YOUR FINANCIAL FUTURE

Your Guide to Life Planning

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Tori Patrick
President
Progressive Strategies Financial Group
3145 E. Warm Springs Road #400
Las Vegas, NV 89120
702-893-1500
Fax: 702-549-1900
Tori@psfgwealth.com
www.psfgwealth.com

"Stretch"-ing Your Wealth to Future Generations

You probably understand that an IRA can be an effective way to save for retirement. But did you know that it can also be an effective estate-planning tool, allowing you to transfer wealth to future generations while reducing, deferring, or even eliminating income taxes on your retirement savings. Transferring wealth with a multigenerational "stretch" IRA could be an ideal solution for you.

A stretch IRA is a traditional IRA that passes from the account owner to a younger beneficiary at the time of the account owner's death. Since the younger beneficiary has a longer life expectancy than the original IRA owner, he or she will be able to "stretch" the life of the IRA by receiving smaller required minimum distributions (RMDs) each year over his or her life span. More money can then remain in the IRA with the potential for continued tax-deferred growth.

Creating a stretch IRA has no effect on the account owner's minimum distribution requirements, which continue to be based on his or her life expectancy. Once the account owner dies, however, beneficiaries begin taking RMDs based on their own life expectancies. Whereas the owner of a stretch IRA must begin receiving RMDs after reaching age 70½, beneficiaries of a stretch IRA begin receiving RMDs after the account owner's death. In either scenario, distributions are taxable to the payee at then-current income tax rates.

Beneficiaries also have the right to receive the full value of their inherited IRA assets by the end of the fifth year following the year of the account owner's death. However, by opting to take only the required minimum amount instead, a beneficiary can theoretically stretch the IRA -- and tax-deferred growth -- throughout his or her lifetime.

If you do not currently have any IRA beneficiaries, employing the stretch technique by naming a beneficiary could provide significantly more long-term benefits than simply allowing the account balance to be paid out to your estate as a taxable lump-sum distribution. So if you're unlikely to deplete your IRA assets during retirement, consider creating a multigenerational stretch IRA. By doing so, you could help to build long-term financial security for a loved one.

Consider the Implications

- The ability to name new beneficiaries after RMDs have begun means that you can include a child in your stretch IRA strategy regardless of when the child was born.
- The ability to change beneficiary designations after the account owner's death means that one beneficiary may choose to disclaim his or her own beneficiary status so that more assets pass to another beneficiary. For example, if an account owner names his son as the primary beneficiary and his grandson as the secondary beneficiary, the son could remove himself as a beneficiary and allow the entire IRA to pass to the grandson. RMDs would then be based on the grandson's life expectancy, not on the son's life expectancy, as would have been the case if the son remained a beneficiary. (When there is more than one beneficiary, RMDs are calculated using the life expectancy of the oldest beneficiary.)
- The ability of beneficiaries to base RMDs on their own life expectancy means that the money you accumulate in your IRA and leave to heirs has the potential to last longer and produce more wealth for younger generations.

Keep in mind that this information is presented for educational purposes only and does not represent tax or financial advice. While it's true that recent regulatory changes have indeed made it much easier to incorporate a stretch IRA into your multigenerational financial planning initiatives, it's always a good idea to speak with a tax professional before implementing any new tax strategy.

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