# Retirement Planning–With Savvy Giving, Everyone Wins

Rush County Community Foundation

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*The Foundation of Rush County's Future*

## Save Taxes and Generate Income

These days, retirement planning is a popular focal point. Baby boomers are hanging up their briefcases, tool belts, and stethoscopes in record numbers, and employers are continuing to abandon pension plans in favor of 401(k) plans that shift retirement accumulation responsibilities to individual employees.

As a result, virtually everyone has to be proactive to ensure a secure retirement—not just saving, but devising dependable income strategies. Many people overlook the important role charitable gifts can play in solving retirement challenges. Whether you are retired, approaching retirement, or planning to continue working for years, there are charitable planning options that can:

- Increase retirement income,
- Reduce taxes, and
- Provide a unique opportunity to do good for others.

It's a scenario where everybody wins! Let's look at the ways you can convert accumulated assets into a comfortable retirement income stream by utilizing charitable gift strategies. The secret to success is timing and selecting appropriate options based on personal planning preferences and needs.

## Can Too Much Money Be a Problem?

Nobody ever complains about having too much money. But if you receive a significant amount of money in a single year—say, from selling a vacation home or business, or taking a large required minimum distribution from your 401(k)—you can end up with alarmingly high income taxes. Fortunately, that money can also create opportunities that can benefit you, your loved ones and your favorite charities.

## Five Scenarios to Consider

**#1—Leverage a large sum into a lifelong income**

Kay is 78. When her husband died earlier in the year, she sold their vacation home. Since the value of the property had increased dramatically over the years, she has a $400,000 gain. She also owns a balanced investment portfolio that she has managed for many years. Her children are grown and financially established. Kay's number one concern is outliving her financial resources. She wants to ensure that her retirement income is fixed and predictable. At the same time, she is invested in our mission and would like to personally give back.

When Kay learns about our charitable gift annuity program, she knows it is a good fit for her for many reasons, and she donates $300,000. She receives an immediate income tax charitable deduction that will offset her capital gain this year. Her gift annuity will pay her 6.4% of her gift every year. At her request, her gift is established in memory of her husband.

**#2—Convert a taxable bonus to tax-deferred wealth**

John, a 55-year-old pharmaceutical executive, receives a $100,000 bonus. John doesn't need extra income right now, but would like to find a way to set more money aside for retirement on a tax-favored basis. Of course, he would also like to lower his income tax bill if possible.

Meanwhile, John is thinking about participating in our capital campaign. When we meet with him to talk about his goals, he is intrigued by the idea of using a deferred gift annuity to save on his income taxes and provide future retirement income.

John contributes his $100,000 bonus to us to set up a gift annuity, but defers the start of the annuity payments for 10 years, until he is 65. Because of the deferral, he will receive an annual payout based on a fixed rate of 6.1%, or $6,100 a year—a nice supplement to his retirement income. With a deferred gift annuity, John enjoys an income tax charitable deduction today, but puts off receiving the annuity payments until after retirement.

**#3—Convert appreciated stock to lifetime income**

Bob and Mary are both 65 and recently retired. They met with their financial advisor to discuss their income plans and investments, and noted that they were concerned about a volatile tech stock they purchased years ago for $10,000 that is now worth $50,000. Bob and Mary agreed that they would rather not own this type of high-risk asset in retirement, but neither did they want to sell and pay the 15% capital gains tax.

They were pleased when they learned that a charitable gift annuity could balance their investment portfolio, convert their appreciated stock into an income-producing gift annuity and provide a significant tax deduction. They purchase a gift annuity, and enjoy the immediate advantage of avoiding some of the capital gains tax on the stock—the part that is considered a charitable gift is not taxable. The taxable part of the gain is spread over their life expectancies.

Bob and Mary also enjoy an income tax deduction on the value of the gift portion of the gift annuity. In this case, the charitable tax deduction for a gift of $50,000 in stock is $12,535. The long-term advantage is that Bob and Mary will have annuity income of $2,100 a year for as long as they live.*

**#4—Transform a vacation home into income and deductions**

Larry and Vicki enjoyed their vacation home for many years, but since their children are grown and living elsewhere, it has now become more of a chore than a joy. They are tired of the maintenance and taxes, and they want to travel more. When they learn about a charitable remainder unitrust (CRUT)—a tool that would allow them to convert their vacation home into an income stream—they decide to act.

Larry and Vicki can use the CRUT to eliminate potential capital gains tax liability, obtain a substantial income tax charitable deduction and receive a generous income stream from the proceeds when the charity sells the property. They also like the idea that they can donate the property and avoid the inconvenience of contracting with a realtor or scheduling showings.

Their vacation home has no mortgage and is valued at $200,000. They establish a CRUT and fund it with the house. The trustee then sells the house and converts the proceeds into income-generating assets. The trust makes annual payments to Larry and Vicki for life, with each payment equal to 5% of the value of all trust assets.

**#5—Soften the tax bite of RMDs and create an income stream**

When Jill turned 70½, she found that the required minimum distribution (RMD) rules put her between a rock and a hard place. She must take substantial, taxable distributions from her 401(k), whether she needs the money or not. This means she must pay ordinary income taxes on funds that have grown tax-free. If she fails to take a required minimum distribution, she will face a hefty 50% penalty.

Fortunately, RMDs present a unique opportunity for Jill to accomplish two of her goals—make a significant charitable gift and create a lifetime income stream. She uses her RMD to purchase a charitable gift annuity. She is entitled to an income tax charitable deduction in the year she establishes the gift annuity, which will help offset the RMD income tax liability while providing a competitive, fixed income stream for her lifetime.

** Example based on an AFR of 2.0% and an annual payout on the annuity for two lives.*

If she wishes, she can purchase a gift annuity every year using her RMDs to "ladder" gift annuities. She will build layer upon layer of income while saving taxes. It's her choice whether or not to make a contribution each year, so in the year her granddaughter gets married, for example, she may decide to skip the charitable gift annuity and use her RMD to help pay the wedding expenses.

## Plan Carefully Before Acting

Each family and every situation is different. We invite you to explore a program that fits your needs and works within your overall retirement and estate planning goals. Feel free to contact us. It would be a privilege to work with you in exploring the best options available to meet your personal planning, retirement, and philanthropic goals.

SAMPLE UNIFORM CHARITABLE GIFT ANNUITY RATES*

| AGE | 65 | 70 | 75 | 80 | 85 | 90 |
|---|---|---|---|---|---|---|
| RATE | 4.7% | 5.1% | 5.8% | 6.8% | 7.8% | 9.0% |

* Rates are subject to change. Please call our office for current rates, or the rate for your exact age.

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**Rush County Community Foundation**
117 N Main St
Rushville, IN 46173
(765) 938-1177
www.rushcountyfoundation.org

Alisa Winters
Executive Director

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The Rush County Community Foundation is a nonprofit public charity established in 1991 to serve donors, award grants and scholarships, and provide leadership to enrich and enhance the quality of life in Rush County, Indiana, not only today, but for generations to come.