

KEYTLAW, L.L.C.

ATTORNEYS

RICHARD KEYT
Tel: (602) 906-4953, ext.101
Fax: (602) 297-6890
Email: rk@keytlaw.com

3001 East Camelback, Suite 130
Phoenix, Arizona 85016
(602) 906-4953
www.keytlaw.com

Estate Planning
Entity Formation
Business Law
Real Estate Law
Contracts

HOW TO MAKE YOUR FAMILY IRA MILLIONAIRES

BY [RICHARD KEYT](#), ARIZONA WEALTH PRESERVATION ATTORNEY

IRA Inheritance Trusts® Can Protect IRA Funds from Ex-Spouses, Creditors & Bankruptcy Court

In 2005 the IRS issued private letter ruling 200537044 (the "PLR") that approved a new type of trust created solely to be the beneficiary of an IRA account. As a result of this IRS PLR, it is now possible for people with IRA accounts and certain other retirement accounts to create **IRA Inheritance Trusts®** to insure that their beneficiaries will **stretch-out** payments from the IRA after they inherit their shares of the account so that the funds will grow inside the account without being taxed. This type of trust is also called an IRA trust, a standalone IRA trust, an IRA stretch trust or an IRA protection trust.

In this era when fewer and fewer employers are offering pension plans, this new special type of revocable trust called the **IRA Inheritance Trust®** gives a parent or grandparent a unique opportunity to create the equivalent of a private pension or retirement plan for children and grandchildren. If done properly, money that is left to loved ones in an IRA or retirement plan can grow tax-free within the IRA or retirement account over the entire life of the child or grandchild. The ability of a person who inherits the account to earn tax-free over his or her life is what we call the "stretch-out."

If you have over \$150,000 or more in all of your IRAs, Roth IRAs, 401(k) plans 403(a) plans, 403(b) plans and other employer retirement plans combined you must read this article because it could be worth hundreds of thousands or millions of dollars to your loved ones who will inherit your accounts. In this article when I use the term IRA, I mean not just traditional IRAs, but all of the previously mentioned types of retirement accounts.

If children and grandchildren who inherit IRA funds keep the funds in the IRA over their lives and only take the required minimum distributions each year (the "stretch-out"), the amount of money that can be earned, accumulated and paid to the beneficiaries can be staggering. To illustrate the **potentially huge amounts of money** that can be generated from the stretch-out, I calculated how much money Bart Simpson can receive from Homer's **\$100,000 IRA account** if Bart inherits the account at two different ages (10 and 35) assuming annual earning of 8% and 10%.

Age When Inherited	Average Interest Rate	Number of Years Payments	Total Amount Paid	Remaining in Account at Death	Total of Payments & Remaining
35	8%	49	\$1,223,584	\$5,046	\$1,228,630
35	10%	49	\$2,551,836	\$16,689	\$2,568,525
10	8%	70	\$4,279,898	\$1,083,614	\$5,363,512
10	10%	70	\$12,960,273	\$4,145,791	\$17,106,064

If Bart inherits the \$100,000 IRA at age 35 and immediately takes all of the funds out of the IRA to buy a new car, he would pay approximately \$40,000 in combined federal and state income tax and BLOW THE STRETCH-OUT!!!

Now do you see why this article is entitled “How Your Family Can Become IRA Millionaires Using an IRA Inheritance Trust[®]”? The above examples show how a \$100,000 IRA account can literally pay millions of dollars to a child, grandchild or loved one.

This wealth accumulation strategy only works if your beneficiaries retain the inherited funds inside the IRA account. If a beneficiary takes all of the funds out of the IRA account (called the “blow-out” because it blows the stretch-out), this wealth accumulation technique will be lost. One of the reasons to create an IRA Inheritance Trust[®] is because it can insure the stretch-out and can prevent a blow-out.

You may not be aware of this, but new IRS rules now permit you to create an IRA Inheritance Trust[®] to insure that your beneficiaries (who’ll receive your IRAs after you’re gone) “stretchout” their taxable, required minimum IRA distributions over a much longer period of time. And, if they do it right, your IRAs can continue to compound for many years income-tax free - - and may literally grow to be worth over a million dollars! And now, thanks to a new law, this also applies to your company retirement plans, even if you never roll them over to IRAs during your lifetime.

For example, let’s say your IRA account is \$200,000 when you pass away. If you only take out the required minimum distributions over your life, these accounts will probably grow to be worth a lot more than they are today! If your child (or other non-spouse beneficiary) is age 50 when he or she inherits this \$200,000 and we assume that the account grow at 8% per year (from both income and principal growth), and your child only takes out the required minimum distributions, just look at these incredible numbers:

At age 80, your child will have received distributions of approximately \$700,000 and still have almost \$300,000 remaining in the account, which may continue to grow-tax free and be passed on to your grandchildren!

As the result of the new IRS “stretchout” rules, your IRAs and company plans may be well worth, over time, in excess of \$1 million and may represent the largest assets you will pass on to your loved ones!

You can simply name your children or other individuals as beneficiaries of your IRAs and company plans, but that may be a terrible disaster. Why? Because -

Individuals may unintentionally blow the income tax “stretch-out,” resulting in a huge financial loss for your family!

This happens more often than you may think. Your beneficiaries may not be aware of the tax rules and their distribution choices, so they may immediately withdraw your IRAs or company plans at the first opportunity (or worse yet, do a prohibited rollover!). Or your beneficiary, influenced by his or her spouse or some other unscrupulous third party, may just decide to withdraw your lifetime’s savings to foolishly spend it!

If the “stretchout” isn’t done properly by your beneficiaries and income taxes are paid up front shortly after the IRAs and company plans are inherited, your family may lose hundreds of thousands of dollars (or more)!

Even if you assume that your beneficiaries will do the right thing - keep the funds in the IRA account for their lives to maximize the income tax “stretch-out” of your IRAs and company plans, your life’s savings may still be seriously exposed to one or more of the following threats that can arise years after you are gone:

- Your beneficiary’s spouse may snatch half (or more) of your inherited IRAs and company plans in a divorce! The divorce rate is over 50% and a big pile of inherited money may

HOW TO MAKE YOUR FAMILY IRA MILLIONAIRES

Page 2

KEYTLAW, L.L.C., 3001 EAST CAMELBACK, SUITE 130, PHOENIX, ARIZONA 85016 | (602) 906-4953

© 2008 RICHARD KEYT

become a divorce incentive for the ex-spouse! Even though inherited property is separate property, your beneficiary's ex-spouse's divorce lawyer will go after the IRA funds because the IRA account is frequently the largest asset and the lawyer knows there is a good chance the spouse who inherited the IRA will give a large portion or all of the IRA account just to end the divorce and to be rid of the ex-spouse.

- Arizona is a community property state and inherited property is separate property. If you leave your IRA account to a loved one, the account will initially be separate property, but the beneficiary could intentionally or unintentionally transmute the IRA account into community property, which would give the ex-spouse a one half interest in the IRA account if they divorce.
- Also realize your beneficiary's future spouse could be a fortune hunter who you don't currently know and who later marries your beneficiary after you're gone!
- Your beneficiaries' poor spending habits, creditors and lawsuits may grab all of your inherited IRAs and company plans!
- Your beneficiary could lose his or her needs-based government benefits (if he or she ever needs them), such as supplemental income (SSI) or long-term nursing care!
- And even if your beneficiary never encounters any of these problems, he or she may get walloped with a huge estate tax when he or she passes your IRAs and company plans down to the next generation!

If you think that naming your revocable living trust as the beneficiary of your IRAs and company plans will minimize all of these problems and qualify for the maximum "stretchout" of income taxes, you may be terribly wrong! If you want a copy of an article by a nationally known attorney that lists 17 reasons why you should name a stand-alone IRA Inheritance Trust® as the beneficiary of your IRA account rather than your revocable living trust, send an email request to rickkeyt@keytlaw.com.

YOU MAY NEED MORE THAN JUST YOUR LIVING TRUST! RATHER THAN NAME YOUR REVOCABLE LIVING TRUST AS THE BENEFICIARY OF YOUR IRA OR RETIREMENT ACCOUNT FUNDS, CONSIDER THE ADVANTAGES OF NAMING AN IRA INHERITANCE TRUST® AS THE BENEFICIARY.

ARIZONA ESTATE PLANNING & WEALTH PRESERVATION ATTORNEY

Richard Keyt prepares wills, living trusts and estate plans for Arizona residents. Rick, a former partner in one of the largest law firms in Arizona, has practiced law in Arizona since 1980. Rick's email address is rickkeyt@keytlaw.com. His direct phone number is 602-906-4953, ext 101. Richard Keyt also prepares custom drafted IRA Inheritance Trusts® as part of an estate plan.

For more information about Arizona Wills, Trusts and estate planning, go to:

www.keytlaw.com/ep

Call Rick Keyt (602-906-4953, ext. 101) or email him at rk@keytlaw.com to make a no charge no obligation appointment to answer questions & design your estate plan & optional IRA Inheritance Trust®.

HOW TO SUBSCRIBE TO RICK KEYT'S FREE ESTATE PLANNING EMAIL NEWSLETTER

To subscribe to Rick's free estate planning email newsletter, go to

www.keytlaw.com/newsletter

HOW TO MAKE YOUR FAMILY IRA MILLIONAIRES

Page 3

KEYTLAW, L.L.C., 3001 EAST CAMELBACK, SUITE 130, PHOENIX, ARIZONA 85016 | (602) 906-4953

© 2008 RICHARD KEYT

**Prepared for Homer Simpson's IRA Account
f.b.o. Bart Simpson - Age 35 8% Earnings**

Inherited IRA - 35 year old

Age	Principal	Rate of Return 8%	RMD Divisor	Annual Distribution	Remaining Account Balance
35	\$100,000	\$ 8,000.00	48.50	2,062	\$105,938.14
36	\$105,938	\$ 8,475.05	47.50	2,230	\$112,182.92
37	\$112,183	\$ 8,974.63	46.50	2,413	\$118,745.02
38	\$118,745	\$ 9,499.60	45.50	2,610	\$125,634.84
39	\$125,635	\$ 10,050.79	44.50	2,823	\$132,862.37
40	\$132,862	\$ 10,628.99	43.50	3,054	\$140,437.05
41	\$140,437	\$ 11,234.96	42.50	3,304	\$148,367.61
42	\$148,368	\$ 11,869.41	41.50	3,575	\$156,661.90
43	\$156,662	\$ 12,532.95	40.50	3,868	\$165,326.66
44	\$165,327	\$ 13,226.13	39.50	4,185	\$174,367.31

Total Distributed	10 Years	\$	30,125	Undistributed	\$	174,367
"	20 Years	\$	96,462	"	\$	285,035
"	30 Years	\$	243,618	"	\$	412,716
"	40 Years	\$	575,540	"	\$	434,635
"	49 Years	\$	1,223,584	"	\$	5,046
"						

This illustration has been prepared by Richard Keyt for informational purposes and it does not imply a guaranteed rate of return of the amount shown. The rate of return shown is believed to be a reasonable estimate based on an average annualized rate of return over the term indicated. However, this illustration should only be used as a general guide as actual securities prices will vary. The illustration has been prepared from data believed to be reliable but no representation is being made as to its accuracy or completeness. The figures presented should not be relied upon for tax purposes.

**Prepared for Homer Simpson's IRA Account
f.b.o. Bart Simpson - Age 35 & 10% Earnings**

Inherited IRA - 35 year old

Age	Principal	Rate of Return 10%	RMD Divisor	Annual Distribution	Remaining Account Balance
35	\$100,000	\$ 10,000.00	48.50	2,062	\$107,938.14
36	\$107,938	\$ 10,793.81	47.50	2,272	\$116,459.58
37	\$116,460	\$ 11,645.96	46.50	2,505	\$125,601.03
38	\$125,601	\$ 12,560.10	45.50	2,760	\$135,400.67
39	\$135,401	\$ 13,540.07	44.50	3,043	\$145,898.02
40	\$145,898	\$ 14,589.80	43.50	3,354	\$157,133.85
41	\$157,134	\$ 15,713.38	42.50	3,697	\$169,149.97
42	\$169,150	\$ 16,915.00	41.50	4,076	\$181,989.06
43	\$181,989	\$ 18,198.91	40.50	4,494	\$195,694.41
44	\$195,694	\$ 19,569.44	39.50	4,954	\$210,309.56

Total Distributed	10 Years	\$	33,217	Undistributed	\$	210,310
"	20 Years	\$	121,497	"	\$	415,154
"	30 Years	\$	358,269	"	\$	727,559
"	40 Years	\$	1,006,595	"	\$	933,071
"	49 Years	\$	2,551,836	"	\$	16,689
"						

This illustration has been prepared by Richard Keyt for informational purposes and it does not imply a guaranteed rate of return of the amount shown. The rate of return shown is believed to be a reasonable estimate based on an average annualized rate of return over the term indicated. However, this illustration should only be used as a general guide as actual securities prices will vary. The illustration has been prepared from data believed to be reliable but no representation is being made as to its accuracy or completeness. The figures presented should not be relied upon for tax purposes.

Prepared for Homer Simpson's IRA Account
F.B.O. BART SIMPSON AGE 10 & 8% EARNINGS

Inherited IRA - 10 year old

Age	Principal	Rate of Return 8%	RMD Divisor	Annual Distribution	Remaining Account Balance
10	\$100,000	\$ 8,000.00	72.80	1,374	\$106,626.37
11	\$106,626	\$ 8,530.11	71.80	1,485	\$113,671.44
12	\$113,671	\$ 9,093.71	70.80	1,606	\$121,159.62
13	\$121,160	\$ 9,692.77	69.80	1,736	\$129,116.58
14	\$129,117	\$ 10,329.33	68.80	1,877	\$137,569.21
15	\$137,569	\$ 11,005.54	67.80	2,029	\$146,545.71
16	\$146,546	\$ 11,723.66	66.80	2,194	\$156,075.56
17	\$156,076	\$ 12,486.05	65.80	2,372	\$166,189.64
18	\$166,190	\$ 13,295.17	64.80	2,565	\$176,920.16
19	\$176,920	\$ 14,153.61	63.80	2,773	\$188,300.73

Total Distributed	10 Years	\$	20,009	Undistributed	\$	188,301
"	20 Years	\$	63,727	"	\$	346,249
"	30 Years	\$	159,469	"	\$	615,541
"	40 Years	\$	369,862	"	\$	1,038,945
"	50 Years	\$	834,831	"	\$	1,602,476
"	60 Years	\$	1,873,975	"	\$	2,029,530
"	70 Years	\$	4,279,898	"	\$	1,083,614
"	73 years	\$	5,548,358	"	\$	32,864

This illustration has been prepared by Richard Keyt for informational purposes and it does not imply a guaranteed rate of return of the amount shown. The rate of return shown is believed to be a reasonable estimate based on an average annualized rate of return over the term indicated. However, this illustration should only be used as a general guide as actual securities prices will vary. The illustration has been prepared from data believed to be reliable but no representation is being made as to its accuracy or completeness. The figures presented should not be relied upon for tax purposes.

Prepared for Homer Simpson's IRA Account
F.B.O. BART SIMPSON AGE 10 & 10% EARNINGS

Inherited IRA - 10 year old

Age	Principal	Rate of Return 10%	RMD Divisor	Annual Distribution	Remaining Account Balance
10	\$100,000	\$ 10,000.00	72.80	1,374	\$108,626.37
11	\$108,626	\$ 10,862.64	71.80	1,513	\$117,976.11
12	\$117,976	\$ 11,797.61	70.80	1,666	\$128,107.39
13	\$128,107	\$ 12,810.74	69.80	1,835	\$139,082.78
14	\$139,083	\$ 13,908.28	68.80	2,022	\$150,969.51
15	\$150,970	\$ 15,096.95	67.80	2,227	\$163,839.77
16	\$163,840	\$ 16,383.98	66.80	2,453	\$177,771.05
17	\$177,771	\$ 17,777.11	65.80	2,702	\$192,846.47
18	\$192,846	\$ 19,284.65	64.80	2,976	\$209,155.09
19	\$209,155	\$ 20,915.51	63.80	3,278	\$226,792.31

Total Distributed	10 Years	\$	22,045	Undistributed	\$	226,792
"	20 Years	\$	80,072	"	\$	502,495
"	30 Years	\$	233,246	"	\$	1,077,056
"	40 Years	\$	639,302	"	\$	2,193,968
"	50 Years	\$	1,723,305	"	\$	4,090,897
"	60 Years	\$	4,657,606	"	\$	6,286,932
"	70 Years	\$	12,960,273	"	\$	4,145,791
"	73 years	\$	18,013,058	"	\$	167,674

This illustration has been prepared by Richard Keyt for informational purposes and it does not imply a guaranteed rate of return of the amount shown. The rate of return shown is believed to be a reasonable estimate based on an average annualized rate of return over the term indicated. However, this illustration should only be used as a general guide as actual securities prices will vary. The illustration has been prepared from data believed to be reliable but no representation is being made as to its accuracy or completeness. The figures presented should not be relied upon for tax purposes.