Utilizing Retirement Plan Assets to Fund Charitable Gifts

Nearly every working American at one time or another has taken advantage of the generous tax incentives that encourage retirement savings through contributions to Individual Retirement Accounts (IRAs) and similar plans that are available from employers. These vehicles offer income tax savings when funded, and the assets grow tax-free over time. Of course, in exchange for the up-front deduction and tax-free growth, Uncle Sam wants a portion of these assets in the form of income tax and estate tax. In fact, as much as seventy percent (70%) of a retirement plan can go toward taxes when you include income and estate taxes, as well as state taxes in some cases. Due to what tax analysts call the “toxicity” of this asset, this edition of Planned Giving Essentials will focus on the ways in which the retirement plans can be used to fund current and future charitable gifts in a tax-efficient manner.

In addition, several legislative developments may make the use of these assets even more attractive in charitable planning and are discussed below.

**Gifts Today**

In the current economic environment, you may find that your retirement plan is an excellent “pocket” from which to fund charitable gifts. If you are over the age of 59½, you may make voluntary withdrawals from your retirement account without penalty. The withdrawal will be subject to income tax, but if you itemize deductions and can deduct the full amount of the gift within the applicable adjusted gross income limitations, you will essentially break even with regard to taxes.

**Example:** A donor, age 61, has made a significant commitment to the UW Foundation to be funded over five years. Since she is over 59½, she has decided in consultation with her tax advisor to withdraw the funds from her IRA in five equal annual installments to fulfill her gift commitment. She will not be subject to any penalties on the withdrawal, and although each withdrawal is reported as income on her tax return, she will receive a corresponding charitable deduction on her return that will offset the income amount. The balance of the assets in her IRA will continue to grow tax-free.

If you are over the age of 70½, you can utilize the special IRA Charitable Rollover opportunity to transfer up to $100,000 directly to the UW Foundation. The distribution from the plan under the rollover legislation is excluded from gross income and satisfies your minimum distribution requirement for the year.

Please note that very recent emergency legislation has suspended the minimum distribution requirement for 2009 to allow time for accounts to recover from the economic downturn—this legislation does not limit the applicability of the charitable rollover. In addition, since that legislation was passed in April, Senators Byron Dorgan (D-ND) and Olympia Snowe (R-ME) introduced the Public Good IRA Rollover Act (S. 884). This legislation would make the IRA Charitable Rollover permanent, would remove the $100,000 annual limit on donations, and would provide IRA owners with a planned giving option starting at age 59½, and would allow distributions to support organizations, donor-advised funds, and private foundations. S. 884 has 11 original co-sponsors, including all four Senate members and one Republican member of the Senate Finance Committee. Companion legislation (H.R. 1250) was introduced in the House last month.

**Gifts in the Future**

As part of a comprehensive review of your financial and charitable planning goals, you may determine that, in the future, you would like to make a gift to UW from your retirement plan. The procedure in this situation is quite simple—contact your plan administrator and request a change of beneficiary form. You can easily indicate on the form the percentage of assets in your retirement account that you wish to designate for the University of Wyoming. A charitable designation that can be changed any time your retirement needs change.

Another creative alternative is to name a charitable remainder trust as the beneficiary for all or a portion of your IRA. The charitable remainder trust can be structured to create income for your children for a period, with the remainder passing to the UW Foundation upon the expiration of the trust term. Structuring your IRA gift in this fashion enables you to provide for your family in a tax-efficient manner, while also creating a lasting legacy at UW in the future. A simultaneously executed endowment agreement can further detail the specific uses for the trust remainder following the termination of the trust.

**Example:** A donor, age 75, has an individual retirement account with $1,000,000 in assets. In 2009, he would normally be required to withdraw $43,668.12 under the required minimum distributions, but, as detailed above, he is not required to take this distribution in 2009. The donor has recently made a $250,000 pledge to the UW College of Business to create an excellence fund—a permanent endowment used to enhance the college’s educational initiatives, to improve student experiences, and for faculty recruitment and retention. As part of this gift commitment, he has been given the opportunity to name a classroom in the new state-of-the-art College of Business facility, which is scheduled to be completed in the fall of 2010. This is a unique opportunity for the donor and his family to create a lasting legacy at the University of Wyoming. In 2009, he is going to use the IRA Charitable Rollover to fund his current pledge directly from his IRA. Over the next five years, the donor will use his required minimum distributions to help fund his gift commitment with the College of Business (and, hopefully, in future years he can also use the IRA Charitable Rollover). In all likelihood, the tax-free growth inside of the donor’s retirement plan will exceed the minimum distributions he is required to take for the balance of his lifetime. Thus, the donor should have an asset in excess of $1,000,000 to pass on to his children.

In addition, rather than designating his children as the outright beneficiary of his plan, the donor has designated a charitable remainder trust as the beneficiary of his retirement account, which provides him with many tax and estate planning benefits. The charitable remainder trust will continue for the life of his two children and will pay them 5% of the value of the trust assets annually in equal shares. Following the expiration of the trust term, the balance remaining in the trust will be added to the donor’s existing endowment with the College of Business.

Call Tracy R. Richardson, Director of Planned Giving, at 307-766-3934 or e-mail, trichar6@uwyo.edu, for more information about Giving through Retirement Plans or any other planned giving opportunities at UW.

Have you visited our tax and planned giving library? I would encourage you to click on Gift Legacy below and spend some time looking around at all the wonderful resources we have made available to you.

---

The University of Wyoming Foundation is an independent, nonprofit corporation dedicated to securing, managing and stewarding private gifts in support of the University of Wyoming's missions in teaching, research, and public service. As the state's only four-year institution of higher education, private support from alumni and friends has never been more important.

University of Wyoming Foundation | 1300 East Isonon Street | Laramie, Wyoming 82070
Toll free: 888-831-7795 | Phone: 307-766-6300 | Fax: 307-766-4045 | foundation@uwyo.edu