Retirement Account Assets and Charitable Gifts

Americans hold trillions of dollars in retirement accounts, representing 34% of all household financial assets. Retirement plan assets frequently represent a large portion of a person's estate. As such, they are an excellent choice for charitable gifts, yet they are frequently overlooked.

There are charitable giving strategies linked to retirement assets we think donors may find worthwhile. The first is using retirement assets to make lifetime gifts with techniques that both benefit the Zeta Beta Tau Foundation and ease your tax burden, which includes realizing philanthropic goals through gifts of Required Minimum Distributions (RMDs). The second is making a testamentary gift of retirement assets.

Please take a few moments to read about how these gift planning strategies could work for you. Whether you're getting ready to retire or already enjoying retirement, using retirement assets can be a smart way to realize philanthropic goals while meeting personal planning objectives. As you consider your options, don't hesitate to contact us—together we can explore how you can make the most of the planning opportunities that your retirement assets may unexpectedly offer. Be sure to ask for our complimentary brochure, *Retirement Plan Assets—Leaving More to Your Family and Charity*. And as always, thank you for considering us in your philanthropic planning.

Cordially, Fraternally and Sincerely,
Faron A. Lewitt

OUR PLANNED GIVING WEBSITE!
Visit **www.zbt.org/plannedgiving** to learn more about options for integrating tax-favored giving with your personal planning.

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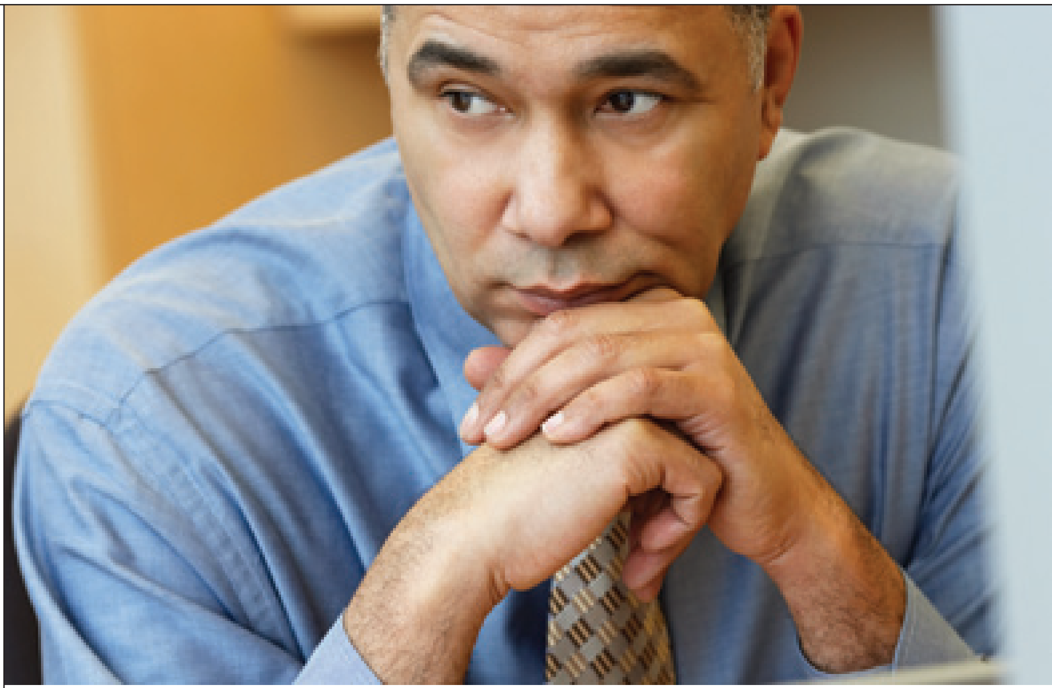
Retirement Assets: Where the Money Is

In medicine, Sutton's law refers to the principle of going straight to the most likely diagnosis. Going to the heart of the matter is forever linked with bank robber Willie Sutton, who, when asked why he robbed banks, famously replied, "Because that's where the money is."

Put Willie Sutton in the 21st century and he surely would have found that "the money" is in retirement vehicles. Nearly all retirement funds are held in one or more of these arrangements:

- $5.7 trillion in Individual Retirement Accounts (IRAs)
- $5.3 trillion in defined contribution plans
- $5.2 trillion in federal, state and local government pension plans
- $2.8 trillion in private-sector defined benefit plans

Since retirement assets are truly "where the money is," let's examine some charitable giving strategies linked to retirement assets that we think you will find worth considering. Sometimes, charitably minded donors want to make a major donation but have concerns about where the money will come from and whether there will be enough money remaining in the estate to cover future expenses. In these cases, we can look to Sutton's law and to the obvious. There is a significant amount of money—literally trillions—sitting in retirement accounts, some of which must be distributed annually



to people over age 70½ whether they need the money or not.

If you have created a comfortable retirement through personal savings and Social Security, retirement assets may provide interesting planning opportunities for making lifetime charitable gifts. The law respecting distributions from retirement plans can be complex; nonetheless, given the favorable results that you can enjoy with the right strategy, it is worth considering a gift of retirement assets when the time arrives.

Tax Implications of Gifts of Retirement Assets

Retirement assets in an estate are considered "income in respect of a decedent." This term refers to income a taxpayer earned (or had a right to) but had not yet received prior to death. Retirement assets are a prime example of this type of income. While this list isn't exhaustive, any of these sources of retirement income are considered income in respect of a decedent in an estate:

- IRAs (Traditional and Roth), SEPs and SIMPLEs
- Qualified Plans
- Profit Sharing (including plans with a 401(k) feature)
- Money Purchase
- Defined Benefit (including Cash Balance)
- ESOP (Employee Stock Ownership Plan)
- 403(b) Tax Deferred Annuities
- 457(b) Deferred Compensation
- Nonqualified Deferred Compensation Arrangements

Unfortunately, income in respect of a decedent may be taxed twice in large estates—once at death in the estate, then again in the hands of the ultimate recipient. Without planning, an estate owner in the 39.6% income tax bracket and a 40% estate tax bracket could potentially lose nearly 80% of the value of retirement assets to combined taxes.

Taking a Distribution, Making a Gift

Prior to 2014, the law let donors make a tax-free qualified charitable distribution of up to $100,000 from an IRA using a charitable rollover. However, for now at least, Congress has not extended this provision, so transferring retirement assets to charity after 2013 can only happen after first receiving a taxable distribution.

While retirement plan assets provide a ready source of funds, taking a distribution and then giving those funds to charity is the same as making a cash gift, since retirement plan distributions are taxable as ordinary income. Still, like a simple gift of cash, you can make a gift of a retirement plan distribution and:

- Reduce your taxable estate
- Benefit from a current income tax deduction for a cash donation

If you are age 70½ or older with a traditional IRA, you must take an annual Required Minimum Distribution (RMD) or face a stiff 50% penalty on the amount you should have withdrawn but didn't. This rule is strictly applied to everyone—even taxpayers who do not want or need the distribution, including those who are still working. If you fall into this category, a charitable gift of the distribution will give you a charitable income tax deduction and help you reach your philanthropic goals.

Example: Winifred must take a $15,000 Required Minimum Distribution from her IRA, even though she doesn't need any additional income. Her distribution is considered ordinary income and is fully taxable. If Winifred contributes the distribution to charity, her current year tax deduction is based on the $15,000 gift, offsetting the tax due on the distribution.

The Benefits of a Testamentary Gift

In the prior example, the result is good for Winifred. However, she may also want to consider making a testamentary gift of her IRA assets. For example, if she wants to leave an inheritance to her children and make a gift to charity, she should consider transferring all or part of her IRA to charity as a testamentary gift and leaving other assets to her children. IRA distributions are considered income in respect of a decedent (IRD) and therefore could potentially be taxed much more heavily to her heirs than non-IRD assets, such as appreciated stock.

Example: Winifred leaves her IRA to charity (either through her will or by designating the charity as the beneficiary on forms available from the IRA custodian) and leaves other assets to family and friends. By doing this, she:

- generates an estate tax charitable deduction
- avoids any double taxation of her retirement assets (thanks to the charity's tax-exempt status), and
- leaves non-IRD property to heirs (such as appreciated stock, which will enjoy a stepped-up basis)

SOCIAL SECURITY: AN INCOME AND AN OPPORTUNITY

Although there has been a lot of chatter about the stability of Social Security, more than a few retirees depend on Social Security to maintain their standard of living. Other retirees are fortunate enough to be financially secure. These retirees may put their Social Security into a rainy day fund or to give that income to their children. Another option to consider is using Social Security income to make a charitable gift.

USING SOCIAL SECURITY BENEFITS IN YOUR CHARITABLE PLANNING

There are smart ways to include Social Security income in your retirement and charitable planning. Here are some ideas to consider:

- Give your Social Security payment outright to the Zeta Beta Tau Foundation and claim an income tax deduction for an outright gift.
- Pool your monthly Social Security check payments into a personal account and at the end of the year donate collected money to us.
- Contribute to an endowment with your Social Security checks. It is a creative way to multiply the impact of your gift, since an endowment spends only a percentage of the total value or the interest from its funds—so that your gift continues to support Zeta Beta Tau year after year.

Including Philanthropy in Your Retirement Strategy

Many people have never considered using their retirement assets to help fulfill their philanthropic goals. The options we've discussed are just some of the strategies you can use during your lifetime to ensure your retirement assets will make an important contribution to the Zeta Beta Tau Foundation. It would be our privilege to discuss these ideas with you or to help you examine how you might use retirement asset strategies to realize your philanthropic goals. Please let us know if we can help you and your advisors explore ways to structure a gift to the Foundation using assets earmarked for retirement.

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Zeta Beta Tau Foundation, Inc.
3905 Vincennes Road, Suite 100
Indianapolis, Indiana 46268

Contact: Faron A. Lewitt, Executive Director
Phone: 317-506-7066
Fax: 317-334-1899
E-mail: faron@zbtnational.org
Website: www.zbt.org/plannedgiving