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Estate Planning Beyond Your Will

A brief guide to giving and saving through your retirement accounts and life insurance policies

Assume that your Last Will and Testament is up-to-date. Does that mean that your overall estate plan is also in good shape? Not necessarily. There are a number of assets that are typically administered and distributed outside your will; i.e., your will does not control certain assets at the time of death (unless you name your estate as the beneficiary). Examples of these include retirement accounts – such as an IRA, SEP, 401(k), 403(b), and a Keogh plan – and your life insurance policies**.** These assets are controlled by their respective contracts, trusts, or custodial accounts. **Make sure that your beneficiary designations are up-to-date** so that the assets will be distributed to the beneficiaries of your choice at the time of death.

At the same time, even though these assets are administered and distributed outside your will, they typically will be taxed as part of your gross estate for federal estate tax purposes (if you have a taxable estate). And, bear in mind that federal estate tax rates are currently up to 40%. In the case of your retirement accounts, you may also be subjecting your assets to income taxes of an additional 30% or more.

That's why we want to ask the question: *Are you distributing your IRA to the IRS, instead of your intended beneficiaries?*

IDEAS FOR RETIREMENT ACCOUNTS

With retirement plan assets subject to federal estate and income taxes, approximately 70% of these assets can go to the IRS instead of your intended beneficiaries at the time of death. Of course, retirement plans still serve very valid purposes – such as income tax deferral during your lifetime. The tax problem principally arises at the time of death. Is there a better way? Yes. IRAs and other retirement plan assets make the perfect charitable gift.

Planning Idea #1. Consider leaving us a charitable gift of all or a portion of your retirement assets – with your other "lower-taxed" assets passing to your children, grandchildren, and other intended beneficiaries. Any amounts transferred to us at the time of death will avoid federal estate and income taxes.

Planning Idea #2. Another good option – to provide for a surviving family member and benefit us at a later date – would be to ask your attorney about using the assets from your IRA or other retirement account to fund a "testamentary charitable remainder trust." Such a trust could provide a lifetime of income for your surviving spouse, children, or others, and then benefit us. This could help you save tax dollars, while you provide a solid stream of income and possible tax benefits to your heirs.

Planning Idea #3. An IRA Charitable Rollover allows those 70 1/2 and older to donate as much as $100,000 of IRA account assets each year directly to one or more public charities. The donations will count as part of the IRA owner's required annual payout. However, if you are younger than age 70 1/2, it generally does not make sense to contribute retirement plan assets to charitable institutions and organizations during your lifetime – because of the ordinary income taxes you would incur. Such lifetime transfers from a retirement plan to a charity cannot be made on a tax-free basis. (As discussed above, it does, however, make excellent sense to consider gifting these assets to a non-profit at the time of death.)

How To Make A Gift of Your Retirement Plan

While the rules governing retirement plans are complex, it's easy to name us as a beneficiary. Just check with your plan to see which form you'll need. We recommend first consulting with your attorney, accountant, or other professional advisor.

IDEAS FOR LIFE INSURANCE

Life insurance provides an easy way to continue your lifetime of giving. If you are currently making annual gifts to us and would like for these to continue beyond your lifetime, you may wish to consider a gift of an existing life insurance policy. It's an easy way to make a lasting gift.

Planning Idea #1. By naming us as the beneficiary of an existing life insurance policy, your estate could save significant tax dollars. Every dollar going to us – or another qualifying charitable institution or organization – will be deductible as a charitable contribution for estate tax purposes. (For the estate tax, there are no limitations on the charitable deduction as there are for income tax purposes.)

Planning Idea #2. In the alternative, you could make a charitable gift of a life insurance policy during your lifetime – and also garner an income tax charitable deduction if you name us as the owner and beneficiary of the policy. (**Important note:** Unlike lifetime gifts of retirement accounts, there are generally no adverse tax consequences for making a lifetime gift of an insurance policy.)

Planning Idea #3. Perhaps a more complex arrangement, such as an irrevocable life insurance trust, would be better for your particular tax planning circumstances.

For instance, you could arrange for your insurance proceeds to be used first for the support of your spouse and children, and then, at a later date, be distributed outright to us.

Giving An Existing Life Insurance Policy

Whatever its origin, you may have more life insurance than you realize. When your children were younger, you may have purchased a life insurance policy to insure their education, or for some other purpose. Now, years later, you find that your children are grown, well-educated, and out on their own. Or, maybe you have an insurance policy in force primarily to pay the mortgage on your home in the event of your premature death. And now the amount left on the mortgage may be so modest (or zero!) that it is no longer necessary to maintain the policy.

How To Make A Gift of Life Insurance

If your situation is similar to one of those described above, a charitable gift of that life insurance may be a good solution. It's easy to contribute a life insurance policy to us. Just check with your financial planner or life insurance agent for details on which forms to complete. Check with your estate planning attorney and accountant, too.

FOR ADDITIONAL INFORMATION

Estate planning through retirement accounts and life insurance policies can be complex – yet very rewarding. You can save significant tax dollars while leaving a lasting legacy. This brochure provides only a brief introduction. We would be pleased to provide you, your attorney, your accountant, your financial planner, or other advisor with additional information and be of assistance in any way possible. Thank you for your interest and support.

For questions or more information on planned giving options, please contact Nanon Morrison, Chief Development Officer at NMorrison@lionslighthouse.org or 770-738-4660 Ext : 302.

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