

Prudential Retirement

Information regarding Beneficiary Required Minimum Distributions (“Beneficiary RMD”) under SECURE Act § 401

The Further Consolidated Appropriations Act of 2020 (“the FCAA”) was signed into law on December 20, 2019 and contained multiple provisions impacting retirement plans. This Act includes provisions of the Setting Every Community Up for Retirement Enhancement Act (“SECURE Act”). For a detailed summary, see our [January 2020 issue of the Pension Analyst](#).

The SECURE Act made important changes to the required minimum distribution (RMD) rules, among other changes. The Internal Revenue Service has not issued guidance concerning the changes, so there are unanswered questions about how plans and plan service providers should apply the new rules. Absent IRS guidance, Prudential provides additional information about the Beneficiary RMD provisions of the SECURE Act and how Prudential will administer them (i.e., default administration) unless a plan administrator makes an alternative election by completing the [Authorization Form/Directive](#).

In addition to mandating annual distributions to participants who meet certain criteria, the RMD rules set the maximum periods over which death benefits may be distributed. One of the provisions of the SECURE Act changes the period over which certain beneficiaries may receive death benefits from qualified defined contribution plans.

The Beneficiary RMD provisions are generally effective for participants who die on or after January 1, 2020 (January 1, 2022 for governmental plans or as may be elected in the Directive for collectively bargained plans). For most plans, the 2020 RMD was waived under the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act. If your plan has a delayed effective date, it’s very important for you to complete the applicable sections of the Directive to allow Prudential to administer this provision as of the date applicable to your plan.

Background and Definitions

Prior to the SECURE Act, the permitted beneficiary payment period was based on the participant’s date of death in comparison to that participant’s deadline for receiving his/her first RMD (referred to as the “Required Beginning Date”). If the participant died after this deadline, annual payments had to continue to the beneficiary (although the beneficiary could generally elect distributions greater than the calculated minimum amount, including a lump sum). If the participant died before this deadline, the rules generally gave the beneficiary two options:

1. Take annual payments (with the minimum amount determined using life expectancy factors) beginning in the year following the participant’s death (a special rule may apply to a spousal beneficiary that had not yet reached RMD age), or;

2. Wait up to 5 years before withdrawing the funds on the condition that the full account had to be distributed by the end of that 5-year period (“5-Year Method”).

These are the maximum payment periods for beneficiaries of participants who died before January 1, 2020 (assuming the plan does not qualify for a delayed effective date). Note that plan sponsors were allowed to adopt provisions requiring the account to be distributed sooner than these deadlines (e.g., a lump sum within a set period following the participant’s death).

The SECURE Act created a different model for determining the maximum payment period for death benefits distributed from a defined contribution retirement plan. For participants who die after the SECURE Act Beneficiary RMD effective date defined below, the key factor when determining the maximum permitted payment period is the beneficiary’s classification under new definitions rather than the date RMDs are/were required to begin. In general, only a beneficiary who meets the definition of an Eligible Designated Beneficiary is permitted to extend payments over life expectancy. Individuals (i.e., designated beneficiaries) who do not meet this definition cannot extend payments beyond 10 years. Beneficiaries who are not individuals (e.g., an estate, charity, or trust that does not meet certain requirements) are generally subject to the pre-SECURE Act rules which require all death benefits to be paid by the end of the fifth year following the participant’s death.

Listed below are definitions of important terms used to determine the permissible payment periods of death benefits under the SECURE Act and current regulations (Treasury Regulation §1.401(a)(9)):

- **SECURE Act Beneficiary RMD Effective Date.**

The Beneficiary RMD provisions described in this document generally apply to all plan participants who die after December 31, 2019. However, a different effective date applies to governmental plans and plans maintained pursuant to one or more collective bargaining agreements.

For governmental plans, the Beneficiary RMD provisions apply to all plan participants who die after December 31, 2021.

For plans subject to one or more collective bargaining agreements ratified before December 20, 2019, the Beneficiary RMD provisions apply to participants who die in calendar years beginning after the earlier of A or B:

A. The later of:

- i. The date the last collective bargaining agreement pertaining to the plan terminates (disregarding any extensions agreed to on or after December 20, 2019), or
- ii. December 31, 2019.

B. December 31, 2021.

- **Eligible Designated Beneficiary.** An individual is an “Eligible Designated Beneficiary” of a participant if the individual qualifies as a designated beneficiary under Code §401(a)(9)(E) and is

1. The participant’s spouse;
2. The participant’s child who has not reached the age of majority (as defined for purposes of Code §401(a)(9)(F));
3. An individual not more than 10 years younger than the participant;
4. A disabled individual, as defined in Code §72(m)(7); or
5. An individual who has been certified to be chronically ill (as defined in Code §7702B(c)(2)) for a reasonably lengthy period, or indefinitely.

- **Designated Beneficiary.** Under current IRS guidance, a “Designated Beneficiary” is an individual entitled to a participant’s benefit upon his/her death, regardless of whether that individual was named the beneficiary via a participant election or the terms of the plan. Only an individual, not an entity, such as an estate or charity, is a Designated Beneficiary.

- **Non-Designated Beneficiary.** An entity designated as a beneficiary by the plan or participant that is not an individual, such as an estate, charity, or trust that does not meet certain requirements outlined in Treasury Regulation §1.401(a)(9)-4, Q&A 5-6.

- **“Look-Through” Trust.** A trust named as beneficiary of a participant’s account that meets the requirements listed under Treasury Regulation §1.401(a)(9)-4, Q&A 5 that allows the individual beneficiaries of the trust to be treated as the participant’s beneficiary (or beneficiaries) when determining the permitted distribution periods (i.e., paid over an individual’s life or within 10 years).

- **Life Expectancy Method.** The death benefit (i.e., remaining account balance) is paid to the beneficiary in installments, with the minimum required annual amount generally based on the beneficiary’s remaining life expectancy as determined under applicable IRS tables. The SECURE Act makes this method permissible only for an Eligible Designated Beneficiary as defined above.

- **10-Year Method.** The death benefit (i.e., remaining account balance) is paid to the beneficiary no later than December 31 of the 10th year following the year of the participant's death. Under this method, based on our current understanding of applicable law, no distributions are required until the year containing the 10th anniversary of the participant's death, even if the participant died after he/she began taking RMDs.

For death benefits subject to the SECURE Act provision, this method is required for any "Designated Beneficiary" who is not an "Eligible Designated Beneficiary." A Designated Beneficiary subject to the 10-Year Method may elect to receive distributions before the end of the 10-year period in any amount, including a lump sum, unless such distributions are prohibited under the terms of the plan.

Default Administration of Death Benefits to Which the SECURE Act Applies

Unless directed otherwise by the plan sponsor or until formal IRS guidance is issued, Prudential will apply the following guidelines and existing IRS guidance (e.g., Treasury Regulation §1.401(a)(9))¹ when administering payments to beneficiaries that are subject to the SECURE Act Beneficiary RMD provision. If the facts of any death benefit case are not covered by these guidelines or existing IRS guidance, Prudential will contact the plan sponsor to request written direction.

Payments to Eligible Designated Beneficiaries:²

Beneficiary Type	Payment Guidelines
Participant's spouse	• May elect Life Expectancy or the 10-Year Method. • Former spouse beneficiary can be treated as a spouse (Eligible Designated Beneficiary) if there is a Qualified Domestic Relationship Order ("QDRO") that provides rights to benefits. • Default: If the beneficiary has not made a timely distribution election for life expectancy payments, Prudential may apply a default election of the Life Expectancy Method.
Participant's minor child	• May elect Life Expectancy or the 10-Year Method. • A minor is an individual who is under the age of 18. • The account balance must be fully paid within the 10-year period following the individual's 18th birthday. The beneficiary can choose any payment options allowed by the Plan (e.g., no payments until the 10th year, receive annual installments under the life expectancy method with remainder paid at end of 10-year period, elect a new installment stream over the 10-year period). • Prudential will not process life expectancy payments unless the minor beneficiary makes an election in good order before the required beginning date for life expectancy payments. Prudential will honor any distribution requests from the minor beneficiary for partial or full withdrawals prior to the end of the 10-year period unless plan provisions prevent such distributions. • Default: If the minor beneficiary has not made a distribution election by this deadline, Prudential may apply a default election of the 10-Year Method.
Individual not more than 10 years younger than the participant	• May elect Life Expectancy or the 10-Year Method. • Whether an individual is not more than 10 years younger than the participant is determined based on the participant's and beneficiary's year of birth. • Prudential will not process life expectancy payments unless the beneficiary makes an election in good order before the required beginning date for life expectancy payments. • Prudential will honor any distribution requests from the beneficiary for partial or full withdrawals prior to the end of the 10-year period unless plan provisions prevent such distributions. • Default: If the beneficiary has not made a timely distribution election for life expectancy payments, Prudential may apply a default election of the 10-Year Method.

Beneficiary Type	Payment Guidelines
A disabled or chronically ill individual	• May elect Life Expectancy or the 10-Year Method. • A Social Security Administration award letter will not be accepted as appropriate documentation. If the beneficiary elects the Life Expectancy Method, he/she must complete a “Disabled or Chronically Ill Designated Beneficiary Certification Form” to confirm he/she is eligible for this payment method. • The form requires the beneficiary to self-certify and have his/her doctor certify the federal tax law definitions of disabled or chronically ill apply to him/her. • Prudential will not process life expectancy payments unless this form is received in good order before the required beginning date for life expectancy payments. • Prudential will honor any distribution requests from the beneficiary for partial or full withdrawals prior to the end of the 10-year period unless plan provisions prevent such distributions. • Default: If the beneficiary has neither submitted a form in good order nor made a distribution election (e.g., lump sum or installments over 10 years), Prudential may apply a default election of the 10-Year Method.

Qualifying “Look-Through” trusts	• If the trust qualifies as a “Look-Through” trust, there is only one beneficiary of the trust and that beneficiary is an Eligible Designated Beneficiary, the beneficiary may elect the Life Expectancy or 10-Year Method. • Prudential will not process life expectancy payments unless an election is received in good order before the required beginning date for this payment method. • If the trust qualifies as a “Look Through” trust but there are multiple beneficiaries of the trust, the Life Expectancy Method is not available. The 10-Year Method applies if all beneficiaries of the trust are individuals and a 5-Year Method applies if any non-individuals are named as beneficiary (or beneficiaries) of the trust. • If the beneficiaries of a qualifying “Look-Through” trust are subtrusts, each subtrust has one identifiable individual beneficiary, and each beneficiary qualifies as an Eligible Designated Beneficiary, either the Life Expectancy or 10-Year Method may be elected. • Prudential will contact the trustee(s) of the trust designated as beneficiary to obtain the necessary information to distribute the account according to the trust’s election and the plan’s provisions. Trust information provided when the trust was designated as a beneficiary and by the trustee(s) will be used to determine if the trust meets the “Look-Through” requirements listed under Treasury Regulation §1.401(a)(9)-4, Q&A 5. • Default: If there is only one beneficiary of the trust and the beneficiary has not made a timely distribution election for life expectancy payments, Prudential may apply a default election as outlined above for the Eligible Designated Beneficiary. If there are multiple beneficiaries or sub-trusts, the defaults outline above apply.
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Default Administration for Designated Beneficiaries (Individuals):

Beneficiary Type	Payment Guidelines
Designated beneficiaries (individuals) that do not qualify or are not identified as Eligible Designated Beneficiaries	• Only the 10-Year Method applies. The Life Expectancy Method is not permitted. • Prudential will honor any distribution requests from the beneficiary for partial or full withdrawals prior to the end of the 10-year period unless plan provisions prevent such distributions. • Default: If the beneficiary has not made a distribution election, Prudential may apply a default election of the 10-Year Method.

Default Administration for Non-Designated Beneficiaries:

Beneficiary Type	Payment Guidelines
Non-Designated beneficiaries (not an individual, e.g., entities, estates, non-look through trusts, charities)	• If the participant dies post-RBD and the beneficiary is a Non-Designated Beneficiary, then, at a minimum, the non-designated beneficiary must receive annual payments calculated using the participant's remaining life expectancy. Under this method, the beneficiary depletes the account at least as rapidly as the participant prior to his/her death. Prudential will calculate and make payments using this method before the payment deadlines if it has all requested information in good order. • If the participant dies prior to RBD and the beneficiary is a Non-Designated Beneficiary, the account must be depleted by the end of the 5th calendar year following the participant's death. The Life Expectancy Method is not permitted. Prudential will honor any distribution requests from the beneficiary for partial or full withdrawals prior to the end of the 5-year period unless plan provisions prevent such distributions. • Default: If the beneficiary has neither submitted a form in good order nor made a distribution election (e.g., lump sum or installments over 5 years), Prudential may apply a default election of the 5-Year Method if the participant died before their RBD..

Default Administration for Multiple Beneficiaries

When a participant names more than one beneficiary to inherit the account following their death, Prudential divides the benefit and places the elected portion into a separate account for each named beneficiary. Using this method, each beneficiary can make a separate payment election for his/her portion of the benefit.

However, current regulations limit this treatment to accounts that are separated by the end of the calendar year following the year in which the participant died. If Prudential is not notified of the participant's death or is not provided the necessary information about a beneficiary with sufficient time to segregate the account prior to this deadline, Prudential will apply the following guidelines to the non-segregated portion of the participant's account:

Beneficiary Type	Payment Guidelines
All beneficiaries are Eligible Designated Beneficiaries	• Either the Life Expectancy or 10-Year Methods are permitted. If the Life Expectancy Method is elected or required by the plan, the Eligible Designated Beneficiary with the shortest life expectancy will be treated as the sole beneficiary when determining the minimum annual payment amounts. • Prudential will not process life expectancy payments unless the beneficiaries make an election in good order before the required beginning date for life expectancy payments. Prudential will honor any distribution requests from each beneficiary for partial or full withdrawals prior to the end of the 10-year period unless plan provisions prevent such distributions. • Default: If the beneficiaries have not made a distribution election by this deadline, Prudential may apply a default election of the 10-Year Method.
Beneficiaries include at least one Designated Beneficiary but No Non-Designated Beneficiaries	• The 10-Year Method is permitted, but the Life Expectancy Method is not allowed. • Prudential will honor any distribution requests from the beneficiary for partial or full withdrawals prior to the end of the 10-year period unless plan provisions prevent such distributions. • Default: If the beneficiary neither submits a form in good order nor makes a distribution election (e.g., lump sum or installments over 10 years), Prudential may apply a default election of the 10-Year Method.
Beneficiaries include at least one Non-Designated Beneficiary	• If the participant dies post-RBD and any beneficiary is a Non-Designated Beneficiary, then, at a minimum, the non-designated beneficiary must receive annual payments calculated using the participant's remaining life expectancy. Under this method, the beneficiary depletes the account at least as rapidly as the participant prior to his/her death. Prudential will calculate and make payments using this method before the payment deadlines if it has all requested information in good order. • If the participant dies prior to RBD, the account must be depleted by the end of the 5th calendar year following the participant's death. The Life Expectancy Method is not permitted. • Prudential will honor any distribution requests from the beneficiary for partial or full withdrawals prior to the end of the 5-year period unless plan provisions prevent such distributions. • Default: If the beneficiary has neither submitted a form in good order nor made a distribution election (e.g., lump sum or installments over 5 years), Prudential may apply a default election of the 5-Year Method if the participant died before their RBD.

Default Administration for Successor Beneficiaries:

Prudential will apply the following guidelines when a beneficiary dies prior to receiving the full benefit.

Deceased Beneficiary	Payment Guidelines
Eligible Designated Beneficiary	• If both the participant and Eligible Designated Beneficiary died before January 1, 2020 (or later effective date that applies to your plan, as noted in the collective bargaining or governmental plan sections), the successor beneficiary (i.e., the beneficiary named by the Eligible Designated Beneficiary prior to death or the terms of the plan) is subject to the pre-SECURE Act rules and administrative guidelines applied by Prudential prior to enactment of the SECURE Act. • If the Eligible Designated Beneficiary died after January 1, 2020 (or later effective date that applies to your plan, as noted in the collective bargaining or governmental plan sections) the successor beneficiary (i.e., the beneficiary named by the Eligible Designated Beneficiary prior to death or the terms of the plan) must receive the remaining benefit over the 10-year period beginning with the date of the Eligible Designated Beneficiary's death. This 10-year period applies even if the participant died before the effective date of the SECURE Act RMD provisions for the plan. • If the participant's spouse dies prior to the date life expectancy payments must begin and the beneficiary of the spouse is also an Eligible Designated Beneficiary, then the successor beneficiary may elect either the Life Expectancy or the 10-Year Method. If, however, the participant's spouse remarried and named his/her new spouse as their beneficiary, the successor beneficiary (i.e., the new spouse) is not permitted to elect the Life Expectancy Method. • Prudential will honor any distribution requests from the beneficiary for partial or full withdrawals prior to the end of the 10-year period unless plan provisions prevent such distributions. • Default: If the beneficiary neither submits a form in good order nor makes a distribution election (e.g., lump sum or installments over 10 years), Prudential may apply a default election of the 10-Year Method.
Designated Beneficiary	• If both the participant and Designated Beneficiary died before January 1, 2020 (or later effective date that applies to your plan, as noted in the collective bargaining or governmental plan sections), the successor beneficiary (i.e., the beneficiary named by the Designated Beneficiary prior to death or the terms of the plan) is subject to the pre-SECURE Act rules and administrative guidelines applied by Prudential prior to enactment of the SECURE Act. • If the participant died before January 1, 2020 (or later effective date that applies to your plan, as noted in the collective bargaining or governmental plan sections) and the Designated Beneficiary died after this effective date, the successor beneficiary must receive the remaining benefit within 10 years of the death of the Designated Beneficiary. • Prudential will honor any distribution requests from the beneficiary for partial or full withdrawals prior to the end of the 10-year period unless plan provisions prevent such distributions. • If both the participant and Designated Beneficiary die after January 1, 2020 (or later effective date that applies to your plan, as noted in the collective bargaining or governmental plan sections), the 10-Year Method applies to the successor beneficiary, where the end of the 10-year period is the end of the year containing the 10th anniversary of the participant's death. • Prudential will honor any distribution requests from the beneficiary for partial or full withdrawals prior to the end of the 10-year period unless plan provisions prevent such distributions. • Default: If the beneficiary neither submits a form in good order nor makes a distribution election (e.g., lump sum or installments over 10 years), Prudential may apply a default election of the 10-Year Method.



1 Proposed Treasury regulations reflecting the SECURE Act RMD provisions are expected soon. Unless and until subsequent guidance is issued, Prudential will administer RMD provisions in accordance with Code section 401(a)(9) and related guidance and may include issuing an RMD payment without beneficiary consent and/or determining the portion of a lump sum distribution that must be treated as an RMD. Current plan document provisions (e.g., applying the plan's default of the life expectancy method that requires an RMD by December 31 of the year following the participant's death) will be applied to determine a beneficiary's RBD unless the plan sponsor elects otherwise via the directive or the defaults listed in the directive apply because no response is received.

2 This applies when there is one beneficiary, and that individual is an Eligible Designated Beneficiary. When there is more than one beneficiary, Prudential will apply the default administration shown in the section below titled "Payments to Multiple Beneficiaries."

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