

# Gifts of Retirement Plan Assets

*Connecting People Who Care With Causes That Matter*

*Through careful estate planning and charitable gifts to York County Community Foundation, you can take some control of your retirement money's destiny.*

**Did you know your retirement benefits and savings may owe substantial taxes upon your death? An asset-devouring combination of income and estate taxes can consume more than 75 percent of your pension, IRA, or other retirement savings.**

A taxpayer who inherits what is called “income in respect of a decedent” (IRD) — items of income that would have been taxable to the decedent had he/she lived — must pay income tax on the gift, even though the asset was taxed in the estate.

Retirement plan assets are one example of IRD. The combined federal and state income and estate taxes on retirement plan assets may exceed 75 percent.

Confronted with the choice of owing so much of your retirement plan assets to the Internal Revenue Service at death or leaving 100 percent to charity, even clients who have not thought about charitable gifts may want to rethink the allocation of assets in their estates. They would be better served by leaving assets not subject to income tax to their heirs and retirement plan assets to charity.

Through careful estate planning and charitable gifts to York County Community Foundation, you can take some control of your money's destiny.

An easy solution is to name York County Community Foundation the beneficiary of your retirement plan. Upon your death, your unused benefits will be distributed to the Foundation free of both estate and income taxes. If you have children or other heirs, you can leave them stocks, real estate, or other assets that are not taxable to them as income.

Another strategy utilizes a charitable remainder trust and lets you turn your retirement savings into a lifetime source of income for your children before giving the trust principal to York County Community Foundation. This can yield significant tax savings.

Only “account” type retirement plans — which include IRAs, 401(k)s, 403(b)s, and defined contribution plans — can be used for charitable gifts. “Account” type plans are not unlike savings accounts; upon the death of the participant or surviving spouse, the account balance becomes an asset of the estate. (See “Retirement Plans: What Works?” on the reverse side.)

IRAs are the retirement plans most frequently used for charitable gifts because of their popularity and because the IRA owner is free to name any beneficiary. “Annuity” plans, such as defined benefit plans, generally cannot be used because payments terminate on the participant's or surviving spouse's death, leaving nothing for charity.

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***Have you, like millions of other Americans, “done the right thing” and put away a portion of your salary for retirement?***

***Today, with more than \$4 trillion in Keoghs, 401(k)s, IRAs and the like, Americans are discovering that at-death taxation of a retirement plan can leave little for their heirs.***

### ***Special considerations***

A married individual may want to transfer retirement plan assets to a spouse first, and then to charity. This is because the marital deduction assures that no estate tax applies to the transfer to a spouse. (A spouse may have a legal interest in the retirement assets, and so may be required to consent to any transfer.) Since neither surviving spouses nor unmarried individuals can take advantage of the marital deduction, they ought to consider allocating retirement plan assets to charity.

The Roth IRA (which became available to taxpayers in 1998) has tax consequences quite different from “regular” IRAs. Unlike a regular IRA which incurs both an estate tax and an income tax when the account owner dies, the income tax for a Roth IRA has been prepaid. Because the beneficiary of a Roth IRA does not inherit “income in respect of a decedent” (IRD) when inheriting a Roth IRA, only estate tax is paid

### **WHAT WORKS?**

**Retirement plans appropriate for “gifting”:**

- ⇒ *profit-sharing plans (or defined contribution plans)*
- ⇒ *401(k) plans (which allow an employee to reduce taxable compensation)*
- ⇒ *403(b) plans available to employees of government and charities)*
- ⇒ *IRAs (set up by individuals)*

when the Roth account owner dies. This makes the Roth IRA a little less attractive gift to charity, unless of course, your gift also creates a permanent charitable fund in your name. That’s something most charitable gifts don’t do. Your fund will last forever, making annual grants to charity according to your wishes and in your name. You can even name your children as advisors to the fund you establish, allowing them to remain involved with the fund’s grantmaking.

### ***Giving for Perpetuity***

Founded in 1961, the York County Community Foundation serves as a permanent charitable endowment. Our mission is to enhance and improve the quality of life for all of York County’s citizens, now and for generations to come.

Today, with assets of over \$50 million, the Community Foundation is

- A responsible steward
- A valued resource
- A trusted partner
- And a tireless champion on all matters related to private and community philanthropy.

*Note: York County Community Foundation does not provide legal or tax advice. The services of an attorney or other professional advisor should be obtained. For example, estate planners should verify the designated beneficiaries of a client’s retirement plan because the designation takes precedence over the terms of a will.*

### ***More Information***

To discuss ways in which gifts of retirement plan assets can help you realize your charitable giving goals, please contact the Community Foundation’s Development Office at 717.848.3733.