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IRAs and SNTs
From the Ground Up

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IRAs and SNTs: *From the Ground Up*

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A. Introduction.

The owner of an IRA has the right—and the ability—to decide who receives his or her IRA benefits at his or her death. However, to control IRA benefits at death, the owner will generally need to complete IRA beneficiary designation forms. The owner has many choices. The owner could simply name a person, a group, a trust, the owner's estate, a charity, or another entity as the primary beneficiary at the owner's death—and leave it at that. Sometimes this approach will work out exactly as intended and desired. Other times this approach will waste valuable benefits.

While choosing IRA beneficiaries is simple, it may not be simple to determine the choices that will come closest to achieving the results that the owner desires. The choices may become far more complex when a special needs trust (SNT) is the intended beneficiary.

B. A Simple and Successful Example (for a Simple Scenario that Stayed Simple).

Throughout this paper, we are going to use the example of “Alice,” a widow with two children, who we will call “Karen” and “Tom.” In this first example, Alice's beneficiary designation forms were simple and achieved her goals.

Alice's Circumstances and Steps

- Alice is 65 and has two children, Karen and Tom, ages 32 and 30.
- Both Karen and Tom act responsibly, have no children, and have no disabilities
- Alice has two IRAs, each with \$400,000 in assets. Alice names Karen as the beneficiary of one IRA and Tom as the beneficiary of the other:

<p>IRA #1 - \$400,000</p> <p>Beneficiary: My Daughter, Karen</p>

<p>IRA #2 - \$400,000</p> <p>Beneficiary: My Son, Tom</p>
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Alice's Expectations and Outcomes

- Alice presumes she will die before both of her children.
- Alice dies before both of her children.
- Alice presumes that her IRAs will be equal at her death.
 - Alice never goes through a period of incapacity or financial confusion in her life; she maintains equality in the IRAs over her lifetime and thus the IRAs are equal at her death.
 - At Alice's death, Karen and Tom each become the beneficiary of one of Alice's IRAs; both IRAs are equal in value.
- Karen and Tom do not need to coordinate their IRA-related actions as each is the beneficiary of a separate IRA outright, with no trusts and hence no trust remainder beneficiaries.
- Both Karen and Tom have the option of "stretching" IRA benefits over their respective lifetimes, which means that they are able to defer income tax on the IRA proceeds for as long as possible by taking out the minimum that is required annually based on their respective life expectancies¹.
- Both Karen and Tom take only the required minimum annual distributions from their respective inherited IRAs, taking no more than what is required by law, for the rest of their lives, thereby taking advantage of the opportunity to defer tax on the IRA proceeds—as much as possible for as long as possible.
- In Alice's case, her beneficiary designation forms were simple and everything turned out just as she hoped (and believed) that it would.

C. Different Circumstances, Different Choices, Different Results.

In our example, Alice's choice had the results she intended. Success factors were:

- She named her children individually as beneficiaries of her IRAs rather than naming her estate or a trust as the beneficiary;

¹Throughout this article we will emphasize the benefits of having a "designated beneficiary" who is able to maximize tax deferral. Not every beneficiary—even if designated as the beneficiary on an IRA beneficiary designation form—is a "designated beneficiary." This is an important oddity of language and technical tax impact. Review [Exhibit A](#) for common acronyms and definitions.

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