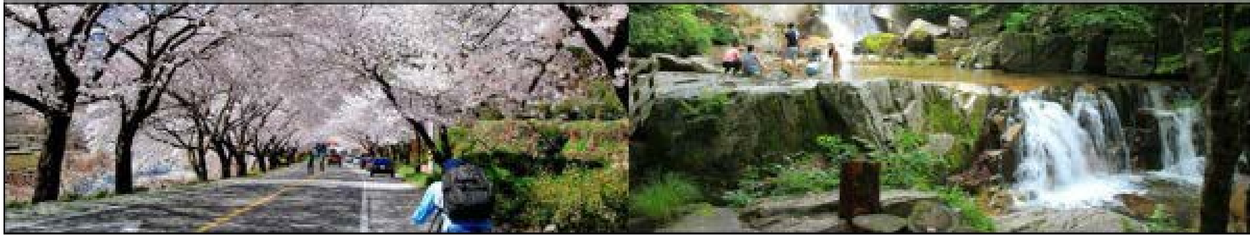

FINANCIAL PERSPECTIVES

ALAR-THE "AT LEAST AS RAPIDLY" RULE
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For deaths in 2020 or later, we know that a non-eligible designated beneficiary (NEDB) of an IRA is subject to the 10-year rule. Meaning, the account must be emptied by the end of the tenth year after the year of death. In its proposed SECURE Act regulations, the IRS takes the position that when death occurs on or after the required beginning date (RBD) – generally April 1 of the year after a person turns age 73 - an NEDB must also take annual required minimum distributions (RMDs) in years 1 – 9 of the 10-year period.

I like to say that if RMDs have been turned on, they cannot be turned off. If the original IRA owner died before the RBD – he was not yet taking lifetime RMDs – then there are no RMDs in years 1 – 9 for the NEDB. Why? RMDs were never "turned on." However, if that same IRA owner died on or after his RBD, that same NEDB would have RMDs in years 1 – 9 of the 10-year period because RMDs had been turned on. (Whatever is left in the account at the end of year 10 is considered the total final RMD.)

This requirement of annual RMDs when an account owner dies on or after the RBD stems from a rule sometimes called the "at least as rapidly" (ALAR) rule. While the ALAR rule does not require the same amount that was taken by the IRA owner to also be taken by the beneficiary, it does require that the process of taking RMDs continue. This is a key point. ALAR is not a function of amount, it is a function of frequency.

Example: Abe, age 80, dies in 2022. The beneficiary of his traditional IRA is his daughter Martha. Martha is an NEDB and will have to take annual RMDs from the inherited IRA for years 2023 - 2031 (years 1-9 of the 10-year period). Also, the entire remaining inherited IRA balance must be distributed by December 31, 2032. Martha will use her own single life expectancy to calculate her initial RMD factor. She is 56 in 2023. The corresponding factor is 30.6. Martha will subtract 1 from this factor in each successive year.

Application of the ALAR rule within the 10-year period has been controversial, and it is possible (but unlikely) that the IRS will change its mind in the final regulations. While the law bounces a reader from legal section to section, the IRS does seem to have justification in the tax code for requiring annual RMDs in this situation. In reference to ALAR, I have been asked more than a few times "Where does the law say that?" Knowing that I am about to take a person on a guided journey through pages upon pages of legislation, my response is the same: "Buckle your seatbelt, because this is long and winding ride."

Of course, the example above is clean and easy. Real life presents countless variables and numerous scenarios. How old was the IRA owner when he died? What was the RMD age then? Was this a traditional IRA or a Roth IRA? Is this a successor beneficiary situation? (Yes, if a beneficiary turned RMDs on, regardless of how old the original IRA owner was, ALAR dictates the successor cannot turn them off.)

As mentioned above – and worth repeating - ALAR is not a function of amount, it is a function of frequency. Overlay this on the 10-year rule, and one will ultimately land on the proper beneficiary payout structure.

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