

Stretch Your IRA

STRETCHING AN IRA

Stretching your individual retirement account (IRA) is a simple strategy that can help you to stretch out your retirement distributions over multiple generations. The strategy can defer and help minimize the income taxes on the wealth you pass to your heirs from your IRA. With a properly designed IRA, your spouse, children, and even grandchildren can continue to enjoy the benefits of tax-deferred growth of the IRA assets along with a stream of income.

HOW IT WORKS

Typically, your spouse inherits your remaining IRA assets upon your death and continues the tax deferral. If you have no spouse or if your spouse has sufficient assets outside of the IRA to live comfortably, your children, grandchildren or other individuals can be named as beneficiaries.

When your spouse is named as beneficiary, upon your death, he or she transfers your remaining assets into his or her own IRA. The spouse then designates a younger beneficiary — a child or grandchild and takes required distributions after age 70½.

Upon your spouse's death, your child or grandchild continues the distributions over his or her remaining life expectancy. That way, he or she only pays income taxes on the amount withdrawn from the IRA yearly, rather than incurring a huge tax on the entire lump sum. The younger the beneficiary, the longer the distribution period can be stretched.

Upon inheriting the IRA, the beneficiary can name a subsequent beneficiary. If the first beneficiary

dies before depleting the account, the subsequent beneficiary may take a lump sum distribution of assets or can also maximize tax deferral and growth by continuing to take distributions over the remaining life expectancy of the original beneficiary.

ILLUSTRATING THE POWER OF STRETCHING

Suppose when you die, you leave an IRA to your spouse. Your spouse may then transfer the IRA into their own IRA, naming your children as the beneficiaries. By “stretching” your IRA over multiple generations, you and your beneficiaries can take advantage of the opportunity for substantial growth of the assets in the original IRA.

For example: suppose your spouse is 73 when he or she inherits your IRA worth \$300,000 and transfers the IRA into his or her own IRA. Your child, age 44, is named as the beneficiary. If your spouse dies 5 years later at the age of 78, your child, then 49, or their subsequent beneficiaries, may extend the distribution period for an additional 35.1 years, based on their single life expectancy. This, in effect, stretches the original \$300,000 IRA, resulting in total distributions greater than \$1.2 million (assuming a hypothetical 6.00% return).

OTHER ADVANTAGES

While you're living, you retain complete control of the IRA, and reserve the right to liquidate as much of the IRA as necessary. Similarly, a beneficiary can at any time take a full or partial distribution of the IRA instead of the Required Minimum Distribution. Also, since the money is paid out as death distributions, there is no 10 percent penalty, even if the beneficiary is under age 59½.



RBC Wealth Management®

Stretch Your IRA, continued

ESTATE TAXES STILL DUE

Don't forget that any estate taxes will be due upon your death, if the beneficiary is not your spouse. Estate taxes, potentially the largest tax, are due within nine months of the surviving spouse's death. The estate must have enough liquidity outside of this IRA to cover the estate taxes. Working with your independent tax/legal advisor, your RBC Wealth Management® Financial Advisor can show how life insurance can fund this tax.

START STRETCHING YOUR IRA TODAY

To put this concept to work, you must designate a beneficiary or beneficiaries with your IRA Custodian. Also, all of your primary beneficiaries must be persons (and not institutions such as charities).

Stretching an IRA can be a powerful estate-planning tool. Working with your independent tax/legal advisor, your RBC Wealth Management Financial Advisor can show you the advantages for you and your loved ones.

RBC Wealth Management does not provide tax or legal advice. We will work with your independent tax/legal advisor to help create a plan tailored to your specific needs.

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