



# Particulars of the Stretch IRA

The stretch IRA concept is a wealth-transfer strategy that can help you extend the period of tax-deferred earnings on your retirement assets. After the owner of the IRA dies, the beneficiaries will also have the longest allowable period of tax-deferral on the required distributions of the IRA assets. This strategy can allow distributions from your retirement assets to be extended over several generations. Because of this, your family could save significant dollars in income taxes over their lifetimes.

A stretch IRA strategy can be established at any time, as long as you have named an individual person as the beneficiary. It is also important to name an individual person as a contingent beneficiary in case your primary beneficiary predeceases you. If set up correctly, your beneficiaries should be able to take their required IRA distributions over their individual life expectancies.

However, there are a number of steps that need to be followed to put this strategy in place. These steps include the following:

## 1. Selection of individual beneficiaries.

As previously mentioned, you will need to designate an individual beneficiary. Although there might be certain reasons for naming a trust as a beneficiary (e.g., asset protection for the ben-



eficiaries), you should keep in mind that you will jeopardize the ability to use this strategy if you do it. Even with a qualified trust, distributions must be paid out over the life expectancy of the oldest beneficiary. With this in mind, you could jeopardize your ability to stretch out distributions to your grandchildren if you name a trust as the beneficiary.

## Moving Money from Your 401(k) or Other Retirement Plans

Now that you have retired, are you considering shifting funds from your qualified retirement plan (profit sharing, 401(k), 403(b), etc.) to your personal IRA? This move can possibly give you more investment options and greater control over your hard-earned dollars.

In many cases you can contact your former employer(s) and have your retirement plan money transferred directly to your traditional IRA. In some cases, you may even be able to pay taxes and convert some of the money into a Roth IRA. By doing this, the money that you and your beneficiaries take out in the future will be tax-free. Roth IRAs are also not subject to the minimum distribution rules. This could allow you to provide your family with a significant source of tax-free money in the future. Please note, however, that wage earners in higher tax brackets could be limited in their ability to use these IRAs. It is important to note that retirement plan monies reinvested into a Roth IRA may be subject to a 10 percent federal tax penalty if withdrawn from the Roth IRA prior to age 59 1/2.

If you decide to move your company retirement account(s) to your IRA, there are some important considerations.

First, you may want to transfer the money in such a way that you are not subject to an automatic withholding tax. Plan custodians must withhold 20% for federal income tax from your distribution unless the money is going directly to another trustee. You would then only receive 80% of your qualified plan money, since the rest will go to the IRS for tax on the transfer. So if you do not set up the move carefully, the tax bite could be quite a surprise.

Next, you need to follow your former employer's transfer/rollover rules to the letter, or it will take a long time to get your money. Many pension plan administrators have specific forms you have to use; some may even require signature guarantees (from your bank). In other cases you might have a very tight window for getting your money out—for example, some administrators might require the request to be made by the 15th of the month preceding the end of the quarter before the quarter when you want to get the money. And then, you may have to wait another 90 days or more. Of course, the distribution rules often vary among administrators. For this reason, it is a good idea to learn what the rules are ahead of time.

## 2. Discuss your plans with an experienced advisor.

The benefits of this strategy could also be jeopardized if the IRA is not set up properly. Therefore, you need to speak with an experienced tax advisor who has worked with this strategy before.

## 3. Establish and maintain separate accounts for your beneficiaries.

If you have two or more beneficiaries, you need to set up a separate account for each one of them. You should also designate a certain percentage of your IRA assets to each of your beneficiaries. By doing this, each beneficiary can then choose to have their share distributed over their individual life expectancy.

## 4. Inform your beneficiaries of your plans.

You should also let your beneficiaries know about their future interest in your account when you pass away.

There are a couple of other things to keep in mind. The names of the account holder and the individual beneficiary must appear on the IRA account, and the beneficiary distributions must begin no later than December 31st of the year after the death of the account holder. If these rules are not followed, the funds from the IRA could be exposed to a significant income tax penalty for missing the required mandatory distribution (50 percent of the distribution that should have been taken).

On a final note, it should be remembered that this strategy may not be suitable for everyone. For example, if you think that you will need access to your IRA money to meet your daily living needs during retirement, then this strategy might not help you.

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