Estate planning

Stretch your IRA across several generations

The assets in your Individual Retirement Account (IRA) could help you create a source of income for several generations of your family. To create this legacy follow the Stretch IRA strategy.

Six steps

1. Open an IRA.
2. Name your spouse as your primary beneficiary.
3. After your death, your spouse rolls the remaining assets to his or her own IRA.
4. Your spouse names a daughter or son as beneficiary.
5. After your spouse's death, your daughter or son receives minimum distributions from the IRA and names his or her child as beneficiary.
6. Distributions continue until the beneficiary IRA is exhausted.

Leave a legacy, minimize taxes

Designed for individuals who will not need the money in their IRA for their own retirement needs, the Stretch IRA strategy allows your beneficiary to take distributions over his or her own life expectancy. This minimizes the income taxes due and keeps more assets potentially growing in a tax-deferred account.

The named beneficiaries, who are usually younger than the original IRA owner, may be able to take distributions based on their own life expectancies. This can potentially lower annual income tax liability and allows assets to remain growing tax deferred in the IRA. The younger the beneficiary, the longer the IRA assets have to grow tax deferred. (Take a look at the chart on the back to see how it works over three generations.)

Using this strategy, you withdraw from your IRA only the required minimum distributions (RMDs) you must take after reaching age 70½. If your beneficiaries take the proper steps, they can stretch the value of your IRA over many years. As the owner of the account, it is important for you to leave a written plan of your intentions for the stretch with your heirs.

How the Stretch IRA works

When your retirement plan assets are distributed to you, the first step is to transition them into a Rollover IRA account and name your spouse as beneficiary. When you pass away, your spouse would roll the remaining assets into an IRA in his or her own name and name your son or daughter as beneficiary. When your spouse passes away, your son, daughter, or other relative would then name one of their children as beneficiary. Take a look at the following example to see how it works.

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Key points

- Helps investors stretch their retirement distributions across generations.
- Required minimum distributions for owner must begin at age 70½.
- Allows the beneficiary to take distributions over his or her own life expectancy, and doing so minimizes the income taxes due.
- Keeps more money in a tax-deferred account for continued compounded growth.

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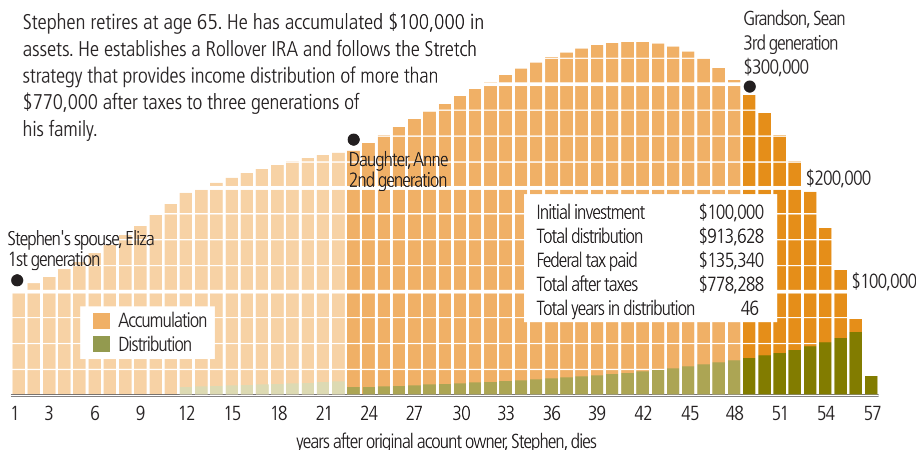
NOT A DEPOSIT • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY OR NCUA/NCUSIF

MFS® INVESTMENT MANAGEMENT

The Stretch IRA at work

One IRA – three generations of income®

Stephen retires at age 65. He has accumulated $100,000 in assets. He establishes a Rollover IRA and follows the Stretch strategy that provides income distribution of more than $770,000 after taxes to three generations of his family.



Assumptions:

- 6% annual return on account, compounded quarterly
- based on 2003 income tax rates for a single taxpayer
- does not include standard deduction or personal exemptions

Stephen retires at age 65. He has accumulated $100,000 in assets. He establishes a Rollover IRA and follows the Stretch strategy that provides income distribution of more than $770,000 after taxes to three generations of his family.

At Stephen's death, his beneficiary, his wife Eliza, rolls the IRA into an IRA of her own. Starting at age 70½ and continuing until her death at age 80, she receives RMDs from the IRA that are based on her life expectancy. Eliza's beneficiary, her daughter Anne, then receives RMDs from the IRA based on her own life expectancy.

Anne passes away at age 77, at which point her beneficiary, her son Sean, is able to receive RMDs from the IRA over the remainder of Anne's life expectancy.

(Hypothetical results are for illustrative purposes only and are not intended to represent the future performance of any MFS investment product. Investments in mutual funds will fluctuate, and shares may be worth more or less than their original value. Keep in mind this illustration is based on a 57-year time period and current tax laws. There is no assurance that the current tax laws will remain in effect for the entire period.)

Is a Stretch IRA right for you?

The Stretch strategy may or may not be a good idea for you. It is important to note that the Stretch IRA is designed for investors who will not need the money for their own retirement needs.

As a starting point, you should talk with your investment professional or tax adviser.

For more information about IRA planning, ask your investment professional for the MFS Heritage Planning® infosheet *Choosing Beneficiaries for your IRA*, the white paper *Understanding RMDs and beneficiary planning*, and the MFS Stretch IRA and Distribution Options brochure *Ready, set, retire.*

Resources

Suttle, John C., and Slesnick, Twila. *IRAs, 401(k)s, and Other Retirement Plans: Taking Your Money Out.* Nolo Press, 2003, 336 p., $29.99

Contact your investment professional for more information.

This material is not intended to replace the advice of a qualified attorney, tax adviser, investment professional, or insurance agent. Before making any financial commitment regarding the issues discussed here, consult with the appropriate professional.

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HP-EP-STRIRA-FLY-9/04