



RMD WAIVER (AND CONFUSION) IN 2020 (PART 2)

The Coronavirus Aid, Relief, and Economic Security (CARES) Act waives required minimum distributions (RMDs) from defined contribution plans and IRAs in 2020. The relief applies to both account owners and beneficiaries.

Beneficiary RMDs and the SECURE Act

The Setting Every Community Up for Retirement Enhancement (SECURE) Act changed the post-death distribution rules for designated beneficiaries (DBs) of retirement-plan accounts (other than defined benefit plans). The change applies to DBs of account owners who die in 2020 or later. It requires a DB to cash out the inherited account by 12/31 of the year that contains the tenth-year anniversary of the account owner's death.

This is the new 10-year rule.

A DB is an individual who is not an eligible designated beneficiary (EDB). An EDB is either the account owner's

surviving spouse or minor child (younger than age 18) or an individual who is disabled, chronically ill, or not more than 10 years younger than the account owner.

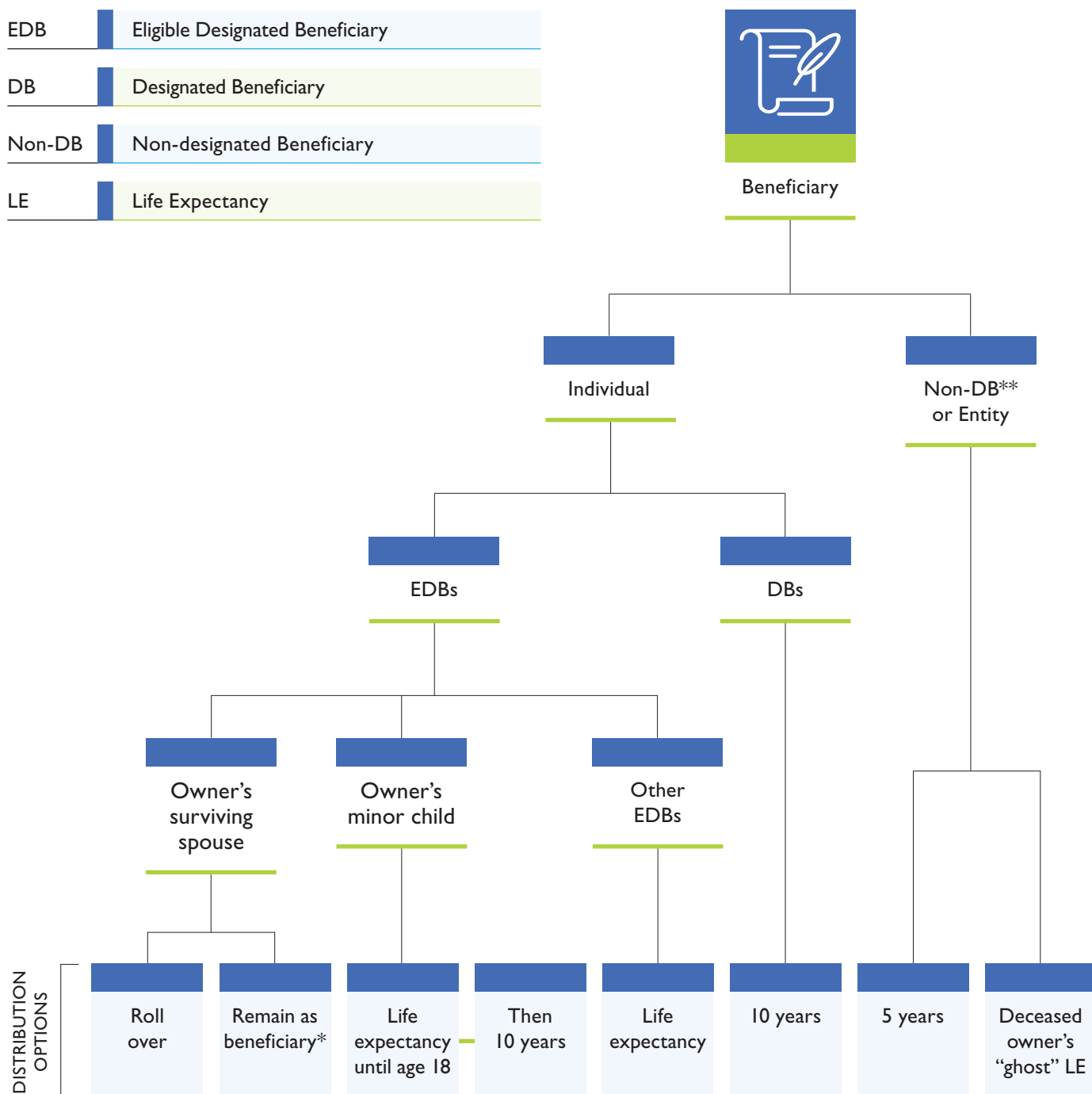
Importantly, the SECURE Act does not change the post-death distribution rules for entities. Nor does it change these rules for designated beneficiaries of account owners who died in 2019 or earlier¹. It creates slightly modified post-death distribution rules for EDBs. The most significant modification is for the account owner's minor children who must toggle from a life expectancy payout to the new 10-year rule at age 18.

Eligible Designated Beneficiaries	Designated Beneficiaries	Entities
Spouses	Non-spousal individuals	Charities
Disabled or chronically ill	Certain trusts	Estates
Not more than 10 years younger		Certain trusts
Minor children		
Certain "see-through" trusts		

¹A successor beneficiary to a deceased designated beneficiary who was taking distributions over life expectancy under the "grandfathered rule" is now required to use the new 10-year rule rather than the deceased designated beneficiary's remaining "ghost" life expectancy.

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EDB	Eligible Designated Beneficiary
DB	Designated Beneficiary
Non-DB	Non-designated Beneficiary
LE	Life Expectancy



*For entities, the five-year rule applies when the IRA owner dies before April 1 of the year following the year of his or her first required distribution. This April 1 date is known as the owner's required beginning date (RBD). Alternatively, the deceased IRA owner's "ghost" life expectancy becomes the distribution rule when the IRA owner dies on or after this April 1 date.

Beneficiary RMDs and the CARES Act

As noted, the CARES Act waives RMDs for beneficiaries of retirement plans (other than defined benefit plans), including IRAs and Roth IRAs, in 2020. Here's a breakdown of this relief.

- **Go-Getters.** Beneficiaries (other than surviving spouses) who have already taken some or all of the required distribution due in 2020 will not be able to change their decisions. There is no rollover option. Surviving spouses, however, do have the rollover option (refer to Part I of this blog).
- **Five-year payout.** For beneficiaries (of owners who died sometime between 2014 and 2019) using the five-year payout period, the five-year period is determined without regard to calendar-year 2020. This is similar to the RMD relief provided by the Worker, Retiree, and Employer Recovery Act of 2008 (WRERA) for 2009 RMDs.
- **Ten-year payout.** The CARES Act does not mention the new 10-year rule introduced by the SECURE Act. Most likely, this is because the rule applies to beneficiaries of owners who die in 2020 or later, and, as a result, the waiver does not apply (see example below).
- **Life expectancy payout.** For beneficiaries using a life expectancy payout, the annual RMD due in 2020 is waived.

Here are a Few Examples

- Jack died in late 2019 at age 69, a few years before his RBD. Since he never got around to naming a beneficiary for his IRA, the IRA agreement, by default, names his estate. As an entity, his estate is required to use the five-year rule. Without the CARES Act, the distribution deadline for the estate would have been 12/31/24. Because of the CARES Act, this deadline is extended to 12/31/25.
- Jack died in late 2019 at age 75. He left his IRA to his daughter Jill, who turns age 50 in 2020. Under the grandfather rule, Jill may take distributions over her life expectancy based on her age in the year following Jack's death (that is, her age on 12/31/20 (age 50)). Jack's year of death (2019) RMD is not waived by the CARES Act. However, Jill's first-year RMD (based on her life expectancy) that is due in 2020 is waived.
- Jack died in early 2020 at age 75. He left his IRA to his daughter Jill, who turns age 50 in 2020. Under the SECURE Act, Jill must use the new 10-year rule as the distribution method for the inherited IRA. This means that Jill will have to cash out the inherited IRA no later than 12/31/30, the year that contains the tenth-year anniversary of Jack's death. Jack's year of death (2020) RMD is waived by the CARES Act. Since Jill's 10-year payout begins in 2021, it seems unlikely that Jill's 12/31/30 deadline is extended until 12/31/31 by the CARES Act. Further guidance from the IRS may answer this novel question definitively.

Putting It All Together

2020 is likely to be a confusing time for retirement-plan account beneficiaries for many reasons, including RMDs. We hope the information in this post helps.

Additional Information and Links

The CARES Act, Section 2203

www.documentcloud.org/documents/6819239-FINAL-FINAL-CARES-ACT.html

IRS Notice 2009-82

www.irs.gov/pub/irs-drop/n-09-82.pdf

For additional information about the
SECURE Act or the CARES Act, please contact
the Retirement Strategies Group at (800) 722-2333, ext. 3939,
or email RSG@PacificLife.com.
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