Your IRA is a force for good

It probably would not surprise you to learn that over 42% of Americans own an IRA. In many cases, IRAs–especially for people who have rolled over one or more employer retirement plans–represent a significant portion of a household's net worth. When it comes to charitable planning, IRAs should never be ignored. Indeed, your IRA may offer some of the best opportunities to support the causes you care about.

For starters, no matter what your age, consider the benefits of changing the beneficiary designation on your IRA to name your fund at the community foundation as the recipient of all or a portion of the account. This is an easy, tax-effective way to leave a bequest to support the causes you care about. The community foundation can help you structure the terms of your fund to match your intended charitable legacy. For example, you can make arrangements for your children to serve as advisors on the fund to recommend grants to particular areas of interest, or the community foundation itself could deploy the money to support the community's areas of greatest need or even the support foundation's own mission-based operations.

The reason an IRA beneficiary designation is such an ideal form of charitable bequest is because of the tax advantages. Dollars flowing to the community foundation from an IRA upon your death are not subject to estate tax. In addition, as a public charity, the community foundation does not pay income taxes on the IRA assets it receives. By contrast, if you were to name your children as beneficiaries of the IRA, those IRA distributions to the children are subject to income tax, which can be hefty given the tax treatment of inherited IRAs. Plus, the IRA assets would be included in your estate for estate tax purposes.

Exploring ways to give your IRA to charity can also serve as a helpful reminder to review *all* of your beneficiary designations. Although they may appear to be innocuous and may even be easy to overlook, those beneficiary designation forms actually represent critical components of your estate plan. To understand this, you need look no further than the cautionary tale of a Procter & Gamble employee who died in 2015, leaving behind a retirement plan. Way back in 1987, the employee had named his girlfriend as the beneficiary of his retirement plan. Despite their relationship ending, the employee never updated the beneficiary designation. By the time the employee died, the retirement plan, which had grown to nearly $1 million, passed via the beneficiary designation to the 1980s ex-girlfriend.

Finally, if you have reached the age of 70 ½, you can make what's known as a Qualified Charitable Distribution ("QCD") from your IRA directly to certain charities, including a designated fund or a field-of-interest fund at the community foundation–up to $105,000 per year per spouse. You won't pay income tax on the distribution and, happily, if you've reached the age for Required Minimum Distributions, your QCDs count toward those distributions.

The upshot? Next time you review your financial and estate plan with your advisor, take a close look at your IRAs. If you intend to leave a charitable legacy, or if you'd like to support your favorite organizations during your retirement years, your IRA may be your best bet to make a big difference in the causes you care about.

Let's connect.

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