

Naming a Charity as a Beneficiary of your Retirement Account

Retirement accounts ranging from traditional IRAs to employer sponsored plans such as 401(k)s, 403(b)s, and profit sharing plans have become essential for many of us as we save as much as we can for our retirement years. The benefit of most types of retirement accounts is that they allow for the deferral of income tax until we begin taking distributions from these plans. The benefits of tax deferral are compounded if we do not begin taking distributions until after retirement when we will most likely be in a lower income tax bracket.

If we are fortunate enough to save more than is needed for our retirement, we can leave the balance of our tax deferred retirement account to our beneficiaries after our deaths. If the beneficiary is an individual, he or she will pay income tax on distributions at his or her personal income tax rate in the year that the distribution occurs (note that distributions from a Roth IRA would not be taxable). If the beneficiary is a tax-exempt charity, the charity can withdraw the full balance of a tax deferred account without tax consequence.

If you are committed to leaving property to charity at the time of your death, you should consider satisfying this bequest from your retirement account rather than under the terms of your Will. You can either specify the charity as the beneficiary of a percentage of the account, or you can establish a separate IRA with the intention that the balance in the separate account pass to charity at the time of your death. A separate account may be established by rolling over a portion of your current retirement account into a separate IRA, which in turn designates one or more charitable beneficiaries.

An additional benefit of using a retirement account to satisfy your charitable objectives is that it will allow you to leave to non-charitable beneficiaries assets that have not historically been subject to income taxes such as cash, non-retirement accounts and real estate. Had your non-charitable beneficiaries instead received the balance remaining in your tax-deferred retirement account, they would have been required to pay income tax on distributions at their personal income tax rates.

The planned giving strategy outlined in this article can be accomplished by completing a new change of beneficiary form for your tax deferred retirement account, and typically does not require modification of your existing Will or other legal documents. You should consult with a qualified estate planning attorney or other tax professional, however, before making such a change to your estate plan in order to be certain it is consistent with your overall objectives.

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