

Practice Tips on “Stretch” IRAs

Summary	<p>The stretch IRA concept is a distribution strategy that extends or “stretches out” payments from an IRA to a beneficiary, and possibly to a secondary beneficiary, for as long a period of time as permitted by law.</p>
Client Profile	<p>IRA owners and their beneficiaries</p>
Apply the Rules	<p>Any regular or Roth IRA, or savings incentive match plan for employees (SIMPLE), or simplified employee pension (SEP) IRA can be a stretch IRA; they are not a unique type of IRA.</p> <p>The stretching feature is achieved by applying standard IRA beneficiary distribution rules.</p> <p>IRA owners have the option to name beneficiaries. If an IRA owner does not name a beneficiary, the default beneficiary is usually the IRA owner’s estate. (Note: this may vary according to state law and the IRA plan agreement language).</p> <p>Following the death of an IRA owner, typically the beneficiary has the option to take life expectancy payments. Moreover, if the beneficiary has not exhausted the payments upon his or her death, a subsequent beneficiary may continue the payments over the course of the remaining schedule as initially established.</p> <p>Following the death of an IRA beneficiary, any remaining life expectancy is determined under the “nonrecalculation” method (i.e., using the established life expectancy figure, and reducing it by one for each year that passes).</p> <p>Be sure to check the IRA plan agreement for specific beneficiary distribution options.</p>
Ask a key question	<p>Do you want to stretch out IRA beneficiary payments for as long as possible?</p>
Example	<p>Taylor has named his sister Marie as beneficiary of his Traditional IRA. At the young age of 63, Taylor dies. Marie discusses her options with her financial advisor, and decides she wants to stretch out the payments for as long as she can, plus ensure that any remaining payments will be made to her son. To this end, by December 31 of the year following Taylor’s death, Marie begins taking life expectancy payments based on her own life expectancy. Using a form provided by the bank holding the IRA, Marie also names her son, Scott, as the secondary beneficiary of her inherited IRA. That way, upon Marie’s death, Scott could continue to receive, on an annual basis, any remaining payments from the IRA that would have</p>

been due to Marie, had she lived. The payments would be calculated using Marie's nonrecalculated life expectancy.