

Stretch IRAs

The single largest asset for many retirees, other than their primary residence, is their individual retirement account (IRA).

Today, with proper planning, your client's IRA can live on for their families long after they are gone. After an IRA owner's death, a spouse can roll the IRA into their name.

If the surviving spouse names a designated beneficiary of the IRA, the beneficiary can withdraw the funds from the IRA over their life expectancy after the parent dies.

Under the old rules, the beneficiary would simply cash out the parent's IRA and pay the income taxes on the distribution.

With the new rules, the beneficiaries have a planning opportunity to take only the required minimum distribution (RMD) based on their life expectancy, and the remaining account balance can grow on a tax-deferred basis.

The beneficiary can elect to remove more than the required distribution at any time if they need additional funds. However, if the beneficiary is younger than age 59 $\frac{1}{2}$, the beneficiary could be subject to a 10% penalty if they exceed the required minimum distribution.

The Planning Opportunity

Mr. John Smith, age 65, has an IRA valued at \$100,000. Let's assume that he earns 6 percent on his IRA and will be taking only his RMDs once he is age 70 and a half.

Assume he has one child whom he names the beneficiary of his IRA. His child (Bill) is age 40. Mr. Smith's required distribution schedule will look like the following.

Rates of return are for illustrative purposes only, and not indicative of any particular investment. Your returns will vary.

Mr. John Smith's IRA

Assuming 6% Return on Investment and taking Only RMDs

Year	Age	Required Distribution	Account Value 12/31
2005	65	\$0	\$106,000
2006	66	\$0	\$112,360
2007	67	\$0	\$119,102
2008	68	\$0	\$126,248
2009	69	\$0	\$133,823
2010	70	\$4,884	\$136,968
2011	71	\$5,169	\$140,017
2012	72	\$5,469	\$142,949
2013	73	\$5,787	\$145,738
2014	74	\$6,123	\$148,359
2015	75	\$6,479	\$150,782
2016	76	\$6,854	\$152,976
2017	77	\$7,216	\$154,938
2018	78	\$7,632	\$156,602
2019	79	\$8,031	\$157,967
2020	80	\$8,447	\$158,998
2021	81	\$8,883	\$159,665
2022	82	\$9,337	\$159,898
2023	83	\$9,810	\$159,682
2024	84	\$10,302	\$158,961
2025	85	\$10,741	\$157,758

Now let's assume Mr. Smith lives until age 85.

When he dies, his son will be 61. His son has two choices. First, he can simply cash out his dad's IRA (no stretch) and pay the income taxes due.

Lump Sum Account Liquidation in 2026

Total Distributions	\$157,758
Federal Income tax on total distribution	\$41,230
Net after-tax to Bill	\$116,528

Over 26 percent lost to taxes!

Or he can stretch the IRA.

Required Distributions From 2026 Through 2050

Total distributions	\$367,647
Federal income taxes	\$60,735
Net after-tax income	\$306,912

Only 16.5 percent lost to taxes!

With no stretch planning, Bill will inherit \$116,528, but with the stretch IRA planning, he will have access to \$306,912 over his lifetime.

The calculation assumes the son is married, is filing a joint return and has taxable income of \$50,000, excluding the required distributions.

Bill must begin taking required distributions from his father's IRA based on his own life expectancy starting the year following his father's death.

His father's IRA is now worth \$160,758, and his son, now age 61, must take a minimum distribution of \$6,465.

Bill must be listed as a designated beneficiary on the IRA beneficiary-election form for the stretch option to be valid.

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Mr. Bill Smith's Inherited IRA

Assuming 6% Return on Investment and taking Only RMDs

Year	Age	Required Distribution	Account Value 12/31
2026	61	\$6,465	\$160,758
2027	62	\$6,870	\$163,534
2028	63	\$7,301	\$166,045
2029	64	\$7,759	\$168,249
2030	65	\$8,247	\$170,096
2031	66	\$8,768	\$171,534
2032	67	\$9,322	\$172,503
2033	68	\$9,914	\$172,940
2034	69	\$10,545	\$172,771
2035	70	\$11,219	\$171,918
2036	71	\$11,939	\$170,295
2037	72	\$12,709	\$167,804
2038	73	\$13,533	\$164,339
2039	74	\$14,416	\$159,784
2040	75	\$15,364	\$154,007
2041	76	\$16,384	\$146,864
2042	77	\$17,484	\$138,192
2043	78	\$18,675	\$127,809
2044	79	\$19,970	\$115,507
2045	80	\$21,390	\$101,047
2046	81	\$22,965	\$84,145
2047	82	\$24,749	\$64,445
2048	83	\$26,852	\$41,460
2049	84	\$29,614	\$14,333
2050	85	\$15,193	\$0

After death occurs the IRA provider will move the assets from the decedent's IRA into the "inherited" IRA account.

Keep in mind the account will stay in the name of the deceased for the beneficiary's benefit but does not roll over into the son's IRAs.

Would you like to see a sample?