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Stretch Your IRA Stretch Income Over Three Generations

What if you could pass your retirement savings on to your children and grandchildren while still allowing the money to grow tax-deferred? You could do this when you learn how to “stretch your IRA.”

The First and Second Generations

For illustrative purposes, let’s say that Susan had an IRA and named son Adam as her beneficiary. When Susan passes away at age 70, Adam is age 40. This means that Adam is able to stretch the distributions from his inherited IRA over his remaining life expectancy of 42.7 years. Adam chooses to take his distributions over his life expectancy and must take his first distribution by December 31 of the year following the year of his mother’s death.

To determine the minimum amount that must be distributed each year, Adam must take the balance of the IRA as of December 31 of the previous year and divide this balance by his life expectancy. For the year following his mother’s death, Adam’s required distribution is the balance of the IRA as of December 31 of the year his mother died divided by 42.7. For subsequent years, Adam must subtract 1 from his life expectancy of the previous year and use this figure as the divisor of the December 31 balance of the previous year.

The Third Generation

Upon inheriting the IRA from his mother, Adam designated his daughter Jessica as beneficiary. Adam then dies 10 years later with a remaining life expectancy of 32.7 years (42.7-10). Upon Adam’s death, Jessica can continue distributions over the remainder of Adam’s remaining life expectancy. It’s important to note that only Adam’s life expectancy is considered when determining Jessica’s annual required minimum distributions. Jessica’s age and life expectancy are not relevant.

Stretching an IRA is not for everyone, especially if you plan to live on your IRA during retirement or plan to exhaust your IRA during your lifetime. And you are always free to withdrawal more than the required minimum distribution amount. But if you’re looking for a way to use your IRA to provide for your beneficiaries, stretching an IRA could certainly make sense. If you would like to learn more, please email or call me using the contact information above, and I will be happy explain this concept in more detail.

This communication is not intended to be tax, legal, or accounting advice. Issues could exist that can affect the tax treatment of a transaction. Therefore, taxpayers should seek advice from an independent tax, legal or accounting advisor before acting on any information presented. This information cannot be used to avoid tax penalties.

Stretch Income Over Three Generations

Susan names her son Adam as beneficiary

Susan passes away. Adam names his daughter Jessica as beneficiary and begins minimum annual distributions based on his life expectancy

Adam passes away and Jessica receives remaining distributions based on Adam’s life expectancy at time of his death

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