the RMDs that accumulate in the trust in the interim will be taxed annually at the rates that apply to trusts. Income tax brackets for trusts are much lower than for personal income—for 2014, the highest tax rate of 39.6% kicks in on trust income exceeding $12,150. That means more income will be hit by taxes and at higher rates. You could avoid this issue by converting your IRA to a Roth IRA; you'll pay income tax on the conversion, but distributions from the trust will be tax free.

The Power of Youth

Whichever way you pass on your retirement account assets, leaving an IRA can provide a grandchild with a significant financial foundation. Heirs of both traditional and Roth IRAs must take required minimum distributions over their own life expectancies if they want to "stretch" the tax shelter. For young heirs, the account could grow for decades. The first RMD must be taken the year after the original owner died. The distributions will be taxable if they come out of a traditional IRA and tax free if they come out of a Roth.

Because of longer life expectancy, a younger heir can withdraw less money than an older one. The first RMD for a ten-year-old who inherits a $200,000 IRA that grows 6% a year would be about $2,950. If instead a 20-year-old inherits that IRA, she would have a first RMD of about $3,400. You can test out beneficiary RMD scenarios with an online calculator at **www.schwab.com/benermdcalc**.

The amount a young heir must withdraw will increase each year as she ages and the account grows. As with your own RMDs, the distribution calculation factors in both age and account balance. Based on the 6% growth rate, the second distribution of the ten-year-old above would rise to about $3,130. By the time that heir turns 68, the account would be worth about $1.3 million—and the RMD would be about $89,560.

If you have ever stashed nondeductible contributions into the IRA, keep copies of Form 8606, which tracks those contributions. That money isn't taxable when it comes out of the IRA, but heirs will need the paperwork to prove that. "People end up paying tax when they don't need to," Appleby says.

Another bonus of a young grandchild inheriting a traditional IRA: The distributions will be taxed at the tax rate of the child, which is likely to be lower than the grandparent's tax rate or the parent's tax rate. If the child has no other taxable income for the year and if the annual distribution is small enough, she may owe no tax at all. **K —RACHEL L. SHEEDY**

ESTATE PLANNING

Your Young-Adult Kids Need an Estate Plan

IN DRAWING UP your estate plan, you probably think you've done the most you can to protect your heirs. But if you have college-age children or single kids in their twenties, you've likely overlooked a key part: their own estate plans.

That's a big mistake, says Kyle Krull, an estate-planning lawyer in Overland Park, Kan. When each of his three daughters turned 18, they drew up—at dad's direction—durable powers of attorney for financial decisions and advanced health care directives. They named Krull and his wife as agents and the children's grandparents as successor agents. The daughters also designated their parents as beneficiaries of their investment accounts.

Parents do not have access to a child's medical records or financial accounts once a child turns the age of majority, which is 18 or 21, depending on the state. Krull says he has seen, both as a lawyer and as a member of a local hospital's medical ethics committee, many instances of young adults who are unable to communicate their wishes, usually as the result of a serious accident.

Without a health care directive, parents cannot make medical decisions for their children or even get information on a child's condition. In the midst of an emergency, parents must ask a court to appoint them as legal guardians, Krull says. "Parents are then under the supervision of a judge," he says.

Your young-adult child may also have a bank or investment account, with money saved from work, inheritance or gifts. In many states, custodial accounts, such as Uniform Gifts to Minors Act accounts, are transferred to the control of the minor once he or she turns the age of majority. The durable power of attorney for financial decisions enables the designated agent to oversee the account, perhaps paying bills and filing a tax return.

Your single child also should designate beneficiaries on any brokerage or retirement account. Otherwise, parents, who would be considered in most states as the heirs, may have to wait for the estate to go through probate. If the estate is small, parents in most states can avoid probate by filling a small-estate affidavit with the court. **K —SUSAN B. GARLAND**

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