

Guidelines for Trusts as IRA Beneficiary Case Study

Benefit: Naming the family trust as beneficiary of an IRA will likely create large and unknown problems to the trustee and the trust beneficiaries and decimate much of the asset the IRA owner spent a lifetime building. This can be avoided by using some simple guidelines in naming a trust as a beneficiary,

The Client: Isabelle Black, 63, is widowed. Her husband died three years ago in a traffic accident.

Her main asset is a \$1,200,000 IRA she rolled over last year from a large corporation she retired from after 40 years. She has a pension from her husband that meets her income needs and \$150,000 from the settlement from her husband's traffic accident. Her house is paid off.

She has two children and five grandchildren. She does not get along with her children. If she dies, she wants her assets to be divided equally amongst her grandchildren.

The grandchildren range in age from infant to a troubled 21-year old. She states that they are obviously too young or too troubled to manage an inheritance if she should happen to die now. She wants each of them to be forced to use the stretch IRA – substantial and equal payments over their life expectancy - to provide a lifetime income to each of them as well as build a larger asset base for each of them.

To do this, she has established a trust through a local law firm. She now asks to change the primary beneficiary of her IRA to “The Isabelle Black Living Trust”.

The Problem: A major problem with naming trusts as beneficiaries is that many attorneys writing these trusts don't understand how they work as IRA beneficiaries.

The trust that was written for Mrs. Black was a standard “out-of-the-box” revocable living trust. Each of her five grandchildren were named as equal beneficiaries.

During a meeting to update her IRA beneficiaries, the financial professional asked several questions that led Mrs. Black to believe her trust would not force her grandchildren to stretch the IRA. In fact, it would do just the opposite.

If Mrs. Black named the current trust as the beneficiary and she died *before* reaching age 70 ½, the stretch IRA rules could not be used. The IRA assets would be required to be paid out to (and taxes paid by) the grandchildren within 5 years.

If Mrs. Black named the current trust as the beneficiary and she died *after* April 1 of after 2009, the stretch IRA concept could still be used. However, the stretch IRA rules would not apply because they would be based on the date of the owner's death, not the date of the beneficiary's death. This could result in a much longer life