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Gift & Estate Planning

Giving Through Retirement Plans

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GIVING THROUGH RETIREMENT PLANS

Over the past few decades, saving for retirement has become more of a priority for millions of individuals. Not only have life expectancies increased, but Congress has provided taxpayers with a number of generous incentives to encourage Americans to save for retirement.

For individuals who enjoy making charitable gifts, the emphasis on saving for retirement often presents a conflict. Namely, how can one continue giving generously to charitable causes without sacrificing one's retirement security?

Types of Retirement Plans

Retirement plans that take advantage of the tax incentives enacted by Congress are known as qualified plans. These include Traditional and Roth Individual Retirement Accounts. A number of employer-sponsored qualified plans, with which you may be familiar, are the 401(k), 403(b), Keogh, SIMPLE, SEP, and SARSEP plans.

Retirement Plans, Taxes, and Estate Planning

As a result of the tax incentives for retirement savings, the collective value of Individual Retirement Accounts currently exceeds one trillion dollars. In addition, the value of defined contribution plans, such as employer-sponsored 401(k)s and 403(b)s, exceeds five trillion, according to government estimates.

That being said, when estimating the value of your estate, it is important not to overlook your retirement fund assets. Failure to consider your qualified plan assets could result in your total asset balance surpassing estate tax thresholds, thus subjecting your estate to taxes that could have been avoided through careful planning.

Perhaps you intend to leave your retirement assets to your children. If so, you may be surprised by the income tax implications. For this reason, retirement fund property is considered one of the least "tax friendly" assets to bequeath to children. If, then, you were planning to make your children beneficiaries of your retirement plan and to leave a gift to charity from another part of your estate, the reverse would be more tax-effective: by making a gift to charity from your retirement assets, you will be able to leave more of your estate to your heirs. This is because even though retirement assets are included in one's taxable estate, whether they're intended for charity or heirs, they are deductible from one's estate if they are designated as a charitable gift.

Retirement Plan Giving to Charity

There are two ways to make gifts to charities from your retirement plans:

● Deferred: A charity can be named a beneficiary to receive all or part of the balance remaining in the qualified retirement account upon the death of an individual and/or surviving spouse. Gifts of this kind generally bypass the probate process and are delivered quickly to the charity. Usually, filling out a change-of-beneficiary form is all it takes to name a charity as beneficiary. Be sure to check with your plan administrator to see if there are any other specific requirements, though.

● Immediate: If you are over 59½ years of age, you are allowed to make withdrawals without penalty. At age 70 you are required to make minimum withdrawals. Withdrawals are considered taxable income, but if you donate your withdrawal to a qualified charity you may take a corresponding charitable deduction on your tax return. With proper planning, the withdrawal and donation may cancel each other out. Effectively, what this means is that these funds will leave your estate without being subject to income, gift, or estate taxes.

Conclusion

If you have been able to set aside a substantial sum in individual retirement accounts over the years, you are to be commended. Through careful estate planning, you can minimize the taxes your estate must pay upon your death on the remaining balances and maximize the amounts you may leave both to your heirs and to the charitable organizations of your choice.