

Stretching the Inherited IRA

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Many of us take advantage of saving through our retirement plans each year. Not only can retirement contributions provide current income tax deductions, but the assets themselves can grow tax free as well.

Unfortunately, many of us forget to verify, update or even complete our retirement account beneficiary designations. Some of us believe that we have done this already, and a few of us even believe that the underlying plan document will provide these benefits to our loved ones without any action on our part.

To ensure our benefits reach our loved ones as we choose, we need to take action to do so. Otherwise, our retirement plans may be left without a designated beneficiary. This oversight may accelerate retirement plan distributions sooner than necessary.

If we designate our spouse as beneficiary, our spouse can stretch benefits over his or her life expectancy. Our spouse also can "roll over" an account into his or her existing retirement account and delay taking any distributions until he or she otherwise would be required to do so.

If we designate another individual as beneficiary, that beneficiary often can stretch benefits over the beneficiary's life expectancy. If we designate a group of individuals as beneficiaries, they often can stretch benefits over the life expectancy of the oldest named beneficiary.

If we fail to designate any beneficiary; however, any one's ability to stretch benefits (and to defer income taxes) over a longer life expectancy could be lost. Many retirement plans provide that the estate will receive all retirement assets if there is no designated beneficiary.

When an estate receives retirement benefits, all of them must be distributed within five years of death (if the decedent was not yet required to take distributions). This may unintentionally accelerate distributions (and related income taxes) that otherwise could be stretched and deferred over time.

If the decedent already was taking required minimum distributions from retirement accounts, beneficiaries still may be able to stretch receiving benefits. In this case; however, the beneficiaries only may be able to stretch receiving benefits over the decedent's life expectancy (as if he or she had survived).

It's easy to lose the benefits of Stretch IRA distributions when details are not followed by the owner or even the recipient of an account. But it's also easy to postpone these taxes.

ABOUT THE AUTHOR



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experience consulting with clients in the core areas that influence the creation, preservation and protection of family wealth. They include: tax planning, estate planning, retirement planning, asset protection, strategic and succession planning for business owners.

If we are fortunate enough to inherit a retirement account from a loved one, we also need to be careful how we receive it. Otherwise, we inadvertently may accelerate distributions and related income taxes unintentionally.

If a spouse is designated as beneficiary, the surviving spouse has the option to “roll over” the inherited account as noted above. The surviving spouse then can distribute assets based on his or her own life expectancy (or postpone distribution until otherwise required to do so).

Others do not have this option but can “taint” their entire account by combining inherited retirement assets with their own. This could force the beneficiary of an inherited retirement account to begin taking distributions of all retirement assets (not just inherited retirement assets) immediately.

Others also can taint their inherited retirement account by receiving it directly and then creating their new account afterwards. For this purpose, the “60 day rule” (which allows a person to receive a distribution directly and then deposit it into a protected account) does not apply to an inherited retirement account. Beneficiaries of inherited retirement accounts instead need the account manager to transfer the assets directly from the prior account to the new account. This helps beneficiaries retain their right to stretch inherited retirement account distributions (and related income taxes) over time.

Beneficiaries of inherited retirement accounts also need to be careful how they title the new account. Inherited retirement accounts bear the name of the person who created it and also the name of the beneficiary for whom it is held. Beneficiaries who simply place their name on the title of an inherited account risk losing its designation as an inherited retirement account. Again, this may accelerate distributions and related income taxes unnecessarily.

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