Financial Wellness Update

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Inheriting IRAs Just Got Complicated, Thanks to New Retirement Overhaul

The new spending package curtails the Stretch IRA, a popular strategy for passing on tax-free growth to younger heirs

Saunders, L. (2019, December)
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The Stretch IRA is snapping back.

Congress's year-end spending package limits the ability of savers to extend the life of their traditional Individual Retirement Accounts and Roth IRAs by leaving the accounts to much younger heirs, such as grandchildren.

The change curtails an often simple strategy that has been popular with many IRA owners who won't spend all the account's assets.

Until the change, the heirs of traditional or Roth IRAs could take required withdrawals over their lifetimes and receive decades of income-tax-free or tax-deferred compounding after the original IRA owner's death. For example, a 23-year-old heir of her grandfather's IRA could take payouts over about 60 years—hence the name Stretch IRA.

Now many IRA heirs will have to withdraw the assets within 10 years, rather than based on their own life expectancy. The law takes effect for deaths of IRA owners after Dec. 31, 2019, so IRAs inherited before then still benefit from prior law.

For savers who counted on a decades-long IRA stretch for their heirs, here are moves to consider in light of the rule change.

1 Make your spouse the heir to the IRA.

Surviving spouses still have favorable rules. For example, a spouse who inherits a Roth IRA could put the account in his or her name, not take payouts during life and then leave the accounts to younger heirs who get a 10-year stretch.

Spouses who inherit traditional IRAs also have options. For example, a 72-year-old widow could take payouts over her life expectancy of about 26 years if she claims her deceased husband's IRA as her own, and then leave the account to younger heirs at her death. Those heirs would get a 10-year stretch on remaining assets.

2 Review IRA trusts.

Some IRA owners have arranged to leave accounts to a trust at their death in order to preserve assets from spendthrift or ne'er-do-well heirs.

Natalie Choate, an attorney and retirement-plan specialist in Boston, says it's imperative for IRA owners who have set up trusts to revisit them soon. "Some types of IRA trusts make no sense under the new law, so people need to check its effect," she says.

3 Do nothing.

A 10-year stretch is still a stretch. For inherited Roth IRAs, 10 years of tax-free growth with no required payouts is a good benefit.

If the account is a traditional IRA intended for several young-adult heirs, then multiple payouts over 10 years could be spread over many low tax brackets if the heirs are just starting out.

Special Interest

You still have time to contribute to your Traditional or Roth IRA for 2019!

Make sure to update your contribution by April 15, 2020. The Maximum for 2019 is \$6,000 (\$7,000 if you are age 50 or older).

QCI Asset Management Inc.

Have questions on the new legislation? Want to review or create your personalized succession plan? Contact QCI Asset Management, Inc. for guidance!

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