



ED SLOTT'S IRA ADVISOR

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July 2014

TAX & ESTATE PLANNING FOR YOUR RETIREMENT SAVINGS

U.S. Supreme Court Rules Inherited IRAs Not Protected in Bankruptcy

**Clark et ux. v. Rameker, Trustee, et al.,
Supreme Court of the United States,
No. 13-299, June 12, 2014**

In a landmark decision released Thursday, June 12, 2014, the U.S. Supreme Court ruled unanimously, 9-0, that inherited IRAs are *not* protected in bankruptcy under federal law. The decision has far reaching ramifications and depending on your clients' beneficiaries' specific circumstances, may give you pause as to who – or what – is the best beneficiary for an IRA.

Facts of the Case

Ruth Heffron named her daughter, Heidi Heffron-Clark, as her IRA beneficiary. In 2001, Ruth died. Heffron-Clark then set up a properly titled inherited IRA and began receiving monthly distributions. At the time, the inherited IRA was worth just over \$450,000. In 2010, she and her husband filed for bankruptcy when the inherited IRA was worth about \$300,000.

As part of the bankruptcy proceedings, Heffron-Clark claimed

the inherited IRA as an exempt asset consisting of retirement funds as prescribed by the Bankruptcy Abuse Prevention and Consumer Protection Act (BAPCPA) of 2005. The law, which was, on the whole, designed to make filing for bankruptcy less appealing, had a silver lining for retirement account owners. BAPCPA afforded a great deal of bankruptcy protection to retirement funds, providing IRAs and Roth IRAs with a cumulative \$1 million inflation-adjusted exemption (currently \$1,245,475) and employer-sponsored plans with an unlimited exemption.

While that may seem fairly straightforward, the seemingly innocuous use of the phrase "retirement funds" in the bankruptcy statute muddied the waters. As several other bankruptcy trustees had done in recent years (with varying degrees of success), the bankruptcy trustee representing Heffron-Clark's creditors challenged the exempt status of her *inherited* IRA, claiming that the account did not contain "retirement funds" and thus, was not protected in bankruptcy under the federal bankruptcy rules.

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Guest IRA Expert

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