STRETCH IRA PLANNING STRATEGIES

What is a "Stretch" IRA?

The stretch IRA is the concept of a wealth transfer method that allows you to "stretch" your IRA over to other future generations.

As an IRA owner, you are normally required to take required minimum distributions, also known as RMDs, and from your IRA at age 70.5 based on the IRS life expectancy table. If you inherit someone else's IRA, you will be required to take minimum distributions each year from the IRA account you inherited, based on your life expectancy figure - regardless of your age.

IRA accounts, at the death of the original owner, will pass by contract to a beneficiary who was designated. It is a common practice for most IRA owners to name their spouse as the primary IRA beneficiary and their children as the contingent beneficiaries. While this may be a good strategy, it might also require the spouse to take more taxable income from the IRA than what he/she really needs when he/she inherits the IRA. Thus, if income needs are not of concern for the spouse and children, then naming younger beneficiaries (such as grandchildren) would allow you to *stretch* the value of the IRA out to the other generations. This is possible because the grandchildren are younger and thus, their required minimum distribution (RMD) figure will be much less at a younger age.

Note - The beneficiary will have to take the RMDs each year after inheritance based on the new life expectancy figure, which must be computed each year from the IRS Publication 590 (IRA's) from the Appendix C- Life Expectancy Tables section.

When is a good time to consider a "Stretch" IRA?

If you will not need all the assets in your IRA to cover the expenses of retirement, then that might be a good time to consider the stretch IRA strategy. This strategy can "stretch" the time during which the IRA's assets have the potential to grow tax-deferred; and as a result, a "stretch" IRA can serve as an important estate-planning tool.

Ways to *stretch* a traditional IRA?

- Naming your spouse as the beneficiary of your traditional IRA, then when you pass, he or she can roll the balance into their own traditional IRA and name a younger beneficiary.
- Your spouse will then need to take required minimum distributions (RMDs) over his or her life expectancy. But, if your spouse is under age 70½ when you die, he or she can delay taking the RMDs until he or she reaches 70½. Then after your spouse dies, the second generation beneficiary may transfer the remaining assets in their IRA into an inherited IRA and begin taking RMDs over his or her own life expectancy. This IRA is called an inherited IRA because it can hold only inherited assets.
- You may also name a younger non-spouse beneficiary directly who can also choose to transfer the assets to an inherited IRA and take RMDs over their life expectancy after you die.

Can you "Stretch" a Roth IRA?

Stretching a Roth IRA is very similar to stretching the traditional IRA.

Naming your spouse as beneficiary of your Roth IRA, he or she can then roll the balance into his or her own Roth IRA when you pass and also name a younger beneficiary. But with a *stretched* Roth IRA, however, your spouse is never required to take RMDs. Thus, this will mean that the assets may continue their tax-deferred status longer than with a stretched traditional IRA. When your spouse dies, their beneficiary must begin taking RMDs based on their life expectancy and because they will be taken from a Roth IRA, those distributions (if qualified) will be tax-free.

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