

Discover Solutions, Options and Cost Savings with Inherited IRAs and Special Needs Trusts

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Today's Topics

Inherited IRA Special Needs Trusts

- The Three-Step Transfer
- Case studies: Funding SNTs with Inherited Qualified Assets
- Options & Cost Savings

Inherited IRA Special Needs Trusts

Self-Settled SNT under 42 U.S.C. §1396p (d)4(a)

- Irrevocable trust agreement created during the lifetime
- Created for the sole benefit of a person with disabilities under 65
- Established by an individual, parent, grandparent, guardian, or court
- Medicaid Reimbursement stipulations
- Must be funded with trust beneficiary's own funds before age 65

Inherited IRA Special Needs Trusts

Funded with Inherited IRA under IRS PLR 2006 200 25 *

- Inherited IRA is put into beneficiary's name at current institution
- Funds are moved to a like named account at receiving institution
- Transferred into an SNT IRA account by Letter of Authorization

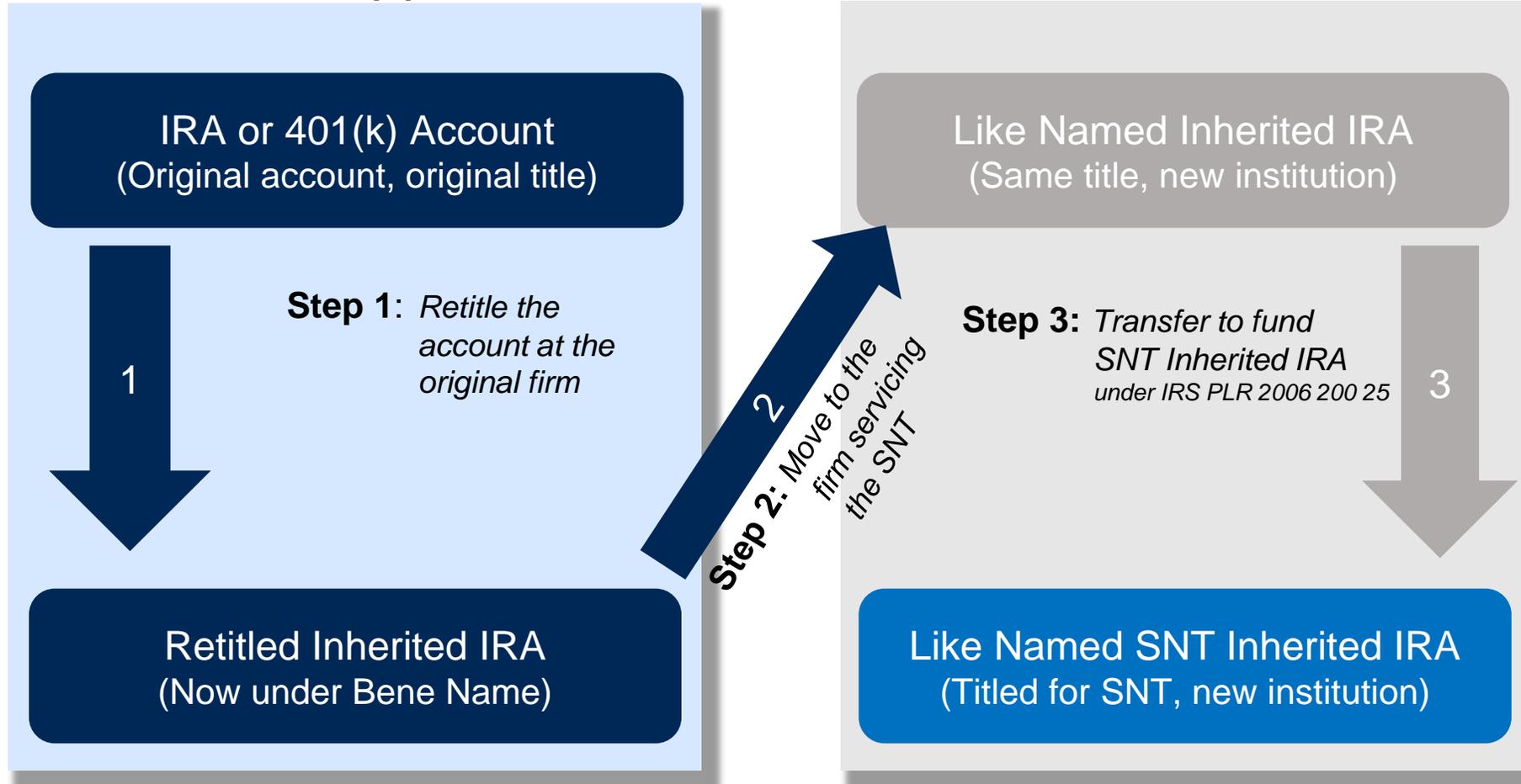
Timing counts: The three-step transfer must be completed quickly, so that funds don't remain in the beneficiary's name to affect benefits eligibility

* A private letter ruling, or PLR, is a written statement issued to a taxpayer that interprets and applies tax laws to the taxpayer's specific set of facts. A PLR is issued to establish with certainty the federal tax consequences of a particular transaction before the transaction is consummated or before the particular taxpayer's return is filed. A PLR may not be relied on as precedent by other taxpayers or IRS personnel. Some tax and legal practitioners may view the holdings of a PLR as an indication of the IRS position on a certain issue, and should be consulted prior to an individual using a PLR for guidance

Three-Step Transfer

Original Institution of IRA or 401(k)

Institution Holding the SNT Accounts



Let's Look at Four Scenarios Around the Beneficiaries of a \$1MM IRA

- A decedent named two beneficiaries before passing away in 2020
- The beneficiaries were the decedent's adult son and daughter
- Each child is a 50% beneficiary, and the son is a special needs individual

Case Study: The Daughter's Beneficiary IRA

The daughter receives \$500K, half of the \$1MM IRA/401(k), into a Inherited IRA under her SSN

Decedent's IRA or 401(k):
\$1MM

*Daughter listed
as beneficiary*

Daughter's Inherited IRA
(Receives half of assets: \$500K)

- Non-taxable transition
- 10 year set payout
- No stretch provision

Case Study: The Son's Inheritance: 3rd Party SNT Inherited IRA

Option 1

Moving the son's inherited assets (\$500K) into a 3rd party SNT IRA

The 3rd party SNT is created with it's own TIN, and is named as the beneficiary of the IRA or 401(k)

Decedent's IRA or 401(k): \$1MM



Non-taxable Transfer

SNT listed as beneficiary



Funds 3rd Party SNT Inherited IRA
\$500,000



3rd Party SNT Inherited IRA: \$500,000

- No Medicaid clawback
- RMDs required
- Distributions taxable

Case Study: The Son's Inheritance: 1st Party Non-IRA SNT

Option 2

Moving the son's inherited assets (\$500K) into a 1st party SNT

Funds pass to an inherited IRA for the son, under his SSN, then to a 1st party SNT with it's own TIN

Decedent's IRA or 401(k): \$1MM

Son's Inherited IRA
Distributions taxed appx 30%

Son listed as beneficiary

Less \$150,000 in taxes

1st Party SNT: \$350,000
• Non-IRA SNT

Case Study: The Son's Inheritance: 1st Party SNT IRA

Option 3

Moving the son's inherited assets (\$500K) into a 1st party SNT

Funds pass to the inherited IRA for the son, under his SSN, then are transferred to an SNT IRA per LOA

Decedent's IRA or 401(k): \$1MM

Son listed as beneficiary

Son's Inherited IRA
Opened under his own SSN

*Non-taxable transfer with LOA
Per IRS PLR 2006 200 25*

1st Party Inherited IRA SNT
*Opened under it's own TIN
\$500,000 with stretch RMDs*

*Use a Non-IRA
SNT account to
receive RMDs*

Timeframe

- The goal is to complete the transfer into the SNT Inherited IRA within a calendar month to avoid termination of Medicaid benefits.
- To accomplish this, we have three steps...

1

step

**Prior to 1st of
Month**

- Establish Inherited IRA Account with original Firm
- &
- Establish Inherited IRA and Inherited IRA SNT with the receiving firm

First of
Month

2

step

1st of Month

- Fund Inherited IRA at Original Firm
- &
- Notify the receiving firm to Initiate Transfer to Inherited IRA

Journal

3

step

Prior to Month End

- Sign Letter of Authorization to Transfer to Fund SNT Inherited IRA
- &
- Receiving firm to Complete as a Non-Taxable Transfer SNT Inherited IRA

Key Benefits of Transfer



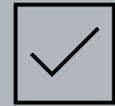
Non-
taxable
event



Maintain
State
Medicaid
Benefits



Preserve
More Assets
for Client



Completed as
a Non-taxable
Transfer to
SNT Inherited
IRA

Important Items to Remember

1. Timing is critical

- Assets in a client's name at month-end may affect benefits eligibility
- Start early in a month and finish as quickly as possible
- A transfer in under 10 business days is possible with preparation

2. Prepare thoroughly

- Prepare the documentation for all steps before you initiate
- Have the trust established, TIN in hand, and trust accounts open
- Remember: Correct titling on each account is key to a smooth transfer
- Be ready with completed transfer forms, court orders, LOAs, etc.

3. Work with a fiduciary

- If you plan to invest assets, invest time in finding a fiduciary to help
- Confirm that the firm serving you allows Bene IRAs to be held in SNTs

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Proficiency in management and custodianship of
Inherited IRA Special Needs Trusts

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