SAVING & INVESTING



IRA PLANNING: NAMING A TRUST AS YOUR IRA BENEFICIARY

NEXT STEPS

When deciding whether to name a trust as beneficiary of your IRA, there are many factors to consider. There are numerous reasons for leveraging trusts as part of an overall financial planning strategy. As an IRA owner, however, it is now more crucial than ever that you and your advisors understand the potential distribution implications of naming a trust as beneficiary of your IRA. In some instances, naming a trust as beneficiary of your IRA may have little to no impact on your heirs. In other circumstances, however, the naming of a trust as beneficiary could potentially result in unnecessary accelerated distribution of your IRA savings and a corresponding loss of prolonged tax shelter.

Only by understanding the new IRA beneficiary distribution rules can you and your advisors make an informed decision concerning what approach is best for you and your heirs.

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NAMING A TRUST AS YOUR IRA BENEFICIARY

As an IRA owner who has worked hard to set aside financial resources for yourself and your heirs, deciding how your IRA savings should be allocated upon your death is an important decision that can have significant financial impact on your heirs. For those who have taken steps to plan for their financial legacy, trusts are often a critical element of an overall financial planning strategy. And while naming a trust as the beneficiary of your IRA can be a part of that overall strategy, it is crucial that IRA owners and their advisors understand the potential implications—both pro and con—of naming a trust as an IRA beneficiary, especially given the changes brought about by the SECURE Act of 2019.



WHY IT MATTERS

One of the key advantages of setting aside savings in a tax-advantaged vehicle such as a Traditional or Roth IRA is that the growth within the IRA is shielded from immediate taxation. Due to the special tax advantages associated with IRAs, IRA owners oftentimes want to take steps to ensure that their beneficiaries will have optimal flexibility when it comes to leveraging those tax-sheltered savings after they die.

While the rules surrounding distributions from Inherited IRAs have always been somewhat complicated, the nuance and complexity surrounding distributions from Inherited IRAs has become markedly more complex following the enactment of the SECURE Act of 2019 which imposed accelerated distribution requirements on many types of IRA beneficiaries. These new rules have placed substantial restrictions on when a trust beneficiary of an IRA is permitted to "stretch" distributions from the Inherited IRA over the life expectancy of the trust's underlying beneficiary(ies), thereby taking maximum advantage of the Inherited IRA's tax-sheltering potential.



HOW IT WORKS

Prior to the SECURE Act of 2019, a trust beneficiary of an IRA was typically eligible to stretch distributions from an Inherited IRA over the life expectancy of the oldest underlying trust beneficiary provided the trust met criteria needed to be treated as a "See-Through Trust." Following enactment of the SECURE Act of 2019, however, a trust beneficiary of an IRA may be forced to distribute all assets from the Inherited IRA within 10 years following the death of the IRA owner. This accelerated distribution requirement can apply even in circumstances where one or more of the trust's underlying beneficiaries would qualify to take distributions over their life expectancy had they been named directly as a beneficiary of the IRA.



"SEPARATE ACCOUNTING" AVAILABLE FOR SOME TRUSTS

Under final regulations published by the federal government in 2024, Eligible Designated Beneficiaries of a trust may—under certain circumstances—take advantage of the opportunity to "stretch" distributions over their own life expectancy notwithstanding the fact that the trust named as beneficiary of the IRA includes beneficiaries that do not qualify as Eligible Designated Beneficiaries. To take advantage of this opportunity, the trust named as beneficiary of the IRA must be designed to meet specific regulatory requirements including the requirement that the trust be terminated upon the death of the IRA owner and split into separate trusts for separate trust beneficiaries.



SPECIAL NEEDS BENEFICIARIES

The SECURE Act of 2019 also created new distribution rules for trust IRA beneficiaries designed to meet the needs of one or more disabled or chronically-ill beneficiaries. These new rules, designed to retain distribution flexibility for trusts that include special needs beneficiaries, introduce the concept of "Applicable Multi-Beneficiary Trusts." For trusts that are designed appropriately, these new rules provide an option for helping to ensure that special needs beneficiaries can retain access to life expectancy distributions even in circumstances where other trust beneficiaries may need to distribute Inherited IRA savings within 10 years following the death of the IRA owner.