



BIG FOOT, THE LOCH NESS MONSTER, AND THE STRETCH-OUT IRA—DO THEY REALLY EXIST?



Adversity makes men, and prosperity makes monsters.

— Victor Marie Hugo

At almost any grocery checkout line, articles tease people to read of the latest sightings of UFOs and monsters. Similarly, many financial seminars and financial publications tout the Holy Grail of retirement plans – the “*Stretch-Out IRA*.”

When the owner of an IRA leaves his or her retirement plan to a member of the next generation, the typical hope of the original owner, who actually earned and saved the money, is that the IRA will be allowed to grow and increase its value with tax free appreciation. This concept is known as the Stretch-Out IRA.

Stretch-Out IRAs, unfortunately, are rare animals indeed. Ownership of a vacation home or a Maserati sports car can be too difficult to resist. The treasure of the inheritance, which might have been the savings of another's lifetime, would vanish as quickly as a glimpse of Big Foot in the Rocky Mountains.

Is there a solution to forestall such a spendthrift inheritor of an IRA? Can a Stretch-Out IRA be mandated by its owner?

Yes. The IRA can be placed in trust so that a designated trustee would oversee the distributions in order to preserve the account for as long as would be reasonable or appropriate. This arrangement is called a “*Trusteed IRA*.” The recipient of the inheritance would be required to take out annually a required minimum distribution or RMD. If the RMD only is taken out each year, the IRA should continue to grow leaving a substantial amount for later years.

The requirements of a Trusteed IRA are relatively straightforward. Generally, the owner needs to name an individual retirement trust as a beneficiary of the funds and name a trustee who is responsible for the management of the assets. In most cases, the account

must be funded with at least \$1 million, although this could be reduced.

Inherited IRAs are often the first assets depleted by taxes and heirs. For those looking to leave a more lasting imprint, in taxable estates (which currently are those over \$2 million), it makes real sense to consider leaving some or all retirement accounts outright to charity or to one's own foundation. This approach avoids the estate tax on the IRA and the income tax on the inherited IRA withdrawals, while producing further benefit for the world.

Conservation of hard-earned savings or donation of the IRA to charity; now that's something to make even the Loch Ness Monster proud!



Cambridge University law students, Bill Pistorious, Tim Weilandt, and Bob Napier, visit Loch Ness in Scotland in 1985.