August Question of the Month

T. BRIAN HAYES

"Hello Brian. My husband and I have been updating our estate planning documents, and we took out a revocable living trust to save on probate fees. We have been advised to change all our beneficiaries on our retirement accounts to this new trust. Is that what we should do? Thank you." Stephanie

Hello Stephanie. Thanks for sending in this great question. No, that is not what you should do. That is very bad advice based on the information that you provided to me. Retirement accounts avoid probate automatically if a human beneficiary is named, so there is no reason to change the beneficiary to a revocable living trust to avoid probate fees. And in most cases, doing that will cause excessive taxation of those retirement account dollars. Let me explain.

Many times people think that naming your trust as your retirement account beneficiary is designed to protect your kids and save taxes and fees. Unfortunately, making that move in most cases backfires, and will hurt your kids, not help them. Take a $2 million IRA as an example. If that IRA is distributed under a failed trust, it can trigger an extra $400,000 in federal tax that never had to be paid.

This is because most trusts do not qualify to receive retirement account dollars. And if the trust does not qualify, it loses the ten-year payout provision and gets taxed at trust rates instead of individual tax rates. And trust brackets are brutal. In 2026, a trust hits the top

37% federal bracket at just $16,000 of retained income. A single filer doesn't reach that rate until roughly $640,600.

Now, here is the good news. If done correctly, a trust can still be a smart IRA beneficiary. It can add creditor protection, control distributions to a minor or a beneficiary who can't manage a lump sum, and keep assets out of a beneficiary's divorce. But it only works with the right trust structure and the right trust language. But again, most existing trusts have neither.

So, bottom line here is this. There are essentially two paths to take here. For most people, naming individual beneficiaries directly on the IRA custodian's beneficiary form is the simplest option, and it sidesteps the trust tax problem entirely. But if you need trust-level protection, have a qualified estate planning attorney draft a trust built specifically to hold IRA assets under current SECURE Act rules.

To learn more details about this question and get answers to many more retirement planning questions that have been sent into us, join us this weekend on The Retirement Money Matters Educational Radio Show Program where we will answer this question in more detail as well as several more retirement planning questions.

The show airs Saturday morning at 6 on WIBC (93.1 FM), Saturday morning at 8 on 930 AM The Answer in Sarasota, Sunday morning at 8:00 on WWKI (100.5 FM) or anytime online at www.theretirementmoneymattersshow.com. You can also obtain this information by reaching out to us at Hayes Advisory Group at 452-PLAN (7526), 800-939-1603 or brian@hayesadvisorygroup.com.

FOUNDER & PRESIDENT

T. Brian Hayes is the Founder, Owner, and CEO of Hayes Advisory Group, boasting over 30 years of experience in guiding clients towards their retirement goals. Specializing in pre-retirees and retirees, he ensures clients understand their planning options and tailor's strategies to their unique needs. A strong advocate for education, Hayes regularly writes and speaks on financial topics, hosts a weekly radio show on retirement, and instructs for The Prepare Institute, a 501-3 non-profit educational institution. He holds memberships in prestigious financial organizations like The Indiana Network of Estate Planning Professionals and The National Association of Insurance and Financial Advisors. Hayes is a distinguished member of the Million Dollar Roundtable (MDRT), with multiple honors recognizing his professional expertise and ethical standards. Based in Central Indiana, he serves clients across the U.S. and Canada, residing with his wife and three children.

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