CHARITABLE GIVING AND YOUR IRA

THE SECURE ACT CREATES A PATH OF LEAVING A MORE MEANINGFUL LEGACY

THE SECURE ACT

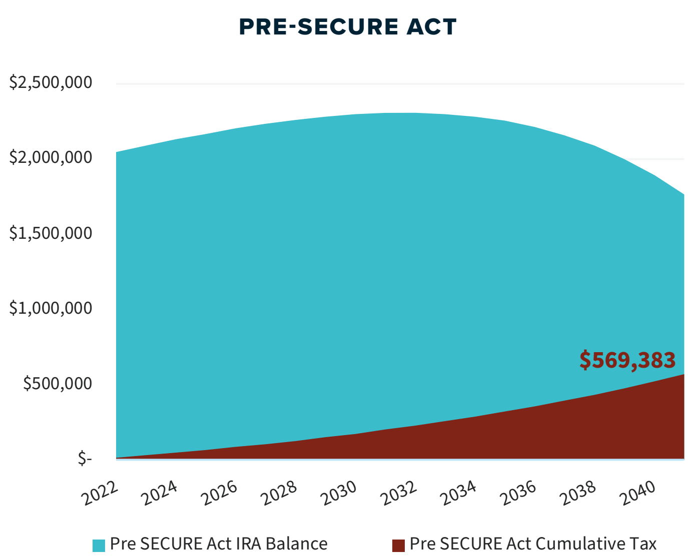
The Setting Every Community Up for Retirement Enhancement Act of 2019, better known as the SECURE Act, which originally passed the House in July 2019, was approved by the Senate on Dec.19, 2019, as part of an end-of-year appropriations act and accompanying tax measure, and signed into law on Dec. 20, 2019, by President Donald Trump. The far-reaching bill includes significant provisions aimed at increasing access to tax-advantaged accounts and preventing older Americans from outliving their assets.

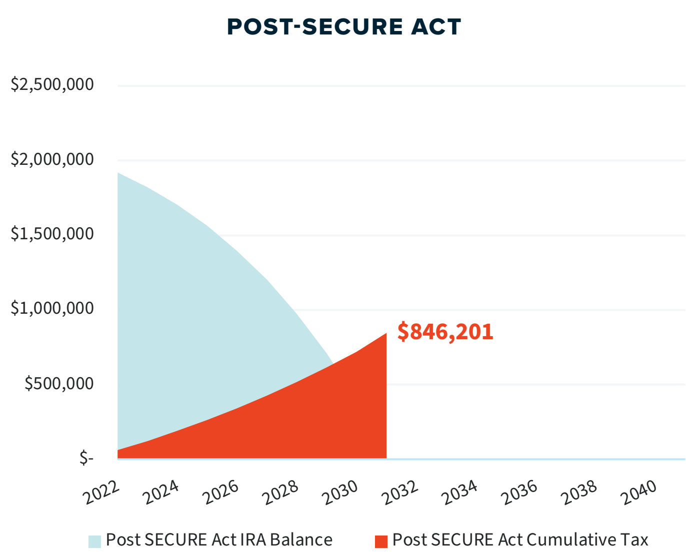
Key Provisions of the SECURE Act:

- Increases 401(k) enrollment cap from 10% to 15% of wages
- Gives employers up to $5,000 tax credit to create a 401(k) or SIMPLE IRA
- Enables businesses to sign up part-time employees for a 401(K)
- Pushes back required minimum distributions (RMDs) from 70½ to 72
- Allows the use of 529 accounts for qualified student loan repayments
- Permits withdrawals of $5,000 from 401(k)s for having/adopting a child
- Encourages employers to include more annuities in 401(k)s

WHAT'S THE PROBLEM?

One other key change in the bill was paying for all of this: the removal of a provision known as the stretch IRA, which has allowed non-spouses inheriting retirement accounts to stretch out disbursements over their lifetimes. The new rule requires a full payout from the inherited IRA within 10 years of the death of the original account holder, raising an estimated $15.7 billion in additional tax revenue.





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WHAT'S THE SOLUTION?

Name a charity the beneficiary of your IRA. When you name a charity as a beneficiary to receive your IRA or other retirement assets upon your death, the benefits are:

- No income taxes on the distribution of the assets
- Your estate will receive a tax deduction for the charitable contribution to offset the value of those assets held in your estate
- Because charities do not pay income tax, the full amount of your retirement account will directly benefit the cause your charity supports
- You have the opportunity to support a cause you care about as part of your legacy

Since a charity will receive the value of the IRA, your heirs will not receive any monetary benefits. However, you can utilize life insurance to replace the current and future projected value of the IRA. In fact, utilizing both strategies will deliver a better outcome to both your heirs and your favorite charity.

A CASE STUDY: UTILIZING LIFE INSURANCE & THE CHARITABLE IRA

Mr. & Mrs. Smith are both 60 and have a traditional IRA with a balance of $2,000,000 that is not needed for sustaining their standard of living in retirement. The IRA currently returns 5% annually. Mrs. Smith has been very involved with the local children's hospital for many years.

The Solution:

- Purchase a $4,000,000 survivorship life insurance policy, paid over 20 years
  – Annual distribution from IRA of $88,095 (subject to taxes) used to make premium of $55,500
- Change the IRA beneficiary to the local children's hospital

Situation	Net to Heirs	Net to Charity	To Government
Do nothing	$1,200,000	$0	$800,000
Leave IRA to Charity	$4,000,000	$1,911,905	$32,595

Situation in 20 Years*	Net to Heirs	Net to Charity	To Government
Do nothing	$3,180,000	$0	$2,120,000
Leave IRA to Charity	$4,000,000	$2,247,995	$652,186

**Projection analysis does not consider Required Minimum Distributions (RMD) for the Traditional IRA*

While we can't remove all aspects of taxation from a qualified savings account, we have effectively limited the taxation to only the distributions used to purchase the life insurance. The leverage created through the life insurance provides a very meaningful legacy and the charitable donation enhances that legacy further by providing for your community.

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