



ED SLOTT'S IRA ADVISOR

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Tax & Estate Planning for Your Retirement Savings

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GUEST IRA EXPERT: David Buckwald, CFP®, CLU®, ChFC®, CLTC®, NISSA®

OneTeam Financial
Red Bank, NJ

Next-Gen IRA Planning with Life Insurance

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Planning Conversation



Considerations When a Trust (or Estate) Is IRA Beneficiary

The same conversation has, understandably, been repeated many times. The questions are similar: "What do we do when a trust (or estate) is IRA beneficiary? How do we set up the account? Are we stuck with the high trust tax rates?" Naming a trust or estate as beneficiary of an IRA introduces a number of post-death issues and potential hurdles. Before a trustee or executor touches any IRA funds, some foundational and oftentimes confusing details must be considered.

Post-Death Administration

When a trust or estate is named as IRA beneficiary, then the trust or estate is the beneficiary. The beneficiary is NOT the trust beneficiaries or the beneficiaries of the estate. We do not get to automatically disregard the trust or estate and set up an inherited IRA for any of those people (assuming they are people). In fact, we must establish a trust-held or estate-held inherited IRA. The trust or estate — or more specifically, the trustee of the trust or the executor of the estate — is in charge of what happens with the inherited IRA. All distributions and transactions within the trust-held or estate-held inherited IRA are handled by this person, and the trustee's (or executor's) name may even be included in the title of the account.

For a trust-held inherited IRA, the titling of the account might be something like:

"William Smith, IRA (deceased June 1, 2023) F/B/O Adam Johnson, Trustee of The Smith Family Trust, beneficiary."

While trusts can serve a vital purpose as IRA beneficiary under the right circumstances, naming a trust as IRA beneficiary is not always the best choice. In fact, a trust can oftentimes get in the way by creating more work for the trust beneficiaries. For example, a surviving spouse may want to simply do a spousal rollover of the IRA assets into her own IRA. However, if the trust is the IRA beneficiary, she is now saddled with a trust-held account, with trust language governing the usage of the assets, and possibly a third party as trustee. Fortunately, there is a possible workaround. When a trust is named as IRA beneficiary and the spouse is sole trust beneficiary with complete control of the trust assets, the IRS has consistently allowed spousal rollovers.

Over the years we have seen numerous private letter rulings (PLRs) permitting this type of transaction. [PLR 202404003](#), released by the IRS on January 26, 2024, is a recent example of the IRS allowing a surviving spouse to roll over inherited IRA assets that were originally paid to a trust as primary beneficiary. In this PLR, the spouse was "the sole trustee

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