



REQUIRED MINIMUM DISTRIBUTION CHANGES: WHAT YOU NEED TO KNOW

Do you know when your clients must satisfy required minimum distributions from their retirement accounts? With the many legislative changes and IRS notices regarding these distributions, now is a great time to review the current and upcoming changes pertaining to RMDs.

The Setting Every Community Up for Retirement Enhancement Act, which is commonly referred to as the SECURE Act, was introduced in December 2019 and implemented starting in 2020. This legislation changed the landscape of beneficiary planning, while also giving retirees the ability to defer distributions from age 70½ to 72 for qualified plans and IRAs. Then the SECURE Act 2.0 changed the age from 72 to 73. We're going to talk about the current understanding after the passage of both acts.

Before we talk about the specific changes introduced by the SECURE Act, let's understand more about the Required Beginning Date (RBD). The RBD is the official date by which a retirement account participant must begin taking the required minimum distribution. Simply put, the RBD is April 1 of the following year after the required age is reached. Keep in mind that if a client waits until April 1 of the following year, he or she may need to take two distributions that year. This may result in a higher tax bill.

So, let's review the impact of the SECURE Act and Secure Act 2.0 on RMD requirements for specific types of plans and accounts, and also provide some clarification on current changes and those planned for the future.

Qualified Plans: Clients with qualified plans, such as 401(k)s, may benefit from the *still working* rule. If the client is still working, he or she can defer taking RMDs until the year in which he or she retires, unless the person is a 5% owner of the company sponsoring the plan. Note that there is a catch—the person cannot own 5% or more of the company sponsoring the plan, so this doesn't help small business owners.

Roth IRAs: The Roth IRA has no owner distribution requirement, regardless of age, and the rules do not require the owner to take distributions during his or her lifetime. Because of this, Roth IRAs do not have a RBD.

Traditional IRAs: Traditional IRA distribution requirements have changed during the past three-to-four years and will continue to change until 2033. Here are the RMD changes for traditional IRAs.

- **2020 to December 31, 2022:** If the client turned 72 in 2022, the first RMD was due by April 1, 2023. The second distribution requirement must be satisfied by December 31, 2023—meaning two RMDs in the same year. For tax-planning purposes, the client could have taken the first distribution in 2022 to avoid two distributions in 2023.

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- **2023 to December 31, 2032:** If the client turns 72 in 2023, he or she can defer distributions for another year when turning 73. An RMD is not required in this scenario until 2024, or in 2025 if the client decides to take the first distribution on April 1 of the year after turning 73.
- **2033 and after:** Clients turning age 74 on or after January 1, 2033, will not be required to take a distribution until age 75, barring any additional changes.

Inherited IRAs: These accounts were the most impacted by the SECURE Act and the SECURE Act 2.0. On top of that, the regulations for the first SECURE Act are still not finalized. In short, the requirements for inherited IRAs for most non-spouse beneficiaries are still muddy. Let's attempt to make it simple.

- **Pre-RBD:** The only RMD for a non-spousal beneficiary is by December 31 of the 10-year anniversary of the owner's death. If the IRA or qualified plan owner passed away on June 1, 2021, the inherited IRA account must be completely liquidated by December 31, 2031.
- **Post-RBD:** This is where it gets as clear as mud *because regulations are yet to be finalized*. We'll break it down by current requirements and possible requirements once finalized.
 - **Current Requirements:** Similar to pre-RBD, the only requirement is to completely liquidate by December 31 of the 10-year anniversary of the owner's death.
 - **Possible Requirements if Regulations Are Finalized:** Annual distributions will be based on the life expectancy of the non-spousal beneficiary using the IRS Single Life Expectancy table. In addition, the account will need to be completely liquidated by December 31 of the 10-year anniversary of the owner's death.

Note that Notice 2022-53 clarified that distributions not taken in 2021 and 2022 would not be penalized. It also stated that a distribution should be taken in 2023. Given this notice, it seems unlikely that the requirement for distributions in years 1 to 9 will change.

Given Notice 2022-53, it seems likely that "at least as rapidly" rule will apply. If the regulations do require annual distributions when finalized, it's likely best for your clients to keep enough liquidity in their inherited IRAs. This will avoid having to determine how and from where they will satisfy the RMDs.

Nonqualified Annuities: Many are aware that nonqualified annuities do not have RMDs but do have a maturity/forced annuitization date. Keep in mind, however, that if the owner of a nonqualified annuity passes away and a non-spousal beneficiary decides to stretch out the death distributions to maintain tax deferral of the earnings, annual RMDs are required. Luckily, the SECURE Act or the SECURE Act 2.0 had no effect on nonqualified annuities. Non-spousal beneficiaries are still able to stretch the distributions using their life expectancies.

Cover Your Bases

As we wait for the regulations surrounding RMDs for inherited benefits and traditional defined contribution plans to be finalized, remember that it's still a mystery to the industry as far as which direction things will go. Planning for both scenarios is key to making sure that no matter which way the requirement goes, your clients will be prepared.

Actions You Can Take Right Now

- Reach out to clients who have inherited qualified investments from 2020 and inform them of the changes that may have additional requirements.
- Review beneficiary designations with clients. Regulations could change even more, impacting their legacy-planning strategies.

Additional Resources and Links

[Retirement Plan and IRA Required Minimum Distributions FAQs](#)

[Proposed RMD Regulations: Key Points for Planning](#)

[Proposed Regulations Could Waive Penalties for Missed RMDs](#)

For more information about retirement planning,
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