Adhere to Timelines and Deadlines

Adherence to important deadlines is crucial when managing inherited retirement accounts, where failure can result in substantial penalties and other consequences. Here's a detailed guide to help you stay on track:

- **Required Minimum Distributions (RMDs)**
  Ensure that RMDs are taken in the year they are due. The penalty for missing an RMD is 25% of the amount not distributed. However, if the RMD is corrected within two years the penalty can be reduced to 10%.[1]
- **Key Dates to Remember**:
  - **Beneficiary Finalization Date (BFD)**
    September 30 of the year following the participant's death.

    It may be possible to remove a problem beneficiary by fully distributing the problem beneficiary's share prior to the BFD. For example, if charity is named as beneficiary for a portion of the retirement account along with individual beneficiaries, the retirement account would need to be distributed by December 31 of the year marking the fifth anniversary of the participant's death. This is because the charity is considered a non-designated beneficiary, causing the individual beneficiaries to forgo the longer 10-year deferral period applying to designated beneficiaries and lifetime stretch applying to eligible designated beneficiaries.

    However, if the charity's share is fully distributed before September 30 of the year following the participant's death, only the individuals remain as beneficiaries on that date, and the account will be regarded as having a designated beneficiary.

    When multiple beneficiaries are designated, it is important to establish separate accounts by end of the year following the year of the participant's death. If separate accounts are not established on or before December 31 of the year following the year of the participant's death, RMDs will be based on the oldest beneficiary's life expectancy.[2]

    With regards to trusts, if a power of appointment is exercised or irrevocably restricted, or if reformation or decanting occurs before the BFD, these changes are treated as retroactive to the date of death for determining the participant's beneficiaries.[3] If a beneficiary's power of appointment is disclaimed, exercised, or irrevocably fixed by the BFD, these actions are retroactively applied when reviewing the trust for the date of death.
  - **Trust-Copy-to-Plan Deadline**
    October 31 of the year following the participant's death. If a trust is named as the beneficiary, it must qualify as a "see-through trust" to be considered a designated beneficiary.[4] The following criteria must be met:
    - The trust is valid under state law.
    - A copy of the trust (or a summary of its provisions) is provided to the plan administrator by October 31 of the year following the participant's death.
    - The trust is irrevocable as of the participant's death.
    - All trust beneficiaries are identifiable.

For the documentation requirement, the trustee may provide either a certified list of the beneficiaries or a copy of the trust, depending on what the plan administrator requires.[5]

1 The penalty for missing a required minimum distribution (RMD) is a 25% excise tax on the amount not withdrawn. The penalty can be reduced to 10% if the RMD is corrected within two years.
2 Treas. Reg. § 1.401(a)(9)-8(a)(1)(ii)(A)
3 Treas. Reg. § 1.401(a)(9)-4(f)(5)(ii)(A)
4 Treas. Reg. § 1.401(a)(9)-4(f)(2)
5 Treas. Reg. § 1.401(a)(9)-4(h)(2)(ii)