



PROPOSED REGULATIONS COULD WAIVE PENALTIES FOR MISSED RMDs

IRS Notice 2022-53 waives the 50% penalty for missed RMDs in 2021 and 2022 for certain individual beneficiaries subject to the SECURE Act's new 10-year rule.

Background

The Setting Every Community Up for Retirement Enhancement (SECURE) Act changed the payout period from life expectancy to 10 years for certain individual beneficiaries who inherit individual retirement accounts (IRAs), including traditional IRAs and Roth IRAs, dating back to 2020. The only individual beneficiaries not subject to this new 10-year payout are the account owner's surviving spouse or minor children (younger than age 21); disabled or chronically ill individuals; and individuals who are not more than 10 years younger than the account owner. Known as eligible designated beneficiaries (EDBs), these individuals may, for the most part, still stretch payments over their individual life expectancies. Adult children, grandchildren, and all other individuals, known as designated beneficiaries (DBs), must deplete the accounts inherited in 2020 or later by 12/31 of the tenth year following the account owner's death.

Plot Twist! Proposed Regulations Require Annual RMDs for Some Designated Beneficiaries

Proposed regulations issued in February 2022 distinguish how the 10-year payout period works for designated beneficiaries based on when the account owner dies.

- **Death Before RBD.** If an account owner dies before the deadline for taking his or her first required minimum distribution (RMD), known as the required

beginning date or RBD, then a designated beneficiary must take only one required payment during the entire 10-year period, and that's the inherited account balance on 12/31 of the tenth year.

- **Death On or After RBD.** If, however, an account owner dies on or after his or her RBD, and was therefore subject to RMDs, a designated beneficiary must continue taking required payments in years one through nine, with a full cleanout of the account by the end of the tenth year. The rationale for these ongoing annual payments is based on a rule known familiarly as the "at-least-as-rapidly" rule. Once an account is turned on for owner RMDs, it does not turn off when the owner dies. The regulations do allow the designated beneficiary to use his or her own life expectancy to calculate these required annual payments, so the payout during years one through nine may be smaller than the owner's RMDs. Nevertheless, the entire account must still be liquidated by 12/31 of the tenth year.
- **RBD.** As a reminder, the RBD for non-Roth IRAs is April 1 of the year following the year the account owner reaches age 72. Roth IRAs do not currently impose RMDs on their owners, so Roth IRAs are said to have no RBD. As a result, designated beneficiaries of inherited Roth IRAs are not required to take annual payments during the 10-year period. Finally, the RBD

Insurance products are issued by Pacific Life Insurance Company in all states except New York and in New York by Pacific Life & Annuity Company. Product availability and features may vary by state.

for some employer plans (excluding SEP-IRAs and SIMPLE IRAs) may be 4/1 of the year following retirement for plan participants who work past age 72 and don't own more than 5% of the company sponsoring the plan (the still-working exception to the age-72 start date).

[The Relief Provided By Notice 2022-53](#)

The new annual RMD requirement came as a big surprise for designated beneficiaries who inherited an account in RMD-mode. It caused controversy and created confusion for custodians, financial professionals, and their clients. As a result, the IRS provided relief in Notice 2022-53. The Notice waives the penalty, but not the payment, for designated beneficiaries who, according to proposed regulations, had an RMD from an inherited account due in

either 2021 or 2022. No penalty forgiveness was needed for 2020, as RMDs themselves for both owners and beneficiaries were waived that year by Congress. The Notice also waives the penalty, but again not the payment, for certain successor beneficiaries subject to the new 10-year rule who, according to the proposed regulations, also had an RMD due in either 2021 or 2022.

[Stay Tuned!](#)

Financial professionals and their clients are still unpacking many of the provisions of the SECURE Act's proposed regulations. It seems the IRS understands that and has granted a reprieve from penalties for the "plot-twist" payments many may still be unaware were due this year or last. The new effective date for the proposed regulations is coming in 2023; let's see what the IRS has in store.

[Additional Resources and Links](#)

[Notice 2022-53](#)

[Proposed SECURE Act Regulations](#)

[SECURE Act \(Division O\)](#)

For more information about retirement planning, please contact our Retirement Strategies Group at RSG@PacificLife.com or (800) 722-2333, ext. 3939.
[PacificLife.com](https://www.PacificLife.com)

This material is provided for informational purposes only and should not be construed as investment, tax, or legal advice. Information is based on current laws, which are subject to change at any time. Clients should consult with their accounting or tax professionals for guidance regarding their specific financial situations.

Pacific Life refers to Pacific Life Insurance Company (Newport Beach, CA) and its affiliates, including Pacific Life & Annuity Company. Pacific Life Insurance Company is the issuer in all states except New York. Pacific Life & Annuity Company is the issuer in New York.

VLC2908-1222W

This material is educational and intended for an audience with financial services knowledge.

2 of 2



THE OFFICIAL SPONSOR
OF RETIREMENT™