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Should You Place an IRA into a Trust?

By Julie Lobaza

Trusts can be named as the beneficiary of an IRA. However, just because you can place an IRA in a trust, it does not mean you should. There are many things to consider when naming a retirement account beneficiary. Ultimately, your decision depends on specific circumstances and your overall intentions.

Placing an IRA in a trust allows for greater control over when and how your assets are distributed. For example, you may want to specify that your children receive only certain amounts when they reach a certain age. If your beneficiaries are not experienced in managing financial assets, a trust can have a professional trustee manage the IRA on their behalf; helping to protect them from making poor financial decisions. When structured properly you can even protect IRA assets from creditors who are seeking collection from your heirs. Just keep in mind that the level of protection can vary based on state laws and specific terms of the trust. If privacy is a concern, then placing an IRA in a trust can also prevent the assets from being part of public record.

There are also drawbacks and potential tax consequences to placing an IRA in a trust. For example, if the trust is not structured properly, it may accelerate the distribution of the IRA assets and lead to an increased tax liability for the beneficiary. It could also complicate Required Minimum Distribution (RMD) calculations and the distribution outlay. However, the most common frustration we see is that there is ongoing management of the trust itself. When a loved one passes away, families want simplicity and an effective means for settling an estate. If you name a non-minor individual directly, the beneficiary receives the funds in their name and the estate process is completed for that account. On the contrary, if you name the trust as beneficiary, the trustee(s) and beneficiaries may have to work together to coordinate the estate for many years to come.

Please note that this information is specific to retirement accounts (i.e., IRAs, Roth IRAs, employer plans, etc.). Taxable accounts (i.e., bank accounts, brokerage accounts, etc.) should be looked at differently. With either, you must always consider the implications of one option over another. It is always recommended to consult with a financial advisor or attorney who specializes in estate planning to ensure that you make the right decision.