

# Is The Stretch IRA Doomed?

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January 24, 2017 | by Gary Botwinick

On September 21, 2016, the Senate Committee on Finance voted unanimously to end the “Stretch IRA,” as part of the Retirement Enhancement and Savings Act of 2016 (“RESA”). However, before it becomes law, it must be approved by both houses and signed off on by President Trump. The Stretch IRA is not so much a “thing” as it is a “technique.” What it is all about is a benefit that is provided to non-spousal beneficiaries of an inherited IRA, which allows the beneficiary to draw down the IRA proceeds over a long period of time, thus deferring income taxes often well into the future.

Here is how it works. Let’s say that Marvin was 72 years old when he died in 2016. He was a widower, his wife having died several years earlier. Marvin was blessed in that he had two very successful children, who were wealthy in their own rights. Each of Marvin’s kids had two children, and Marvin loved and cherished these four young grandchildren. Having determined that his children did not need to inherit all of his wealth, Marvin decided to name the four grandchildren, ages 10, 13, 15, and 17, as the beneficiaries of his \$1,000,000 IRA, which he had just begun to draw down when he reached 70 ½ years old. When an IRA owner dies, the beneficiaries are entitled to select the manner in which the IRA will be distributed. One of the wisest choices a beneficiary can make is to draw down the IRA over the beneficiary’s life expectancy. If, for example, the 10 year-old grandchild elects to draw down the IRA over his own life expectancy, he will be required to take distributions of approximately \$3,500 in the first year after Marvin’s death, approximately \$3,600 in the second year and approximately \$3,800 in the third year. While this means that the grandchild will have taxable income in each of those years, it also means that the balance of the IRA which is not drawn down continues to earn tax deferred income. This would continue for the entire lifetime of the 10 year old. In the end, the \$250,000 share of the IRA that the grandchild inherited will provide almost \$1,500,000 of distributions over his lifetime.

The benefit of the Stretch-IRA can be extraordinary with a very young beneficiary. And it is just that extraordinary benefit that makes it a target for repeal. RESA would significantly limit the right to stretch the payout of an IRA after an owner’s death, requiring a non-spousal beneficiary to draw down

the IRA within the first five years after the owner's death, thus accelerating the income tax. The estimated additional revenue to the Federal budget is estimated at \$3.18 billion from 2017-2026. However, do not despair, as RESA does have a carve-out of any amounts under \$450,000. This means that an owner could still leave up to \$450,000 of his retirement plans (in the aggregate) to beneficiaries who could still draw these benefits down over their life expectancy; meaning that amounts in excess of that threshold would be subject to the quicker payout — and the obligation to pay taxes on the distributions. There are also exceptions for beneficiaries who are (i) minor children of the IRA owner, (ii) disabled beneficiaries, and (iii) chronically ill individuals.

This is not the first time that the Stretch IRA has been under attack. However, it looks like this might be the year that it finally happens. Stay tuned.