

THE GHOST-LIFE RULE EXPLAINED

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The SECURE Act of 2019 changed many rules for inherited IRAs. However, it left intact the rules for non-living (non-person) beneficiaries, such as an estate. For these non-designated beneficiaries (NDBs), the same two possible payout options still exist:

1. If death occurs before the owner's required beginning date for starting required minimum distributions (RBD), payments must be made under the 5-year rule. The account must be emptied by December 31 of the 5th year after the year of death. This is the only time the 5-year payout rule is applicable — when a person dies before the RBD with an NDB. There are no annual required minimum distributions (RMDs) required within the 5-year period. Because Roth IRAs are not subject to lifetime RMD requirements, all Roth IRA owners are considered to have died before their RBD. Therefore, whenever an estate or other NDB is the beneficiary of a Roth IRA, the 5-year rule will always apply.

2. If death occurs on or after the RBD, annual stretch RMD payments are made over the deceased IRA owner's remaining single life expectancy, had he survived. This is known as the "ghost-life rule." The ghost-life rule will never apply to an NDB who inherits a Roth IRA. Since lifetime RMD requirements do not apply to Roth IRAs, a Roth IRA owner cannot die on or after the RBD.

To calculate the ghost-life rule payments, start with the single life expectancy factor of the deceased account owner in the year of death. For the first RMD (for the year after the year of death), use that factor minus 1.0. For succeeding years, use the preceding year's factor minus 1.0. (This is different from standard inherited IRA RMD calculations in which the first RMD uses the age of the beneficiary in the year after the year of death.)

Example: Saldies at age 87 (well after his RBD) and leaves his IRA to his estate (an NDB). Sal's son, Manny, age 40, inherits through the estate. RMDs to Manny would be based on his father Sal's remaining single life expectancy. The first RMD in the year following the year of death would be based on Sal's 6.1-year remaining single life expectancy (7.1 for an 87-year-old, minus 1.0).

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