

ANSWER TO COMMON QUESTIONS ABOUT TRUST-INHERITED IRAS: PART I

The Setting Every Community Up for Retirement Enhancement (SECURE) Act of 2019 changed the distribution options for most IRA beneficiaries. Leaving an IRA to a trust may have different consequences. In this first part of a two-part series, we will review two out of the five common questions about trust-inherited IRAs, and their answers.

What is a “see-through” trust?

A “[see-through](#)” trust meets the complex requirements needed for “see-through” status. This status allows the trust to be treated as a “person” for inherited IRA distribution option purposes. Without this status, the trust is limited to the distribution options for entities—lump-sum or five years. A see-through trust must:

- Be valid under state law.
- Be irrevocable when the grantor dies.
- Have beneficiaries that are identifiable, and the ones that must be counted must be individuals.
- Ensure the documentation goes must go to the IRA custodian by 10/31 of the year following the year of the IRA owner’s death.

By meeting these requirements, the trust may use the distribution options available to individual beneficiaries.

What distribution options are available to the see-through trust?

The same option available to an individual beneficiary of the trust may be available to the trust. The options will depend on whether a beneficiary is an [Eligible Designated](#)

[Beneficiary \(EDB\)](#) or a [Designated Beneficiary \(DB\)](#). EDBs have the option of a life expectancy payout, with spouses able to recalculate their life expectancies each year. DBs are limited to having the account completely distributed by 12/31 of the 10th anniversary of the IRA account owner’s death. (For more information, consult [Inherited IRAs—A Guide to Help Beneficiaries Who Inherit an IRA in 2020 or Later](#).)

It is easy to be confused, especially after the many years that inherited IRAs required annual distributions. The 10-Year Rule is simple. By 12/31 of the 10th anniversary year of the owner’s death, the inherited IRA account must be completely distributed. While many likely will choose to spread distributions over the 10 years for tax purposes, it is not required.

If the trust does not meet the see-through trust rules, then the distribution options are lump sum or five years.

Two additional notes:

1. Typically, the IRA custodian will ask the trustee to determine the beneficiary status; that is, whether the beneficiary is an EDB (including age) or a DB.
2. A trust requires administration. Trust accounting requires that the trust track all monies in and out. Typically, the IRA custodian sends the check to the trust. The trust records the check as income, then makes any appropriate distributions. The [Form 1099-R](#) goes to the trust. It is best to consult legal and account professionals to assure the administration is accurate.

Summary of Beneficiaries under New Rules

EDBs	DBs	Entities
Spouses	Non-spousal individuals	Charities
Disabled or chronically ill	Certain trusts	Estates
Not more than 10 years younger		Certain trusts
Minor children		
Certain trusts		

Additional Resources and Links

[The SECURE Act: Key Retirement Provisions](#)

[SECURE Act/Further Consolidated Appropriations Act, 2020](#)

[“See Through” Trusts – What You Need to Know](#)

[About Form 1099-R, Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.](#)

[Inherited IRAs: A Guide to Inherited IRAs in 2020 or Later](#)

[Frequently Asked Questions about the SECURE Act](#)

[Help Enhance Heirs Inheritances Using a Roth IRA](#)

[Help Offset Taxes for Your Beneficiaries](#)

Next – Using the “Ghost” Life Expectancy

Did you know that an inherited IRA could involve a ghost? Sometimes, a ghost life expectancy is a good distribution option. Look out for our next blog post, where we will discuss using a “ghost,” and answer more questions, including how taxes might affect decisions.

For additional information, please contact the Retirement Strategies Group at (800) 722-2333, ext. 3939, or email RSG@PacificLife.com.
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