

New Dimensions in Estate & Trust Planning

*An Article to Benefit Clients & Friends
of*

FERRIS & ASSOCIATES
A PROFESSIONAL CORPORATION
Attorneys and Counselors at Law

Trust & Estate Planning ♦ Probate & Estate Administration ♦ Business Formation & Planning

INHERITED IRA TRUSTS

What is an Inherited IRA Trust?

An inherited IRA Trust (a.k.a. Retirement Plan Trust) is a trust instrument created for the specific purpose of being named as a beneficiary of an IRA (or other deferred retirement account) in order to CONTROL the distribution of such funds while allowing for the “STRETCH” of the income taxation of the account over a greater period of time.

How does this type of trust work?

You establish the trust, including the terms and conditions you choose governing the use and distribution of trust funds. You name this trust as the beneficiary of your retirement account. At your death, the retirement account is converted to an Inherited IRA through the trust, instead of being paid directly to your underlying beneficiary. This allows you to control the

distribution of the funds as well as protect the funds from the beneficiaries’ failed marriages, lawsuits and disability, all while stretching the payment of the built-in income tax liability (required minimum distribution) over the beneficiaries life expectancy.

Can all Trusts do this?

No, in order for the trust instrument to work properly and allow for a stretch IRA, the trust must meet the government’s “Conduit Trust” requirements. The conduit trust rules are complex and have evolved over the years (Temporary Rules issued in 1992; “Permanent” Rules issued in 2002, then modified through the Pension Protection Act of 2006, etc). The attorneys at Ferris & Associates, P.C. carefully draft each trust instrument to comply with these conduit requirements.

When is an Inherited IRA Trust Appropriate?

Typically, if you have one or more of the following, it is appropriate to consider using an Inherited IRA Trust: (1) You are in a second (or more) marriage, (2) the individuals who are to receive your retirement account have large variations in their ages, and (3) you have a large retirement account balance (typically \$500,000 or greater). In all cases, you should work closely with your legal counsel and financial professional to determine if an Inherited IRA Trust is appropriate for you!

Why should I consider an Inherited IRA Trust?

Through the proper structuring of an Inherited IRA Trust with your retirement account, you can:

1) Allow the retirement account to continue to grow for the beneficiary in a tax deferred manner;

2) The tax deferred nature of the arrangement encourages the beneficiary to spend down other assets first, before drawing down the Inherited IRA;

3) You may be able to leverage the beneficiary's tax bracket to pay less in overall income tax upon distribution; and

4) The Inherited IRA Trust can act to provide your beneficiary with a private, protected, family controlled hedge against the potential shortfall of social security benefits for your beneficiary.

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