



ED SLOTT'S IRA ADVISOR

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Tax & Estate Planning for Your Retirement Savings

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Insert: 2021 Health Savings Account Chart

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Beneficiary Planning for Health Savings Accounts

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IRA Planning for Special Needs Beneficiaries

"Not every client has special needs issues, but every advisor will have a client who does." - Ed Slott

IRA planning for special needs beneficiaries can be challenging. Navigating both the requirements for IRA beneficiaries and those for special needs trusts has never been easy — and now the SECURE Act adds some new wrinkles.

Special Needs Trusts

While an individual with special needs can be named directly as an IRA beneficiary, it is generally not recommended. This is where trusts become valuable. The purpose of the special needs trust (sometimes called "supplemental needs trust") is to both protect the funds for the special needs individual and to provide amenities that will not jeopardize any governmental benefits.

"Amenities" are items other than food or shelter, such as gifts, education, vacations, and other personal items to enhance their lives. That's why some of these trusts are called supplemental needs trusts — because they can provide nice extras that won't cause special needs beneficiaries to lose any benefits.

When it comes to special needs trusts, there are two categories: first-party trusts and third-party trusts.

Trusts funded by the beneficiary's own assets are first-party trusts. They can be used to help special needs individuals reduce their total assets and income to help qualify for Medicaid and other benefits. However, upon the death of the grantor/beneficiary, any remaining trust assets must first be used to repay the individual's state for any governmental benefits received.

Third-party special needs trusts, on the other hand, are funded with assets belonging to someone other than the special needs individual, such as the beneficiary's parents. During the special needs person's life, first and third-party trusts operate in the same manner, but, upon the death of the special needs individual, there is a key difference: *With third-party special needs trusts, all remaining trust assets at the special needs person's death can pass to remainder beneficiaries.* There is no requirement to repay the state for any benefits received.

In [PLR 201116005](#), an IRA owner died leaving his IRA to his children, one of whom with special needs. After inheriting, the child with special needs wanted to transfer his share of the inherited IRA to a special needs trust established for his own benefit.

The IRS allowed the post-death transfer to the special needs trust

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