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SECURE ACT: SIX WAYS TO PRESERVE THE STRETCH

The newly passed SECURE Act changes the rules on IRAs and other retirement plans. While in the past beneficiaries were often able to "stretch" inherited IRA distributions over their lifetimes, now most non-spouse beneficiaries must take the distributions over no more than 10 years. For beneficiaries in peak earning years, this can tip them into higher marginal tax brackets and eat away at the dollars they take home after taxes from the inheritance.

Here are six ways to preserve the stretch:

1. **Leave Your IRA to Your Spouse.**

   Spouses are exempt from the 10-year distribution. Instead, they can either treat the IRA as their own or leave it in their spouse's name but take distributions over their own life expectancy.

   For example, let's say that George, age 75, is married to Maria, age 69. George passes away and leaves Maria his traditional IRA. She decides to treat the IRA as her own, which allows *her to wait until age 72 to take distributions. She can stretch the required distributions over her own life expectancy.*

2. **Split Your IRA Between Your Spouse and Other Beneficiaries.**

   By splitting your IRA between your spouse and other beneficiaries, you can increase the stretch. While your spouse is exempt from the 10-year rule, the other named beneficiaries will generally take distributions of their part of your IRA over 10 years. When your spouse passes away and leaves the balance of the IRA to those other beneficiaries, they will have a "new" 10 years to take distributions on the remaining IRA.

   George, age 75, has a $1 million traditional IRA. He leaves 50% of it to his wife, Maria, who is age 69, and 50% to his daughter, Anna, who is age 25. Anna must withdraw the $500,000 in her portion of the IRA by the time she is 35. Maria passes away at age 80, when Anna is 36. The remaining balance in Maria's IRA now goes to Anna, who has another 10 years to withdraw the funds.

3. **Leave Your IRA to Your Minor Child.**

   Minor children can take distributions over their life expectancy until they reach the "age of majority," which differs by state. At that time, they can take distributions over 10 years.

   Martha, age 50, leaves her traditional IRA to her daughter Cecilia, who is age 10 and lives in California. Cecilia can take distributions over her life expectancy until she turns 18. Then, she must take the rest by the time she turns 28.

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4. **Leave Your IRA to a Chronically Ill or Disabled Beneficiary or to Someone Who is Not More than 10 Years Younger Than You.**

   In addition to spouses and minor children, these three types of beneficiaries are classified as "Eligible Designated Beneficiaries" under the SECURE Act. In short, that means they also don't have to follow the 10-year distribution rule.

   George, age 75, leaves his IRA to his younger brother, John, who is 70. When George passes away, John can take the IRA distributions over his own life expectancy.

5. **Leave Your IRA to a Charitable Remainder Trust.**

   In a Charitable Remainder Trust (CRT), there are two types of beneficiaries: 1) Income Beneficiaries, who are typically people (children, grandchildren, etc.); and 2) Remainder Beneficiaries, who are charities. If you leave your IRA to a CRT, the entire balance of the IRA is placed into a CRT. Depending on how the CRT is structured, the Income Beneficiaries receive distributions over either 20 years or over their lifetimes. After the Income Beneficiaries pass away, the rest of the assets go to the charities named as Remainder Beneficiaries.

   George, age 75, leaves his IRA to a Charitable Remainder Unitrust, or CRUT, that names his wife, Maria, and his daughter, Anna, as the 5% Income Beneficiaries. The San Diego Zoo is the Remainder Beneficiary. Maria and Anna receive 5% of the assets every year (2.5% each) until they both pass away. At that point, the San Diego Zoo receives the balance.

6. **Leave Your IRA Directly to Charity.**

   Public charities (501(c)3 organizations) are tax-exempt, which means that they do not pay any taxes on IRA distributions they receive.

   George, age 75, has a $1 million traditional IRA and a $1 million taxable portfolio held in a revocable living trust. He decides to leave the IRA to the San Diego Zoo and the trust portfolio to his daughter, Anna. The San Diego Zoo pays no taxes on the IRA it receives and the distributions it takes out of the IRA. At George's passing, his trust portfolio receives a step-up in cost basis, so Anna pays no tax upon receiving the trust portfolio and has no required minimum distributions from it.

The SECURE Act presents many planning opportunities. Please contact us to discuss how these strategies might work best for you and your family.