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Inherited IRAs: Let Your Beneficiaries Stretch Your IRA Assets Over Their Lifetimes

IRAs have become very popular retirement savings vehicles and play an increasingly important role in many people's retirement planning. But did you know that an IRA could also be an important part of the legacy you leave to your loved ones? By leaving your IRA to your spouse or others, you can stretch your IRA assets over the course of their lifetimes as well.

You may be aware that there are tax consequences to your beneficiaries when they receive a potentially significant sum of money. Fortunately, the law provides ways for them to minimize the burden. If your spouse is your beneficiary, for example, he or she may be able to defer taxation by transferring the IRA into his or her own name. Non-spouse beneficiaries, on the other hand, can choose to "stretch" the assets—meaning, they can receive the IRA distributions over time, as a regular income stream, based on their own life expectancies. In this way, they can spread out the tax burden and also potentially grow remaining IRA assets tax-deferred for a longer period of time.

Things to Consider When Choosing a Beneficiary

You can name your spouse, children, grandchildren, another individual, or a favorite charity as beneficiary—or set up a trust. No matter whom you choose, though, it's important that you complete the proper documentation, or else the tax consequences can be significant. In addition, remember to let your beneficiaries know that you have named them, since there are deadlines they must meet in order to take distributions over their life expectancies. Beneficiaries must begin taking distributions from their Inherited IRA by December 31 of the year following the death of the original IRA owner, in order to take payments over the course of their own life expectancies. If they do not, they may be forced to take all the assets in a lump sum—resulting in a larger tax burden and depriving them of the opportunity to stretch out the assets and enjoy continued tax-deferred growth.

Strategies for Making Your IRA Last Longer

You may want to consider naming your spouse as the primary beneficiary and another individual (or individuals) as contingent beneficiary. Naming both provides a clear line of succession in case something happens to your primary beneficiary. Or, if your spouse decides he or she doesn't need the assets in your IRA after your death, he or she can refuse to take ownership of the assets, and then the assets will pass to the other named beneficiaries.

Another way to potentially maximize your IRA assets is to consider rolling over lump-sum distributions from employer-sponsored retirement plans, like 401(k)s, into an IRA.

This may provide more flexibility for non-spouse beneficiaries than they would have in the employer-sponsored plan, since they can then stretch out the IRA distributions over their lifetimes. Check your employer-sponsored plan documents and IRA agreements for available beneficiary distribution options.

Leaving a Legacy

Choosing your IRA beneficiaries is a very important decision. By working with a financial professional, you can help ensure that your assets go to the beneficiaries you want, and that those assets have the potential to grow tax-deferred for years to come.

You should consult with your own professional tax and legal advisors for tax and legal advice specific to your situation. For more information on how an inherited IRA or any other financial solution could fit into your overall financial plan, contact **Jason M. Woodward, J.D.** today at (603) 264-7550 or financialattorney@gmail.com.