Retirement Plans Offer New Opportunities for Philanthropy

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Carol Kolmerten and Bruce Bigelow

We are both academics by background. And, as good academics, we dutifully (and automatically) contributed to our 403(b) retirement plans every pay period, even as the institutions for which we worked added a match to those contributions. As the compounding interest, growing tax free, worked its magic over four decades, we started loving those TIAA/CREF quarterly reports, as abstract as the money was to us in those “do not touch your retirement plan” days.

Then, one day, as the calendar informed us that we had turned 70 ½, those assets in our retirement plans became more than just ephemeral resources. We not only *could* access our plan savings; we *had* to.

So we began to ask, “How many other people are there who are experiencing the same thing?” How many others, who never thought of themselves as “wealthy,” now had retirement plans larger than they had ever envisioned, people whose plans—like ours—comprised their largest single asset? We thought, yes for sure, probably a lot.

We were right. Retirement plans have ballooned in value over the past decade, to such as extent that, collectively, qualified plans (IRAs, 401(k)s, 403(b)s, SEPs and other such plans) now comprise the largest category of wealth in the United States. Last spring, the Federal Reserve published a study of wealth distribution in the U.S. which reflected a dramatic shift in wealth allocation. Only twenty years earlier wealth distribution in the US looked like this:

- REAL ESTATE 30-40%
- CLOSELY HELD STOCK/PARTNERSHIPS 15-20%
- PUBLICLY TRADED SECURITIES 15-20%
- RETIREMENT PLANS 15-20%
- CASH/CASH EQUAIVELENTS 10-15%

But in 2019, retirement plans had taken over the Number 1 spot.*

- RETIREMENT PLANS 24%
- PUBLICLY TRADED SECURITIES 24%
- REAL ESTATE 22%
- CLOSELY HELD STOCK/PARTNERSHIPS 12%
- CASH/CASH EQUIVALENTS 12%
- PERSONAL PROPERTY 6%

*Distributional Financial Accounts of the United States, Federal Reserve, March 2019

These data do not indicate that the value of real estate or of privately held stock and partnerships has declined over the past two decades. Rather, the boom in publicly traded stock prices and the explosion of retirement plan values have simply overtaken the pack. Wealth distribution in the United States looks very different from what it did only twenty years ago.

As interesting as this information is, the Federal Reserve went on to do a more carefully structured analysis, looking at how these assets were distributed as a function of total wealth distribution. The authors of the Reserve report divided the population into four categories: the top 1% of wealth holders, the next 9%, the next 40%, and the bottom 50%. Then they asked how the portfolios in each of these categories reflected the broad categories of wealth identified in their aggregate statistics. The most salient findings are these:

Wealth Distribution

	Retirement Plans	Private Stock/ Partnerships
Top 1%	6%	55%
Next 9%	39%	30%
Next 40%	42%	15%

These data confirm that a great deal of money is wrapped up in retirement plans. And they reinforce our perception that a large number of people have retirement plans that are probably their largest single asset. And finally, they point decidedly at the upper middle class (the top 10% *not* the top 1%) as the market for appeals to donors of gifts of retirement plan assets. Our non-scientific observations that many retired faculty members and upper level managers were in the same position as we were are borne out by the data.

Readers of *Planned Giving Today* need to understand the significance of these data and adapt their marketing plans around the burgeoning growth of retirement plans. Certainly, there are key opportunities for gifts of closely held corporate or partnership shares for those in the top 1%, and a focus on such potential gifts can pay off for charitable organizations in substantial ways. But that is a topic for another essay. For now, we want to focus on the implications for retirement plan assets.

For many donors, their retirement plans remain (in their minds) untouchable. But as those plans grow until the donor reaches 72 (the new age as of the passage of the SECURE Act in December), when “RMD” becomes a much more familiar household acronym for our donors,

the required distribution may come as an unwelcome addition to the donor's taxable income and, therefore, an increasingly attractive vehicle for making charitable gifts.

Even more important, given the new requirements under the SECURE ACT--that all inherited IRAs be distributed to any non-spouse beneficiary over no more than ten years—gifting an estate gift from a retirement plan has just become even more tax savvy than it was, and it already was the most tax savvy estate gift.

We realize that for those donors with children (would that all donors be childless!) any marketing effort to "give away" a retirement plan to a charity rather than to one's children is often met with "No way! I want my children to benefit from my largest asset." No charity wants to be in a position of recommending a gift to the charity *instead* of benefitting children. Fortunately, there has always been an option for giving both to charity and children without posing the option as a choice. The vehicle that all planned giving offices should be now explaining (in clear, understandable prose) is the Testamentary Charitable Remainder Trust, as this vehicle will benefit the children *and* the donor's favorite charity.

Under the new SECURE Act's provisions, in the absence of a spouse to whom to roll over the IRA, IRA administrators must distribute the IRA assets to any non-spousal beneficiaries over no more than ten years. With a Testamentary CRT, the children can receive distribution from the trust distributed over up to twenty years with no tax on the initiation of the trust. Here is how it works:

Let's say Sam, who is 75, has two children in their 40's and an IRA worth $2M. Sam knows his children would have a substantial tax burden if he made them the beneficiaries of his IRA. Even if his children took their distribution over the ten-year period, the IRA distributions would be likely to push them into a higher tax bracket, thus diminishing the amount left to them. Furthermore, if his children chose to take the IRA distribution as a lump sum, their tax rate would likely jump to the highest 37% rate, resulting in a significant increase of income tax to pay.

Alternatively, Sam creates a Charitable Remainder Trust, unfunded during his lifetime but funded by his IRA assets when, as fundraisers are wont to say, his life "matures." In that way, all the initial income tax otherwise owed on the IRA vanishes and the children receive distributions based on the entire value of the IRA. And, at the end of the trust term, the entire value goes to charity. In other words, both Sam's children *and* his favorite charities benefit from the IRA.

The benefits of a Testamentary CRT are so great that we are using this plan ourselves. Thus, we encourage our fellow *Planned Giving Today* readers to help their donors understand the implications of the new SECURE Act through a new marketing initiative.