WORTHNET

Special Report

Combating the Stealth Estate Tax

The SECURE Act's Impact on Inherited IRAs: End of the "Stretch" and the New 10-Year Rule

Presented by Copper Beech Financial Group, in partnership with WorthNet

About the Authors

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John, whose experience in the industry spans more than 40 years, is the firm's founder and architect. Early in his career, he was fortunate to work with and share notes with the managers of some of the prominent family offices of their time – where he quickly recognized that the tools and philosophies that seemed to separate those who'd managed to preserve wealth across generations were not well understood by families earlier in that journey. He built Copper Beech to tackle those challenges and make that view on generational planning accessible to the successful entrepreneurs, savers, and investors whose focus is turning from accumulating wealth and building value to protecting and preserving it.

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Their team works with client families across the wealth spectrum – from $1 million households to $100 million-plus family offices – on the challenges of creating multi-generational wealth, with a keen focus on tax efficiency. They are proud to have been invited into the WorthNet partner adviser network.

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Table of Contents

Introducing the Stealth Estate Tax

There's a relatively new tax law that, for many Americans, acts like a stealth estate tax quietly draining away a chunk of the legacy they thought they'd secured for their families. It doesn't show up on an estate tax return. It's not labeled as such by the IRS. But for households with seven-figure retirement savings, it can have a similar effect: quietly and significantly shrinking what's left to the next generation.

What's more, it specifically targets the most common vehicles for retirement savings — IRAs and 401(k)s. These are the same accounts that millions of Americans have been told are the smart, responsible path to retirement.

And make no mistake: for many, they are still highly strategic tools.

Tax-deferred growth is powerful, and these accounts have helped build over $25 trillion in retirement wealth across IRAs and 401(k)s, according to the Investment Company Institute. But for established savers who began using these tools years ago — long before the rules changed — the landscape may now be dramatically different. The change isn't just technical. For families looking to pass wealth down, the effect can be monumental.

As we'll show below, the cost of this overlooked change could exceed $8 million in lost growth for every $1 million tucked inside an IRA or 401(k), according to a long-term hypothetical analysis (individual results will vary, of course, but it's meant just to illustrate the possibilities of a different tax approach).

Fortunately, there are options. But first, it helps to understand how we got here.

The SECURE Act Changed the Rules

The retirement landscape for heirs changed with the passage of the Setting Every Community Up for Retirement Enhancement Act in late 2019 – better known as the SECURE Act. Tucked into its dozens of provisions was a single rule change that dramatically altered how inherited retirement accounts are taxed.

One of the most significant changes was the elimination of the beloved “Stretch IRA” provision for most beneficiaries. Under those old stretch rules, before the SECURE Act, most non-spouse beneficiaries — typically adult children or grandchildren — were allowed to “stretch” withdrawals from inherited IRAs or 401(k)s over their own life expectancies. That could mean decades of continued tax-deferred growth.

In place of the former stretch rule, Congress introduced a strict 10-Year Rule: most non-spouse inheritors of IRAs now must withdraw the entire account within ten years of the original owner’s death.

The result? A decade of potentially accelerated taxes. Beneficiaries who inherit these accounts now may be forced to realize large sums of taxable income, often during their peak earning years. And the impact of that versus the previous stretch — or versus a tax-free vehicle like a Roth — can be striking.

As of 2024, American households had amassed over $25 trillion in tax-deferred retirement accounts (IRAs, 401(k)s, and similar plans). That’s a staggering pool of future tax obligations. With that much money waiting in the wings, it’s not hard to imagine why lawmakers might have wanted to accelerate when the IRS could start collecting its share.

This shift has profound implications for investors who may have built a significant balance in their 401(k), IRA, or other defined contribution retirement plan and are concerned about the tax efficiency of passing that down to future generations.

In the following sections, we will walk you through what these changes could mean for those investors. We’ll clarify who can still stretch distributions over a lifetime and who cannot, how new Required Minimum Distribution (RMD) rules interact with the 10-Year Rule, and the potential tax consequences of these accelerated payouts. We’ll then explore both basic and advanced strategies that could help mitigate the impact of the 10-Year Rule — from simple timing techniques to more complex estate planning solutions. Finally, we’ll briefly touch on proposed legislative changes (like a potential SECURE Act 2.0) on the horizon – which are not law yet, but worth monitoring.

Is the IRS Your Largest Heir? An Illustrative Example

Before we get into how an investor might mitigate the impact of the SECURE Act on wealth passed to the next generation, it's helpful to understand just how big the potential impact could be.

NOTE: This chapter contains an illustrated, hypothetical example – as do many other parts of this report. These examples are meant to show the relative potential of different strategies for an investor to help you understand the merits and risks of possible alternatives. They are simplified to demonstrate educational points using easy-to-follow arithmetic. They are not case studies of actual client results, nor are they intended to project the returns you might achieve using a specific investment strategy or when working with our team. Also note, unless stated otherwise in a specific example, these illustrations:

- Use nominal dollars only and do not account for inflation.
- Use an example return of 7%. This may not reflect the after-fee return you could expect.

However, we believe it is a reasonable base return to use for two reasons:

1. It makes for easy math to follow. Using the "Rule of 72", wherein you divide 72 by an annual interest rate to estimate the time required for an investment to double, you can see that 72/7% = about 10 years for a hypothetical investment to double in value. So, an investment left for 20 years would nearly double twice over, resulting in roughly 4x the value, and so on through the decades.

2. And, in our opinion, it is a reasonably conservative long-term investment return to use for illustrative purposes, when you consider historically:

    - The long-term 1928-2024 annualized return of the S&P 500 index is 11.79% annually, and 13.55% over the 50 years 1975-2024,
    - The return of 10-year Treasuries over the same periods are 4.79% and 6.51% respectively.
    - A 60/40 portfolio of those assets alone provides for an 8.99% to 10.73% theoretical return before fees and tracking. Your own returns will vary based on many factors. And, of course, all investments involve a risk of loss of principal. However, we believe the 7% base return used in these educational examples provides a grounded perspective on potential impact of one approach versus another within the context of a realistic long-term historical return.

Consider a hypothetical scenario designed to show the potential cost of a post-SECURE Act inherited traditional IRA versus an alternative structure:

- A $2 million traditional IRA is inherited by a beneficiary facing a combined state and federal 40% income tax and subject to the SECURE Act provisions.
- Assuming the account grows at a steady 7% annually.
- And distributions are spread out evenly over ten years.

In this case, **the inheritor would owe roughly $1 million in taxes on those assets** — funds that could otherwise have been left to grow for much longer under pre-SECURE Act rules or had they been invested in a tax-free vehicle like a Roth account or life insurance-based vehicle.

Just how much could they have grown without that million-dollar tax hit? Over a 40-year span, that missing million would result in over $11 million in lost compounding at that modest growth rate.

And that is before considering the additional impact that capital gains and dividend taxes could have on the now-taxable portfolio. Factoring that in — assuming a 15% tax on the full 7% annual gain for the post-tax IRA withdrawal — brings the hypothetical lost earnings to around $16 million. The drag adds up.

The table below illustrates just how much that tax drag could cost over 10, 20, and 40-year periods:

Time Period	Total Taxes Paid	Lost Earnings (Due to Early Withdrawal + Tax Drag)
10 Years	~$1.0M	~$1.6M
20 Years	~$1.5M	~$3.5M
40 Years	~$3.0M+	Over $16M+

(Source: "WorthNet Super Roth Comparison Model 2025-06," see sources section for a link to the calculations.)

Had the IRA achieved a higher long-term growth rate — say 8% or 9% after fees (still less than that 10% average annual return for stocks) — then that opportunity cost could be higher still. Even at what we feel is a modest modeled return of 7%, the number is eye-watering when you take it out over the lifetime of an inheritor who does draw on the principal.

To underscore the example: imagine the same hypothetical investor had instead managed to amass similar savings in a Roth IRA. Over the course of their lifetime, they would have paid more taxes upfront (since Roth contributions are after-tax). But think about what it took to amass $2M at a 7% growth rate.

Using the “Rule of 72” mentioned earlier we can estimate that had the investor made the bulk of their contributions in their 30s and passed away in their 70s, their money would have doubled roughly four times over that period. This means the initial contribution needed to be only about $125,000 to reach $2M. At the same high tax bracket, that initial contribution’s tax deduction was roughly $45,000. Not very large compared to the long-term value difference of being able to withdraw at a future rate of 0%.

There are many good reasons to save on tax today versus thinking longer-term: maybe you need the capital now (as many of us at that life stage do), or maybe you think you’ll be in a lower tax bracket in the future when you plan to withdraw the balance, and you could gain from that arbitrage.

But, if you knew the difference could climb into the tens of millions for your heirs, would you maybe make different choices?

Our illustration takes the assumption one step further than the Roth: showing what could happen not only if you could eliminate the SECURE Act’s 10-year tax acceleration, but also further shield the principal from taxes across your heir’s lifetime, too. Throughout this report, we delve into potential ways to reduce or even eliminate exposure to these tax burdens – each with its own use cases, pluses, and minuses. One such example, which we dub the ‘Super Roth’ strategy, has the potential to do just that for qualifying investors, potentially creating up to three generations of tax-free growth and withdrawal. It isn’t a fit for everyone – with higher minimums and costs than some of the more common strategies which have to be considered. But where it is, and if you take a sufficiently long-term view, as our hypothetical shows, the impact versus the alternative of using a traditional IRA or 401(k) alone can be stark.

If you think that you may outlive some of your retirement savings assets and hand them down to the next generation, we hope this illustration shows tackling that question early could reshape how you think about retirement savings.

The Importance of Future Tax Rates

If you think your future taxes (or your heirs' taxes) will be higher than they are today, the math strongly favors using non-deductible, tax-free savings vehicles (like a Roth IRA or life-insurance-based strategy) over traditional tax-deferred accounts – assuming the same after-fee returns.

That's because, in purely mathematical terms, the tax rate is "transitive": the outcome is the same when the tax rate remains the same at both the contribution and withdrawal stages. For example, imagine a traditional vs. a Roth IRA, if you could make a one-time contribution in the same amount:

- $100,000 in deductible contributions to a traditional IRA, left for 40 years: $100,000 doubling 4 times (2^4 = 16) ≈ $1,600,000… minus 37% taxes (×0.63) ≈ $1 million and change.
- $100,000 into a Roth, left for the same 40 years: $100,000 minus 37% tax = $63,000 (initial after-tax contribution), doubling 4 times (≈16×) ≈ the very same $1 million and change (tax-free).

In this scenario, if the tax rate is the same now and later (37% in this example), you end up with the same result (~$1M).

But if the future withdrawal-time tax rate is lower than when you made your deductible contributions, say 24% (as is the federal rate currently on $200,000 to $400,000), you'd come out ahead with the traditional account: you'd net roughly $1.13M after tax in the traditional vs. $1M in the Roth.

Conversely, if it's higher, say 45% (as in some high-tax jurisdictions, like US states with a high tax rate or many EU countries like Germany, France, Spain, Italy and Norway), the Roth approach would yield more (~$0.92M vs. $1M).

In short, you only gain from deductible tax deferral if the future beneficiary of withdrawals – be that future you or an heir – pays taxes at a lower rate than you do now. There are many other good reasons to use such tax-deferred accounts (not least, taking advantage of an employer match), but if you are faced with the choice between a Roth and a traditional 401(k) or IRA contribution, it's worth asking: will my taxes (or my heirs' taxes) be higher or lower when it's time to withdraw this money?

The 10-Year Rush

Under the pre-2020 rules, many IRA beneficiaries – especially children and grandchildren (the most common inheritors after spouses, who have some protections from these changes) – were allowed to "stretch" required distributions from an inherited IRA over their own life expectancy. For example, if you inherited a retirement account from your parents at age 40, you could stretch withdrawals over 30-plus years. This stretch strategy kept annual withdrawals (and the associated taxes) relatively low, maximizing tax-deferred growth over potentially decades.

The SECURE Act put a stop to this for most beneficiaries. Now, except for certain eligible individuals we'll outline shortly, inherited IRAs must be fully emptied by the end of the 10th year after the original owner's death. In other words, if you inherit a sizeable IRA today (the rule took effect for deaths in 2020 and later), you generally have ten years to get all the money out of the tax-deferred account – whether you take it in pieces or in one lump sum at the end of that period.

The downside for heirs inheriting a sizable IRA is a potential "income rush" – large inherited IRAs now force income to be recognized over a much shorter timeframe than before, which can push beneficiaries into higher tax brackets and increase taxes owed.

Example: If an IRA owner died in October 2024, under the 10-Year Rule the beneficiary must withdraw the entire account by December 31, 2034[4]. It doesn't matter if the account is $200,000 or $20,000,000 – ten years after the year of death, it must be fully distributed (unless you fall into a special exception discussed next).

Even if the income from that $20M IRA is spaced out as much as possible, the inheritor would still be well into the top current tax bracket for a sizable chunk of each withdrawal. There are some optimizations that can be done during that rush period (which we'll get to shortly), but the most sizeable impacts generally come from planning ahead.

Eligible vs. Non-Eligible Designated Beneficiaries (Who Can Still Stretch?)

Not all beneficiaries are treated the same under the SECURE Act. The law carves out a class of **"Eligible Designated Beneficiaries" (EDBs)** who are allowed to take distributions over their life expectancy (essentially continuing to stretch) rather than being forced to use the 10-year payout. All other designated beneficiaries are considered **"Non-Eligible Designated**

Beneficiaries" (NEDBs) and must abide by the 10-Year Rule.

Eligible Designated Beneficiaries include only five specific categories of people:

- **Surviving Spouse** of the account owner. A spouse beneficiary has special options: they can do a spousal rollover (treat the IRA as their own) or remain as beneficiary. In either case, a spouse is an EDB who can still stretch distributions over their lifetime if desired.
- **Minor Children** of the account owner. Only the decedent's own children under the age of majority qualify (not grandchildren, nieces/nephews, etc.). For these minor children, the stretch is temporary – they can take RMDs based on life expectancy until reaching the age of majority (age 21 under the SECURE Act's definition), at which point the 10-Year Rule kicks in and the remaining balance must be distributed within ten years of that birthday.
- **Disabled Individuals.** The IRS definition applies (generally, unable to engage in substantial gainful activity due to a medically determinable condition). Such beneficiaries can take distributions over their life expectancy.
- **Chronically Ill Individuals.** Typically, this means someone who meets the requirements of IRC Section 7702B(c)(2) – for example, being unable to perform at least two activities of daily living, with the condition expected to be indefinite. These beneficiaries may also stretch payments over their lifetime.
- **Individuals Not More Than 10 Years Younger** than the account owner. This is often a sibling around the same age as the decedent, or a friend of similar age. If you're in this group (within a 10-year age difference), you are an EDB and can use life-expectancy RMDs instead of the 10-year payout.

In addition to individuals, certain trusts can be treated as EDBs if all the trust beneficiaries qualify (for example, a trust for the sole benefit of a disabled person). These "see-through" trusts are a complex topic on their own, but the key takeaway is that simply naming a trust doesn't avoid the 10-year rule unless all that trust's beneficiaries are eligible individuals.

Everyone who doesn't fit the above EDB profile is a Non-Eligible Designated Beneficiary. Most adult children and grandchildren will be NEDBs, as will other relatives, partners, and friends more than 10 years younger than the owner. For NEDBs, the law is clear: the entire inherited account must be distributed by the end of the 10th year after death.

There is no annual RMD requirement for NEDBs if the original owner died before their own RMDs had begun (more on that nuance next), but the 10-year time limit still applies in all cases.

It's worth mentioning **Non-Designated Beneficiaries** as well – these are entities like estates, charities, or certain trusts that don't count as "designated" persons. Non-designated beneficiaries were never allowed to stretch; they follow pre-SECURE Act rules (generally a 5-year payout if the owner died before RMD age, or based on the decedent's remaining life expectancy if the owner died after RMD age). In short, if you name your estate or a non-qualifying trust as your IRA beneficiary, the stretch was never available and still isn't – typically those situations result in faster payouts (five years) than even the 10-year rule, unless a look-through trust structure is used.

Key Point: For the vast majority of individuals inheriting IRAs – particularly grown children inheriting from parents – the stretch IRA is gone. Only spouses and a few other eligible beneficiaries can still take inherited RMDs over life expectancy. Everyone else faces the 10-year liquidation deadline.

RMD Rules Under the 10-Year Rule: Understanding the Timing

A common question we hear is: *"Do I have to take out a little each year for ten years, or can I wait and take it all at the end?"*

The answer, like so much in taxes, is nuanced: it depends on whether the original account owner had begun their own required minimum distributions (RMDs) before they died. The SECURE Act's 10-Year Rule always mandates that the account be empty by the end of 10 years – but the pattern of withdrawals within that period can vary.

If the original owner died **before** their Required Beginning Date (RBD) — in other words, they passed away before having to start RMDs (for most people today, RBD is April 1 of the year after turning age 73) — then the beneficiary does not have to take annual distributions during the 10-year window. This rule is often called the "10-year rule, no RMDs." You could take distributions in any years you choose, or even take nothing until a lump sum in year 10. As long as the entire account is emptied by December 31 of the tenth year following the year of death, you've complied.

If the original owner died **on or after** their Required Beginning Date (i.e. they were already taking RMDs), then the IRS requires that the beneficiary continue taking RMDs each year 1 through 9 of the 10-year period in addition to fully distributing whatever remains by the end of year 10. In essence, the old stretch IRA annual RMD schedule still applies during the 10-year

window, but only as a minimum floor – the account still must be emptied by the tenth year. The annual beneficiary RMD in years 1–9 is based on the single life expectancy of the beneficiary (determined from the IRS tables).

The easiest way to think of this rule: if the decedent had begun RMDs, the IRS doesn't want a complete pause on distributions for 10 years. So, they say, "keep taking yearly RMDs as if the stretch were in place – but regardless, everything must be out in 10 years."

If your head is spinning a little, don't fret. These nuances caused a lot of confusion when the SECURE Act first passed. Initially, many believed that no RMDs were required during the 10-year period (and that one could simply take nothing until the final year)[14]. However, in new regulations issued in 2022, the IRS clarified the two scenarios above – essentially imposing annual RMDs for beneficiaries if the decedent was already subject to RMDs. This clarification came after some beneficiaries had already inherited accounts in 2020–2021 and had not taken distributions (believing they could wait until year 10).

To address the confusion and fairness concerns, the IRS issued notices waiving any penalties for missed RMDs by beneficiaries in 2021 and 2022 (and later for 2023–2024 as well). Essentially, the IRS gave a grace period while these rules were being finalized. Starting in 2025, however, the final IRS regulations fully apply the above rules.

If you inherit an IRA from someone who was already taking RMDs, you will need to take at least a minimum distribution each year for years 1–9 of your inheritance and then ensure the account balance is zero by the end of year 10. If the person died before starting RMDs (including all Roth IRA owners, since Roth IRAs have no lifetime RMD), you have the flexibility to take nothing until the tenth year if you prefer.

In either case, the drop-dead deadline is December 31 of the tenth year after the year of death – miss that, and you could face severe penalties (the excess accumulation penalty, which SECURE 2.0, signed into law in 2022, reduced to 25% or 10% in some cases… but still something to avoid).

Notably, the year-of-death RMD (if the decedent hadn't taken it yet) still must be taken by the beneficiary by December 31 of the year the owner died. We have heard of this one catching a few people by surprise. That rule never changed: if Grandpa didn't get around to taking his required distribution in the year he passed, the beneficiary must withdraw that amount (to

"make up" for it) by the end of that year, or face a penalty.

To summarize the timing:

- **Inherit before RMDs began?** No mandated withdrawals until the 10th year (but you may take distributions earlier as you see fit).
- **Inherit after RMDs began?** Annual RMDs required in years 1–9 and full payout by end of year 10.

In all cases, plan to have the account completely distributed by the 10-year deadline.

One more twist (and this is a good one): inherited Roth IRAs. While Roth IRA owners are never required to take RMDs in their lifetime, non-spouse beneficiaries of Roth IRAs are subject to the 10-Year Rule after the owner's death. However, the good part: there's no income tax on distributions if the Roth was held 5+ years.

Since a Roth owner is deemed to have died before their RBD (in fact, there is no RBD for a Roth owner), inherited Roths fall under the "no annual RMDs, just empty by 10 years" paradigm. The smart strategy for Roth beneficiaries is usually to leave the money in the inherited Roth as long as possible (all 10 years) because it's growing tax-free the whole time. There's no benefit to taking Roth withdrawals earlier unless you need the money – the entire balance can come out in year 10 with zero tax after a decade of additional compound growth tax-free. (We'll talk more about leveraging Roth strategies shortly.)

You might think, given the note above on the transitive property of taxes earlier, that it makes no difference whether you take distributions evenly or all at once. Generally, that's not the case, because many investments like stocks, mutual funds and ETFs can distribute dividends and/or capital gains that will be taxed each year once withdrawn. That introduces tax drag and slows the compounding of the investment (like the additional $5M cost of tax drag in our introductory illustration).

In some cases, like the Roth IRA, it makes the most sense to wait that full 10 years to maximize that tax-free growth.

But that's not always the case. Even with that tax drag to consider, you'll see in the strategy details, for non-Roth accounts it sometimes makes more sense to spread the distributions out

over that 10 year period (or even try to start the process before the period begins) as income tax savings on the withdrawals often greatly outweighs any tax drag within that period. But only if the inheritor's tax situation warrants it.

Tax Implications for High-Balance Inherited IRAs

As you may be gathering, for affluent families the end of the stretch IRA is more than just a timeline change – it's a tax event of considerable magnitude.

Under the old rules, a child who inherited, say, a $5 million IRA at age 40 could stretch distributions (and the tax bill) over perhaps 40+ years. The annual required distribution might have been relatively modest in the early years, keeping the beneficiary's tax bracket manageable. Now, under the 10-Year Rule, that same $5 million inherited IRA might need to be fully withdrawn by age 50 – compressing the income into a decade and potentially resulting in very large taxable distributions in what are often the heir's peak earning years.

As mentioned, the compressed 10-year period can push beneficiaries into much higher income tax brackets than they'd otherwise be in. This is especially true for large accounts and successful beneficiaries – in other words, if the IRA balance is substantial and the heir already has a high income from their job or other sources, these forced distributions can stack on top of existing income and trigger top marginal rates.

The stretch IRA enabled inheritors to spread distributions — and the tax impact — across longer periods. Now, that possibility is severely reduced for non-EDBs.

Let's illustrate the tax bite with a simple example: Suppose you inherit a $2,000,000 traditional IRA from our opening example. You are in your 50s and still working, earning $150,000 a year in salary.

Under the 10-Year Rule, you might decide to withdraw roughly one-tenth of the IRA each year for 10 years – that's about $200,000 per year (ignoring growth for simplicity). That extra $200k added to your $150k salary suddenly puts your income at $350k, likely pushing a large portion of those IRA dollars into a higher tax bracket (federal and possibly state). If you're single, the federal rate climbs to 32% at just over $191,950, adding an additional 8% in federal taxes on the amounts above that.

If instead you waited and took the entire $2 million in year 10, you'd add $2 million of taxable

income on top of whatever you earn that year – likely blasting you into the highest tax brackets (37% federal top rate currently, plus any state taxes), costing even more in incremental taxes versus using the full 10 years to take it in chunks.

There are other ancillary tax and cost effects of suddenly recognizing a lot of income in a short period: large inherited IRA distributions can subject more of your income to the 3.8% Net Investment Income Tax, depending on your situation. And if you're over age 63 and on Medicare, high taxable income from inherited IRA withdrawals can drive up your Medicare Part B/D premiums two years later (via IRMAA surcharges).

There are also estate tax considerations. Traditional pre-tax IRAs are "income in respect of a decedent" (IRD), which means they carry an income tax burden to heirs. For very large estates that might also owe federal or state estate tax –the new "Big Beautiful Bill" signed into law in July 2025 raised the federal exemption to $15M per decedent (or $30M for a married couple) – inheriting an IRA can be a double whammy (estate tax and income tax). There is an income-tax deduction for any estate tax attributable to the IRA's value, but that only helps so much. With the stretch IRA gone, some families may see inherited IRA distributions spike a beneficiary's income during what might also be the estate settlement period. This underscores the need for proactive planning if estate tax is a potential issue (for example, using life insurance to pay estate taxes or leaving IRAs to charity – more on these strategies later).

In short, high-balance inherited IRAs can create high taxable income in a compressed timeframe. The new rules don't change the total amount that will be taxed (sooner or later Uncle Sam was going to get his share), but they accelerate that taxation. This acceleration can lead to more of the money being taxed at top rates than if it were stretched out, and it means less time for the funds to grow tax-deferred. If an IRA could have grown for 30 years with minimal withdrawals under the old rules, now it might only grow for 10 years at most before it's fully exposed to taxation in the beneficiary's hands.

However, not all hope is lost – with careful planning, there are ways to mitigate the tax impact of the 10-Year Rule. The remainder of this report focuses on those mitigation strategies and planning opportunities, ranging from straightforward approaches a beneficiary can take to more

advanced strategies that original account owners can implement as part of their estate planning. Before we dive into strategies, some quick estate planning consequences of this change:

- Many **trusts** named as IRA beneficiaries from before these rules need review. In the past, a common setup was a "conduit trust" that would receive IRA RMDs each year and pass them to the trust beneficiaries.

  Under the 10-Year Rule with no annual RMDs (if the owner died pre-RBD), a conduit trust would end up accumulating all the income until year 10 and then paying it all out in one year – perhaps not what was intended. Alternatively, if the owner died post-RBD, the trust will get annual RMDs (which it must pass out), and then a big lump in year 10. Either scenario may defeat the purpose of the trust (asset protection, smoothing out distributions, etc.). As a result, estate attorneys have been revising many trust documents to accommodate the new rules – often switching to accumulation trust structures or accepting the 10-year rule outcomes.

  The bottom line: if you have a trust as an IRA beneficiary, make sure it's updated for the SECURE Act, or you could have unintended tax results.

- **Spousal planning considerations:** For a married couple with large IRAs, previously it was almost always optimal for the surviving spouse to inherit and then stretch over their (often long) life expectancy, giving the kids even more time if they then inherited later. Now, some couples might consider leaving IRAs directly to the children (bypassing the spouse) in certain cases to start the 10-year clocks at different times (more on this in strategies). But bypassing a spouse has its own risks and tax trade-offs (the spouse loses the ability to roll it over and treat it as their own). We'll cover a "double 10-year window" approach in the advanced section.

- **Prioritizing certain beneficiaries:** One quirk of the new rules is that if you have any beneficiaries who do qualify as EDBs (say, a disabled child), those beneficiaries still get the stretch. This creates an opportunity: if your goal is to maximize tax deferral and you have a mix of beneficiaries, you might direct more of the IRA assets toward the EDB (knowing they can stretch distributions) and perhaps leave other assets (like Roth IRAs or taxable assets) to the others. In fact, special treatment for disabled/chronically ill beneficiaries can be a reason to prioritize funding a special needs trust or similar with IRA assets, since that trust can still stretch over the beneficiary's life. This can ensure the most favorable tax outcome for those beneficiaries who qualify, while other heirs might receive assets that aren't subject to such rapid taxation.

Planning Strategies to Mitigate SECURE Act Impacts

We're going to break down our planning into two groups, so you can concentrate on the ones most applicable to your situation:

1. What we'll call "Reactive Planning" for beneficiaries who inherit an IRA and want to make the most of the situation under the 10-year rule.

2. And "Proactive Planning" for future decedents who want to reduce the complications and potentially avoid some of these tax consequences before putting their heirs into the reactive bucket.

"Reactive Planning" for Beneficiaries: Withdrawal Strategies Under the 10-Year Rule
If you're a beneficiary who has just inherited an IRA subject to the 10-Year Rule, you do have some control – albeit limited. Your primary lever is control over when to take distributions within that 10-year window.

This is especially true if the original owner died before RMDs had begun, giving you full flexibility. Even if annual RMDs are required (post-RBD scenario), you often have flexibility above that minimum.

How you time these withdrawals can make a difference in the total taxes you'll pay. Though, as you'll see, it doesn't fundamentally change the tax picture like some proactive options potentially can. Still, should you find yourself in this situation, here are a few withdrawal strategies to consider that might take a bit of the sting out of this particular tax bite:

Delay Withdrawals as Long as Possible

One approach is to **delay distributions until the end of the 10-year period**, letting the assets grow tax-deferred (or tax-free, in a Roth) for as long as you can. This "wait until the last year" strategy maximizes the deferral benefit. It can be especially appealing for inherited Roth IRAs, since no taxes will be due on the lump-sum withdrawal in year 10 – you get a full decade of extra compound growth with zero tax cost.

Waiting can also make sense if you're consistently in the top income tax bracket. If you're a high earner who's going to be taxed at 37% whether you take an extra $50k this year or $500k in ten years, you might opt to let the money grow and just take it at the end (since spreading it out doesn't save you from high brackets – you're in the highest bracket regardless). Another scenario favoring delay is if the inherited account is relatively small compared to your other income – e.g., a $20,000 inherited IRA that might grow to $40,000 in ten years; taking $40k in year 10 might not materially impact your taxes, so why not let it double before taking it?

However, beware the big lump-sum tax hit if the account is large. As discussed, taking a huge distribution in year 10 can push you into much higher brackets. Income compression risk is the major drawback of the "leave it alone" approach. Consider the simple example of an inherited IRA that grows from $250k to $500k over intervening ten years. Withdrawing it all at the end would result in a $500k taxable income in that final year – likely very tax-inefficient compared to taking roughly $35k per year over 10 years (which would keep you in lower brackets).

The point is, you should run the numbers (or work with a tax advisor) to project the tax impact before deciding to wait until year 10. If the anticipated lump sum will shove you into a much higher tax bracket (or have other ripple effects like higher Medicare premiums), a more measured withdrawal plan could save money in the long run.

When leaving it alone makes sense: We already noted inherited Roth IRAs (to maximize tax-free growth) and situations where the beneficiary is already in the top bracket. Another case: if the inherited IRA is invested in assets producing significant ongoing taxable income (like high-dividend stocks or rental real estate via a self-directed IRA), delaying distributions keeps that income sheltered in the IRA for longer. And if the inherited IRA balance is truly small relative to your income (negligible tax impact either way), deferring might be simplest. But in most other situations with sizable accounts, at least some proactive distributions earlier in the 10-year period will be wise to avoid a giant tax bill in year 10.

Spread Distributions Evenly Over the Period

A straightforward approach for many is to simply take distributions periodically over the 10 (or 11) years so that you realize the income gradually. For instance, you might withdraw about 1/10th of the account each year (adjusting for growth) or follow a similar amortized schedule. This prevents the big spike in year 10 and can often keep you in a steadier tax bracket.

An analysis by advisor Jeff Levine (available in the sources below) showed that splitting a large inherited IRA into roughly equal payments over the available years often results in minimal marginal bracket creep. In his example, two beneficiaries taking ~$150k per year from a multi-million IRA found that one beneficiary's top bracket only rose from 22% to 24%, and the other's didn't rise at all (stayed at 24%) because the income was spread out and absorbed into their existing bracket structure. In contrast, taking it all at once would have pushed them into 32% or 35%+. The lesson: smoothing the income can be a very effective tax management technique.

Spreading withdrawals also has a psychological benefit – it can feel more akin to receiving an "income stream" or allowance from the inheritance, rather than suddenly managing a large sum. Some beneficiaries prefer this disciplined approach. It's essentially like opting into a self-imposed stretch (even though legally it's the 10-year rule, you're choosing to mimic the stretch with annual distributions). Just remember to adjust if the investments are growing – 1/10th of the initial value each year won't exactly empty the account by year 10 if there's growth. You might need to take slightly more each year to fully deplete the account by the end.

Expand the Payout Window to 11 Years

This is a nuance, but a useful one: if timing allows, you can spread withdrawals **over 11 tax years instead of 10**.

How? Recall that "Year 1" of the 10-year rule is the year after the owner's death. But you are allowed to take a distribution in the year of the original owner's death as well (there's no prohibition; in fact, you might need to take the final RMD as noted). If the original owner dies early enough in a calendar year, the beneficiary has time to set up the inherited IRA and take a withdrawal in that same year.

You'll need some documentation to effectuate the transfer (including a death certificate, proof of your status as beneficiary, info about the original account, etc.), so it's not just a matter of a few days – but if you have enough time (an experienced advisor might be able to help coordinate it more quickly), the year of death can be treated as "Year 0" for distribution planning. Then you still have Years 1 through 10 in the subsequent years. This effectively gives 11 distinct tax years over which you could spread the income[27].

Not everyone can or will want to take a distribution in the year of death, but it can be a bonus if, say, the owner dies in the first half of the year and the beneficiary is in a low tax bracket for

that partial year. Taking a "Year 0" withdrawal can absorb some income in that low-bracket year, and you still have 10 more years to go. Statistics suggest this opportunity is available in most cases – one commentator noted that if deaths are evenly distributed through the year, over 90% of beneficiaries could have the chance to use an 11-year spread with timely action. Every extra year helps when managing brackets.

Time Distributions for Low-Income Years

Not everyone's income is steady year to year. If you anticipate your income will fluctuate over the next decade, you can time the IRA withdrawals to land in your lower-income years. For example, if you plan to retire in five years, it might make sense to delay heavy distributions until after retirement when your salary drops off. Or conversely, take some distributions now if you're temporarily between jobs or have a business loss to offset – use those low-income years to absorb IRA income at a low tax cost.

- Some scenarios where strategic timing helps: You (or your spouse) will retire or scale back work within the 10-year window. You might defer more distributions until those retirement years when your ordinary income is lower.

- You plan to move to a lower-tax state soon – perhaps from a high-tax state (like New York) to a no-tax state (like Florida) in 2 years. It could pay to postpone IRA distributions until after the move to avoid state income tax on those withdrawals.

- You have a year coming up with unusually high deductions or losses – for example, you're making a large charitable donation in one year, or you have carryforward losses becoming usable. That year could be ideal to take a bigger IRA distribution and use the deductions to offset it.

- Family considerations: maybe your child will be applying for college financial aid in the next year or two. An IRA distribution boosts your income on the FAFSA, potentially reducing aid. In that case, you might hold off on distributions until after the year's aid is determined (assuming you can still fit them in later). Or if a minor beneficiary is subject to the **"kiddie tax"** until age 18 (or 24 for full-time students), it might be beneficial to delay distributions until the child ages out of kiddie tax – so the income is taxed at their lower rate, not at the parents' top rate.

The general principle is: fit the income to the valley years, not the peak years. Over a 10-year span, many people have life events that change their tax picture – retirement, marriage, going

on Medicare (note: IRMAA surcharges look at income with a 2-year lag), selling a business, etc. To the extent those are knowable changes, you can plan the IRA withdrawals around those events. If you know you'll have, say, two or three low-income years in that decade, you can concentrate larger distributions in those years and perhaps take minimal distributions in the high-income years. Just remember you must get it all out by year 10 – you can't postpone everything indefinitely. It's about shifting and bunching distributions into the most tax-efficient windows available.

In summary, as a beneficiary under the 10-Year Rule, you have some latitude to manage the timing of income (within the constraints of the final deadline and any annual RMD requirement) and can do a bit of optimization to ensure you don't pay more taxes than necessary. Whether you delay, average out, or tactically time the withdrawals, the goal of each strategy is simply to minimize taxes by avoiding unnecessary bracket spikes. But this is mere "damage control" after inheriting. Next, we'll explore more proactive strategies for IRA owners who want to plan before passing on their IRA, to reduce the burden on their heirs.

"Proactive Planning" for IRA Owners: Strategies to Mitigate the 10-Year Rule's Impact

If you're an IRA owner concerned about how the 10-Year Rule will affect your heirs, there are several planning moves you can consider now to improve outcomes later. These range from adjusting your beneficiary designations to more significant shifts like converting your IRA or leveraging insurance and trusts. Unlike beneficiaries who are in reactive mode, as the account owner you have the benefit of strategizing in advance. Here are a few strategies – from simple beneficiary tweaks to advanced estate planning techniques – that can help soften the blow of the stretch IRA's demise for your future heirs.

(Note: This is by no means a comprehensive list. Wealth managers have many tools to choose from, many of which are highly situational; we're covering just a few of the ones we see widely deployed in our practice and throughout the industry. Some of the tools discussed below can be very nuanced, with "gotchas" we'll do our best to highlight but are simply too detailed to cover in full here. As our disclosures lay out, nothing here is personalized investment, tax or legal advice or a recommendation for your specific situation – it is for educational and informational purposes only.

We highly encourage you to consult a professional before undertaking anything but the most

straightforward of these strategies. We would be delighted to be those professionals for many of you. If you're ready to discuss with our team, see worthnet.com/copper to schedule a consultation.

Whether you work with us or take this knowledge to your own advisors, we hope this analysis helps you understand just how many tools there are to structure a tax-efficient inheritance, even for those well below the traditional estate tax's high hurdles – and inspires you to work with someone who has a command of these options and experience implementing them if you aim to minimize the IRS's share of your estate.)

We'll start with the very straightforward (though often overlooked), and progress to the most advanced.

Name More Beneficiaries

This may sound obvious, but if you can't stretch over time, stretch over more people. By naming more beneficiaries to share an IRA, you effectively spread the taxable distributions among multiple individuals – ideally keeping each person's portion smaller and in lower tax brackets. For example, our example $2 million IRA left all to one son will dump the full $2M of income on him over ten years. But if that $2M is divided among, say, four grandchildren (or two children and some grandchildren), each beneficiary is only dealing with their fraction of the account. Their respective 10-year windows run concurrently, but each only has perhaps ~$500k to pull out, not $2M. This can significantly reduce the marginal tax rate each person pays.

- Illustrative example: An 80-year-old with a $2 million IRA initially planned to leave it 50/50 to his two adult children.

- Given the SECURE Act changes (and that those children are in their peak earning years), he might revise to leave, say, 35% to each child and 30% split among grandchildren.

- His children now inherit a smaller portion each, which they can manage in their tax bracket more easily, and the grandkids each get a piece. (If those grandchildren are minors, see note below on the kiddie tax – the situation has to be evaluated carefully.)

The total family tax paid could be lower when more taxpaying entities (especially if some are in lower brackets) share the income.

Caution: This strategy may work best when additional beneficiaries are adults or otherwise taxed at their own (lower) rates. If you add very young beneficiaries, be mindful of the kiddie tax, which taxes a child's unearned income (over a small allowance amount) at the parents' top rate. In such cases, naming a minor grandchild doesn't really achieve a lower tax outcome – the grandchild's withdrawals could be taxed like the parent's income, wiping out the intended benefit.

Also, involving many beneficiaries can complicate estate planning: you must consider fairness and whether you truly want to leave assets to more people. This should align with your legacy goals, not just be done for tax reasons.

Still, it's a valid approach: if your primary goal is minimizing the tax bite, spreading the inheritance among several individuals (who each get their own 10-year window) can reduce income concentration. Think of it as having multiple parallel 10-year stretches. That said, it only works if the net effect is to lower the effective tax rate. If your IRA isn't large enough to cause bracket-busting effects when divided, or if all your beneficiary options are already in high marginal brackets, look elsewhere.

Unequal Inheritances Based on Beneficiaries' Tax Brackets

Traditionally, many parents split their estate equally among children for fairness. But "equal" isn't always equitable after taxes. With inherited IRAs now causing accelerated taxation, you might consider leaving more of the IRA to heirs in lower tax brackets, and less to those in higher brackets, to equalize the after-tax inheritance.

Similarly, you could allocate more Roth assets (tax-free to heirs) to high-tax-bracket children, and more traditional IRA (taxable) assets to lower-tax-bracket children. The result can be a more balanced outcome once taxes are considered.

For example, if you leave each child an equal $500k from your traditional IRA, a high-earning child might net much less after tax than a sibling in a low bracket (since 37% of the high earner's inheritance will go to taxes, versus maybe 12% of the lower earner's). The total family wealth retained is lower in that case.

Instead, you could leave a larger portion of the IRA (or perhaps all of it) to the lower-tax-bracket child, and compensate the high-tax child by leaving them other assets (like Roth accounts or after-tax brokerage assets) of equivalent after-tax value.

As always, we like to provide a little math to show the potential impact. Imagine:

- A mother's estate contains $400,000 in a Roth IRA and $500,000 in a traditional retirement account subject to the 10-Year Rule.
- She has two children: one is a high earner in the 37% bracket; the other has modest income in the 12% bracket.
- If she splits the assets equally, each child receives $200k tax-free from the Roth, and the $500k traditional IRA is split such that each pays their own taxes, arriving at a blended effective tax rate of let's say ~24.5% on $250k each.
- If instead she left the entire Roth IRA to the higher-earning child and the entire $500k traditional IRA to the lower-tax child, the lower-tax child's effective rate on the IRA might drop to ~20%, retaining more family wealth.

The tax savings could be on the order of $20k–$25k in this simplistic scenario — not huge, but not insignificant either.

Of course, doing this requires comfort with leaving unequal dollar amounts to your heirs and explaining why. We often counsel clients to communicate their intent to the family if they choose this route – make sure the kids understand that different amounts don't reflect favoritism, but rather thoughtful tax planning to maximize the benefit for everyone.

Having an open conversation (perhaps facilitated by your estate attorney or financial advisor) can prevent hurt feelings. Additionally, circumstances can change – one child's tax situation may evolve, so if you employ this strategy, be prepared to revisit your plan periodically and update beneficiary designations or bequests as needed.

It does add complexity; some families decide it's not worth the potential perceived inequity or hassle. But from a purely financial perspective, targeting IRA assets to the family members who can absorb them at the lowest tax cost can increase the total after-tax legacy.

(A related advanced strategy is to use a trust or estate plan to achieve the same effect: for example, leave all your traditional IRA to a trust that divides distributions in a tax-aware way among beneficiaries, or leave instructions that one heir's share of the IRA is used to "equalize"

after-tax amounts. These require careful drafting by an estate attorney, and a trustee willing and able to execute those wishes. But it can hardwire the tax-aware approach.)

Bypass the Surviving Spouse at the First Death (Two 10-Year Windows)

Married couples with large IRAs who do not anticipate needing direct access to the funds can consider this creative strategy: instead of the default of leaving your IRA to your spouse, consider leaving some or all of it directly to your children or other final beneficiaries upon the first death.

Why? This can potentially create two separate 10-year periods – one starting at the first spouse's death, and another starting at the second spouse's death. In effect, the heirs could get up to 20 years to spread distributions (10 years after each parent's death, sequentially).

How it works: Suppose each spouse has retirement accounts. If Wife dies and leaves her IRA directly to the kids (bypassing Husband), the kids' 10-year clock for that inherited IRA starts at Wife's death. Say Wife dies in 2025, so the kids have until the end of 2035 to take out her IRA. Husband is still alive and has his own IRA. When Husband later dies – perhaps in 2030 – and leaves his IRA to the kids, another 10-year clock starts for the second inheritance, lasting until 2040. The kids thus effectively have a 15-year span (2030–2040) where they are dealing with distributions from two inheritance clocks overlapping a bit, but the first inheritance had an extra early start from 2025–2035. If Husband lives more than 10 years after Wife, the two 10-year periods barely overlap (or not at all), giving the children a full 20-year span over which they receive the two sets of inherited IRA distributions. Even if the surviving spouse lives only a few years, you've still "bought" some extra time beyond a single 10-year period.

This strategy may work best when: (1) The surviving spouse doesn't need all of the first-to-die's IRA for living expenses – you're essentially accelerating the children's inheritance of that portion. If the surviving spouse can live on other assets or their own retirement accounts, it's more feasible to bypass. (2) The children (or other beneficiaries) are in a lower tax bracket than the surviving spouse. If the spouse is older and possibly in a lower bracket than the high-earning kids, it might still make sense for the spouse to inherit and defer taxes (the spouse could stretch over their life or roll it to their IRA). But if the kids are in lower brackets than the parents, getting the money to the kids sooner may result in distributions taxed at the kids' lower rates over the extended timeframe.

There are a couple ways to implement a spousal bypass. One is simply to name the kids (or a trust for them) as primary or co-beneficiaries on the IRA. Another is via a disclaimer – name the spouse as primary but with the understanding that the spouse will disclaim (refuse) the inheritance, causing it to pass to contingent beneficiaries (the kids).

(Note: a disclaimer must be executed within 9 months of death, and the spouse can't have benefited from the account in the meantime, so it requires careful coordination – it's proactive in the sense that you plan the option in advance, even though the decision is made post-death. We include it in the proactive section because thinking ahead makes it more feasible.)

Some people choose the disclaimer route to keep flexibility: if at first death the surviving spouse determines they do need the money (maybe the first spouse died earlier than expected or coincidentally mistimed with a market downturn or other event), they can accept it; if not, they disclaim to give the kids two windows.

If you go this route, it's crucial to have updated beneficiary forms (with contingents listed) and to get professional advice. A botched disclaimer or missing contingent could throw everything into the estate, potentially invoking the 5-year (or "ghost" life expectancy) rule and having the opposite of the intended effect.

The potential downside to bypassing a spouse is losing the spousal rollover and deferral. A spouse who inherits can roll the decedent's IRA into their own and potentially stretch over their own lifetime (since a spouse is an EDB). By bypassing, you forgo that longer deferral for the couple as a unit. The math will differ, of course, if the surviving spouse is 55 versus 85, for example.

This strategy tends to make sense when the spouse has ample other assets or when the collective goal is truly to maximize post-tax value for the kids. It's an advanced strategy and definitely not right for every family, but it's one to discuss if you have very large IRAs and are looking at a potentially large tax hit for the kids in a single decade. With two sequential 10-year periods, the effective stretch is longer, giving more flexibility to manage withdrawals.

Moving Beyond Timing: Advanced Proactive Strategies for Avoiding 10-Year Rule Taxes

Up until now, every technique we've talked about is a pivot on the same theme: maximize the deferral period by gaming the 10-year rule's nuances. And while some of those techniques can

have a sizeable impact, especially the double window concept, they are limited by their nature of simply arbitraging rates on and delaying the arrival of the inevitable tax bill.

What if, instead, you could avoid that inevitable tax bill altogether?

While there are trade-offs and current tax considerations to balance, we have found that with effective (and especially early) planning, you can minimize or even eliminate that 10-year tax bill. As the math in the introduction to this report showed, this can have a significant impact on long-term wealth generation. And while it can sometimes mean paying slightly higher taxes now, we find for those families who can bear that brunt, they often choose these tools when they see how the long-term math works out. And we say slightly because those bills apply only to the contributions to such qualified plans, or amounts converted in the case of our first such avoidance strategy, which are relatively low. But some of these tools allow for much, much higher contribution limits while achieving similar tax-advantaged effects to a Roth IRA's powerful tax-free status.

And the first of those tools is the Roth IRA itself…

Convert Traditional Retirement Assets to Roth

A very powerful strategy for many IRA owners is to convert some of your traditional IRA to Roth IRA during your lifetime, thus pre-paying taxes now so that your beneficiaries won't have to later.

Now, if you remember that transitive property from earlier in this report, you might recognize that simply pre-paying taxes doesn't net you any financial benefit, if the tax rates remain the same. It could even end up turning out worse if your future heirs pay taxes at a higher rate than you do now. Which is why this is categorized as an advanced strategy – as there are a couple of important nuances to understand before you run this route. If you get those nuances right, however, it can provide benefits to be taxed now versus later.

The appeal of this option is that Roth IRAs are not subject to income tax when distributed to heirs (if the 5-year aging rule is met). By doing a Roth conversion, you remove the income tax burden for your beneficiaries by taking the hit now yourself.

If you manage the process effectively – typically by doing a series of partial conversions over

multiple years – you can avoid pushing yourself into a very high bracket in a single year (which would defeat the purpose).

The logic goes like this: under the new rules, your kids might have to take, say, $2M of IRA income in a decade on top of their other earnings, potentially paying 35–37% tax on much of it (assuming rates stay similar and, as we cautioned, you should consider what the future may hold there).

If you instead convert that $2M to a Roth during retirement while you're perhaps in the 24% bracket, you lock in that lower rate (paying the tax each year you make a conversion), and your kids inherit a ~$1M Roth that they can withdraw tax-free over 10 years. Ideally, they'd wait and take it at the end to maximize tax-free growth, as Roth inheritors have no RMDs (plus waiting ensures all funds meet the 5-year aging requirement so that withdrawals are tax-free). Essentially, you're trading a smaller upfront tax for a larger avoided tax down the road. Roth conversions also shift assets from "tax-deferred" to "tax-free," which is generally beneficial if the future tax rates on those assets would have been higher than current rates.

Key considerations for Roth conversions:

- **Do it when your tax rate is lower than your beneficiaries' expected rate.** This is the big one – if you're in a high bracket and your kids will be in a low bracket (perhaps they are early career or have lower income), converting might actually increase total taxes. But often parents are in equal or lower brackets, especially in early retirement before RMDs or before Social Security kicks in. Those can be prime years to convert.

- **Spread conversions over years to maximize bracket "fill."** For example, if you can stay in the 24% bracket by converting $100k per year for 5, 10, or even 20 years, that might be better than one giant conversion that pushes you into the 32%+ brackets. The idea is to "use up" your lower brackets each year. We often run multi-year tax projections to find an optimal conversion schedule.

- **Watch for Medicare and other impacts.** Conversion income is still income – it can cause two-years-later Medicare IRMAA surcharges or make more of your Social Security taxable, etc. But these are usually manageable if planned (and may still be worth the trade-off).

- **Estate tax synergy.** Paying conversion taxes shrinks your taxable estate, since you're using up assets to pay tax (for example, if you convert a $5M IRA to a Roth, its new value in your estate might be ~$3M post-tax, helping $2M in other assets like a business or real estate fall below

estate tax thresholds). If you are in estate tax territory, that can be a minor bonus. (Note: Roth IRAs are still part of your estate for estate tax; they just have no income tax due. By paying the income tax before you pass, you shrink the total estate value.)

- **Heirs still have the 10-year rule, but no RMDs during that period.** Your beneficiaries will still have to empty the Roth in 10 years, but as noted, the typical strategy is they wait until the 10th year and then withdraw the whole Roth – owing $0 tax. They get a decade of compounding with no RMDs and no taxes. Compared to a traditional IRA inheritance, avoiding those interim RMDs alone can be its own tax benefit.

If done thoughtfully, a Roth conversion can achieve some of the tax-rate arbitrage of the above reactive strategies with less stress and complication for your future heirs. And the earlier it's done, the higher the potential impact – because paying the taxes now and then enjoying a longer deferral period without RMDs (within your lifetime and then within the 10-year window) can potentially help assets compound longer without the bite of taxes.

The "Backdoor" Roth Contribution

If you start your planning early enough, there are added benefits to making transfers from a traditional to a Roth IRA while you are still in the contribution phase of building up your retirement accounts.

Popularly known as the **"backdoor" Roth**, the term doesn't imply anything questionable about the strategy. This perfectly legal and widely used approach picked up its moniker because it allows investors to fund a Roth IRA using transfers from a traditional IRA – even when the "front door" of contributing directly to a Roth is closed due to income limits. In essence, a backdoor Roth lets someone with high income fund a Roth via a two-step contribute-and-convert process. But it's only beneficial for those with certain account setups. Because when you make a transfer from a traditional IRA to a Roth, the amount transferred is taxed in two parts:

- The portion of the funds up to the total of your **lifetime contributions** to the traditional IRA is taxed pro rata according to the total percent of funds in all your traditional IRAs that were deductible contributions. For example, say you have a traditional IRA you contributed $100,000 to over your life, half of which was done in years you qualified for (and took) a deduction. You also have a rollover IRA from a former job's 401(k) with a contribution base of $200,000 (all taken pretax from your paycheck). Then when you make a transfer of any amount up to that $300,000 total, that transfer amount is taxable pro rata to the total of

$50,000 in non-deductible contributions and $250,000 in pre-tax contributions. So, 5/6th of that money is subject to income tax at the time of transfer.

- Once you've withdrawn your basis (the non-deductible contributions), any earnings on top of that basis are taxable as ordinary income at the time of transfer as well. So, if that $300,000 basis has grown to $1 million, then a full transfer in one year would result in $950,000 of taxable income ($250,000 pretax basis + $700,000 in earnings).

The opportunity here is that if you have a limited pretax basis in traditional IRAs, then you can transfer contributions to a Roth without paying any additional tax. This allows you to effectively contribute your IRA limit to a Roth each year by contributing to a traditional IRA, then immediately (or soon thereafter) converting it to a Roth.

This works out well if you have most of your qualified savings in a 401(k), 403(b), or other qualified non-IRA plan. Only the balance in traditional IRAs factors into that pro rata calculation. So, while it's popular to roll over assets from former employers' plans to an IRA for simplicity or better investment options, you might want to consider if someday you might benefit from a "backdoor" contribution to a Roth IRA before doing so – because assets left in that 401(k) are not part of the pro rata calculation. In fact, more and more 401(k) plans allow rolling into the plan, meaning if you have such a plan (even if you're no longer at that employer), you may be able to transfer any deductible assets from your IRA into that 401(k), effectively eliminating any pretax balance in your IRAs and opening up the backdoor Roth contribution to you.

If the backdoor is available to you at a low to zero pro rata level, you can contribute up to the IRA limits in non-deductible contributions (as of this writing, $7,000 per person under age 50, and $8,000 for age 50+ with "catch-up" rules). Then you convert those funds to a Roth, paying tax only on any small gains that occurred in between.

Ditto for the **"mega backdoor Roth"** using a 401(k) plan: some plans allow after-tax contributions above the standard deferral limit, which can then be transferred to a Roth IRA or a Roth 401(k) balance. The "mega" part comes because tax rules allow up to ~$70,000 per year into a 401(k) plan (including employer contributions), and if you max out normal contributions (~$23,500 in 2025, plus catch-ups) and any employer match, the rest of that space could potentially be after-tax contributions that are then converted to Roth. The specifics depend on your plan's rules, but the key is, if you're high income and want to funnel more money into a tax-free vehicle, backdoor and mega-backdoor Roth techniques can be valuable tools.

Whether you add to your already-maximized pretax savings or shift contributions to add tax diversity to your nest egg, there's great value in being able to contribute money to a tax-free vehicle, allowing assets to grow without tax drag over your lifetime nor face a long-deferred bill in the future.

And when it comes to maximizing tax-free growth, the Roth is not the only game in town…

"Super Roth" Life Insurance Strategy

Another approach gaining popularity is using custom-designed permanent life insurance as an alternative savings vehicle to an IRA. We sometimes nickname this a "Super Roth" strategy because life insurance, like a Roth, can provide tax-free payouts and isn't subject to RMDs. We recognize that many people have been pitched (or even sold) forms of permanent life insurance, like whole life or universal life, over the years with mixed results. Those policies often have significant drawbacks – like high surrender charges (due largely to the high commissions paid to the salesperson), limited actual cash value (same reason), and highly restrictive investment options.

We are talking about a different animal here and want to be clear on that before anyone runs out to buy a policy off the shelf to try to recreate this. Permanent insurance comes in many flavors, and while it is not universally beloved among practitioners, when we design such a strategy, we generally use a commission-free insurance product designed for use by registered investment advisers like us (and certain other financial professionals). These products have no surrender charges or lock-up period, providing the ability to change tack when needed at little or no cost (especially compared to the costs of changing between qualified retirement plans with their early withdrawal penalties). Their cash value also tends to be very high and ongoing fees (mostly the cost of insurance itself) low enough that – when coupled with a wide variety of mutual-fund-style investments and even options to invest in private market investments (from alternative funds to direct real estate) – they can provide competitive returns with the added benefits of tax-free investing and no preset limits on contributions.

The idea behind the tool is simple: the death benefit from life insurance will be income-tax-free to your heirs (and, if held in a properly structured trust, can be estate-tax-free as well). In essence, you're converting – or diversifying away from – heavily taxed IRA assets into a tax-free lump sum via life insurance.

What makes this like a "Super" Roth? Consider:

- Roth IRAs have contribution limits and income phase-outs – not everyone can get a lot of money into Roths easily, even with the backdoor options.

- Life insurance, on the other hand, allows large contributions (premiums) with no income limitation; the cash value grows tax-deferred; and the death benefit is tax-free to heirs.

- It matches many Roth benefits (tax-free growth, no RMDs, tax-free distribution) but with few of the Roth constraints.

But that barely scratches the surface on the differences. In addition to higher contribution limits with similar tax-free treatment, different combinations of policies and ownership structures can potentially allow you to:

- **Access during your lifetime.** Should you need access to the funds you contributed, if your trusts are set up correctly to allow it, you can withdraw up to your basis and borrow tax-free against the earnings within the policy.

  The loan is typically at a favorable rate because it's secured by the policy's death benefit; it's a very low-risk loan for the insurer. It has no payments due in your lifetime (though you have the option to pay it down if you wish); the interest just accumulates until the death benefit is paid, which wipes out the loan balance. Loan proceeds aren't income on a tax return, so you are effectively accumulating interest in lieu of paying taxes on those earnings. And, before any borrowing, you can withdraw the sum of your lifetime contributions tax-free (since they were after-tax dollars).

- **Move wealth between generations without losing tax status.** If you insure yourself with the policy, then at the time of your death the policy pays out to the beneficiaries; while the proceeds are tax-free, those assets are now in hands of the trust (a taxable entity) of individual(s). The beneficiaries could then potentially try to implement their own "Super Roth" strategy with those proceeds, but that depends on future laws, insurability, costs, etc.

  But nothing says that a Super Roth needs to insure you, as the funder. Instead, if you insure (say) a grandchild or set of grandchildren, then insurance costs are much lower (letting more of your contribution compound). And, more importantly, your death becomes a non-event for the policy. The tax-free status continues, without assets pouring out like a Roth must

within 10, extending the tax advantages for up to three generations. (Because you get a 'free' 10-year extension on a Roth, if choosing a Super Roth instead you'll want to choose an insured who is likely to significantly outlive that period to realize a net benefit.) **Reduce your taxable estate** by the value of your contributions. If the policy is owned by an irrevocable life insurance trust (ILIT), it can also sidestep estate taxes. The funds used to establish the policy are out of your estate, as is the growing balance is no longer part of it; by contrast, the balance of retirement accounts like a traditional or Roth IRA, despite the latter pouring out tax-free, counts toward your estate tax limits.

The Super Roth strategy may reduce your estate tax exposure more than, say, converting a traditional IRA to a Roth – because it removes the full value from your estate, not just the value of the pre-paid taxes.

- **Minimum returns can be guaranteed.** Since the foundations of the structure are a variable insurance contract, it can often provide a minimum guaranteed return. Meaning regardless of market conditions, your heirs get a set amount (assuming the insurer stays solvent; no investment is risk-free). This relative certainty can be attractive to some families instead of or in addition to an invested IRA that could fluctuate more in volatile markets.

Just like with the Roth conversion strategies, you generally have two funding options:

Reduce your SECURE Act exposure by **converting funds from an IRA** or other retirement account and use the post-tax balance to fund a new, now tax-free plan. To go this route, it's much like a Roth conversion. You calculate an amount to withdraw from your IRA each year (perhaps equal to your RMD, or more depending on how long you expect to be able to stretch withdrawals and your relative tax rates vs. your heirs; mindful of avoiding the early withdrawal penalty if under 59½). Use those withdrawals, after paying the tax, to fund a permanent life policy.

You are, in effect, systematically "draining" the IRA in favor of pouring the value into a life insurance death benefit – much the same as withdrawing via Roth conversion (with the same tax impact today, so you'll want to run the same calculus on likely future rates – and of course there's no guarantee you'll guess correctly).

You get the benefits of timing IRA transfers over your lifetime and funneling those into a Roth-like vehicle. But in this case, unlike a Roth, the account need not "pour out" within 10 years to your heirs – allowing much longer tax-free growth periods if you choose the multi-generational options.

Or, diversify your estate's tax exposure by **putting away additional funds**. With this option, you are not constrained by the contribution limits of qualified retirement plans. If you want to save more in a year than the $70k+ (plus catch-ups) 401(k) limit, for example, or more than a SEP IRA/Solo 401(k)'s combined maximum, you can. There is no income test to be allowed to contribute and no fixed limit on how much you can fund into a cash-value life insurance plan. You do have to be aware of **Modified Endowment Contract (MEC)** rules, which limit the amount you can fund in the first 7 years of a policy without losing the tax benefits. However, those limits can stretch into the hundreds of thousands of dollars per year, increasing with the age of the insured, even on a simple $1M policy. Navigating MEC rules with a professional's help is quite manageable and offers significantly higher practical contribution limits than any qualified plan we know of.

Why, then, wouldn't everyone simply do this instead of a Roth IRA? There is, of course, no free lunch. Some considerations before you jump on the Super Roth bandwagon:

- **Someone needs to be insurable and preferably in good health to get a policy with favorable terms.** Health issues could make this strategy costly or unavailable. (To reiterate our earlier point on preservation of tax benefits across generations: the policy can insure virtually anyone – it could even be a series of policies on various people. That can be your children, grandchildren, a guardian, whoever. If you insure a younger generation, insurance costs are much lower, letting more of your contribution compound, and the tax status can remain unchanged for multiple generations.)

- **Costs and fees can be significant.** Not every policy is a good deal; it requires design by a knowledgeable agent to maximize death benefit or cash value efficiently. Despite the relatively low cost of the custom-designed life insurance products we prefer (compared to retail whole or universal policies), the fees are still generally higher than with a Roth IRA or 401(k) – both because of the cost of insurance (which doesn't apply to those accounts) and sometimes the investment vehicles available in the policy. This can drag on long-term returns, though the exact amount varies widely by circumstance – best to run the numbers for your situation before you decide. In our experience, it's rarely as much as the impact of taxes would be when thinking long term, especially if you're likely to be subject to estate tax.

- **Higher minimums.** Once solely the province of the super-wealthy, the minimum contributions for these accounts have come down considerably in the last 20 years. They are still only available to accredited and qualified investors (if you already have amassed $1M

plus in an IRA though you are in one of those categories). Generally, we find the math only starts to work out well when contributing at least ~$500,000 over the lifetime of the policy; and even more options become available at $1,000,000+ of funding.

- **Policy choice is complex and best managed with a professional.** Again, not all policies are created equal. For example, many traditional whole and universal life policies have high fees and low flexibility. If you end up needing the money for yourself (say for long-term care or because your investments didn't perform and you've tied up too much in the policy), it can be less accessible. So, anticipating possible needs for liquidity, access, convertibility, and other features is best done with an experienced advisor at your side.

For high-net-worth or high-income individuals, a permanent life insurance policy can serve as a supplemental tax-free retirement vehicle without nearly as many limitations, plus some added bonuses (like reduced estate tax exposure) – hence the term "Super Roth."

Charitable Remainder Trust (CRT)

Let us also cover one bonus idea, for the charitably inclined: a Charitable Remainder Trust can be an elegant way to preserve a steady income stream for heirs while ultimately benefiting causes you care about.

In this arrangement, you name the CRT as the beneficiary of your IRA. When you pass away, the IRA transfers into the trust without triggering an immediate income tax bill, because the CRT is a tax-exempt entity. The trust then makes regular payments—either for a set number of years (up to 20) or for the beneficiary's lifetime—similar in spirit to the old "stretch IRA" payouts. The recipients (often children) are taxed only as they receive each payment, with the first dollars distributed typically treated as ordinary income.

When the payment term ends—either at the beneficiary's death or after the specified years—whatever remains in the trust goes to one or more charities you've chosen. IRS rules require that the projected charitable remainder be at least 10 % of the initial amount contributed to the trust.

Because the CRT itself doesn't pay tax, the full IRA balance begins working right away without the immediate haircut of a lump-sum tax. The beneficiaries' tax burden is spread out over time, and in some cases, the present value of those after-tax distributions can be surprisingly close to what they might have received under the 10-year rule—while still leaving a meaningful gift to charity.

Trade-offs:

- A CRT is irrevocable once funded; the principal can't be tapped in emergencies.
- If a beneficiary dies sooner than expected, the remaining assets go to charity—not to the next generation.
- This "disinheritance risk" can sometimes be offset with a separate life insurance policy (often held in a trust) to replace the lost value, though this adds cost.

For the right person, a CRT can closely approximate the benefits of the stretch IRA while channeling a portion of the IRA to philanthropy rather than taxes.

If your charitable goals are significant, it may be worth exploring alongside simpler tactics—such as **Qualified Charitable Distributions (QCDs)**, which allow those over 70½ to give up to $100,000 per year directly from an IRA to charity tax-free.

Many Options to Choose From, Especially if You Start Early

As we mentioned up front, there is simply no way to make a report like this comprehensive. We haven't even begun to touch on many of the even more advanced options, like dynasty trusts. As you can see, there's a wide range of planning opportunities to navigate the post-SECURE Act world.

Keep in mind this is not a mutually exclusive choice. For many families, the question of whether to time distributions, do a Roth conversion, or add a Super Roth into the mix is simply answered: yes. Sometimes the right solution is pursuing multiple paths simultaneously to balance risk and complexity against saving every last nickel.

For instance, you might do partial Roth conversions, buy a life insurance policy with some RMD dollars, adjust your beneficiaries in a tax-aware way, and incorporate charitable planning for a portion. The best mix depends on your specific family situation, asset levels, health, and legacy

goals. The good news is that with informed strategies, you can dramatically reduce the negative impact of the 10-Year Rule on your beneficiaries. It requires proactive planning – which is exactly what we encourage as your family CFO advisors.

Also, remember each tool has a purpose. Often, a diversified approach is best: hold some traditional tax-deferred accounts (maybe to hedge the possibility of lower tax rates in the future or for charitable bequests), hold some Roth assets (for tax-free growth and flexibility), and use insurance or other strategies as appropriate for estate planning goals.

The loss of the stretch IRA has made **tax diversification** more important than ever. The more you can accumulate wealth in vehicles that won't slam your heirs with a huge tax bill in a short period, the better. That means considering Roth accounts, considering life insurance strategies, and perhaps using charitable or trust structures if they fit your objectives. Traditional IRAs are still valuable for your own retirement security (and you should always ensure your needs are met first), but for legacy planning, you now should probably be more creative to achieve what the stretch IRA used to provide by default. As family wealth advisors, we encourage a big-picture review: what mix of assets will give you the lifestyle you want, and how can we optimize the eventual transfer of any remaining assets to the next generation or to causes you care about? The SECURE Act was a curveball, but with knowledge and planning, we can adapt and still hit your goals.

Postscript: Legislative Outlook (SECURE Act 2.0 and Beyond)

It's worth noting that the rules discussed here could evolve further. Congress has continued to refine retirement laws in recent years. In fact, in late 2022 **SECURE Act 2.0** was passed (as part of a larger bill), bringing a host of additional changes for retirement savers. While SECURE 2.0 does not undo the 10-Year Rule for inherited IRAs, it includes provisions that adjust other aspects of the retirement system. For instance, SECURE 2.0 raised the RMD starting age again (to 73 starting in 2023, rising to 75 for those born in 1960 or later). This gives account owners a bit more time before RMDs kick in, which indirectly means beneficiaries might inherit slightly older owners' IRAs that have been deferred longer. But once inherited, the 10-year clock is still the law of the land. SECURE 2.0 also reduced the penalty for missed RMDs (from 50% to 25%, and potentially 10% if corrected promptly) and clarified some technical rules. One change beneficial to spouses: starting in 2024, a surviving spouse beneficiary can elect to be treated as if they were the deceased owner (essentially using the decedent's age for RMD calculations), which in some cases provides a longer stretch for the spouse's inherited IRA than doing a

rollover or remaining a beneficiary – it's a nuanced but welcome option for older surviving spouses. SECURE 2.0 also expanded qualified charitable distributions and created new Roth-related opportunities (like allowing 529 plan rollovers to Roth IRAs for beneficiaries) – showing Congress's ongoing tinkering with retirement incentives.

All that said, none of the recent legislation reinstated the stretch IRA for non-spouse beneficiaries. The 10-Year Rule remains firmly in place. If anything, recent IRS regulations and SECURE 2.0 have cemented how it works (e.g., confirming the annual RMD requirement in certain cases, as discussed) and provided some administrative relief through 2024 during the transition. There have been proposals floated by some policymakers and industry groups to allow a bit more flexibility – for example, suggestions to permit a portion of an inherited IRA to be stretched (e.g., allowing maybe $400k to be stretched and the rest under the 10-year rule), or to carve out broader exceptions – but as of this writing, these are just ideas, not active law. Congress did create one notable exception in Secure 1.0: certain qualified annuities already in payout at death can continue paying over the term of the annuity rather than being forced out in 10 years. But that's a niche scenario.

Looking ahead, we will keep an eye on any new retirement legislation. "Secure Act 2.0" was a big package, and while it didn't change beneficiary rules much, it shows there is appetite in Washington to adjust retirement policy. It's possible that if the pendulum swings, some future law might offer partial relief on inherited accounts (particularly if the 10-year rule is seen as too harsh on middle-class savers with moderate IRA balances). For instance, a future Congress could decide to extend the 10-year rule to a 15-year rule or create a small stretch allowance. Or, conversely, they could tighten things further (though that seems less likely at this point).

The key point is that current planning should be based on current law, with a watchful eye on changes. We've seen how relying on an assumed stretch can be upended by a law change – so we plan with some buffer and flexibility. One way we do that is by building flexibility into estate plans (like using disclaimers or toggling between conduit vs. accumulation trust provisions) and by tax-diversifying assets (so a law change in one area doesn't derail the whole plan). Secure Act 2.0 also introduced numerous smaller changes (catch-up contribution tweaks, new Roth employer contributions, etc.) that are beyond this report's scope, but none that fundamentally alter the inherited IRA challenge we've been discussing. As of now, the 10-Year Rule is here to stay, and families should plan accordingly rather than hope for a legislative repeal. We caution clients not to wait for Congress to fix this – it's wiser to implement available strategies now. If favorable changes come later, we can adjust, and it will be a pleasant surprise.

In conclusion, while we remain vigilant for pending legislation and regulatory guidance, the prudent course is to make decisions under the laws in place today. Our team continuously monitors for updates like IRS notices or new bills (for example, IRS Notice 2023-54 in mid-2023 gave further relief on inherited IRA RMDs for 2024). But rest assured, the strategies discussed in this report – whether basic withdrawal tactics or advanced conversions, trusts, and insurance – are tools we can deploy under existing rules to help protect your family's wealth from unnecessary taxation and accomplish your objectives. The legislative environment will evolve, but with sound planning, we can adapt and continue to thrive in reaching your financial legacy goals.

This material has been presented with a professional yet conversational tone to make complex rules accessible.

We encourage you to consult with your financial, tax, and legal advisors before implementing any specific strategy. The IRS rules referenced are based on our understanding as of 2025, including final regulations.

Keep in mind that individual situations vary – what's optimal for one family might differ for another. At Copper Beech Financial Group, our mission is to serve as your "Family CFO" – helping you understand, organize, and steward your wealth effectively across generations. The end of the stretch IRA was a big change, but with knowledge and proactive planning, you can aapt and still preserve both your prosperity and your peace of mind.

Ready to Turn These Insights Into a Tailored Plan?

Simply complete our 1-minute questionnaire to see if your profile aligns with Copper Beech's focus areas.

Get Started »

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