

# LEAVING A LEGACY: STRETCHING YOUR IRA



## Stretching Your IRA: A simple way to make your money mean more to future generations



You've planned carefully for your retirement. And, the rewards for that wise planning can surface as IRA or annuity assets that you may not need. Taking only the Required Minimum Distribution (RMD) from your IRA, or owning a non-qualified annuity contract, may protect you from a sizeable tax liability and leave funds for your beneficiaries. However, receiving an inheritance in a lump sum can cause the ones you love significant tax burdens.

Your beneficiary can choose to stretch out payments and reduce the tax burden. All you have to do is name your beneficiaries. At Great American Financial Resources®, Inc., we call this **stretching your IRA**. Stretching your IRA allows beneficiaries to receive distributions over the course of *their* lifetime (even if you have previously started taking distributions from your IRA based on your own life expectancy). This can provide both you and your heirs with significant benefits.

### Tax control of annuity distribution

With lump sum payouts, much of the distribution may be taken by taxes. Stretching out payments across beneficiaries' lifetimes allows the money to grow tax deferred, spreads the tax liability across many years and may avoid higher tax brackets. Stretching your IRA can be a great financial planning tool.

### Income flexibility

Beneficiaries can choose to increase payout amounts or cash out at any time. Remember that stretching your IRA is revocable: Owners can change beneficiaries at any time prior to their death, and beneficiaries can still opt to take a lump sum.

### Transfer of wealth to multiple generations

Beneficiaries may have the opportunity to take only an amount equal to the Required Minimum Distribution. If a beneficiary dies before the end of his/her life expectancy, any remaining balance can be passed on to future generations.

## Getting Started

It's easy to stretch your IRA or non-qualified annuity for future generations. But, it's important to plan ahead. Below are some steps that you can take if you're interested in this option:

1. **Choose your beneficiaries** and the percentages you'd like to allocate for them. These decisions are revocable and can be changed at any time during the owner's lifetime.
2. **Contact your GAFRI company financial professional** to help stretch your IRA or non-qualified plan for future generations.

To stretch your IRA, your estate should not be named as beneficiary. While some trusts allow for stretching an IRA, many do not. You should consult with an attorney who understands the Required Minimum Distribution rules if you want to name a trust as beneficiary, while retaining the ability to stretch your IRA. While the concept of stretching your IRA or annuity seems somewhat simple, we recommend consulting your Great American Financial Resources' company agent to learn more details about stretching your IRA and your opportunities to leave a lasting legacy for future generations.

## A Hypothetical Example

An annuity contract is purchased with \$100,000 when the owner is a 65-year-old male. We'll assume that the IRA earns interest at a 4% rate. At 70½, the owner begins withdrawing only the Required Minimum Distribution (RMD), based on his RMD Life Expectancy. This owner passes away at age 73, leaving the annuity contract to his spouse who is then age 63. She also withdraws only the RMD, which she must begin receiving at age 70½. When the spouse passes away at age 72, the account value of the annuity contract is \$155,945. This same scenario can be used to describe a non-qualified annuity contract, except that the owner and his spouse are **not** required to take out the RMD.

*\*This example does not describe a specific annuity product and interest rates are not guaranteed. A lower interest rate would reduce the effects of deferring withdrawals, and a higher interest rate would increase them.*

If the beneficiary designated in the annuity contract wishes to stretch the IRA, the withdrawals are stretched out according to his or her RMD Life Expectancy, until the account value is depleted. According to our example, the beneficiary inherits the annuity contract at age 39 and begins receiving RMD withdrawals the following year. In this hypothetical situation, the beneficiary can stretch annuity payments across 44 years.

**In the example for an IRA, stretching the IRA payments over a life expectancy of 44 years increased the total payout to the beneficiary to \$428,960 before taxes, compared to the lump sum payout of \$155,945 before taxes. Furthermore, because stretching the IRA spreads payments over 44 years, they may be taxed at lower rates than a lump sum payment.**

**For the non-qualified annuity example, stretching the IRA payments option over a life expectancy of 44 years increased the total payout to the beneficiary to \$557,243 before taxes, compared to the lump sum payout of \$202,582 before taxes. Furthermore, because stretching the IRA spreads payments over 44 years, they may be taxed at lower rates than a lump sum payment. (The initial cost basis used to purchase the annuity, \$100,000, is exempt from taxes upon distribution because it has already been taxed.)**

<b>Owner</b>		<b>IRA Example</b>				<b>Non-Qualified Annuity Example</b>			
Year	Age	Beg. of Period AV	Interest	RMD Withdrawal	End of Period AV	Beg. of Period AV	Interest	Withdrawal	End of Period AV
1	65	\$100,000	\$4,000	-	\$104,000	\$100,000	\$4,000	-	\$104,000
2	66	104,000	4,160	-	108,160	104,000	4,160	-	108,160
3	67	108,160	4,326	-	112,486	108,160	4,326	-	112,486
4	68	112,486	4,499	-	116,986	112,486	4,499	-	116,986
5	69	116,986	4,679	-	121,665	116,986	4,679	-	121,665
6	70	121,665	4,867	4,440	122,092	121,665	4,867	-	126,532
7	71	122,092	4,884	4,607	122,368	126,532	5,061	-	131,593
8	72	122,368	4,895	4,780	122,483	131,593	5,264	-	136,857
9	73	122,483	4,899	4,959	122,423	136,857	5,474	-	142,331
<b>Spouse</b>						<b>Spouse</b>			
Year	Age	Beg. of Period AV	Interest	RMD Withdrawal	End of Period AV	Beg. of Period AV	Interest	Withdrawal	End of Period AV
10	64	\$122,423	\$4,897	-	\$127,320	\$142,331	\$5,693	-	\$148,024
11	65	127,320	5,093	-	132,413	148,024	5,921	-	153,945
12	66	132,413	5,297	-	137,709	153,945	6,158	-	160,103
13	67	137,709	5,508	-	143,218	160,103	6,404	-	166,507
14	68	143,218	5,729	-	148,947	166,507	6,600	-	173,168
15	69	148,947	5,958	-	154,904	173,168	6,927	-	180,094
16	70	154,904	6,196	5,653	155,447	180,094	7,204	-	187,298
17	71	155,447	6,218	5,866	155,799	187,298	7,492	-	194,790
18	72	155,799	6,232	6,086	155,945	194,790	7,792	-	202,582
<b>Beneficiary: Inherits Account Value of \$155,945</b>						<b>Beneficiary: Inherits Account Value of \$202,582</b>			
Year	Age	Beg. of Period AV	Interest	RMD Withdrawal	End of Period AV	Beg. of Period AV	Interest	Withdrawal	End of Period AV
19	40	\$155,945	\$6,238	\$3,577	\$158,606	\$202,582	\$8,103	\$4,646	\$206,039
20	41	158,606	6,344	3,723	161,227	206,039	8,242	4,837	209,444
25	46	171,150	6,846	4,552	173,444	222,333	8,893	5,913	225,313
30	51	181,547	7,262	5,569	183,240	235,840	9,434	7,234	238,039
35	56	188,223	7,529	6,820	188,932	244,513	9,781	8,859	245,434
40	61	188,992	7,560	8,362	188,189	245,511	9,820	10,863	244,468
45	66	180,839	7,234	10,275	177,798	234,921	9,397	13,348	230,970
50	71	159,619	6,385	12,668	153,336	207,354	8,294	16,457	199,192
55	76	119,556	4,782	15,731	108,607	155,310	6,212	20,436	141,087
60	81	52,120	2,085	20,046	34,159	67,707	2,708	26,041	44,374
61	82	34,159	1,366	21,349	14,176	44,374	1,775	27,734	18,415
62	83	14,176	567	14,743	-	18,415	737	19,152	-

**Contact your agent or Great American Financial Resources today to find out how you can leave a lasting legacy.**



INSURANCE MARKETPLACE  
STANDARDS ASSOCIATION

*This brochure is not intended or written to be used as legal or tax advice. It cannot be used by any taxpayer for the purposes of avoiding penalties that may be imposed on the taxpayer. It was written solely to support the sale of annuity products. The taxpayer should seek advice on legal or tax questions based on the taxpayer's particular circumstances from an independent attorney or tax advisor.*



*Products issued by Great American Life Insurance Company®, Annuity Investors Life Insurance Company®, and Loyal American Life Insurance Company®*

P.O. Box 5420  
Cincinnati, Ohio 45201-5420

(800) 854-3649

**[www.GAFRI.com](http://www.GAFRI.com)**

*Copyright © 2007 by Great American Financial Resources®, Inc.  
All rights reserved.*