CHARITABLE GIVING AND YOUR IRA

THE SECURE ACT CREATES A PATH OF LEAVING A MORE MEANINGFUL LEGACY

THE SECURE ACT

The Setting Every Community Up for Retirement Enhancement Act of 2019, better known as the SECURE Act, which originally passed the House in July 2019, was approved by the Senate on Dec.19, 2019, as part of an end-of-year appropriations act and accompanying tax measure, and signed into law on Dec. 20, 2019, by President Donald Trump. The far-reaching bill includes significant provisions aimed at increasing access to tax-advantaged accounts and preventing older Americans from outliving their assets.

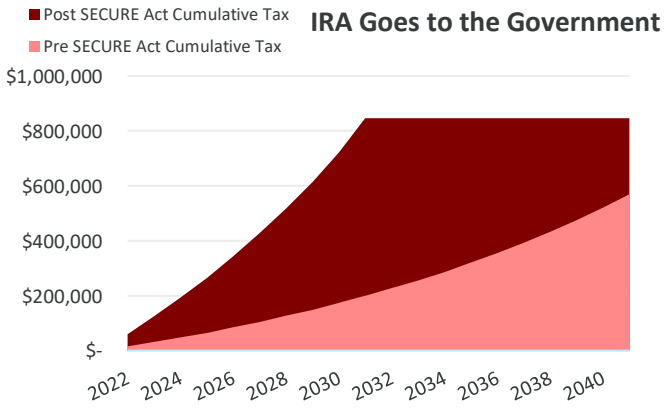
Key Provisions of the SECURE Act:

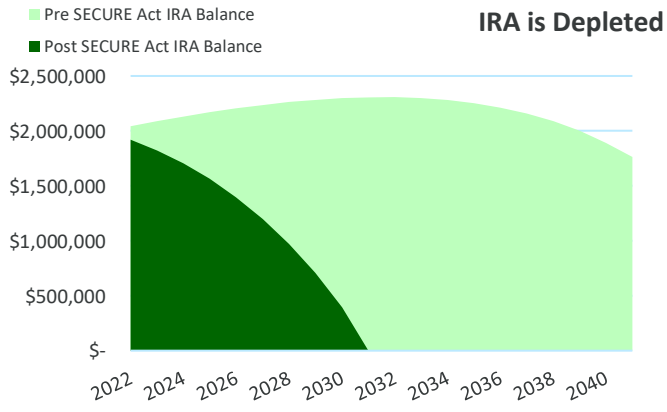
- Makes it easier for small businesses to set up 401(k)s by increasing the cap under which they can automatically enroll workers in "safe harbor" retirement plans from 10% of wages to 15%.
- Provides a maximum tax credit of $500 per year to employers who create a 401(k) or SIMPLE IRA plan with automatic enrollment.
- Enables businesses to sign up part-time employees who work either 1,000 hours throughout the year or have three consecutive years with 500 hours of service.
- Pushes back the age at which retirement plan participants need to take required minimum distributions (RMDs) from 70½ to 72.
- Allows the use of tax-advantaged 529 accounts for qualified student loan repayments (up to $10,000 annually).
- Permits penalty-free withdrawals of $5,000 from 401(k) accounts to defray the costs of having or adopting a child.
- Encourages employers to include more annuities in 401(k) plans by removing their fear of legal liability if the annuity provider fails to provide, and also not requiring them to choose the lowest-cost plan. (This could be something of a double-edged sword. Employees will need to look extra-carefully at these options.)

WHAT'S THE PROBLEM?

One other key change in the bill was paying for all of this: ***the removal of a provision known as the stretch IRA***, which has allowed non-spouses inheriting retirement accounts to stretch out disbursements over their lifetimes. The new rule requires a full payout from the inherited IRA within 10 years of the death of the original account holder, raising an estimated $15.7 billion in additional tax revenue.

This is a big problem for those planning on leaving their hard-earned retirement savings to their children.





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WHAT'S THE SOLUTION?

When you name a charity as a beneficiary to receive your IRA or other retirement assets upon your death, the benefits are:

- ***No income taxes*** on the distribution of the assets
- Your estate will ***receive a tax deduction*** for the charitable contribution to offset the value of those assets held in your estate
- Because charities do not pay income tax, ***the full amount of your retirement account*** will directly benefit the cause your charity supports
- You have the opportunity to support a cause you care about as part of your legacy

Since a charity will receive the value of the IRA, your heirs will not receive any monetary benefits. However, you can utilize life insurance to replace the current and future projected value of the IRA. In fact, utilizing both strategies will deliver a better outcome to both your heirs and your favorite charity.

A CASE STUDY: UTILIZING LIFE INSURANCE & THE CHARITABLE IRA

Mr. & Mrs. Smith are both 60 and have a traditional IRA with a balance of $2,000,000 that is not needed for sustaining their standard of living in retirement. The IRA currently returns 5% annually, and the couple has a combined income tax bracket of 37%. The couple would like to benefit a children's hospital in their area.

<u>The Solution:</u>

- Purchase a guaranteed survivorship life insurance policy for $2,000,000 using a single premium of $430,000
  - Distribution from IRA of $680,000 (subject to taxes) used to make premium
- Change the IRA beneficiary to the local children's hospital

Situation	Net to Heirs	Net to Charity	To Government
Do nothing	$1,200,000	$0	$800,000
Leave IRA to Charity	$2,000,000	$1,320,000	$250,000

Situation in 20 Years*	Net to Heirs	Net to Charity	To Government
Do nothing	$3,180,000	$0	$2,120,000
Leave IRA to Charity	$2,000,000	$3,500,000	$250,000

** Projection analysis does not consider Required Minimum Distributions (RMD) for te Traditional IRA*

The Charitable IRA has frozen the amount of the IRA that will go to the government at a very reasonable $250,000, while at the same time providing additional legacy benefits to both the heirs of the IRA and the now a charitable cause that extends your legacy well beyond your immediate family members.

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