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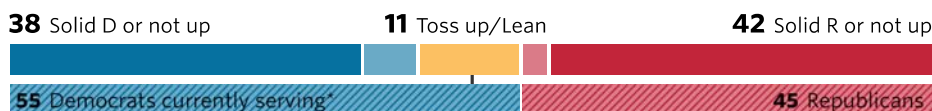
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Court Ruling Sparks Rush to Shield IRAs

Decision Stripping Inherited Accounts' Protection From Creditors Has Families Scrambling

By **ROBERT POWELL**

Oct. 12, 2014 5:05 p.m. ET

When is an individual retirement account not a retirement account? When the Supreme Court says so.

In a unanimous decision in June, the Supreme Court ruled that an inherited IRA is no longer a retirement account—noting that a beneficiary can withdraw any amount from the account without penalty whenever he or she wishes—and so isn't protected from creditors under federal bankruptcy law.

As a result, financial advisers and families are taking steps to shield IRA assets for children and other beneficiaries in case those heirs ever find themselves in bankruptcy proceedings.

Many advisers are urging clients to establish a trust as the IRA's beneficiary, or to set up an IRA as a trust account while the owner is still alive. (In either case, the original owner has access to the money before he or she dies.) Trusts,

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depending on the type and terms, can shield assets, including an IRA, against creditors.

“The prudent thing to do, if you’re concerned about the child’s or other beneficiary’s potential creditors, is not to leave the IRA outright to the child,” says Natalie Choate, a lawyer with Nutter, McClennen & Fish in [Boston](#).

The challenge is identifying and employing the right kind of trust, which can be difficult given the complexity of the issue. The type of trust you should use will depend on “how many beneficiaries, the tax goals, asset-protection goals, as well as many other variables,” says Vincent Bonazzoli, a lawyer who owns the [Family Estate Planning Law Group](#) in [Lynnfield, Mass.](#)

And what about those who already own an inherited IRA? Depending on where they live and how long they’ve lived there, those assets might still be protected in bankruptcy proceedings. Several states—including Alaska, Arizona, [Florida](#), [Missouri](#), North Carolina, Ohio, South Carolina and Texas—have laws that afford such protection in certain cases, even in the wake of the Supreme Court decision, says Edwin P. Morrow III, senior wealth specialist at Key Private Bank Wealth Advisory Services in [Dayton, Ohio](#).

Finally, the Supreme Court didn’t specifically address surviving spouses who inherit an IRA, so their status isn’t certain. But financial advisers recommend that spouses roll over an inherited IRA into one under their own name. Other beneficiaries don’t have that luxury.

Mr. Powell is the editor of Retirement Weekly and a columnist at MarketWatch.com. Email: encore@wsj.com.