



April '06 – Stretching IRA Distributions

IRA's rule over 401(k)'s, 403(b)'s and 457(b)'s for estate planning purposes. One huge advantage is the ability to stretch IRA distributions over several generations and pass on more than just "good looks" to your heirs. With a little planning, your IRA can help you take care of the ones you love even after you are gone.

If you are fortunate enough to be in a situation where you will not need IRA assets to live on in retirement, you can turn your IRA into a powerful estate planning tool by withdrawing only the money required by the IRS the year after you turn age 70 ½. This required withdrawal is known as the Required Minimum Distribution (RMD). After you die, your beneficiaries can continue to stretch the income by taking only the RMD each year. The amount varies based on whom the primary beneficiary is of the account.

If you or your beneficiaries decide to stretch the income from an IRA, the benefits are:

- RMDs can be made over more than one person's lifetime.
- Income taxes are only paid on the amount withdrawn each year.
- The remaining balance of the IRA continues to grow tax-deferred.

Let's look at an example:

Jake has \$250,000 in his IRA account and the hypothetical average annual rate of return is 6%*. He has a wife, Betty-Lou, they have one daughter, Marlene, and one grandson, Michael. Jake reaches the age of 70 ½ in 2006. By April 1, 2007, he must remove his 1st RMD (the IRS required date for the 1st year of a RMD withdrawal). All future withdrawals must be taken by 12/31 each year until the IRA is exhausted.

In this example, Jake lives ten years and his RMDs total \$118,897. Betty-Lou inherits the IRA - value \$295,106, at age 76 and rolls it into her name and begins RMDs based on her life expectancy. After ten years, she passes away and has withdrawn \$170,766.

Marlene inherits her mother's IRA at age 53 - value is \$308,759. Instead of cashing it out and being subject to a large income tax bill, she decides to take RMDs based on her own life expectancy of 31.4 years. She dies at age 88. After 25 years of RMDs she received \$563,158. (If Marlene would have taken a lump sum when her mother passed away, she would have received \$254,399 **less** than her total distributions!)

Michael inherits the IRA - value \$296,550. He decides to continue stretching the IRA by taking his mom's remaining RMDs. Over the next seven years, he withdraws \$372,944.

Over 52 years and three generations, Jake's original \$250,000 IRA, making a modest 6% annual return, paid out a total of \$1,225,765. If you or someone you know would like to take advantage of this wonderful estate planning tool, call today. On a personal note, my wonderful wife, Jennifer, is expecting #2 in October! Mom and dad are very excited.

Dave



* This hypothetical example is illustrative only. It assumes the account owner rolls over the account on Jan. 1st of the year he or she receives the assets, that all the distributions are taken on the last day of each distribution year and that all distributions are the required minimum amount. These amounts are not adjusted for inflation and do not reflect any state or federal income tax that may be due upon distribution. It does not reflect past or future performance of any specific investment vehicle. It also does not reflect the volatility that can occur in an equity-based account and assumes current tax laws remain in effect throughout. This article is intended to provide general information and is not intended to constitute tax or legal advice. Dave Fulkerson does not provide tax or legal advice. It is important to consult your tax or legal advisor to determine how your beneficiary designations affect your financial and estate planning concerns.