

Strategic Insights



The “Stretch” IRA Alternative

Let’s face it - How often do family beneficiaries really “stretch” the IRA benefits? Statistics reveal that most beneficiaries cash out their share of an inherited IRA within 5 years of death – and pay a higher overall income tax as a result.

Stretch IRA – the “Tax-Inefficient” Asset

IRA assets are tax inefficient – the owner pays **estate tax** for the right to transfer it to heirs, and the heirs pay income tax on the right to receive it – two taxes come into play. If left to grandchildren, a third tax – **generation skipping tax** – could reduce the asset even more.

Let’s look at how the tax-exempt trust can improve the return to heirs when the major asset is an IRA. We’ll



employ this concept – **the Stretch IRA Alternative** – at the death of the IRA owner.

The Stretch IRA Alternative

The Stretch IRA Alternative employs the tax benefits of a tax-exempt trust for the surviving spouse, while replacing the taxable IRA with tax-free life insurance proceeds for the heirs. This special tax-exempt trust is known as a charitable remainder trust (or CRT). It may follow one of two IRS-approved formats – either an annuity (level) payment, or a unitrust (variable) payment. Once established, the donor cannot change the income method.

Is this Alternative for you?

This planning concept may appeal to you if you have these financial circumstances:

- Your IRA account balance is \$100,000 or more.
- The combined state and federal income tax rate of your beneficiary is 25% or more.
- Your IRA is subject to Federal estate tax, and possibly State inheritance tax.
- You desire to support a personal cause, or currently donate to community organizations.

The Stretch IRA Alternative may be of interest if your personal objectives are to:

1. Continue income to your surviving spouse for life.
2. Escape from the required minimum distribution rules for your IRAs.
3. Transfer a more tax-efficient asset to your family.
4. Minimize your estate tax and income tax.



The “Stretch” IRA Alternative *continued*

An Example:

To use this concept successfully, you should have a charitable intent and understand the concept of “social capital.” Social capital is that part of our wealth that we cannot pass to our families because it will be paid as estate, gift and income taxes. However, it is possible to redirect social capital to benefit your family and its eventual distribution to your choice of charities.

First, let’s look at the Stretch IRA concept. Keep in mind that results will vary based on age, life expectations and actual rates of return.

Assume John owns a \$1 million IRA. He starts his minimum required distributions, using the Uniform Lifetime Table. We assume his IRA continues to grow at 6%. His wife, Jane, is age 68. They have two children – Jacob age 50 and Jennifer age 41. We assume combined federal and state income tax for John and Jane at 40%.

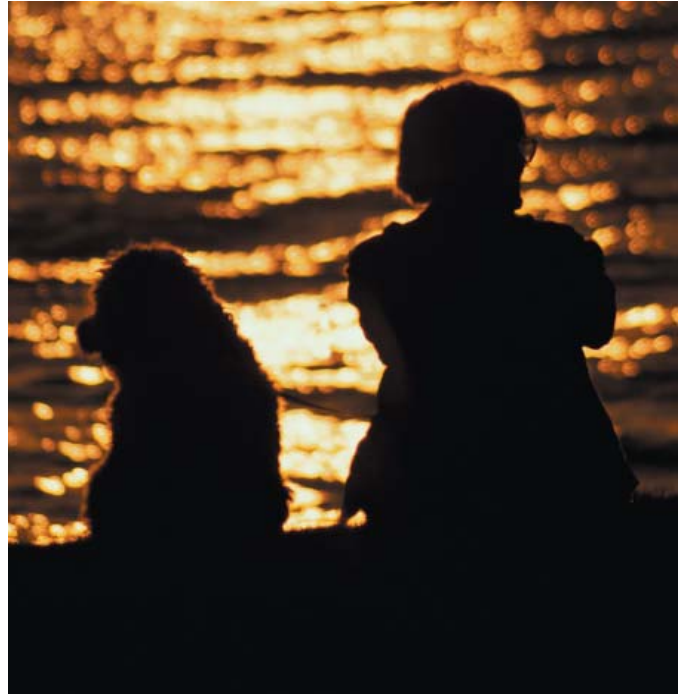
Stretch IRA:

- John starts minimum distribution – names Jane as his beneficiary.
- Jane rolls the IRA and continues distributions using her age – pays estate tax at her death.
- At Jane's death, Jacob and Jennifer stretch the IRA over 32 years using separate account rule.

Total Stretch IRA Distributions for the family were a little more than \$3.8 million over 47 years. (This assumes that Jane paid the estate tax on the IRA from other cash resources at her death.)

The Stretch IRA Alternative:

All the facts remain the same, except that John sets up the Stretch IRA Alternative - and selects a testamentary charitable remainder unitrust¹ (CRUT) as his designated beneficiary. The IRA transfers to the CRUT at John’s death – no income tax on the lump sum distribution! No estate tax for John’s estate either



To request a Stretch IRA projection ask your Columbus Life professional. Feeling Charitable? Ask your Columbus Life professional for a CRT projection.

– the income interest to Jane qualifies for the marital deduction, and the remainder qualifies for the charitable deduction.

To replace IRA assets for their children, John and Jane purchase a \$3 million Survivorship Life policy using a wealth replacement trust (WRT). Distributions from the IRA and CRUT fund the WRT.

Stretch IRA Alternative totals about \$4.8 million with nearly \$1.0 million for charity, \$3 million to children and \$800,000 paid to John and Jane – about \$1,000,000 more in total benefits!

¹ CRUT calculation based on 6% earnings, 6% payout for one life age 73, and 4% Sec. 7520 rate.

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