

Stretch Out Your Savings

Did you know that an Individual Retirement Account (IRA) can do more than just help you save for retirement? Your IRA can also be used as part of your estate-planning process, helping you protect assets you want to pass on to your children or grandchildren from being consumed by estate taxes.

The stretch IRA strategy

Here's how a so-called "stretch" IRA strategy works. You open an IRA account for yourself, and then name a younger beneficiary to the account. Once you reach the age of 70½, you take only the minimum required distributions from the account, leaving the rest of your savings to continue to grow tax-deferred. Upon your death, your beneficiary can roll over your account balance into an inherited IRA, thereby protecting the assets from estate taxes. Your beneficiary could then employ the same strategy and name another younger beneficiary, allowing your assets to be passed through several generations of your family.

Is this strategy right for you?

While a stretch IRA strategy can be a smart way to transfer wealth to younger family members, keep in mind that it should only be considered if you don't need your IRA assets for your own retirement expenses. If you are unsure about whether or not you'll need your IRA assets, you have the flexibility to take distributions as needed (distributions prior to age 59 ½ are subject to a 10% penalty tax unless an exception applies). You also have the flexibility to change the beneficiary on your account should your beneficiary's needs change or you want to employ a different estate-planning strategy.

A stretch IRA strategy can be easily started with a 401(k) rollover account as well. Simply open an IRA account in your name, request a direct rollover of assets from your former employer, and then name a younger beneficiary to the account.

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