Retirement Plan Assets as a Charitable Gift

If you are considering what to do with your retirement plan assets and you have charitable intentions, leaving your retirement plan assets to your favorite charities rather than to family members may be an excellent solution.

When individuals save for retirement, they are planning for their future financial security. But, over time, those who become financially successful often find themselves in an interesting position — they don't need their retirement plan assets. Other individuals, on the other hand, may need to tap their retirement plan assets for income in their golden years, but want to plan for what would happen to those funds in the event that they pass away before all the retirement plan money is spent. Qualified retirement plans like 401(k) plans, Profit Sharing Plans, and Defined Benefit Pension Plans, as well as Individual Retirement Accounts ("IRAs") are great vehicles for accumulating wealth, but they are not ideal assets, from a tax perspective, to pass to loved ones after you have died. That's because these assets are subject to both estate *and* income taxes after the account owner's death, and that can reduce account balances by as much as 70% or more.

Leave Your Retirement Plan Assets to Charity and Your Non-Retirement Assets to Family

When you decide to leave some or all of your retirement plan assets to one or more charities, you will be providing much-needed funds to your philanthropic causes. You can then bequeath your other assets — which are usually more tax-favored — to loved ones or other non-charitable beneficiaries. *How does it work?*

- Leaving your retirement plan assets to charity is as simple as naming the charity as the "designated beneficiary" of your retirement plan account. (For qualified retirement plans, but not IRAs, written spousal consent is required to change the beneficiary designation to the charity.)
- Most retirement plan accounts will also allow you to name a charity as the designated beneficiary of a certain percentage or a certain dollar amount of your plan account balance.
- When you pass away, your estate may be entitled to an estate tax charitable deduction for the amount of money that your designated charities receive from your retirement plan account. Donated amounts are *not* subject to income taxes.
- If you need more flexibility to ensure that your non-charitable beneficiaries have the opportunity to have access to your retirement assets, you can list them as your primary designated beneficiaries, and the charity as a "contingent" beneficiary. If your primary beneficiaries don't want or don't need the retirement plan assets, they can "disclaim" some or all of the plan assets, which would then pass to the charity.

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How Your Favorite Charity *and* Your Non-Charitable Beneficiaries Can Both Benefit

When you are age 59½ or older, you may begin taking distributions from your qualified retirement plan without penalties — although there may be income tax consequences. When you reach age 70½, you will be subject to what is known as "Required Minimum Distributions" ("RMDs"). RMDs represent the *minimum* amounts that you must withdraw from your retirement accounts each year. These amounts are taxed to you as ordinary income and they cannot be rolled over to another qualified retirement plan. There are penalties for not taking your RMDs. Therefore, if you're in a situation where you really don't need your retirement plan assets, you can leave your retirement plan assets to charity. However, you may wish to consider using your RMDs or taking distributions from your retirement plan to pay for an insurance policy on your life that will benefit your non-charitable beneficiaries. The life insurance assets will serve as a way to "replace" the value of the retirement assets that you left to charity. In this way, the charity and your heirs can both benefit.

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