Use Your IRA to Benefit Charity and Create a Financial Legacy for Your Family

Individual retirement account ("IRA") balances run a unique risk of being taxed twice on the death of the account owner with income and estate taxes. Estate tax rates of 40% and income tax rates of 39.6% could consume almost 80% of the account if included in the gross estate for tax purposes. Fortunately, individuals who do not need to rely upon their IRA for retirement, and who have strong charitable and philanthropic inclinations, have an option to avoid this tax burden, while creating a potentially huge financial legacy for future generations.

According to the Investment Company Institute's 2014 Fact Book and the 2010 Census Bureau Report:

- Americans had $23 trillion in retirement assets at the end of 2013, up $3.1 trillion from 2012
- $6.5 trillion was in IRA accounts at the end of 2013, up $600 billion from 2012
- 40 million Americans were over age 65 in 2010, and projected to double by 2045
- At the end of 2013 there was another $5.9 trillion in assets, a percentage of which is attributable to the additional 40 million baby boomers who will attain age 65 by 2045, that may be added to IRA balances through rollovers from qualified retirement plans.

Not all of that retirement money will be needed for lifestyle needs. In some cases, individuals may not need to tap into the IRAs at all, other than to meet "required minimum distribution" rules when they turn 70½ years of age. As a result, individuals with taxable estates consisting of significant amounts of IRA assets, and who are charitably inclined, should consider leaving their IRAs to their favorite charities upon their deaths. It's as simple as filling out the beneficiary designation form and designating the charity as the beneficiary upon the death of the account holder. At death, the estate will be entitled to a charitable income and estate tax deduction for the amounts left to charity from the IRAs.

So, where's the financial legacy? During lifetime, the account owner can take regular distributions from the IRA, if over age 59 ½ to avoid penalties, or required minimum distributions, if over 70 ½ years of age. These distributions can then be:

- gifted to individual beneficiaries (e.g., grandchildren) for the payment of life insurance premiums on the life of the IRA owner to replace the IRA assets, or
- gifted to an irrevocable life insurance trust ("ILIT") for the purpose of paying premiums on life insurance on the owner's life to create significant wealth for the benefit of named beneficiaries of that trust. The beneficiaries could be children, grandchildren, great-grandchildren and even beyond, if done correctly.

What's even better is if the account owner leverages what is known as the generation skipping transfer tax ("GST" tax) exemption. Every U.S. citizen has a lifetime exemption, which is $5 million (indexed annually for inflation) that can be allocated to exempt transfers of property from the GST tax. The exemption is automatically applied when the transfer is considered a "direct skip gift" (it goes directly to the grandchild "skipping" the child). In all other cases, the GST exemption must be specifically allocated by the grandparent on gift tax returns. Allocating the lifetime GST exemption is the strategy that will most often be used to exempt assets from the GST tax.

Charitable Planning

When a grandparent creates an ILIT to benefit grandchildren and future generations, the GST exemption is allocated to every gift that goes into the trust. The allocation of GST exemption to all gifts funding the trust makes any distributions from the trust to beneficiaries GST tax free, regardless of the amount distributed. Now imagine the power of this legacy creating strategy. If the gifts to the trust are used to pay life insurance premiums, then the death benefits that are delivered to the trust should be both GST tax-free and estate tax free. What's more, for married couples, each spouse can participate in this strategy, doubling the amount of money that may be available to purchase life insurance to create the financial legacy.

The second method of using the trust, if done correctly, has the added benefit that the insurance proceeds held by the trust, can be forever exempt from estate, gift, and generation skipping transfer taxes. The trust can also protect the trust assets from creditors and ex-spouses of the trust beneficiaries.

<u>Summary</u>

By using this planning method, IRA owners can take assets that will otherwise be highly taxed at death, and convert them to social good when left to charity. In return, estate and income taxes are eliminated, and taxable wealth can be converted into a leveraged investment (i.e., permanent life insurance) that accumulates income tax-free and provides a tax-free death benefit to the beneficiaries. By using an irrevocable life insurance trust, a potentially huge financial legacy for grandchildren and future generations can be created, forever shielded from taxes and protected from creditors.

Lanny D. Levin, CLU, ChFC
LANNY D. LEVIN AGENCY, Inc.
1751 Lake Cook Road suite 350
Deerfield, IL 60015
(847) 597-2444
lanny_levin@levinagency.com

For further information on charitable bequests upon death, or life insurance trusts to benefit grandchildren and future generations, please ask your Guardian Financial Representative for the informational bulletins entitled "*Charitable Bequests: Giving to Charity Without Losing Control of Your Assets During Your Lifetime*" and "*Dynasty Trusts: Passing Wealth Down Generations*."

Please consult with your Guardian Financial Representative if you have any questions concerning this document.

GEAR # 2014-14266 Expiration: 12/31/2016

GUARDIAN®