How to Keep Giving in Retirement

By Dennis J. Rogers, CPA, CFP®

Most people who give regularly to charity throughout their working years want to continue doing so once they reach retirement. They generally just consider it part of the monthly spending need. Part of the challenge with this is that it can add stress to the investment portfolio which can cause problems in down markets. If we have created a buffer in our portfolios to cover these down periods, it means a larger amount in the very conservation allocation. This can negatively impact your long-term performance.

There are some strategies you might consider for improving the tax efficiency of your plan and lessen the stress on your retirement income portfolio.

If you are not maximizing your retirement savings because you do not think you will need it, you might want to figure out how much you will need in a giving pool after you reach age 70 1/2. Then, you can increase the amount going into your plan to create this pool. Those funds can be used once you reach that age by tax-free transfers to your charities. This gives you the tax deduction in the current year and no addition to your gross income for the amount you withdraw in later years to contribute. You can give up to $100,000 per year after age 70 1/2 in this way.

A donor advised fund can provide a way to put away more than the maximum amount allowable by your retirement plan. Your contributions to this fund are tax deductible as charitable contributions and can be invested for the future. Once you retire, you can direct the fund to give to the charities you would normally give to. Thus, you have funded your future contributions with currently deductible dollars.

A business owner who plans to sell the business interest before retirement has several options. Part or all the stock can be transferred to a charitable foundation or donor advised fund. You will get a current deduction for the fair market value of the stock that is given, and you escape the capital gains tax on the sale. The funds in the account can then be directed to the charities of your choice each year.

Another alternative for the business sale is to use a Charitable Remainder Annuity Trust. You receive a donation deduction for part of the fair market value of the stock transferred and pay no capital gains tax. You will then receive an annuity payment for life and the proceeds at the end of your life go to the charities you designate. The payments will be partially non-taxable.

Some of these strategies are complex. Please do not try to implement them without the proper tax and legal advice. Give us a call if we can help.

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