Trust as IRA Beneficiary

Retirement Plans

Sometimes Individual Retirement Account (IRA) owners wish to name a trust as primary or contingent beneficiary of an IRA to ensure that the disposition of IRA assets is coordinated with the rest of their estate plan. If so, it's important to know whether the trust meets the standards of a "qualified trust" and the type of trust to determine payout options and to minimize taxation each year for the trust and beneficiaries.

Trust as beneficiary

Generally, IRA holders will name individuals as primary beneficiaries of their IRA. However, there are times when naming a trust as the primary beneficiary may be a better choice, but IRA holders often shy away from this due to the accelerated trust income tax rates, as well as the complexities and costs involved to create and maintain a trust. A few examples of when a trust could make sense are:

- To control the cash flow to heirs you regard as spendthrifts.
- To provide for a child with special needs or disabilities.
- To limit access to IRA assets for minor children or grandchilden.
- To ensure creditor protection.
- To secure funds for the payment of estate or administrative expenses.
- To control the distribution of assets after the IRA owner's death.

In order to name a trust as IRA beneficiary, the IRA owner will need to complete the custodian's Beneficiary Designation Form and list the trust name and trust tax identification number. Upon passing, an inherited IRA under the trust name will be established and assets will be moved from the deceased IRA to the inherited IRA tax-free once proper paperwork (including the death certificate and trust document) is provided to the custodian.

Trust as beneficiary 2020 and after

If a trust is named as the primary beneficiary of an IRA, the type of trust will determine the payout schedule from the inherited IRA. Most qualified "see-through trusts" (either conduit or accumulation) will be subject to the SECURE Act's 10-year rule with annual Required Minimum Distributions (RMDs) each year, but a full distribution must be taken by December 31 of the tenth anniversary of death. Certain trusts, including charitable remainder trusts and trusts benefiting an "eligible designated beneficiary" may allow for a longer payout period than 10 years. Below is a helpful chart showing different payout options based on the type of trust:

	Conduit Trust[1]	Accumulation Trust[1]	Non-Qualified Trust
Trust Terms	Inherited IRA distributions are passed through to individual beneficiary(ies) of the trust	Inherited IRA distributions may be allowed to stay in the trust name rather than immediate payout to beneficiary(ies)	Does not meet the definition of see-through trust and thus inherited IRA distributions may be allowed to stay in the trust name
Distribution Requirements From an Inherited IRA to the Trust	**For an eligible designated beneficiary (EDB)[2]:** Payout based on the life expectancy of the beneficiary (stretch IRA rules still apply) **For a beneficiary that is not an EDB:** 10-Year Rule – Death prior to Required Beginning Date; 100% distribution to the trust by December 31 of the tenth anniversary of death Annual RMD With 10-Year Rule – Death after Required Beginning Date; RMDs based on eldest beneficiary's life expectancy factor until 100% distribution on tenth anniversary of death	10-Year Rule – 100% distribution to the trust by December 31 of the tenth anniversary of death	**If the IRA owner dies before age 73:** 5-Year Rule – 100% distribution to the trust by December 31 of the fifth anniversary of death **If the IRA owner dies at age 73 or later:** Payout to the trust based on the life expectancy of the deceased IRA owner
Distribution Requirements From the Trust to Beneficiary(ies)	Distribute immediately to conduit beneficiary after the trust receives inherited IRA distributions Results in a non-EDB receiving 100% of the Inherited IRA proceeds by December 31 of the tenth anniversary of death (if inherited after RBD, will continue annual RMDs)	Trust terms govern the timing of distributions to trust beneficiaries May be different than the timing and amounts of Inherited IRA distributions to the trust	Trust terms govern the timing of distributions to trust beneficiaries May be different than the timing and amounts of Inherited IRA distributions to the trust

[1]Beneficiaries must be individuals (not an entity, such as an estate or a charity).
[2]Includes IRA owner's surviving spouse, the IRA owner's children while they are minors, individuals who are chronically ill or disabled, and any person who is not more than 10 years younger than the deceased IRA owner.

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Trust as beneficiary prior to 2020

Prior to 2020, if a trust was appointed the primary beneficiary of an IRA, the IRS allowed RMDs from the inherited IRA to be based on the life expectancy of the oldest beneficiary of the trust, or in the case of separate trusts, RMDs were calculated based on the life expectancy of each individual beneficiary. By withdrawing only the RMD each year, a trustee accomplishes the "stretch strategy" when a trust is the designated beneficiary by taking the minimum amount each year and spreading the life of the inherited IRA over the maximum amount of time while minimizing taxation each year. The RMD is distributed from the inherited IRA directly to a trust account, and the trustee will distribute or hold assets according to the terms of the trust. The 1099-R, which reports the inherited IRA distributions to the IRS, will be generated under the trust name and trust tax identification number.

Qualified trust

In order for RMDs to be stretched over the oldest beneficiary's life expectancy for death occurring prior to 2020, the trust must be a "see-through" or "look-through" trust. The trust must:

- Be valid under state law.
- Become irrevocable upon the IRA holder's death.
- Have clearly identifiable individuals named as trust beneficiaries (no charities or non-human entities).
- Provide trust documentation that identifies the beneficiaries to the IRA custodian by October 31 of the year following the IRA owner's death.

Non-qualified trust

If a trust is not "qualified," the trust beneficiary's age cannot be used in the RMD calculation, thus accelerating payments. In this case, RMDs would be calculated as follows:

- Death before the Required Beginning Date (RBD)* – No RMDs each year, but the assets in the inherited IRA must be totally distributed by December 31 of the fifth anniversary of the IRA holder's death.
- Death after the RBD – RMDs may continue to be paid based on the remaining life expectancy of the deceased IRA holder as established in the year of death.

Trust language key to determining qualification

Trust language can play a key part in what is intended by the original IRA owner for asset distribution to beneficiary(ies). For example, what happens if you include a charity as a beneficiary of the trust? Since a charity does not have a life expectancy, the other beneficiaries would also be considered to have no life expectancy. Therefore, distributions from the inherited IRA would generally be paid according to one of the two "non-qualified" trust conditions (before or after RBD) listed above. In both cases, distributions may be paid out of the inherited IRA faster and taxed sooner than intended.

If an individual or a qualified trust is designated as the IRA beneficiary, the inherited IRA may be stretched over a longer period of time, which in turn may add up to more tax-deferred growth for your heirs. Other trust language to be aware of includes:

- Trust termination date
- Designation of trustee(s)
- Provisions to protect trust assets and dictate payouts to beneficiaries

It is recommended to have the trust document drafted by a qualifed estate attorney.

Final thoughts

When naming beneficiaries of an IRA, there is no "one-size-fits-all" solution. If your IRA makes up a significant proportion of your net worth or you're looking for control of the IRA assets after your passing, consider discussing with your legal and tax advisors whether naming a trust as the IRA beneficiary is appropriate for you. Keep in mind, while a trust may provide control after your passing, naming a non-spouse outright as beneficiary of the IRA allows for the same 10-year payout period as a qualified trust without the cost of drafting or maintaining that trust.

For more information on IRAs, beneficiary selections, and RMD options, contact your Stifel Financial Advisor.

** Required Beginning Date is defined as April 1 of the year after reaching age 73 (age 72 in 2022).*

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