
Considerations before naming your estate as an IRA beneficiary

Naming the beneficiary to your IRA is an important step toward meeting your legacy goals. Unfortunately, many investors take little notice of this step in their financial planning. Consequently, they create situations that do not maximize the benefits their IRA savings might offer these beneficiaries.

High impacts to consider

Subject to probate—When your Estate is the beneficiary of your IRA, your IRA will be distributed according to your Last Will and Testament, if you have one, and if you don't, state law will dictate who gets your IRA assets. As a result, your IRA, which should be a non-probate asset, will become subject to probate and the related legal complications. Additionally, the IRA assets could be subject to potential creditor claims and what could have been distributed to your heirs directly will now be required to go through the probate process before being distributed to them. If you name individuals, instead of your Estate, as your IRA beneficiary then your Last Will and Testament is not used to determine who gets your IRA assets, nor will these assets be tied up in the probate process.

Limited distribution options—When your Estate inherits your IRA, the distribution options available are limited. If you die before your required beginning date (RBD), generally April 1 following the year you reach RMD age¹, the IRA will be distributed within five years. If you die after your RBD, required minimum distributions (RMDs) are based on your remaining single life expectancy.

Tax implications—Distributions from the IRA to the Estate are usually taxed at the Estate federal income tax rate, which can be significantly higher than the tax rates for individual taxpayers.

If you determine that naming your Estate is still the best option for you, be sure to review that decision with your tax advisor and/or legal counsel. You will want to ensure that your choice and the specific reasons for your choice support your overall tax and estate planning goals.

¹RMD age is 70½ for those who turned 70½ on or before 12/31/2019, and 72 for those who turned 70½ on or after 1/1/2020.

Other beneficiary options to consider

Before deciding on your IRA beneficiary, consider the following:

Naming an individual as your IRA beneficiary—By naming individuals as your IRA beneficiary, you are assured that your IRA will be paid directly to the person you want to receive these assets. Additional benefits of naming individuals directly are:

- They may benefit from continued tax deferral as well as the opportunity to better manage the tax implications while taking distributions.
- An IRA with Wells Fargo Advisors lets you choose between a standard or a per stirpes beneficiary designation. By selecting per stirpes, if your beneficiary predeceases you or disclaims their portion, their share would go to their descendants; usually their children. If you choose a standard designation, your beneficiary must be alive upon your death to inherit their share.

Naming a trust as your IRA beneficiary—Some investors may find that naming a trust is the best option for their IRA beneficiary designation. There are some situations, such as a special needs or a spendthrift beneficiary, where there is a need to limit the beneficiary's access to the IRA. In many situations however, a trust may be a poor choice as an IRA beneficiary. In fact, the bias is in favor of leaving the assets outright to named individuals, to better help manage taxes while taking distributions.

Talk to Wells Fargo Advisors

We suggest that IRA investors become educated on the various beneficiary planning methods that are now available to determine how to best meet their legacy goals. At Wells Fargo Advisors, we welcome the opportunity to work with you and your tax and legal advisors to help create an IRA strategy designed to help you achieve your desired result.

With you every step of the way

Everyone has a different vision of retirement that requires a unique financial strategy. Wells Fargo Advisors can support you in your retirement planning process by providing the guidance needed to make informed choices. We will meet with you and help create a comprehensive plan that takes into account your complete financial picture. Your Financial Advisor will be with you every step of the way to review your progress and adapt your plan as needed. Working together, we'll design and implement a retirement plan that can help you live out your unique vision of retirement.

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