

info sheet

Stretch your IRA across several generations

Whether you're age 25 or 65, planning for a financially secure future is an evolving process. As you get closer to retirement, you'll have a good understanding of how far your retirement assets will really go. Will those assets take care of you and your spouse? Will there be enough left to provide a legacy to your children? And their children?

With proper planning, the assets in a traditional Individual Retirement Account (IRA) could help you create a source of income for several generations of your family. To create this type of legacy with your IRA, you'll need to apply what's known as the "Stretch IRA" technique.

Stretch IRA refers to the two-pronged strategy of 1) withdrawing from your IRA only the required minimum distributions each year after you reach age 70½ and 2) making the proper beneficiary designations.

The mechanics behind a Stretch IRA are fairly simple. The process begins when your retirement money is distributed to you.

Six steps to a good stretch

1. Open an IRA
2. Name your spouse as your primary beneficiary
3. After your death, your spouse rolls remaining assets to his or her own IRA
4. Your spouse names a son or daughter as beneficiary
5. After your spouse's death, your son or daughter receives minimum distributions from the IRA and names his or her child as beneficiary
6. Distributions continue until the beneficiary IRA is exhausted

One cautionary note: make sure your beneficiaries know what your plans are and that each beneficiary knows what they are supposed to do. If a beneficiary cashes out, your plan won't work.

Benefits of the Stretch IRA

There are several ways that traditional IRA owners and their beneficiaries may benefit by employing the stretch technique:

- More money may be passed along by the IRA owner to the next generation.
- If the owner's situation changes while living, he or she still has the right to liquidate as much of the IRA as needed.

- If the beneficiary's situation changes after the death of the owner, the beneficiary can always take a full or partial liquidation instead of the minimum required distributions.
- Payments to beneficiaries are paid out as death distributions. Therefore, there is no 10% penalty even if the beneficiary is under age 59½.

Is a Stretch IRA right for you?

The stretch technique may or may not be a good idea for you. It depends on what you have determined your retirement needs are. Generally, traditional IRA owners who don't need to live on their IRA assets, who want to minimize taxes paid in retirement, and who wish to create a legacy may want to consider this strategy. As a starting point, you should talk with your investment professional or tax adviser.

For more information about IRA planning, ask your investment professional for the MFS Heritage Planning infosheets, "Required Minimum Distribution Rules: A Snapshot" and, "Choosing Beneficiaries for your IRA" and the MFS Stretch IRA kit.

For further information

Gallea, Anthony M. *The Lump Sum Advisor*, Prentice Hall, 1999, 324 p., \$25.00.

Suttle, John C. and Slesnick, Twila. *IRAs, 401(k)s, and other Retirement Plans: Taking Your Money Out*, Nolo Press, 2002, 336 p., \$29.99.

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Contact your investment professional for more information or to construct a personalized Heritage Planning Profile to help your parents, your children, or yourself.



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