IN THE COURT OF APPEALS OF IOWA

No. 22-2052
Filed March 27, 2024

IN THE MATTER OF THE REVOCABLE LIVING TRUST OF JEANNE M. WINN, Deceased.

JENNIFER NEAL, CASSIE SHORT, and KARAH SMITH f/k/a KARAH SHORT, as beneficiaries of the Revocable Living Trust of Jeanne M. Winn,
Appellants,

vs.

JAMES GRUBER, as Trustee of the Revocable Living Trust of Jeanne M. Winn,
Appellee.

Appeal from the Iowa District Court for Polk County, Craig E. Block, Judge.

The beneficiaries of a trust appeal from a ruling denying their motion to terminate the trust. **AFFIRMED.**

Chad D. Brakhahn and Joseph J. Porter of Simmons Perrine Moyer Bergman, PLC, Cedar Rapids, for appellants.

Heather Timmins and Aaron W. Lindebak of Grefe & Sidney, PLC, Des Moines, for appellee.

Considered by Bower, C.J., and Buller and Langholz, JJ.

BULLER, Judge.

The beneficiaries of a trust appeal from a ruling denying their petition to terminate the trust. After considering the material purposes of the trust, we agree with the probate court that continuing the trust is necessary to carry out at least some of those purposes. We affirm.

I. Background Facts and Proceedings

Jeanne Winn created the Revocable Living Trust of Jeanne M. Winn in 2015, naming herself as trustee while living and her brother James Gruber as trustee upon her death. Jeanne was the sole beneficiary while living, and the beneficiaries upon her death were her daughter Jennifer Neal and her granddaughters Cassie Short and Karah Smith (f/k/a Karah Short). Jeanne died in 2020, with more than one million dollars in trust assets—a large portion of which are held in an individual retirement account (commonly known as an "IRA"). Upon her death, the trust became irrevocable.

As pertinent to this appeal, the trust provided:

> I direct that the residue of my trust/estate shall be administered by my Trustee in accordance with the terms of the Jeanne M. Winn Trust, described hereinafter.
>
> After the Grantor's death, the Trustee of the Jeanne M. Winn Trust shall pay 3% of the Trust estate each year following my death to my daughter Jennifer Neal. If any qualified monies ([IRAs], 401(k), etc) can be distributed over the grantor's lifetime, the distribution shall then become the greater of that allowable minimum distribution, or 3%. In addition, the Trustee in its sole discretion may pay principal to my daughter Jennifer for her health, maintenance and education.
>
> After the Grantor's death, the Trustee may pay principal, in its sole discretion, to my granddaughters, Cassie Short and Karah Short, for their health and education. In addition if either granddaughter shall complete a four year postsecondary education, such granddaughter shall be paid $50,000.00 from the Trust principal.

> The Jeanne M. Winn Trust shall continue to exist for [twenty] years following my death. At that time, the trust is to be divided in the following manner:
>
> 50% to my daughter, Jennifer Neal
> 25% to my granddaughter, Cassie Short
> 25% to my granddaughter, Karah Short

When Jeanne created the trust, Jennifer was in her mid-40s and Cassie and Karah were college age.

The beneficiaries jointly petitioned to terminate the trust in 2022, and each testified at an evidentiary hearing in probate court. Jennifer, age 54, wanted to terminate the trust because the net value the beneficiaries would receive over twenty years would be greater now than if the trust continued its full duration—partially because of tax consequences. Karah, age 26, similarly wanted to terminate the trust because she would receive more money that way; Karah had already received trust money for her education, including a $50,000 graduation payment for completing her four-year degree. Cassie, age 29, did not oppose terminating the trust but testified it was her mother Jennifer's idea to do so. Cassie attended college without graduating and received trust money for student-loan payments but not the $50,000 graduation payment. She also had no immediate plans to complete her degree and was "on the fence" about doing so regardless of the graduation payment.

The beneficiaries presented expert testimony and a spreadsheet explaining what they described as significant tax disadvantages associated with the trust enduring for twenty years. The crux of the testimony was that the Setting Every Community Up for Retirement Enhance Act of 2019 ("SECURE Act") changed tax treatment of inherited IRAs, and the beneficiaries of this trust would realize less

money if the trust continued over its full term compared to terminating it today. The expert's calculations did not account for any distributions for health, education, or maintenance, or any tax decisions made by the beneficiaries upon receipt of monies if the trust terminated.

James and his sister Jeanne had a "rocky relationship" for much of their lives but grew close after Jeanne's husband died. James described conversations with Jeanne where she shared concerns about Jennifer's spending habits. According to James, Jeanne was worried Jennifer would "blow" the money if she received it in a lump sum without restrictions, and Jeanne wanted the money "to last for a long time so [the beneficiaries] wouldn't spend it right away." In James's words: "[H]er purpose, I truly believe, was to spread it over time and make sure that whenever the girls wanted to go back to school, the money was going to be there." James opposed termination of the trust because he believed it would undermine or conflict with Jeanne's wishes, and he promised her he would abide by the trust terms. In managing the trust, James has not denied any request for a distribution, consistent with the trust's terms. The trust pays James a 1.5% trustee fee annually.

James and Jeanne's sister Julie Vollmer similarly described Jeanne's goals of providing for her grandchildren's education and welfare and ensuring Jennifer did not receive a large lump sum upon Jeanne's death. Julie also testified Jeanne intended for the trust to last a long time and had rejected shorter-term suggestions. And she relayed that Jeanne had specific concerns about Jennifer making "dumb ass" decisions with money she should have saved for retirement. (Julie told the probate court Jeanne "liked to swear.")

Jeanne's financial advisor, who now advises the trust, explained Jeanne was not concerned about tax consequences but was concerned about "mak[ing] sure that the money [in the trust] lasted." The financial advisor specifically warned Jeanne that the IRA going to a trust was not tax-efficient, but Jeanne still "wanted everything to go to the trust."

The probate court denied the petition to terminate the trust, finding continuing the trust was potentially necessary to carry out the goal of incentivizing Cassie's and Karah's education and was necessary to carry out the asset-protection intent to restrict Jennifer's access to a lump sum. The beneficiaries appeal.

II. Standard of Review

We review this proceeding in equity de novo. Iowa R. App. P. 6.907; *In re Est. of Young* 273 N.W.2d 388, 393 (Iowa 1978) ("Trusts are traditional creatures of equity."). Although we are not bound by the fact findings of the probate court, we defer to its assessment of credibility. *In re Trust No. T-1 of Trimble*, 826 N.W.2d 474, 482 (Iowa 2013); Iowa R. App. P. 6.904(3)(g). To the extent our review concerns interpretation of the probate code, we review for correction of errors at law. *Trimble*, 826 N.W.2d at 482; Iowa R. App. P. 6.907.

III. Discussion

"Our chief focus when interpreting a trust agreement is to effectuate the intent of the settlor or settlors." *Little v. Davis*, 974 N.W.2d 70, 76 (Iowa 2022). Courts are generally prohibited from dissolving a trust "before expiration of the term for which they were created, save in exceptional cases." *See In re Roberts' Est.*, 35 N.W.2d 756, 757–58 (Iowa 1949). One of those exceptional circumstances,

set forth by statute, allows a trust to be terminated with court approval and "with the consent of all the beneficiaries if continuance of the trust on the same or different terms is not necessary to carry out a material purpose." Iowa Code § 633A.2203(1) (2022). The beneficiaries assert this exception should apply.

Both the beneficiaries and the trustee seem to agree on two material purposes of the trust: (1) to incentivize Cassie's and Karah's education; (2) and to ensure there are assets left in the trust for Cassie and Karah to receive. The parties disagree over whether a third purpose of the trust was to protect against Jennifer's spending habits, which required she not receive a lump sum before retirement. Because we must evaluate whether continuing the trust is necessary to carry out a material purpose, we need to first decide whether the trust's asset-protection provision reflects a material purpose.

Iowa Code section 633A.2203(5) recognizes that asset protection can be evidenced not only with magic clauses like a "spendthrift provision"—which provides certain protections from creditors and limits the beneficiary's ability to transfer their interest, *In re Bucklin's Est.*, 51 N.W.2d 412, 414 (Iowa 1952)—but also by a second, distinct option of "a provision giving the trustee discretion to distribute income or principal to a beneficiary or among beneficiaries." And that's exactly what this trust does, with its language granting "sole discretion" to the trustee to make payments to Jennifer for her "health, maintenance and education" and to Cassie and Karah for their "health and education." And while the trust's language does not restrict the beneficiaries' ability to pledge or assign their future benefits under the trust, that does not change the discretion granted to the trustee reflecting asset-protection intent as outlined in the second option of

section 633A.2203(5). Following the statutory presumption that granting discretion over distributing income or principal reflects an asset-protection goal "presumed to constitute a material purpose of the trust," we agree with the probate court that guaranteeing a continuing income—instead of a large sum of money to Jennifer before retirement—was a material purpose.

To recap, the three material purposes of the trust are to incentivize Cassie's and Karah's education, to ensure there are assets left for them to receive, and asset protection as relates to at least Jennifer. We now turn to whether continuing the trust is necessary to carry out these purposes. *See* Iowa Code § 633A.2203(1). And we come to the same conclusion as the probate court. First, as to Cassie's and Karah's education, the trust still serves a necessary purpose in motivating Cassie to finish her four-year degree, even if she is "on the fence" about more school right now. Had Jeanne intended for Cassie to receive more money despite not completing her education, Jeanne could have included such a provision, and its absence suggests maintaining the $50,000 carrot carries out Jeanne's wishes. We also recognize the trust provides generally for "education" and is not limited to a four-year degree, so trust funds could be distributed to Cassie or Karah (or Jennifer if she so desires) for additional credentials or degrees in any field, again consistent with Jeanne's expressed desires. Second, as to asset protection, we conclude continuing the trust is necessary to carry out Jeanne's intent that the money "last" and Jennifer not receive a large lump sum of money until retirement, as Jeanne feared Jennifer could not prudently manage a large sum. These material purposes each independently support continuing the trust.

We recognize the significant tax consequences argued by the beneficiaries may—and perhaps will, barring more changes to the tax code—reduce the total amount of real money they receive from the trust. Assuming without deciding the math offered by the beneficiaries' expert and in the briefing is correct, the total tax drag (and trustee costs) may be hundreds of thousands of dollars. But as the probate court recognized, "the purpose of the trust was not to maximize the tax ramifications of the payout" to the beneficiaries. This rationale is supported by evidence that Jeanne was warned about tax consequences relating to IRAs by her financial advisor and offered alternatives before she died. And she both declined to tinker with the trust and reiterated she was not concerned with taxes. It is not our place to second-guess Jeanne's intent in forming the trust, and that we or the beneficiaries might make different financial decisions based on tax consequences is not a legal basis for termination.

AFFIRMED.