SAVING & INVESTING



IRA PLANNING – YOUR SPECIAL NEEDS BENEFICIARY

PEACE OF MIND

While the federal laws governing IRAs have limited the ability for many beneficiaries to extend the life of their Inherited IRA savings, there are fortunately still options available for IRA owners looking to ensure the financial security of special needs beneficiaries. Taking advantage of these special rules, however, requires careful planning and forethought. The good news is that with the necessary planning and forethought, you can rest assured knowing your IRA savings are positioned to help provide long-term financial security for your special needs beneficiary.

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WHO QUALIFIES?

For a special needs beneficiary who is age 18 or older to qualify as disabled, he or she must generally be unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can expect to result in death or to be of long-continued and indefinite duration. For a special needs beneficiary under the age of 18 to qualify as disabled, he or she must generally have a medically determinable physical or mental impairment that results in marked and severe functional limitations that can be expected to result in death or to be of long continued and indefinite duration. A special needs IRA beneficiary will be considered disabled if, as of the date of the IRA owner's death, the Commissioner of Social Security has determined that they are disabled within the meaning of 42 U.S.C 1382c(a)(3). For a special needs beneficiary to qualify as chronically ill, they must generally be unable to perform (without substantial assistance from another individual) at least two activities of daily living for an indefinite duration which is reasonably expected to be lengthy in nature due to a loss of functional capacity, or have a level of disability requiring substantial supervision to protect themself from threats to health and safety due to severe cognitive impairment.

LEAVING YOUR IRA TO A SPECIAL NEEDS BENEFICIARY

For IRA owners who have loved ones with special needs, leaving a legacy of financial security is often a top priority. Fortunately, the federal tax laws acknowledge these unique circumstances and allow special needs beneficiaries greater flexibility for drawing down Inherited IRA savings. The laws governing these distribution options, however, are complex and nuanced. Accordingly, advanced planning is highly recommended for IRA owners wishing to provide special needs beneficiaries with access to more flexible beneficiary distribution options.

A POTENTIALLY LONGER TIMEFRAME

While IRA beneficiaries are often required to draw down their Inherited IRAs within 10 years following the death of an IRA owner, the federal tax laws contain an exception for certain disabled and chronically ill beneficiaries. Provided certain eligibility criteria are met, IRA proceeds left to a disabled or chronically ill beneficiary can oftentimes be spread out over the life expectancy of the beneficiary.

DEFINITION OF "DISABLED" AND "CHRONICALLY ILL"

For special needs beneficiaries to qualify for lifetime stretch of their Inherited IRA assets, they must meet a specific regulatory definition of disabled and/or chronically ill. Not all chronically ill and disabled individuals will meet this regulatory definition to qualify for the extended Inherited IRA distribution option, so it is important to familiarize yourself with the specific regulatory definition that is applicable for Inherited IRA distributions.

NAMING A TRUST AS YOUR BENEFICIARY

It's not uncommon for individuals with special needs beneficiaries to name trusts as beneficiary of their IRAs. While naming a trust as beneficiary of your IRA can be a sound financial planning strategy, it is important for you and your advisors to recognize that the federal laws surrounding trust IRA beneficiaries are nuanced and complex. One option available for preserving lifetime IRA withdrawal options for special needs beneficiaries through a trust is to structure the trust beneficiary as what is referred to under federal regulations as an "Applicable Multi-Beneficiary Trust." This is not, however, the only option available.

Due to the complexity surrounding Inherited IRA distribution requirements for trust beneficiaries, if you plan to name a trust as beneficiary of your IRA it is advisable that you work with a competent tax or estate planning professional to ensure that your heirs have access to the flexible withdrawal options afforded disabled and chronically ill beneficiaries.