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WHAT'S INSIDE?

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Maximizing the Stretch IRA with Multiple Beneficiaries

As tax reform ideas were being batted around the Hill near the end of 2017, there was a lot of chatter about how Congress would pay for the proposed tax cuts. Two of the more common ideas tossed around were the reduction in deductible contributions to employer pre-tax retirement plans and the elimination of the stretch IRA provisions.

Thankfully, neither of these ideas came to fruition, and because the stretch IRA is still with us, now is a good time to review the rules and discuss how they can be maximized in an account with multiple beneficiaries.

Stretch IRA Basics

A stretch IRA refers to an inherited IRA and the ability of a beneficiary to "stretch out" both the required distributions from the IRA and the corresponding tax bill. This simple concept generates huge tax savings.

In order to take advantage of the stretch IRA, there must be a *designated* beneficiary. This means that there must be an individual (a living person) named as the beneficiary on the IRA beneficiary form. An animal, charity, the estate, and/or trust (other than a qualifying trust) do not have a life expectancy, and, therefore, do not qualify.

Inheriting through a will or trust will not work either. If an IRA owner fails to name a primary or contingent beneficiary on the beneficiary designation form, then the IRA custodial document will determine the beneficiary. If the default under the custodial document is the estate or some other non-living entity, then the stretch IRA is lost. Similarly, the IRA custodial document is also used to determine the beneficiary if the designation became invalid and was never updated (i.e. when the beneficiary predeceases the IRA owner and the IRA owner never names another beneficiary and has no contingent beneficiary). Therefore, it is important to not only complete the beneficiary designation form, but to make sure it is updated and that both a primary and contingent beneficiary are named.

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Example: John is 76 years old and has an IRA. He designates his only child, Peter, as the beneficiary on the beneficiary designation form. During John's life, he uses the Uniform Lifetime Table to calculate required minimum distributions (RMDs).