Stretch IRA Strategy

Investors with significant assets need effective strategies for transferring their wealth in a tax-efficient manner. Using a "stretch" IRA distribution strategy can enable your Individual Retirement Account (IRA) assets to continue to grow tax-deferred—for generations.

Key Benefits

Pursuing a stretch IRA strategy can:

- Leave a lasting legacy for future generations
- Lower RMDs if they are left to a younger beneficiary
- Extend the life of IRA assets
- Be used with both Traditional and Roth IRAs

Potential Candidates for a Stretch IRA Strategy

The strategy may be right for individuals who:

- Desire to leave a legacy for their heirs
- Have significant IRA or former employer plan assets
- Want estate planning strategies
- Do not need their IRA assets for their own retirement needs

By making wise beneficiary choices, you can extend the life of your IRA for future generations. If you do not need all the assets in your IRA to pay for expenses in retirement, you may want to consider a stretch IRA strategy.

A strategy to keep assets growing

When you open a Traditional IRA, you have the option of naming one or more beneficiaries. If you name your spouse as a beneficiary, when he or she inherits the IRA, your spouse has the option to roll the assets into his or her own IRA. Once the assets are rolled over into his or her own IRA, your spouse can name his or her own beneficiary. If you name a beneficiary who is not your spouse, he or she can choose to transfer the assets to an inherited IRA and take Required Minimum Distributions (RMDs) based on his or her own life expectancy. If you plan to leave these IRA assets to your heirs, you may want to consider naming younger beneficiaries.

Non-spouse beneficiaries must take RMDs each year from a Traditional or Roth IRA. Since the RMDs are based on the life expectancy of the beneficiary, younger beneficiaries have a longer payout period, which results in lower payout amounts. These distributions from Traditional IRAs are taxed as ordinary income at the beneficiary's federal income tax rate; however, distributions from Roth IRAs are generally not.

For Roth IRAs, the stretch strategy is different in that the spouse beneficiary is never required to take RMDs. This can extend the stretch IRA strategy for Roth IRAs.

Please keep in mind that tax laws are subject to change and that inflation may impact the value of your retirement investments over time.

Beneficiary benefits

When your beneficiary inherits a Traditional IRA, he or she has choices to make. If a beneficiary elects to take the entire amount at once or distribute the assets over five years, these options generally result in accelerated payments and potentially higher taxes. However, beneficiaries who do not need immediate access to the inherited funds can choose to take only required distributions and spread payments (and any potential federal income tax) over their lifetime. In addition, these beneficiaries can extend the "stretch" even further by naming their own beneficiaries. While the successor beneficiary is required to take withdrawals based on the remaining life expectancy of the original beneficiary, he or she is not required to withdraw any additional amounts unless he or she chooses to. Please keep in mind that stretch distribution options are only available for persons named as beneficiaries, not entities.

How Your Financial Professional Can Help

Choose an IRA

Your financial professional can help you choose an IRA that is right for you. If you already have an IRA, your financial professional can conduct a beneficiary review and help you change beneficiaries if necessary.

Determine an asset allocation

The first step in establishing your IRA is to determine how to allocate and invest your assets among different investment options. Your financial professional can help you plan an asset allocation strategy based on the investment horizon of your IRA assets.

Choose investment options

IRAs offer a wide variety of investment options including mutual funds, managed accounts and individual stocks and bonds that can align with your goals and tolerance for risk. Your financial professional can help you choose appropriate selections.

Review and track performance

Your financial professional can evaluate your asset allocation and investments on a regular basis. You will also receive a consolidated account statement to make it easier to review and track your performance.

Please note that the stretch IRA strategy is designed for account holders who will not need the assets in their IRA for their own retirement needs. You should consult with your financial professional and tax or legal advisor before adopting such a strategy.

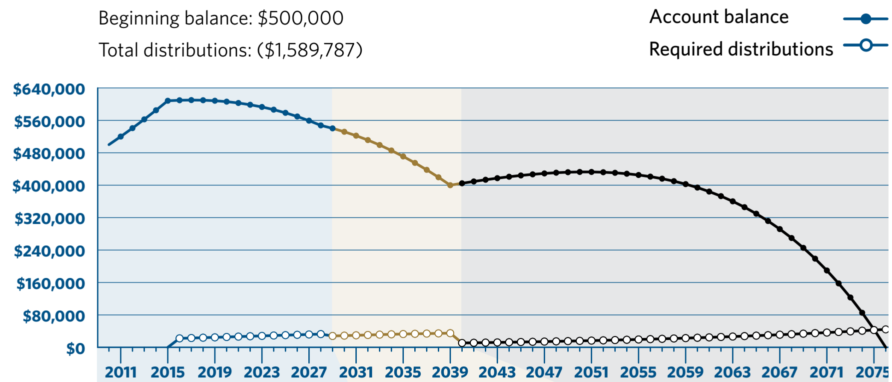
Naming a younger beneficiary can help extend the "stretch"

In the example below, John, age 65, the original owner of a $500,000 Traditional IRA, names his 61-year-old wife Lisa as beneficiary.[1] When John dies at age 82, Lisa rolls over the assets to her own Traditional IRA. Rather than leaving the Traditional IRA to her 41-year-old son, Lisa names her 18-year-old granddaughter, Sarah, as beneficiary. Based on her granddaughter's longer life expectancy, Sarah's distributions could stretch for 37 years (versus 17 for her father)—with potential earnings of $483,263 and total distributions of $883,259.

Total distributions across all generations

Beginning balance: $500,000

Total distributions: ($1,589,787)



IRA Owner		Primary Beneficiary		Final Beneficiaries	
John		Lisa		Sarah	
Year one account value	$500,000	Inherited account value	$547,566	Inherited account value	$399,996
Earnings	$403,682	Earnings	$202,842	Earnings	$483,263
Years of distribution	13	Years of distribution	11	Years of distribution	37
Total distributions	($356,116)	Total distributions	($350,412)	Total distributions	($883,259)
Ending value	$547,566	Ending value	$399,996	Ending value	$0

Talk to your financial professional to find out more

Consider asking your financial professional about the benefits of consolidating retirement accounts. If you have retirement assets in a former 401(k) or other employer-sponsored plan, rolling them over to an IRA may be beneficial if you plan to leave these assets to your beneficiaries.

Many employer retirement plans require beneficiaries to take distributions either immediately, or within five years of the original account owner's death. This could limit the benefits of tax-deferred growth by forcing beneficiaries to withdraw assets sooner than they need to.

Your financial professional can help do a beneficiary review of all of your retirement accounts. Contact your financial professional to help determine if a stretch IRA strategy is right for you.

[1] This example is for illustrative purposes only and is not meant to represent any specific investment. The example assumes a 4% annual rate of return and does not take into account state or federal taxes and assumes RMDs are taken annually. This example does not address the impact of a stretch IRA strategy on a Roth IRA or qualified employer-sponsored retirement plan. Investors should consider the risks and benefits of a stretch IRA strategy in light of their individual financial circumstances.

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