Investors with significant assets may need effective strategies for transferring their wealth in a tax-efficient manner.

Using a “stretch” IRA distribution strategy may enable your individual retirement account (IRA) to continue to grow tax-deferred — for the next generation. By making strategic beneficiary choices, such as naming a child or grandchild, you potentially can extend the life of your IRA. If you do not need all the assets in your IRA to pay your expenses in retirement, you may want to consider a stretch IRA strategy.

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 must take required minimum distributions (RMDs) based on his or her life expectancy.

If you name a beneficiary who is not your spouse, he or she can transfer the assets to an inherited IRA. The beneficiary must take required minimum distributions (RMDs) each year, but they are based on his or her own life expectancy. If you plan to leave these IRA assets to someone other than your spouse, you may be able to extend your wealth for a future generation, depending on the beneficiaries’ ages.

Since the RMDs are based on the life expectancy of the beneficiary, younger beneficiaries may have a longer payout period, which results in lower payout amounts. The distributions from traditional IRAs are taxed as ordinary income at the beneficiary’s federal income tax rate; however, distributions from Roth IRAs are generally tax-free.

For Roth IRAs, the stretch strategy is different in that the spouse beneficiary, if he or she treats the IRA as his or her own, 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.

Potential candidates for a stretch IRA strategy

The strategy may be right for individuals who:

- Wish to leave a legacy for their heirs
- Have significant assets in an IRA or former employer retirement plan
- Are looking for smart estate planning strategies
- Do not need their IRA assets to fund their own retirement

Learn more

For more information, please contact your financial advisor.