Make Your Family IRA Millionaires With An IRA Legacy Trust

Thanks to new IRS rules, the beneficiaries who receive your IRA, 401(k), Roth IRA, 403(B), 457, Keogh, and other retirement accounts after you're gone may now stretch out their taxable, required minimum distributions (RMDs) over their own life expectancies. This means your retirement monies may compound income-tax free for a much longer period and literally grow to be worth millions.

For example, let's say your IRAs total $200,000 at your death and your child (or other beneficiary) is age 50 when he or she inherits them. Let's assume that the accounts grow at 8 percent per year, and your child takes out only the required minimum distributions. Take a look at the result:

At age 80, your child will have already received about $700,000 in distributions and will have almost $300,000 remaining in your IRAs, which may continue to grow tax-free and be passed on to your grandchildren. In other words, as the result of the new IRS stretch out rules, your IRAs may well be worth, over time, in excess of $1 million and may become the largest assets you pass on to your loved ones.

New IRS Stretch Out Rules Are Not Automatic

The problem is that this income tax stretch out is not automatic. You have to do proper advance planning.

You can name your children or other individuals as beneficiaries of your IRAs, but that may cause a disaster. Why? Because individuals may unintentionally blow the income tax stretch out and potentially cost your family millions.

This may happen because your beneficiaries are not aware of the tax rules and their distribution choices. Likewise, a beneficiary who is influenced by his or her spouse or some other unscrupulous third party may just decide to withdraw your lifetime savings to foolishly spend or poorly invest it.

Your Children May Still Lose it All Without Proper Asset Protection Planning!

Even if we assume that your beneficiaries choose to maximize the income tax stretch out of your IRAs, your life savings may still be exposed to these threats:

- The IRS may impose estate taxes of up to 40 percent (for deaths occurring after 2012). (Because of changing tax laws, this may happen even if you don't have a taxable estate today). Your IRAs may also be subject to estate taxes when your child passes what remains: almost $300,000 in our example to your grandchildren).

- Your beneficiary's spouse may take half of your inherited IRA in a divorce. This spouse could be a fortune hunter you don't currently know, who later marries your beneficiary after you are gone.

- Your beneficiaries may blow it all because of poor money management skills (particularly if some of your IRA monies eventually pass down to grandchildren or others who are young or financially inexperienced or a spendthrift.)

- Your beneficiaries' creditors and lawsuits may take all of your inherited IRAs.

Naming your Living Trust as the beneficiary of your IRAs won't work to minimize all of these problems and qualify for the maximum stretch out of income taxes because they are not "qualified designated beneficiaries" under the new law. If you want to qualify your retirement monies for "stretch out" and maximize asset protection for your beneficiaries, consider whether you may need an IRA Legacy Trust in addition to your Living Trust.