

Gifts of Retirement Plan Assets



Retirement accounts are often exposed to income taxes and estate taxes, at a combined marginal rate that could rise to 65 percent or even higher on large, taxable estates. Yet many of these taxes can be avoided or reduced through a carefully planned charitable gift.

Qualified retirement plans are those that receive favorable income tax treatment during an employee's lifetime. No income tax is due on the funds as contributed, and no income tax is due on the earnings and appreciation while in the plan. You pay taxes on the funds only when you receive them. Such plans come in many forms: a defined benefit or contribution pension plan, money purchase pension, profit-sharing plan, annuity plan, 401(k) or 403(b) plan, stock bonus plan, Employee Stock Ownership Plan (ESOP) or simplified employee pension (usually a SEP-IRA) from your workplace, and Keogh accounts and Individual Retirement Accounts (IRAs) you set up for yourself.

Generally, the undistributed balance of qualified retirement plans is fully includable in your gross estate for estate tax purposes. Since the funds in retirement accounts usually represent deferred compensation that has not been subject to income tax, giving the accounts to individual heirs exposes the funds to income taxes. Your retirement dollars can be seriously depleted by this double taxation.

Example: Robert White accumulates \$1 million in retirement plan assets. Upon his death at the age of 85, he leaves his assets to his two children. Because of taxes, the amount Robert's children actually receive could be less than \$360,000.

By contrast, Robert could have left his \$1 million to a Providence foundation, and the entire amount would have been available to benefit the program of his choice, such as cancer, heart, brain, medically fragile children or long-term care for seniors.

Bequest gifts of retirement plan assets

By naming a Providence foundation as the beneficiary of all or a portion of your retirement plan, you ensure that all income tax and any estate tax on the gift are completely avoided. You can make such a gift knowing that 100 percent of your retirement plan gift will be transferred to a Providence foundation to benefit the program of your choice.

Making a bequest of your retirement plan assets is easy. Simply request a "change of beneficiary" form from your plan administrator. In the beneficiary designation section, list the Providence foundation you wish to support and its tax identification number. (If you are married, your spouse may have to give consent to the designation.)



Charitable remainder trust or gift annuity funded by retirement plan

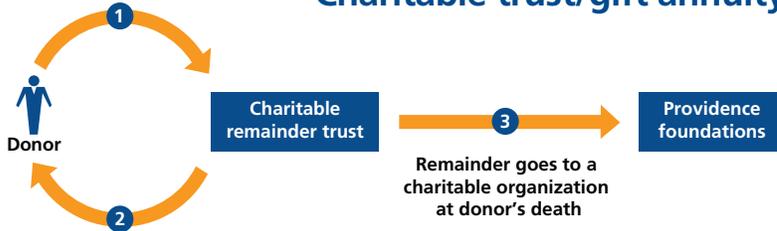
A charitable remainder trust (CRT) is a gift arrangement that allows you to provide income to yourself and/or others, for life and/or a term of up to 20 years, while making a generous gift to a Providence foundation. You transfer property irrevocably to a CRT and specify how the income and principal are to be distributed. The CRT can become effective during your life or at your death.

You can fund a CRT at your death (a testamentary CRT) with retirement plan assets to provide income to one or more beneficiaries. After these beneficiary payment obligations have ended, the funds remaining in the CRT will pass to the Providence foundation you designate.

While there is no charitable income tax deduction with a testamentary CRT, there is often a significant estate tax deduction. In addition, the CRT can receive the entire retirement plan without paying current income tax, as well as ensure a steady income stream for a surviving spouse or other loved one. A CRT funded with a retirement plan is an ideal way to reduce required payments from a retirement plan and to spread them over longer payout periods than otherwise might be possible.

Another income vehicle, a charitable gift annuity, also can provide loved ones with tax benefits as well as income and can be funded at death by a retirement plan.

Donor gives cash or property to the trust **Charitable trust/gift annuity**



- Donor receives income tax deduction
- Named individuals receive income

For more information

For more information on charitable giving opportunities through retirement plan assets, please call Providence's Office of Gift Planning at 503-216-6639 or 1-877-228-2574, or e-mail giftplanning@providence.org. You can also visit our website at www.providencefoundations.org/giftplanning.