

# 6 REQUIRED QUESTIONS TO DETERMINE AN IRA BENEFICIARY PAYOUT STRUCTURE

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By Andy Ives, CFP®, AIF®  
IRA Analyst

*1. When did the decedent die? The SECURE Act impacts beneficiaries of decedents who died in 2020 or later. Anyone who passed away prior to 2020 falls under the old rules. Prior to the SECURE Act, all living, breathing beneficiaries were able to stretch annual required minimum distributions (RMDs) from their inherited IRA over their single life expectancy. For deaths in 2020 or later, the SECURE Act grandfathered certain beneficiaries under the old rules and introduced a 10-year rule for “non-eligible designated beneficiaries” (NEDBs). The year of death of the IRA owner must be identified so we know which path to take – old rules or new rules.*

*2. What was the date of birth (DOB) of the decedent? If the beneficiary is an NEDB, we must know the DOB of the decedent. Did he die before or after his required beginning date (RBD)? For IRAs, the RBD is April 1 of the year after the year a person turns age 73. For NEDBs, death before the RBD means no RMDs within the 10-year rule. Death on or after the RBD dictates that the beneficiary must take annual RMDs during the 10-year period.*

*3. Who (or what) is the beneficiary? Of course, we need to know who the beneficiary is. But is the beneficiary a person or a non-living entity like an estate? A non-living beneficiary means the 5-year rule applies for deaths before the RBD, and the “ghost rule” applies for deaths on or after the RBD. The type of beneficiary decides which direction we go.*

*4. What is the relationship between the decedent and beneficiary? This question is necessary to determine if the beneficiary is a spouse or a non-spouse. Spouse beneficiaries have a set of options available only to them – like a spousal rollover. Identifying whether the beneficiary is a spouse or not further narrows the path toward the proper payout.*

*5. What was the DOB of the beneficiary? Knowing the age of the beneficiary is crucial. For example, a spouse beneficiary under age 59½ could elect an inherited IRA to have penalty-free access to the inherited funds, and then do a spousal rollover at age 59½. For non-spouse beneficiaries, identifying the age of the beneficiary is just as important. Is this a minor child of the IRA owner? Is the beneficiary “not more than 10 years younger” than the decedent? Both would qualify the beneficiary as an eligible designated beneficiary (EDB) and allow for annual RMDs over the single life expectancy of that beneficiary (for a minor child, only up to age 31).*

***6. What type of IRA is this? Whether the IRA being passed to the beneficiary is a Roth or traditional matters. Roth IRA owners are always deemed to die prior to the RBD. That means there are never RMDs within the 10-year rule for Roth IRAs inherited by an NEDB. For non-person beneficiaries of Roth IRAs (like an estate), the 5-year rule will always apply.***

***By layering these six questions on top of each other, we can identify the applicable beneficiary payout structure. Yes, there are additional clarifying questions to help winnow down the final answer, but without answering these foundational questions, the correct path forward is impossible to determine.***

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