YOUR IRA AND YOUR LEGACY

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Individual retirement accounts (IRA) are a cornerstone of many people's retirement savings strategy, and for good reason: The ability to contribute pre-tax income—and to defer taxes until you start making withdrawals—means your savings can potentially grow more quickly than they could in a taxable account.

But there's more to IRAs than tax advantages for retirement savings. In fact, IRAs can play a valuable role in estate planning, offering powerful tax benefits to both you and your heirs as you pass your wealth to the next generations.

Here are some tips and strategies to consider before incorporating an IRA into your estate planning process.

Name Your Beneficiaries

The first step to incorporating an IRA into your estate plan is deciding who you want to name as beneficiaries of your account. You can designate anyone you want, including people, institutions, charities, your estate or a trust. But consider this decision carefully as IRA beneficiary designations are likely to supersede your will.

If you don't correctly name a beneficiary, your IRA money may pass to an heir who is not of your choosing. Certain beneficiary designations may also subject heirs to unnecessary estate or income taxes, or even leave the account vulnerable to creditors.

Your financial advisor can help you avoid such outcomes and make beneficiary designations that accurately reflect your final wishes.

Look Beyond the "Stretch" Strategy

New regulations about inherited retirement accounts have eliminated the once-popular "stretch" provision for IRAs. This strategy let non-spousal beneficiaries to take distributions over their lifetimes, allowing assets continue to grow tax deferred. The SECURE Act passed in 2019 generally requires beneficiaries to withdraw all of the IRA's assets within 10 years.

While this stretch strategy no longer exists, IRAs can still offer appeal as estate planning tools by allowing inherited assets to continue growing tax-deferred. However, since your beneficiaries' distributions will be taxed as income, the 10-year distribution window may put a heavy tax burden on your heirs. If that's a concern, another option is to convert your traditional IRA to a Roth IRA, which would put the tax burden on you but would enable your heirs to take tax-free distributions.

Get Charitable

Naming a charitable organization as your IRA's beneficiary may be an effective way to lower your estate tax bill. When IRAs are passed to heirs, they may be subject to estate and income taxes. However, IRA assets left to tax-exempt charities qualify for the federal estate tax charitable deduction, which can reduce the amount of taxes your estate owes.

You could also name a charitable remainder trust as the beneficiary of your IRA. That trust can be set up to deliver payouts to your heirs for a designated period of time; at the end of that period, the remaining assets are distributed to a qualified charitable organization. Because payouts can be made over long periods of time—in many cases, several decades—this strategy can provide the long-term tax deferral benefits similar to those offered by the bygone stretch IRA.

Review Regularly

As your life circumstances evolve you'll likely need to adjust your IRA estate planning strategy and update or change your beneficiary designations. Take time to review your designations regularly—for example, as part of an annual financial check-in with your advisor—and make adjustments as needed.

Estate planning strategies can be complex. As you work to create an estate plan that aligns with your long-term goals and the financial legacy you hope to leave, work closely with a trusted advisor to explore the various options. With their help, you'll be more likely to build a plan that meets your needs now and for generations into the future.

ABOUT US

At the Lamchick Financial Group of Raymond James, we're experienced financial advisors who will treat you like an extension of our own family, getting to know you on a personal level in order to create a comprehensive financial plan that fits your life. Our family business and South Florida roots give us a better understanding into the needs of growing families here in this thriving, affluent area we call home.

We help you pursue your financial goals with experienced guidance. Along with challenges, the market also brings new opportunities – you just have to know where to look and when to take action. Over the years, we've helped clients navigate through challenging times with purpose and confidence toward their financial goals, and I'm here to help you, too.

We can offer you an array of personalized financial services, support and guidance that can help make a positive difference in the pursuit of your financial goals.

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