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Multi-Generational IRA: A Gift of Love to Grandkids!

Special to the 2/16/2013 AZ Republic by Dr. Harold Wong

The American Taxpayer Relief Act (ATRA) was passed by Congress on January 1, 2013 and signed into law by President Obama the next day. For high-income taxpayers: tax rates rise from the prior maximum 35 percent to 39.6 percent; and the maximum tax rate on capital gains and dividends rise from 15 percent to 20 percent. Within 10 days of the passage of ATRA, President Obama wanted even more revenue.

Over the years, I have met a number of families who have substantial amounts in their IRAs, 401(k)s, 403(b)s, or other tax-deferred retirement accounts (note: all called IRAs in this article). Some need the Required Minimum Distributions (RMDs) after turning 70.5 for living expenses, but many don't. Many state that they do not plan on spending much or even any of the amounts in these IRAs. Some have successful kids that will not need this IRA money. Here are two examples of using the Multi-Generational IRA (MGIRA) to protect this nest egg and leave a legacy to grandkids.

Example 1: A nurse, age 75, retired, has more Social Security and pension income than her living expenses. Her child is a medical doctor with a very high income. She wants to leave a legacy to her 2 grandchildren, twins age 9. The most tax-effective strategy is to combine the MGIRA and Roth IRA strategies. She deposits $385,000 in the account. The total tax-free income to the 2 grandkids is slightly above $4 million, or $2 million each. The projected annual tax-free income to each grandchild is: $7,000 at age 25; $11,000 at age 35; $17,000 at age 45; $27,000 at age 55; $43,000 at age 65; $69,000 at age 75; and $90,000 at age 80.

Let's summarize the benefits to the grandkids. They will have substantial income every year, or a legacy after her death. She has protected the money from any future tax rate increases. The money will be there every year and the grandkids cannot blow it by spending the lump sum the year that she dies. By federal law, the MGIRA/Roth IRA funds are asset protected. If the grandkids have 2 bad marriages or are hit by an unfair lawsuit, the creditors cannot access the funds.

Example 2: A computer programmer, age 62, has a son who earns a high income. She wants to leave a legacy to her 2 grandsons, age 2 and 4. She does not want to pay the Roth IRA conversion tax, and so sets up a MGIRA without the Roth IRA provision. She needs the income from her IRA funds when she retires, and so will take RMDs once she turns age 70. She deposits $300,000. Her RMD income is: $16,389 at age 70; $20,190 at age 75; $24,432 at age 80; and $28,806 at age 85. This income is taxable, but is a substantial addition to her Social Security income. After she dies, each grandkid will receive about: $4,122 at age 30; $5,459 at age 40; $10,146 at age 50; $16,002 at age 60; $25,476 at age 70; and $42,222 at age 80. By not taking a lump-sum, the tax rate will be substantially lower to the grandkids. Her $300,000 deposited in the MGIRA becomes $2,289,195 of total income to her and the 2 grandkids. Again, the income will be paid out annually and it is asset-protected.

Conclusion: The MGIRA, with or without the Roth IRA provision, is a powerful strategy to multiply family income, save taxes, and protect the funds for decades.

Free Seminars: "Secrets of the Roth and Multi-Generational IRAs" will be given 6 times in the next 3 weeks.

For details and to RSVP, go to www.DrWongInvestorGuide.com.
The seminar locations include the Golden Corral, Surprise, on Weds. 2/27/13 and Sat. 3/2/13, 10 A.M.-1 P.M.

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