

## How to Set Up Split, Inherited IRAs for Children

*I split my IRA evenly into two accounts so I can leave a separate IRA to each of my two sons. But Vanguard, my IRA custodian, sent me a letter stating that, as of mid-September, I have to use the same beneficiaries for both IRAs. I called to ask about it, and a customer-service supervisor said that if I send Vanguard a letter, it will make an exception for me and honor my request to leave each IRA to a different son.*

*But what can I request so I have some kind of record that will protect my wishes? Will I get a confirmation, and will they honor this—or am I creating more problems for my sons instead of making things easier for them?*

Alice Harms  
Chesterfield, Va.

**A**N INDIVIDUAL RETIREMENT ACCOUNT can be a great inheritance that pays off for a long time—as long as you follow the rules.

Although a surviving spouse can simply roll over an inherited IRA into his or her own account, it's a little trickier for other beneficiaries. To get the most out of such an account, they should split it up. Then, each beneficiary can use his or her own life expectancy to take required minimum distributions each year, prolonging tax-deferred growth on the bulk of the inherited assets.

It takes a few steps—with specific deadlines—to set up an inherited IRA successfully. For starters, you have to make sure you split the account by Dec. 31 of the year following the year of the original IRA owner's death. You also have to retitle the account like this: "John Smith, IRA (deceased on May 21, 2007) F/B/O John Smith Jr., beneficiary." (F/B/O stands for "for the benefit of.") The

Internal Revenue Service describes the rules in Publication 590 at [www.irs.gov](http://www.irs.gov).

A small number of particularly forward-thinking parents, such as yourself, take the step of setting up separate IRAs so their children don't have to worry about splitting up the accounts once you're gone, and designating a different child on each account's beneficiary form. (Note that the beneficiary form—not your will—dictates who gets your IRA.) "You're doing the kids a favor by not making them go through all of this," says Ed Slott, an IRA consultant in Rockville Centre, N.Y. "Many beneficiaries and advisers don't know how to do the split. If they screw it up, the money's taxable, and it can't be fixed."

As you have discovered, IRA custodians have a say in the way beneficiary forms work. In this case, Vanguard Group confirmed that it is encouraging IRA holders to adopt what it calls "plan level" beneficiaries, meaning you would name the same beneficiaries for all of your IRAs of the same type. "We believe this approach greatly simplifies matters for clients and ensures that the assets will pass according to their wishes," says John Woerth, a Vanguard spokesman.

But Vanguard also says it will try to work with customers who need more specialized beneficiary designations. Customers with special requests involving beneficiary designations should consult with Vanguard, as you have done, to try to work them out, and then submit a letter detailing your instructions. "We will maintain the letter on file" and you should as well, Mr. Woerth says.

Some IRA custodians note the beneficiary designation on each account statement; also check once a year that the custodian has your beneficiary form on file, Mr. Slott recommends. IRA owners who leave a single IRA to more than one beneficiary should "make sure you designate the percentage each beneficiary should get," he adds. Otherwise, some custodians simply pay the first-listed beneficiary.

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