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Money Matters: Leaving a charitable legacy with an IRA

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Planning ahead for giving away your assets is almost as important as planning to accumulate them in the first place. There are several ways in which to give your assets to a charity through your estate. You could designate a gift to a charity through your will or trust. You could also set up a charitable trust or family foundation.

All of these vehicles are good options, but IRAs are usually the best source of charitable distributions at death. Here's why:

Distributions from IRAs to charities upon your death avoid income tax and estate tax. The combined federal income/estate tax can be as high as 80 percent (based on 2014 rates) when the assets finally pass to the children.

Charitable gifts from IRAs at the owner's death avoid probate.

It can be personally gratifying. Can you be sure that your children will be good stewards with your IRA after your passing? Will they carry on the charitable values you established while alive? If the answers to these questions are "no" or "maybe," then taking control of your charitable legacy

while alive is something you should strongly consider.

[EB1] (about:blank#_msocom_1) You can name a charity as the beneficiary of your IRA, regardless of the account size. You can also change the beneficiary of your IRA rather easily, versus revising a trust or will, which requires help from an attorney.

Just as there are several advantages to making charitable distributions after death, there are also some important caveats.

Although designating a charitable beneficiary of your IRA does not impact Required Minimum Distributions while you are alive, it could impact the distribution requirements of your individual beneficiaries. Let's say you designate your church as 50 percent primary beneficiary and your only child as 50 percent primary beneficiary of your IRA. After you die, IRA rules mandate that the account be fully distributed within five years because you designated a charitable beneficiary. The child's right to take distributions over his or her life expectancy will not be available.

Since you generally want to utilize the "Stretch IRA" concept to postpone income tax payable by beneficiaries, you can fix this in one of two ways. You can divide the IRA while alive and name the child as the sole beneficiary of the first IRA and the charity as the sole beneficiary of second IRA. Or, if you have already passed, then your executor can segregate your IRA into two equal parts before December 31st of the year in which you die, and then pay out the charitable IRA. The child could then take distributions over his or her life expectancy (stretch-out).

Another caveat is that IRA beneficiary forms require the use of percentages, versus dollar amounts. This can create a problem if you have made a gift pledge to a charity for a specific dollar amount, and want the remainder to go to your children. This issue can be solved if the IRA custodian will accept an attachment with specific instructions to the IRA beneficiary form.

Some donors like to have naming rights tied to their gift, but for these, the charities usually expect very large donations. If you are unwilling to make the expected donation during your lifetime, then you could make a legacy gift from your IRA to the charity to sweeten the deal. Many charities will accept legacy gifts for naming rights, so do not give up without exploring your options.

You're probably thinking that making a legacy gift from your IRA sounds great, but you're still not certain that the charity will use the funds as you direct. Many charities allow donors to declare their wishes in writing while alive. This ensures that the money will be used on programs/initiatives that you feel strongly about. Alternatively, you can allow the charity to direct the use of the money.

Of course, any charitable gifts that you make through your IRA should align with your overall estate plan. For example, you don't want to duplicate gifts by putting a charitable bequest in your trust or will and naming the same charity as the beneficiary of your IRA. If you plan to use your IRA to fulfill charitable pledges during your lifetime and posthumously, then you may need the help of a legal professional to ensure that your estate documents and beneficiary designations align with each other to fulfill your wishes. Most importantly, bring in a Certified Financial Planner™ professional to help you tie it all together () [EB2] (about:blank#_msocom_2) .

Everything that applies to IRAs applies to retirement plan accounts too, but check with the plan administrator about the plan's beneficiary rules. Remember to keep you loved ones updated on your estate plan.

Lastly, it's your money, not theirs, so be proactive in providing for the legacy that you desire.

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