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Required Distributions to Pension Plan Beneficiaries

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Plan administrators are likely familiar with the *Required Minimum Distribution (RMDs)* rules with regard to pension plan participants, but, similar rules apply to beneficiaries of deceased non-retired participants as well. When a pension plan participant dies prior to retirement, the pre-retirement death provisions of the pension plan will dictate the amount and timing of the benefit payment to a beneficiary. IRS regulations set the minimum timing for when pension payments must be made, but the pension plan document may require a more stringent timeframe.

Spouse beneficiaries can usually defer receipt of their benefit until December 31 of the year the participant would have attained age 70 ½. However, non-spouse beneficiaries may not defer payment that long. Payment of death benefits to a non-spouse beneficiary must satisfy either the five year rule or the life expectancy rule.

Five Year Rule and Required Distributions

The five year rule requires that the death benefit be completely distributed no later than the December 31 of the 5th calendar year following the participant's death. For example, if a participant dies in 2019, the non-spouse death benefit must be distributed no later than December 31, 2024. Payments may be made in multiple intervals or installments (if the pension plan provides) or paid in one lump sum as long as the entire benefit is fully distributed within this five year timeframe.

Life Expectancy Rule and Required Distributions

The life expectancy rule allows for required distributions to be made over the life or life expectancy of the designated beneficiary. To qualify under this rule, pension payments must begin no later than December 31 of the year following the year of death. For example, if the participant dies in 2019, the non-spouse beneficiary must begin receipt of annuity payments under this rule no later than December 31, 2020.

The life expectancy rule can be calculated using two methods: the account balance method or the annuity distribution method. The account balance method requires dividing an account balance (or the present value of the participant's accrued benefit) by the life expectancy factor as prescribed in published IRS life expectancy tables. The annuity distribution method allows for the pension benefit to be paid as an annuity over the life of the beneficiary. The annuity can also paid over a certain period as long as the time period does not extend beyond the beneficiary's single life expectancy.

This article is intended to provide a brief and general overview of the timing requirements for paying death benefits from a qualified pension retirement plan. The rules regarding the amounts and timing of payments to beneficiaries can be complex. *Internal Revenue Code section 401(a)(9)* and associated regulations provide the minimum requirements for distributing participant benefits as well as death benefits from a qualified plan. It is important to remember to review the pension plan's provisions with regard to pre-retirement death benefits as the plan may require distributions to begin earlier than the law requires.

Questions? Contact the Findley consultant you normally work with, or contact Lisa Tomlin at *336.271.2089* or *Lisa.Tomlin@findley.com*.