

Stretch IRA strategy

The “stretch IRA” is not a type of IRA; it’s a wealth-transfer strategy. If you don’t anticipate needing all of your IRA assets to provide income in retirement, you may be able to stretch your IRA assets to benefit your spouse, children and grandchildren.

The stretch strategy begins with your UBS IRA. It is important to work with your Financial Advisor to properly designate your beneficiaries and ensure they understand how the stretch IRA strategy works.

The benefits of stretching your IRA

- Throughout the life of the IRA, you and your beneficiaries will enjoy the benefits of tax-deferred growth on the assets.
- You and your beneficiaries have the opportunity to receive an income stream over the longest allowable period until the IRA assets are eventually exhausted.
- If beneficiary designations are properly set up, your IRA passes directly to your heirs, giving them access to that money without potential time delays and fees.

How it works

Once you reach age 70½, you are required to withdraw annual required minimum distributions (RMDs) from your traditional IRAs. The amount of your RMDs is based on two factors: your IRA account value and your life expectancy. Since both factors change every year, so will the amount you are required to distribute.

The IRA begins to be “stretched” when it passes to your primary beneficiary upon your death. In most cases, a younger spouse can roll your IRA over to their own IRA to “reset” the RMD formula to reflect his or her longer life



expectancy—thus “stretching” out the RMDs over more years. The same concept works as the second generation inherits your spouse’s IRA—the next beneficiary may also “reset” the RMD amounts to his or her own life expectancy, and “stretch” the period of distributions.

The third generation cannot “reset” the RMDs to their own life expectancy, but they will benefit from the years of tax-deferred growth of the assets and will receive the distributions until the account is depleted.

Stretching a Roth IRA

The stretch IRA strategy also works with a Roth IRA. Since RMDs are not required from a Roth IRA during your lifetime, you pass your entire Roth IRA to your heirs who can generally take tax-free distributions from the account over their life expectancy.

Contact us to discuss beneficiary planning and how you and your family can benefit from the stretch IRA strategy.

An example of the stretch IRA strategy at work

How a \$300,000 traditional IRA can stretch to more than \$2.1 million over generations

Family member	Beneficiary details	Required Minimum Distribution (RMD) ¹ duration	Total RMDs
First generation			
John (original IRA owner)	<ul style="list-style-type: none"> – Names wife Mary sole primary beneficiary – John dies at age 71 	2 years	\$22,649
Mary (first beneficiary; spouse)	<ul style="list-style-type: none"> – Mary (age 66) elects to treat John's IRA as her own – Names son Jack sole beneficiary – Mary dies at age 77 	8 years Note: Mary doesn't begin taking RMDs for 4 years (when she turns age 70½)	\$156,123
Second generation			
Jack	<ul style="list-style-type: none"> – Jack (age 53) maintains the account as a beneficiary IRA and takes distributions based on his own life expectancy (32 years) – Names son Mark sole beneficiary – Jack dies at age 75 	23 years	\$933,576
Third generation			
Mark	<ul style="list-style-type: none"> – Mark (age 41) takes distributions using Jack's remaining life expectancy factor until assets are depleted 	9 years Note: Mark takes RMDs for 9 years because his father, Jack, had taken RMDs for only 23 years of his 32-year life expectancy (32-23 = 9)	\$1,026,841
Total distributions across all generations²			\$2,139,189

This illustration is hypothetical and not meant to represent the performance of any specific investment or security. Actual returns will vary and principal value will fluctuate. Individual results will vary.

¹ Asset growth is based on a seven percent annual rate of return and assumes all generations receive their respective Required Minimum Distributions as defined by the IRS on December 31 of each year distributions are required.

² This number assumes that each generation elected to take only the required minimum over the longest period allowed by current law. Should any recipient elect to take distributions greater than the minimum or receive a lump sum at any point, this total would significantly change.

Distributions are subject to income taxes. This illustration does not take charges, commissions, fees or expenses into consideration.

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