



Do We Need to Continue Paying RMDs for a Deceased Participant?

Facts

The CEO (and **5% owner**) of our company passed away earlier this year at the age of 73. He started taking his required minimum distributions right on time after reaching age 70 ½. At the time of his passing, he was not married and had no children. He also had not designated a beneficiary under the plan.

Question

What happens with his RMDs now that he has passed away? Do we have to continue paying them?

Answer

The short answer is a resounding “yes.” RMDs must continue to be paid for each year the participant has a balance in the plan. That’s the easy part. Now for the follow up questions:

- How do you calculate the RMD?
- Where do you send it?

Calculating the RMD

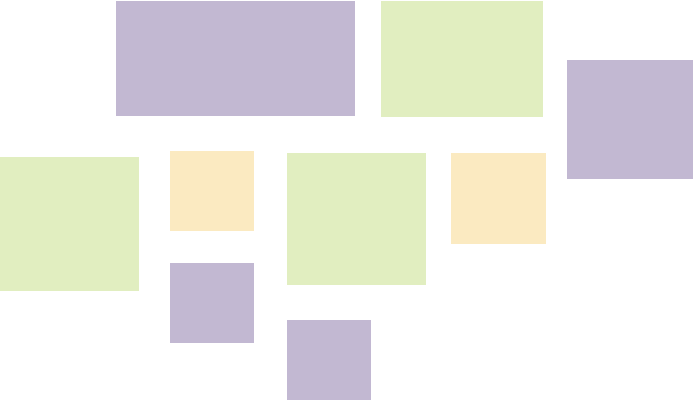
The calculation pretty much follows the same process as in previous years – the participant’s total account balance (as of the last day of the immediately preceding year end) is divided by the participant’s life expectancy factor from the IRS tables. The result is RMD for the current year.

In this case, the life expectancy factor is the challenge. For a deceased participant, it is usually based on the age of the participant’s spouse or designated beneficiary. Well, that presents a problem, doesn’t it? Not to point out the obvious, but the participant in question doesn’t have a spouse or a designated beneficiary. So, let’s keep traveling down this rabbit hole. When there is no designated beneficiary, the life expectancy factor is based on the participant’s age at the time of death, and then reduced by one year for each calendar year thereafter.

Paying the RMD

Fantastic! We have calculated the RMD, now where in the world do we send it? Generally, the plan document outlines the default beneficiaries when the participant has not designated one. Here is the typical order:

- Spouse (doesn’t apply here);
- Children in equal shares (again, doesn’t apply here);
- Parents (we found a possibility!); or
- The participant’s estate.



At your CEO's age when he passed, it is unlikely his parents have outlived him; however, it is certainly worth the research. If it's only the participant, and he has no surviving spouse, children, or parents, then the funds must be distributed to his estate.

The bottom line is that once a participant has begun taking RMDs, he or she must continue to do so – even after death, and even if the participant has nobody to whom you can distribute the funds. Keep in mind that the point is for the IRS to collect the taxes on the monies that have been sitting in a tax-deferred retirement plan. That does not cease when the participant passes away. Death and taxes, your only guarantees in life.

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