GIVING THROUGH RETIREMENT PLANS

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Today's economic environment makes it more important than ever to plan carefully for financial well-being in your retirement years.

In the face of longer life expectancies and fluctuating returns on investments, however, planning to meet long-term financial needs can be challenging—and can sometimes require you to balance seemingly conflicting goals.

For example, if you enjoy making charitable gifts, how can you continue such gifts while maintaining personal financial security?

Through thoughtful retirement planning, you may be surprised to learn you can:

- Help ensure a healthy financial future for you and your loved ones.
- Make other charitable gifts that feature special tax savings now and in the future.
- Arrange for a legacy as part of your long-range financial and estate planning.

Read on to learn how you can enjoy these and other benefits while you plan for or continue to enjoy your retirement years.

Tax-favored savings plans

Many have taken advantage of the generous tax incentives provided by Congress to encourage saving for retirement through contributions to IRAs, 410(k)s and similar plans.

These options have traditionally featured income tax savings when contributions are made to the plans. Amounts in the plans then build tax free and are not generally subject to income tax until they are withdrawn by one or more beneficiaries.

Any funds eventually remaining are included as part of the owner's estate for state and/or federal estate tax purposes.

Making charitable gifts today

When considering the best way to make charitable gifts today, you may find that your retirement plan is an excellent "pocket" from which to make these gifts.

If you are over the age of 59½, you may wish to make withdrawals from retirement plans in amounts sufficient to fund your charitable gifts. Although you would be required to report the income on your tax return, you are then allowed a corresponding itemized deduction for your gifts.

For those who itemize deductions and can deduct the full amount of the gift/withdrawal, this can often amount to a "wash" for tax purposes and result in the use of these funds in a way that assures they will, in effect, never be subject to income, gift or estate taxes.

Even where higher income taxpayers are subject to partial limitations on itemized deductions, making gifts in this way can still result in nearly total elimination of tax on the donated amounts.

If you are at the point in life when you are, or soon will be, required to withdraw funds from your retirement account, consider the possibility of charitable gifts as an integral part of planning for those withdrawals.

Congress has acted over the years to make gifts of retirement plan assets attractive from a tax and financial planning perspective. Check for latest provisions if you are interested.

Example: John and Alison have committed to making a charitable gift over a five-year period. After consulting with their tax advisors, they decide to make gifts each year in the form of highly appreciated stock, thereby receiving an income tax deduction for the full value of the stock while also avoiding capital gains tax on the increase in value.

They anticipate annual withdrawals of funds from John's retirement account in an amount equal to the value of the securities they donate. While they will report the withdrawal amount as taxable income each year, it will be offset by the deduction for the full value of the donated securities. They can then use the total amount of their cash withdrawal to fund investments that have a more favorable cost basis for tax purposes, and thereby restructure and diversify their portfolio in a tax-efficient manner.

They believe that John's retirement plan will increase in value enough each year on a tax-free basis to cover the gifts, so the balance of his fund should be largely unaffected over the five-year period.

More information regarding this type of gift opportunity is available to you and your advisors upon request.

Making future gifts

You may also want to consider including charitable gifts when planning for the eventual distribution of balances remaining in your retirement plans at death.

That is because these funds will be included as part of your estate and could be subject to state and/or federal estate taxes should they be due.

In addition, when heirs receive the balance of retirement plan remainders after accounting for any estate taxes owed, income taxes will normally be due as funds are received by them.

The combination of these taxes could, in some cases, amount to 50 percent or more of retirement account remainders left to heirs.

Careful planning can help minimize taxes due on retirement plan assets during and after lifetime.

Because retirement plan assets can be subject to substantial estate and income taxes, you might instead direct that these assets be used to fund charitable gifts from your estate. You can then leave other less heavily taxed assets to heirs, resulting in more being received by them.

Even if you do not anticipate your estate being subject to tax, it may still be wise to make charitable gifts using retirement account funds while leaving other assets to your heirs.

Example: David had previously named one of his charitable interests to receive a gift through a provision in his will.

He had left a similar amount to his nieces and nephews by naming them as beneficiaries of his IRA. He was surprised to learn that the IRA funds could be subject not only to estate tax, but his nieces and nephews would owe income tax on the remainder they received from his retirement accounts, substantially reducing the amount he intended to give them.

In consultation with his advisors, he instead provided that his charitable gift would be made from his IRA, and his nieces and nephews could receive other assets that would not be subject to income tax through a provision in his will.

The amount left to charity can be tax deductible from his estate, whether left by will or through his IRA, while the nieces and nephews will not owe income tax on the amount they will now receive through his will.

With this simple change in his plans, David was able to ensure that his charitable desires would be fulfilled and his loved ones will receive more after tax than might otherwise have been the case.

The next step

After you have discussed your estate and financial plans with advisors and decided you would like to make a future charitable gift of a particular amount or percentage of your retirement assets, ask the administrator of your plan for the forms necessary to carry out your wishes.

You can alter your beneficiary at any time in the future should your needs your wishes change. The consent of a spouse may be necessary in some instances.

In some cases, you may want to set aside the amount for charity in a separate account. Check with your advisors for more details.

Other ways to give

If you have reached limits prescribed by law for the amounts you can contribute to tax-favored retirement plans, there are charitable gift planning options that can be used to help supplement those plans. These options feature a number of advantages, including federal income, estate and gift tax savings.

Some allow you to set aside additional amounts that will grow tax free and provide for increased income during retirement years. Or you may arrange for a fixed or variable income for a surviving spouse or other heirs for a period of time.

These options allow you to enjoy immediate tax benefits because amounts remaining at the end of your lifetime and/or those of loved ones will be devoted to charitable purposes.

We will be pleased to provide you and your advisors with additional information regarding any of the ideas present in the booklet.

Retirement Plan Information

Type:

☐ Traditional IRA ☐ Roth IRA ☐ 401(k) ☐ 403(b)

☐ Other ___________________________________

Name of account holder ______________________

Name of plan administrator (e.g. brokerage firm, bank or mutual fund) ______________________

Contact information ________________________

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Account number ___________________________

Approximate value _________________________

Primary beneficiaries _______________________

Contingent beneficiaries _____________________

If you have any questions or would like additional information regarding charitable giving and retirement plans, please contact Lisa Evanylo at 552-9716 or Bill Baker at 552-1727 (or email him at: bakerw98@warmhearthva.org)

Information in this booklet does not constitute legal or tax advice. It is recommended that you consult with your attorney and tax advisor for such advice.

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