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**Considerations
for Delaware
Trustees**



Plus 2020 Delaware Trust Conference!

Accounting for Success

Updated Life Expectancy Tables for Required Minimum Distributions



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No one will argue that 2020 has been consumed by our focus on the pandemic and the devastating impact it has had not only on human life, but on businesses and our personal livelihoods. And rightfully so. Consequently, much of the focus of the CARES Act has focused on the Payroll Protection Program (PPP) provision for businesses and the \$1,200/\$2,400 advance payment of recovery rebates to individuals. However, the CARES Act (and SECURE Act, which was passed in late 2019) provide many favorable retirement plan provisions, including (1) the ability to contribute to an IRA beyond age 70 ½, (2) a change in the required minimum distribution (RMD) age from 70 ½ to 72, (3) the waiver of 2020 RMDs, and (4) the elimination of the “stretch IRA” rule for most non-spouse beneficiaries of inherited retirement accounts. Without much fanfare, however, is the recent release by the IRS of final regulations which revise the life expectancy tables for taking RMDs.

In general, the RMD for an account owner is based on the employee’s age under the Uniform Lifetime Table, which uses the life expectancy of the employee and a hypothetical beneficiary 10 years younger. If the employee’s spouse is more than 10 years younger, then the applicable distribution period is based on the Joint and Last Survivor Table, which results in a longer distribution period.

Where a beneficiary has inherited a retirement account and the decedent died prior to 2020, the RMD is computed by using the Single Life Table for the beneficiary’s age beginning in the year following the year of death and then reduced by 1 for each subsequent year (there are certain exceptions and options to this rule where the sole beneficiary is the surviving spouse). Under the SECURE Act, where the account owner died prior to 2020 with certain exceptions, a non-surviving spouse no longer uses the Single Life Table (the “stretch IRA”) but must take distribution of the entire account balance no later than the end of the year, which includes the 10th anniversary of the account owner’s death; which means that other than for the final year, there is no required distribution for the intervening years. Exceptions to the new 10-year rule include (1) a surviving spouse, (2) beneficiaries less than 10 years younger than the account owner, (3) a chronically ill or totally disabled person at the

time of the account owner’s death, and (4) a minor child of the account owner until they have reached the age of majority.

Recently, the Internal Revenue Service (IRS) issued final regulations updating the life expectancy and distribution period tables used for purposes of determining minimum RMDs taken by employees/IRA account owners as well as those taking RMDs from inherited accounts. The updated life expectancy tables and applicable distribution period tables reflect longer life expectancies that the former tables and result in reduced RMDs. This allows more funds to remain in the account owner’s/beneficiary’s retirement account for a longer period.

The final regulations apply to distribution calendar years beginning on or after January 1, 2022. For an individual who turns 72 in 2021 so that their required beginning date is April 1, 2022, the updated distribution tables would not apply to the 2021 distribution year amount, but will apply to the RMD for the individual’s 2022 distribution year amount, which must be taken by December 31, 2022. A transition rule also applies for inherited retirement accounts where the account owner died prior to 2022. In such cases, the initial life expectancy used to determine the distribution period is “reset” by using the updated Single Life Table for the age of the relevant individual in the calendar year for which the life expectancy was initially set and then reduced by 1 for each subsequent year in order to determine the RMD for calendar year 2022 and all subsequent years.

Example 1: Under the former Life Expectancy Table, a 72-year old with an IRA account balance of \$1 million would have a life expectancy of 25.6 years, resulting in a 2022 RMD of \$39,063.50. Under the revised table, their life expectancy is 27.4 years, resulting in an RMD of \$36,496.35.

Example 2: Under the former Single Life Table, a non-spouse beneficiary of an IRA owner that died in 2017 when the beneficiary was 55 years old, would have a life expectancy of 24.7 years. Under the revised table, the beneficiary’s life expectancy would be 26.6 years for calculating the 2022 calendar year RMD.