

Retirement Plan Assets

Turning Point™
with Dr. David Jeremiah

But do not forget to do good and to share, for with such sacrifices God is well pleased. (Hebrews 13:16)

Leaving More to Family and to Charity

Today, more people participate in tax-favored retirement plans than ever before. While participants are committed to accumulating and growing these assets, few have planned for the harsh tax consequences associated with retirement plan distributions—a tax at rates up to 37%. With that in mind, let us consider some frequently asked questions concerning how you can use retirement plan assets to make charitable gifts—leaving more to heirs and the charities you love and support.

Since retirement plans are meant to provide a secure retirement, is giving these assets away a good idea?

We are certainly encouraged to save for retirement from an early age, and tax-favored retirement plans have an important place in accumulating savings for retirement. Still, there are good reasons to consider donating these funds:

- Many fortunate executives and professionals have accumulated sufficient resources outside of their plans—enough that they no longer need the dedicated retirement plan funds for support during retirement.
- Retirement plan assets are highly taxed and cannot be distributed or transferred to heirs on a tax-free basis. Other savings and investments that have already been taxed can be transferred to heirs with no additional tax—some (appreciated stock or real estate, for example) with the bonus of a step-up in basis. Income taxes on retirement plan assets reflect the fact that these funds have accumulated on a tax-deferred basis, with the IRS simply waiting until assets are distributed to "recoup its losses."
- A planned gift of retirement assets to a qualified charitable organization can reduce or eliminate these taxes, while providing more for family members by allowing other assets to transfer free of tax. The key is integrating charitable giving with overall financial and estate planning.

What does it mean to integrate charitable gifts of retirement plan assets with financial and estate planning?

Rather than leave retirement plan assets to family members, you can use those assets to make charitable gifts, leaving other assets that benefit from favorable tax rules (appreciated property) to family members.

EXAMPLE: Carolyn, a widow, plans to leave a gift to us in her Will and also wants to provide for her children. Her assets include a retirement plan and appreciated stock. For tax purposes, a good approach would be for Carolyn to leave the retirement assets to us and the appreciated stock to her children. Her children would have to pay income tax on the retirement plan assets, but as a tax-exempt organization, we do not. By contrast, when her children receive the appreciated stock, no tax is due until they actually sell the stock, and even then, the tax is based only on the amount the stock appreciates after the children receive it. The appreciation that occurred during Carolyn's life is never taxed, increasing the real value of the gift to her children.*

What kinds of retirement plan assets are used to make a charitable gift?

When we talk about retirement assets, we are typically referring to assets held in a qualified retirement plan or IRA. A qualified retirement plan is one that receives favorable income tax treatment. Participants are not taxed on the contributions they make to the plan and pay no income tax on the growth of the assets within the plan. Income tax is due only when funds are withdrawn. There are two types of qualified plans:

Defined contribution plans receive and hold annual employer and/or employee contributions. A 401(k) plan is a good example. The amount available at retirement depends on the amount contributed and the investment experience over the years.

Defined benefit pension plans are primarily funded by the employer (typically large corporations) and promise to pay a specific benefit at retirement age. The amount of the benefit depends on factors such as age and service.

Under a defined benefit pension plan, since payments typically terminate at death for a single life pension, there is usually nothing available to leave to charity. On the other hand, when a participant in a defined contribution plan dies, there is frequently an undistributed portion that can be transferred to other beneficiaries, including a favorite charitable organization.

An IRA is also an excellent source of funds for charitable giving. While it is not considered a qualified plan, an individual who establishes an IRA enjoys the same tax benefits as participants in qualified plans—no income taxes on contributions and tax-deferred growth in the plan.

* All examples are for illustrative purposes only.

How are retirement plan assets donated?

The most straightforward way to donate retirement plan assets is to designate us as a beneficiary. To do this, you need to contact the plan administrator, who will guide you through the process (we are happy to assist, as well). You have considerable flexibility when you designate us as a beneficiary. For example, you can specify an amount or percentage that we will receive, leaving the rest to other beneficiaries. You can also name your spouse as the primary beneficiary and us as the secondary beneficiary, to receive the assets only if your spouse cannot. There are many possibilities.

Another option is to have your retirement plan assets transferred at death to a Charitable Remainder Trust. If your spouse is the Trust beneficiary, it is possible (by combining this strategy with the unlimited marital deduction) to eliminate all federal estate taxes attributable to the retirement account.

> **EXAMPLE**: In his Will, George funds a Charitable Remainder Trust with an IRA. The Trust will pay his wife Barbara 5% of its value annually for as long as she lives. At her death, the remaining Trust assets will pass to us. Since Barbara's interest qualifies for the estate tax marital deduction and the charity's remainder interest qualifies for the estate tax charitable deduction, the entire value of the Trust will be deductible from George's estate.

Also, keep in mind the income tax advantages gained by naming a Charitable Remainder Trust as the beneficiary of an IRA—there are no income taxes on the transferred funds because the Trust is a tax-exempt entity. The trustee can invest the full amount in income-producing assets without the need to follow complex IRA distribution rules.

Can retirement assets be transferred directly from a retirement account to charity?

There is only one option for transferring retirement assets directly from a retirement account—a Qualified Charitable Distribution (QCD) from a traditional IRA. If you are age 70½ or older you can instruct the IRA custodian to make a tax-free transfer of up to $111,000 (annual aggregate limit in 2026) directly from an IRA to charity that counts toward your required minimum distribution (RMD) if one is due. There is no tax deduction, but the distribution is excluded from income for federal tax purposes.

There is another QCD option as well. You can make a one-time life income QCD up to $55,000 (in 2026) to fund a new Charitable Remainder Trust or Charitable Gift Annuity. Like the traditional QCD option, there is no tax due on the distribution, and the amount counts toward your RMD if one is due.

There is no direct transfer option for other types of retirement assets. However, you can receive a distribution and then make a gift that qualifies for a charitable deduction. This deduction offsets part or all of the tax payable on the distribution.

Can Social Security benefits be used to make charitable gifts?

You cannot have your Social Security benefits paid directly to charity. However, after you receive your benefit payment, you can certainly donate (and deduct) some or all of it.

How do I get started with a gift of retirement assets?

A gift of retirement assets can be one of the most meaningful ways to extend your values beyond your lifetime. In many cases, it is also one of the simplest—often requiring nothing more than a Change of Beneficiary form completed through your plan administrator.

Let us help you explore your options. With thoughtful planning, you can turn these hard-earned savings into a lasting expression of generosity—supporting the people and causes that matter most to you far into the future.

CONTACT US

Please contact us if you have any questions or would like further information about the best strategies for your charitable giving.

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