Retirement Plan Assets

Charitable Giving Technique: Retirement Plan Assets

What It Is:

Qualified retirement plan assets are generally made with before-tax dollars and grow on a tax-deferred basis inside of the retirement plan. When distributions are taken from the plan, however, income tax must be paid on those distributions, either by you during your lifetime or by your heirs after your death. Furthermore, the value of retirement plan assets passing to your heirs is included in your estate for federal estate tax purposes.

In order to avoid this double income/estate taxation, retirement plan assets can be donated to a charity, where 100% of the funds will then be available for support your philanthropic objectives.

How It Works:

The simplest way to leave the balance in a retirement plan to a charity is to name the charity as the beneficiary of your retirement account. This may require that your spouse execute a written waiver to his/her right under the law to receive benefits from your retirement account. Another alternative is to name your spouse as the primary beneficiary and the charity as the secondary beneficiary, to receive any proceeds remaining at your spouse's later death.

Another possibility is to transfer retirement plan assets at your death to a charitable trust, such as a charitable remainder unitrust or a charitable remainder annuity trust. You then designate a trust beneficiary to receive income from the trust for life or for a specific number of years. Thereafter, the remaining trust principal becomes available to the charity to support its work.

Beginning at age 72, **tax-free distributions** of up to $100,000 from traditional or Roth IRAs can be made directly to charities as **qualified charitable distributions** and satisfy required minimum distribution requirements. The charitable distribution must be made directly by the IRA trustee to a qualified public charity and cannot be made to donor-advised funds or to supporting private foundations. Any amount in excess of $100,000 must be included in income, but can then be taken as an itemized charitable deduction, subject to adjusted gross income caps for charitable contributions.

CAUTION: It is important to obtain professional advice in designating a charity as the beneficiary of retirement plan assets in order to avoid disadvantageous or unexpected tax consequences.

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