

WHY USE AN IRA BENEFICIARY TRUST?

What is an IRA Beneficiary Trust?

Allows for longer stretch out over the lifetime of the individual beneficiaries. Provides better protection from Creditors.

Naming a trust as beneficiary will give you maximum control over your tax-deferred money after you die. That's because the distributions will be paid not to an individual, but into a trust that contains your written instructions stating who will receive this money and when.

For example, your trust could provide income to your surviving spouse for as long as he or she lives. Then, after your spouse dies, the income could go to someone else. The trust could even provide periodic income to your children or grandchildren, keeping the rest safe from irresponsible spending, spouses and/or creditors.

While you are living, the required minimum distributions will still be paid to you over your life expectancy. After you die, the required distributions can be paid to the trust over the life expectancy of the oldest beneficiary of the trust.

The trustee can withdraw more money if needed to follow your instructions, but the rest can stay in the account and continue to grow tax-deferred. You can name anyone as trustee, but many people name a bank or trust company, especially if the trust will exist for a long period of time.

Are there any disadvantages?

You will not be able to provide for your spouse and stretch out the tax-deferred growth beyond your spouse's actual life expectancy. That's because you must use the life expectancy of the oldest beneficiary of the trust which, in this case, would probably be your spouse.

Also, many trusts pay income taxes at a higher rate than most individuals, but this only applies to income that stays in the trust. Distributions from your tax-deferred account that are paid to the trust are subject to income taxes and if the money stays in the trust, the higher tax rates would apply. But usually this is not a problem because the trustee has authority to distribute the money to the beneficiaries of the trust, who pay the income taxes at their own rates.

Finally, the trust must meet certain IRS requirements, including that it is a valid trust under state law. It is advantageous to create an irrevocable Retirement Benefit Trust, also called a Stand-alone Retirement Trust, and to name this trust as the beneficiary on your beneficiary designation form.

Reasons you should consider using an IRA Beneficiary Trust:

- Help assure proper “stretchout”
- Non-spouse beneficiaries can now stretchout IRA RMDs over a much longer period (potentially his/her own life expectancy) (Final Regs under 401(a)(9) issued 2003)
- Applies to corporate plans too, even if not rolled over during lifetime (IRC 402(c)(11), IRS Notice 2007-7)
- Tax-deferred compounding of inherited accounts replaces diminished retirement benefits available to younger generation
- Most individual beneficiaries will opt for the “blowout” - recent statistics show 80% of beneficiaries take it out in a lump sum.

Help raise level of protection against

- Poor money management, spending habits of beneficiary
- Beneficiary’s spouse taking in a Divorce
- Young, Elderly, Disabled beneficiary unable to manage own affairs
- Beneficiary losing government benefits
- Lawsuits, creditors, bankruptcy
- Second Estate Tax if passed down to next generation

Note:

- All trust beneficiaries must be individuals
- No charities as primary beneficiaries. You can designate a portion of the IRA for charitable purposes you may:
- If a charity is a primary beneficiary of the trust, allow payout to the charity on or before the September 30 determination date (better yet, have a percentage of the

IRA go directly to a charity on the beneficiary form with balance to the IRA Beneficiary Trust)

- If the charity is a secondary or remainder beneficiary, may be alright if primary beneficiary has a “conduit” trust; but generally want to avoid secondary charitable beneficiaries because may want to use an “accumulation trust” or “toggle switch” to one later (discussed below).