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## September 5, 2023 – Wealth Planning Commentary

### Should I leave my IRA to a trust?

Many IRA owners designate family members as beneficiaries of their retirement accounts. Designating a person as a beneficiary helps the estate avoid the probate process and ensures that these assets are transferred to the intended recipient. Another option that preserves these advantages and exercises more control after passing is designating a Trust as a retirement account beneficiary. The trust is designated as the account's primary beneficiary, and the intended recipients are the trust's beneficiaries. Using a trust might be viewed as an unnecessarily complicated extra step. However, there are certain situations using a trust may increase the likelihood of achieving the owner's objectives.

One reason to consider designating a trust as an IRA beneficiary is to allow the owner to control the distribution of assets 'beyond the grave'. The IRA owner may have reservations about their heir's access to assets and may wish to prolong the ability to use the funds. A trust beneficiary may be a good strategy if the family is blended and the owner's spouse has children from a previous marriage. A trust helps ensure that the IRA assets are accessible to the owners' children and subsequent descendants. An alternative scenario is where the owner prefers that the current spouse has access to the inherited IRA during their lifetime. At death, the remaining assets pass to the owner's children from a previous marriage.

Improved asset protection is another reason to designate a trust as the beneficiary of an IRA. A trust limits the beneficiary's creditor exposure. *Inherited* IRAs have less creditor protection than an IRA and other retirement assets. A trust beneficiary is useful if the ultimate beneficiary is a minor or special-needs individual. Minors cannot own IRAs, and special-needs individuals may lose government benefits if they inherit assets directly.

Trusts may provide flexibility and allow the trustee to execute the optimal required distributions strategy when the recipients are both eligible and non-eligible beneficiaries. Sub-trusts may be created to minimize the overall tax impact of the inherited IRA distributions. Otherwise, the trust and all the recipients of the distributions may be subject to tax-inefficient distribution rules.

There are potential risks designating a trust as a beneficiary of an IRA. Depending on the trust type, eligible beneficiaries may lose the ability to take advantage of the stretch rule. Distributions from the inherited IRA may accumulate in the trust and subject to higher taxes. Complexities of any given strategy may also lead to improper execution and may cause a myriad of tax issues.

Ultimately, leaving an IRA to a trust can be an effective strategy, but it's important to understand the IRA owner's intentions and consider their full estate plan before executing.

Please reach out to your Wealth Manager with any questions about trusts as IRA beneficiaries.