

Why would I name a trust as the beneficiary of my IRA?

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With an ever increasing portion of American retirees' portfolios consisting of qualified retirement accounts, distribution planning is becoming an increasingly relevant and important part of a good estate plan. Unlike other investments which are easily transferable during an owner's lifetime, IRAs (with the exception of divorce) can only transfer to a new owner if inherited. An inherited IRA maintains its ability to "stretch-out" the tax deferral over the lifetime of the beneficiary and can provide lifetime support to an heir if properly managed. However, leaving an IRA directly to an heir does not guarantee that the heir will choose to stretch-out the account, or that outside forces will not necessitate the liquidation of the account, often resulting in severe income tax consequences. With these strict ownership rules, serious tax consequences and margins for error, there are a variety of situations that merit thinking ahead and leaving an IRA to a trust to protect your loved ones. So why name a trust as the beneficiary of your IRA?

There are many reasons, but a few most often seen are:

- Your child has a rocky marriage and you are concerned it might end in divorce. Leaving your IRA to a trust for the benefit of that child might help protect the account from being subject to a division of assets.
- Your daughter has special needs and is on means-tested public assistance programs that she would lose if she inherited funds outright. Leaving her portion of your IRA to a trust could mean that she keeps her important public benefits while simultaneously having the use and enjoyment of the trust funds.
- Your son is a spendthrift with tax issues and the inherited funds could be subject to claims by his creditors. A Trust could protect your life savings from paying his debts.
- You want to delay the withdrawal of your IRA and you are afraid your children will take distributions too quickly or, worse yet, cash in the entire balance upon receipt resulting in a significant income tax liability. You love your children, but they are not the savers you would like them to be and you worry about them having enough funds for their retirements.
- Your beneficiaries are your grandchildren and you feel that they are too young to be responsible money managers. While you want to name them as your beneficiaries, you also want them to have guidance with their inheritance.

Do any of these scenarios sound familiar? Before moving too quickly, it is important to know that you should not name just any trust the beneficiary of your IRA. In order to maintain the positive tax aspects of an inherited IRA, the Trust must contain provisions that give the trust a measuring life to stretch out withdrawals over the lifetime of the beneficiary. It is also very

important that you make sure that the beneficiary designation on your IRA is properly worded and that it is in line with the overall goals of your estate plan. An improperly drafted trust can have serious tax consequences and can result in a shortened stretch-out period less of less than the life expectancy of the beneficiary of the trust. Therefore, getting the right advice is very important. While IRA designation planning can be tricky, an experienced estate planning attorney can walk you through the process while giving you peace of mind that you are protecting your heirs and your legacy.