

Should You Name a Trust as Your IRA Beneficiary?



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The SECURE Act changed the rules for inherited IRAs, making beneficiary designations more important than ever. While trusts can still be effective IRA beneficiaries, they should generally be used for control purposes rather than tax advantages.

A trust may be appropriate when you want to protect and control assets for beneficiaries, such as minor children, disabled beneficiaries, spendthrift heirs, or children from a prior marriage. In these situations, a trust can help ensure assets are managed according to your wishes after your death.

That said, depending on the trust structure, naming a trust as the beneficiary of an IRA may result in higher income taxes for the trust or its beneficiaries than if the IRA had passed directly to individual beneficiaries.

Under the SECURE Act, beneficiaries are generally classified as either Eligible Designated Beneficiaries (EDBs) or Non-Eligible Designated Beneficiaries (NEDBs).

Eligible Designated Beneficiaries include:

- A surviving spouse
- A minor child of the IRA owner (until reaching the age of majority)
- A disabled individual
- A chronically ill individual
- An individual who is not more than 10 years younger than the IRA owner

These beneficiaries may qualify for more favorable distribution options, including the ability to stretch distributions over their life expectancy in certain circumstances.

Most other individual beneficiaries are considered Non-Eligible Designated Beneficiaries and are generally subject to the SECURE Act's 10-year rule, requiring the inherited IRA to be fully distributed by the end of the tenth year following the owner's death.

Trusts may qualify as designated beneficiaries if they are properly drafted as see-through trusts, allowing the IRS to look through the trust to the underlying beneficiaries when applying the inherited IRA distribution rules. If the trust can accumulate income, then any income that remains in the trust is taxed at the trust tax rates which reach the highest federal income tax brackets at much lower income levels than individuals.

Estates and non-see-through trusts are considered non-designated beneficiaries and are subject to less favorable distribution rules.

Special care must also be taken with multi-beneficiary trusts, as the characteristics of multiple beneficiaries can affect how inherited IRA distribution rules apply.

For clients planning to leave IRA assets to a trust, Roth conversions may help reduce future tax burdens. Although inherited Roth IRAs remain subject to SECURE Act distribution rules, qualified distributions are generally income-tax-free, potentially improving the after-tax value passed to beneficiaries.

Trusts can be valuable tools for asset protection, control, and estate planning, but they should be carefully coordinated with your retirement account beneficiary designations. If you currently have a trust named as the beneficiary of your IRA—or are considering doing so—please contact us. We would be happy to coordinate with your estate planning attorney to help ensure your beneficiary designations align with your overall estate plan. If you do not currently have an attorney, we can also provide recommendations.