Stretch IRA

Beneficiaries can stretch distributions from an IRA over their life expectancies for ongoing tax advantages

The IRA (Individual Retirement Account) is a proven and valuable means by which millions of Americans accumulate retirement assets on a tax-deferred basis. And at retirement, the IRA rollover is a powerful tool for taking control of retirement assets from 401(k) plans and other employer-sponsored plans.

While the IRA can be an important vehicle for retirement planning, it is also an effective way to leave a legacy for loved ones. However, when beneficiaries inherit an IRA, income taxes due on the inhertited amount are often significant.

Fortunately, IRA beneficiaries have some flexibility that can ease this burden.

The stretch IRA strategy provides an opportunity for the beneficiary to extend the distributions of a Traditional, Roth, SEP or SIMPLE IRA. It allows the beneficiary to take distributions of the proceeds over a much longer period of time than five years or lump sum distribution options. This is accomplished by taking annual required minimum distributions based on the life expectancy of the beneficiary. By minimizing the distribution amount, the income taxes due are also minimized, and the funds keep accumulating in a tax-deferred account.

Example A - Spouse is the Beneficiary

Jack retires at age 65. After participating in his employer's plan for 20 years, he has accumulated $100,000 in assets. He establishes an IRA rollover and names his wife, Diane, age 58 as beneficiary. Jack passes away at age 68. Diane elects spousal continuation and accepts the IRA into her name and makes her daughter Anne, age 31, her beneficiary. Diane starts taking the required minimum distributions when she reaches age 70½. Diane passes away at age 80 having grossed, $76,830. Anne, now age 50, elects to stretch the IRA and names her son Sean, age 30, as her beneficiary, while continuing to receive distribution payments. Anne passes away at age 77. Throughout the 27 years, she received $311,816 before taxes. Sean starts to receive Anne's remaining distributions. He receives a total of $179,373 before taxes.

Over time, Jack's $100,000 in accumulated assets provided more than $568,019 as a legacy for his family.

Initial IRA amount	**$100,000**
Total distribution	**$568,019**
Total years in distribution	**44**

Hypothetical results are for illustrative purposes only and are not intended to represent future performance. Account values may fluctuate based on the features of the contract. This illustration is based on a 5% rate of return, a 57-year time frame, and current tax laws. There is no assurance that the hypothetical rate of return or current tax laws will remain in effect for the entire period.

Example B - Child is the Original Beneficiary

Jane is age 55 and owns an IRA. At Jane's death, her 25-year-old son, Jim, is unable to continue the account into his name – an option available only to spousal beneficiaries. In order to continue the account, Jim must keep the IRA in Jane's name and remain listed as the beneficiary. Jim's options are to withdraw the assets within five years, enter into a payment plan, or stretch the IRA with minimum payments based on his life expectancy. He opts to stretch the IRA and take minimum payments, and names his spouse, Susan, the beneficiary. After five years of taking payments, Jim dies at age 30. Susan decides to stretch the IRA and continue receiving payments based on Jim's life expectancy. If Susan dies before the assets are depleted, any remaining payments will go to her beneficiary(ies), should they choose to stretch the IRA and continue receiving minimum payments based on the same payment schedule of Jim's life expectancy.

Strategies to Make Your IRA Last Longer

When you set up your IRA, be sure to name both primary and contingent beneficiaries, to provide a clear line of succession in the event that something happens to the primary beneficiary. Make them aware of your intentions, because there are time limits during which IRA account distributions can be stretched. Otherwise, your beneficiaries may be forced to take the assets in a lump sum – resulting in a potentially larger tax burden. Failing to name a beneficiary may result in your assets going to your estate.

The final decision on whether an IRA will be stretched is left to the beneficiaries named on the IRA. If your goal is to enable your children and grandchildren the ability to receive your IRA assets over their lifetimes, your wealth transfer strategy may need to reflect a longer time frame – based on beneficiaries' ages – than if you were planning to use the assets yourself.

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