviving spouse are based on the surviving spouse's life expectancy, determined each year using IRS mortality tables.	Benefits can be spread over the greater of: › The surviving spouse's single life expectancy, determined each year using IRS mortality tables, or › The participant's single life expectancy in the year of death, determined using IRS mortality tables, reduced by one for each year thereafter.

Rollover Options

Surviving spouses have the same rollover options that participants have (i.e., they can rollover over to their own IRA or to a qualified plan, 403(b) plan or governmental 457(b) plan). A rollover to a surviving spouse's own IRA or to a surviving spouse's own qualified plan, 403(b) plan or governmental 457(b) plan account changes the benefits from death benefits to the surviving spouse's own benefits and the normal participant RMD rules, based on the surviving spouse's age, apply to those benefits thereafter. A rollover to a surviving spouse's own IRA or to a surviving spouse's own qualified plan, 403(b) plan or governmental 457(b) plan account can be done by direct rollover or 60-day rollover.

Surviving spouses also have the same rollover option that non-spouse beneficiaries have (i.e., a direct rollover to an inherited IRA; see below for more information). A rollover to an inherited IRA keeps the benefits as death benefits so that the inherited IRA is subject to the rules in the table above, not the participant rules.

In most circumstances, a rollover to a surviving spouse's IRA or retirement plan account will be better than a rollover to an inherited IRA, but there are circumstances when a rollover to an inherited IRA is preferable. You should consult your personal tax advisor to determine if a rollover is in your best interests and the best type of rollover for you.

All Beneficiaries are Individuals, but at Least One is Not the Surviving Spouse

If the surviving spouse is not the sole beneficiary, but all beneficiaries are individuals, the following rules apply.

	THE DECEASED PARTICIPANT HAD NOT YET REACHED THE RBD	THE DECEASED PARTICIPANT'S RBD HAD ALREADY PASSED
BENEFIT PAYMENT TIMING	Benefits must commence by December 31 of the year following the year of death OR must be taken in full by December 31 of the year containing the fifth anniversary of death.	Benefit payments to the beneficiary or beneficiaries must begin in the year after the year of death. The normal RMD is paid to the beneficiary or beneficiaries for the year of the participant's death if the participant didn't receive that RMD before he or she died.
MINIMUM BENEFIT PAYMENT CALCULATION	If benefits commence by December 31 of the year following the year of death, they can be spread over the life expectancy of the oldest beneficiary, determined under IRS mortality tables. If the account is divided into separate shares for each beneficiary by December 31 of the year following the year of death, each beneficiary's own life expectancy can be used in determining the payout for his or her share, starting in the year following the year in which the separate shares are established. If benefits are not started by December 31 of the year following the year of death, no RMDs are required during the five years following death, but the entire account balance must be withdrawn by December 31 of the year containing the fifth anniversary of death.	Benefits can be spread over the greater of: › The oldest beneficiary's single life expectancy in the year following the year of death, determined using IRS mortality tables, reduced by one for each year thereafter, or › The participant's single life expectancy in the year of death, determined using IRS mortality tables, reduced by one for each year thereafter.

Rollover Options

Non-spousal beneficiaries who are individuals can only roll over death benefits into an inherited IRA. The rollover must be a direct rollover; a 60-day rollover is not permitted. The inherited IRA must be titled in both the beneficiary's name and the deceased participant's name (e.g., John Smith as beneficiary of Jane Doe). The inherited IRA remains subject to the death benefit RMD rules described in the above table.

At Least One Beneficiary is an Entity

If at least one of the beneficiaries is an entity (e.g., the participant's estate, a charity or a trust), the following rules generally apply.

	THE DECEASED PARTICIPANT HAD NOT YET REACHED THE RBD	THE DECEASED PARTICIPANT'S RBD HAD ALREADY PASSED
BENEFIT PAYMENT TIMING	Benefits must be taken in full by December 31 of the year containing the fifth anniversary of death.	Benefit payments to the beneficiary or beneficiaries must begin in the year after the year of death. The normal RMD is paid to the beneficiary or beneficiaries for the year of the participant's death if the participant didn't receive that RMD before he or she died.
MINIMUM BENEFIT PAYMENT CALCULATION	No RMDs are required during the five years following death, but the entire account balance must be withdrawn by December 31 of the year containing the fifth anniversary of death.	Benefits are paid over the participant's single life expectancy in the year of death, determined using IRS mortality tables, reduced by one for each year thereafter.

In some cases, a trust's beneficiaries can be deemed the designated beneficiaries for RMD purposes, instead of the trust. This may allow a longer payout period if the participant died before his or her RBD. It also may allow the use of the oldest beneficiary's life expectancy, in lieu of the participant's life expectancy, if the participant died after his or her RBD. If you are the Trustee of a trust beneficiary and want Sentinel Benefits & Financial Group to determine if the trust's beneficiaries can be deemed the designated beneficiaries for RMD purposes, please provide a copy of the Trust Agreement to us.

10% Early Withdrawal Penalty

The 10% early withdrawal penalty does not apply to distributions to beneficiaries after the death of the plan participant. However, if the benefit is rolled over to an IRA or another eligible retirement plan, distributions from the recipient IRA or plan would be subject to the 10% early withdrawal penalty.

Since the rules governing the payment of death benefits from retirement plans to beneficiaries are complex, please consult with your personal tax advisor before electing a method of payment for your death benefits or deciding to delay the start of benefit payments.