

Charitable gifts of IRA assets using testamentary life income strategies to "STRETCH" IRA payments

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Three kinds of gifts



OUTRIGHT GIFTS

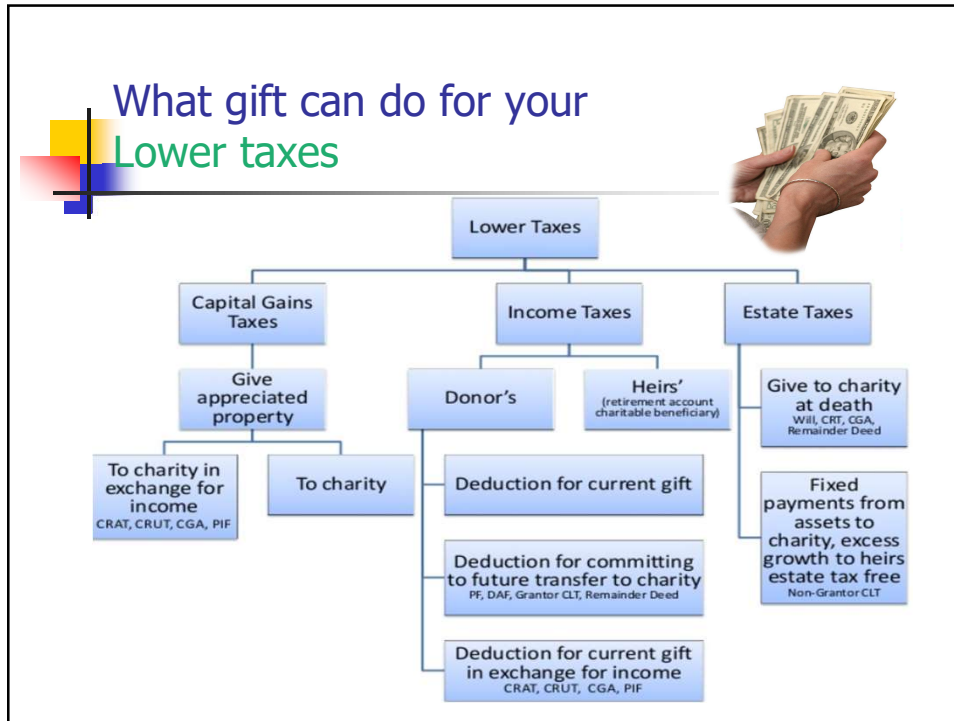
- Immediate Gift
- QCDs & DAFs
- Bargain Sale
- Installment Bargain Sale
- Retained Life Estate

ESTATE GIFTS

- Testamentary Will Bequest
- Testamentary Trust Bequest
- Retained Life Estate
- Beneficiary designations

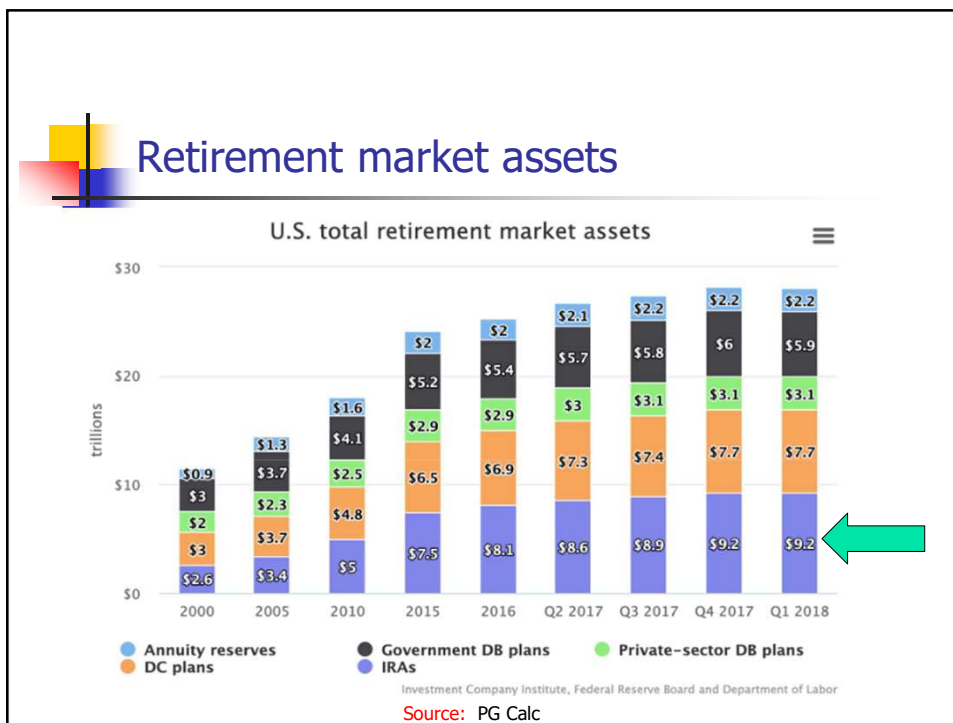
LIFE INCOME GIFTS

- Gift Annuity
- Charitable Trust



SECURE Act

- **Setting Every Community Up for Retirement Enhancement Act 2019**, signed Dec 20, 2019, effective January 1, 2020
- **PAST** - Stretch IRA - **WAS** a popular tool for extending benefits of a tax-deferred account to a non-spouse beneficiary
 - Child or grandchild as beneficiary
 - Beneficiary allowed to use their **RMD** to stretch payments over their lifetime
 - **SMALLER PAYMENTS = LESS TAX & MORE GROWTH**
- **NOW** – Must withdraw balance over 10 years
 - Shorter payments = more tax revenue quicker to pay for the Act




Source of IRA assets

Amounts in Different IRAs in 2016 (in \$1,000s)

- 85% in traditional IRAs

Type of plan	End-of-year fair market value of IRAs	
	Number of taxpayers	Amount
	(11)	(12)
Total [4]	58,930,104	8,015,374,478
Traditional IRA plans	46,696,787	6,824,024,063
SEP plans	3,174,866	382,370,762
SIMPLE plans	2,944,126	111,877,138
Roth IRA plans	19,878,993	697,102,516



Source: IRS Statistics of Income Source: PG Calc

Most popular IRAs

- An estimated 46.4 million US households (**36%**) owned IRAs as of mid-2019
- An estimated 36.1 (**77%**) million households owned traditional IRAs, making it the most common type of IRA.



Source: Investment Company Institute via PG Calc



Two charitable strategies – **T-CGA**

- Create a testamentary charitable gift annuity (**T-CGA**)
- **T-CGA** advantages
 - No expenses to create a CGA
 - Administrative costs lower, standard agreements in place
 - Minimum funding amount \$10,000+
 - Charitable donation to charity of choice
 - Payouts fixed and guaranteed for 1 or 2 lives
 - The agreement should provide that the annuity rate will be reduced to the extent necessary to pass the greater than 10% actuarial remainder test required by Internal Revenue Code section 514(c)(5).
 - **VS**
 - Payouts to younger beneficiaries may be lower than the required 5% CRT payout



Two charitable strategies – **T-FDCGA**


- Create a testamentary flexible deferred charitable gift annuity (**T-FDCGA**)
- **T-FDCGA** advantages
 - Many charities have age limits on CGAs
 - No expenses to create a CGA
 - Administrative costs lower, standard agreements in place
 - Minimum funding amount \$10,000+
 - Payouts fixed and guaranteed for 1 or 2 lives
 - Charitable donation to charity of choice
 - Payouts to younger beneficiaries may be deferred to they reach a defined age
 - **VS**
 - CRT require a 5% CRT payout
 - CRT have no deferral options
 - FLIP-CRT possible


Testamentary CGA & FDCGA example

- Mary age 80 dies with \$1,000,000 IRA
- Beneficiary 1 -- 50% to son age 50, **LE 38.9 yr**
 - 10 year withdrawal rule
- Beneficiary 2 -- 50% to McLeod for CGA – Immediate payment CGA
 - CGA rate is **3.22%** in order to qualify for 10% charitable deduction using .04 AFR
 - Annual payment is \$16,100 for life
 - All payments taxed as ordinary income
- Beneficiary 2a -- 50% to McLeod for FDCGA –Deferred payment CGA
 - First optional payment could be made at age 60 for **4.35%**
 - Second optional payment could be made at age 70 for **7.89%**
 - Final optional payment must be made at age 80 at **14.6%**
 - All rates adjusted to qualify for 10% charitable deduction
 - All payments taxes as ordinary income

Two charitable strategies – T-CRT


- Create a testamentary charitable remainder unitrust (**T-CRT**)
- Cost to create and then administer a CRT
- CRT must be in place at time of death
- CRT must name beneficiaries
- CRT may distribute to many charities
- CRT investment performance effects beneficiary payments





Testamentary CRT & FLIP-CRT example

- Mary age 80 dies with \$1,000,000 IRA
- Beneficiary 1 – 50% to son age 50, **LE 38.9 yr**
 - 10 year withdrawal rule
- Beneficiary 2 – 50% to 5% CRT (standard investment strategy)
 - Charitable deduction 26%, 5% payout qualifies under 10% rule
 - 1st year payout, **\$25,000**, taxed as ordinary income
 - Assuming 7% growth, 10th year payout **\$29,877**, 20th year payout **\$36,420**
- Beneficiary 2a – 50% to FLIP-CRT payments start age 60
 - Income only for first 10 years, taxed as ordinary income
 - 1st year payout year 10, invested 2% income and 5% growth, **\$38,671**
 - 20th year payout **\$46,537**



T-CGA implementation

- Account holder must understand designation and nature of agreement, establish agreement contingent on the charity being named beneficiary in whole or part of the IRA account.
- Transfer language in IRA account properly executed
- Account proceeds must **not** pass through the estate but go directly to issuing charity
- Name who annuitant(s) will be
 - Children, grandchildren
- Beneficiary legal name, date of birth, address and social security number
- Age at which rate of annuity will be based
- Frequency of annuity payments

