



# Stretch!

## How to Maximize Your IRA

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## Maximize Your IRA!



**Q** – How can I maximize my IRA for my family’s benefit?

**A** – Great question! Make a good move and your family may be able to harvest millions from a well-designed IRA distribution plan. Do it wrong, and the IRS may become your IRA account’s biggest beneficiary!

Let’s focus on doing this right and what the tax law permits you to do that can enrich your family. The concept is called many things. Some call it a **Stretch IRA**. It may also be called a multi-generational

IRA. The idea is simple - take only what is required and stretch payments out over as long of a period of time as possible.

A quick true-life story about time and money - specifically, the power of compounding money over time – comes from Benjamin Franklin. Ben Franklin died in 1790 and bequeathed £1,000 (about \$4,400 at the time) to the City of Boston - with one stipulation. That restriction was that the money could not be accessed for 200 years. In 1990, the City had a fund with \$5,000,000.<sup>1</sup>

The power of compounding money safely is within your family’s grasp. It is one of the few tax plans that favors your family over the taxman. Here it is: when you reach the age of 70 ½, you must take a Required Minimum Distribution (RMD). Your spouse may use your IRA post your death for their retirement income and manage the account as their own. This is in stark contrast to an inherited IRA where distributions are required at ALL ages. The key to maximizing your IRA’s value is having a great advisor who knows this math. Here is an example of what you can do:

Let’s assume that John is 70 years old and has a \$1,000,000 IRA, (congrats to John, he’s a hard worker like you!) and his wife Jane is healthy and 65 years old. They have two children Tim and Barbara ages 47 and 42; PLUS, three lovely grandchildren: Timmy, Jr. age 10, Suzie age 6 and the baby Ashley who just turned 4. John being a well-educated and financially savvy guy made sure his account could be stretched out so that his family had the possibility of getting the following outcome:

John from age 70-88 would take out \$1,166,491 of Required Distributions (and assuming a 6% rate of return). At his death Jane would inherit \$1,127,399 and by age 90 she would take \$575,273 of distributions at (again assuming a 6% rate of return) and leave her beneficiaries \$1,011,500.

At Jane’s death the beneficiaries were 30% Tim, Sr, 40% Barbara, 10% to Tim, Jr and 10% to his sister Suzie, Barbara’s baby Ashley would get 10%, as well.



Tim, Sr. would inherit the IRA with an initial balance of \$303,450 and take distributions of \$550,238 out over his 14.8-year life expectancy (assuming a 7% rate of return).

Barbara would inherit \$404,600 and take distributions of \$800,954 over her 18.6-year life expectancy (assuming a 7% rate of return).

Timmy, Jr. would inherit \$101,150 and assuming a higher rate of return of 8% he would take out \$1,166,313 over his 47.5-year life expectancy. Suzie would take out \$1,472,404 on her inherited \$101,150 and 51.4 year period of distribution (assuming an 8% rate of return) and Baby Ashley on her inherited IRA of \$101,150 would take \$1,651,617 over her 53.3-year life span (again assuming 8%).

How does it all add up? Well the family gets total distributions of \$7,383,290 stretching out dad and Grandpa's IRA – not too bad at all. **BUT** there are a couple of catches here: first, tax laws could change (an ever present risk) and we are talking about a long time. Also, the chance of everyone following the schedule is slim - but here's the hook .....

If you don't structure your IRA account this way then the chance of anyone taking advantage of this compounding opportunity is ZERO! Through good estate planning you can leave a great 'set of instructions' to your family so that wealth building opportunities like the stretch IRA aren't missed.



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Teresa has been helping families and retirees reach their financial, tax, retirement planning, and estate planning goals for over 25 years. She is legally bound to uphold the highest level of fiduciary standards when providing investment advice to her clients.

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<sup>1</sup> [http://en.wikipedia.org/wiki/Benjamin\\_Franklin](http://en.wikipedia.org/wiki/Benjamin_Franklin)