

# Retirement Assets

A gift of retirement plan assets can be a surprisingly easy way to reduce potentially very high taxes and provide support to Bentley.

## **A gift of retirement plan assets could be right for you if:**

- You have an IRA or qualified retirement plan, such as a 401(k) or 403(b).
- You do not expect to use all of your retirement plan assets during your lifetime.
- You have other assets, such as securities and real estate, that you want to pass to heirs.
- You may want to provide payments to loved ones after you are gone.
- You would like to make a bequest gift to Bentley.

## **Option 1: Make a tax-free gift with an IRA charitable rollover**

You can make a tax-free gift from your traditional IRA. Such a gift is known as a Qualified Charitable Distribution or QCD. (Other qualified retirement plans such as 401(k)s and 403(b)s are not eligible). You must be at least 70 ½ years old to take advantage of this opportunity. Your QCD must go directly from your IRA administrator to Bentley University. The total of all of your QCD gifts in any one year cannot exceed \$100,000 per person. A spouse with a separate IRA could also make a QCD of up to \$100,000 if they otherwise qualify.

## **The benefits of a QCD gift include:**

1. If you don't itemize and are not yet required to take your required minimum distribution (RMD), a QCD offers all of the benefits of an itemized income tax charitable deduction.
2. If you are age 72 and must take your RMD, a QCD can satisfy your RMD without increasing your income taxes.
3. Your gift supports the important work of Bentley with a tax-free gift.

## **Option 2: Designate remaining retirement plan assets for Bentley**

Another attractive option is to designate Bentley as the recipient of some or all of what's left in your IRA, 401(k), 403(b), or other qualified plan when they end.

## **In addition to having the satisfaction of making a significant gift to Bentley, your benefits include:**

1. Your estate is entitled to an unlimited estate tax charitable deduction for the value of your IRA donated to Bentley if your estate exceeds the applicable exemption.

2. The QCD is an income tax smart gift. The Secure Act enacted in 2020 prohibits stretching out distributions from an inherited IRA over the life of heirs.
3. Since Bentley is tax-exempt, a gift to Bentley from your IRA is not subject to income taxes.
4. Preservation of non-retirement plan assets for family.

### **Option 3: Designate remaining retirement plan assets for a life income plan**

Alternatively, you can designate that some or all of the assets remaining when your IRA, 401(k), 403(b), or other qualified plan ends be used to fund a charitable remainder trust or gift annuity arrangement that will make payments to family members or other loved ones for the rest of their lives. When the gift arrangement ends, what is left will go to Fenway School of Psychology.

### **In addition to having the satisfaction of making a significant gift to Bentley, your benefits include:**

1. A charitable trust or annuity can provide lifetime income for life since that is no longer possible after adoption of the Secure Act. That law prohibits stretching out distributions from an inherited IRA over the life of heirs.
2. The gift portion of your charitable trust or annuity provides an unlimited estate tax charitable deduction if your estate is subject to estate taxes.
3. Such a plan preserves non-retirement plan assets for family.

### **IRAs and qualified retirement plans**

Retirement plan assets are a major source of wealth for many households. For example, you may have hundreds of thousands of dollars invested in your IRA, 401(k), 403(b), or other qualified retirement plan. These plans do not pay tax on the income and capital gain realized by their investments. This allows their assets to grow faster than if you held and invested these assets outside of your retirement plan.

The primary purpose of your retirement plan is to provide you with income during your retirement, but it can also be an excellent source of funds for making charitable gifts during your life and when your plan ends.

### **Withdrawals are taxed as income**

With the exception of the Roth IRA, the money used to fund a qualified retirement plan, such as a traditional IRA, 401(k), or 403(b), has never been taxed. Also, earnings that occur within a qualified retirement plan are not taxed. As a consequence, withdrawals from any of these plans (except for the Roth IRA) are taxed as ordinary income. Your federal income tax alone on a withdrawal from one of these plans could be as high as 37%.

### **Withdrawals are required once you reach 72 years old**

You must start taking withdrawals from your qualified retirement plan once you reach 72

years old. The amount you must withdraw each year is a percentage of the value of your retirement plan as of the last day of the previous year. The percentage starts below 4% for someone who is taking their first “required minimum distribution” and increases with age according to a schedule published by the IRS.

### **Taxes on remaining retirement assets can be very high**

Your family members and other heirs will have to pay income tax on any distributions they receive from your retirement plan after you are gone. In addition, your qualified retirement plan is included in your estate, so if your estate is large enough to owe estate tax, your plan may increase the estate taxes you owe.

Federal income tax alone can be 37%. When you add federal income tax and estate tax together, they can total 62% or more. In states that assess their own taxes on estates, the total taxes on retirement plan assets paid to heirs can be over 62%.

### **Give retirement plan assets to Bentley and save taxes**

In contrast to your retirement plan assets, your estate will not owe income tax on most of its other assets in addition to estate taxes that may be due. As a result, your estate and heirs will pay lower taxes if you pass your less heavily taxed assets to your heirs, and give your retirement plan assets to charity. Paying lower taxes will mean that more assets will reach your heirs. How much more will depend on the size of your estate, where you live, and the type of gift you make.

### **How do I make a gift of retirement plan assets to Bentley?**

You have several good options to make a gift of your retirement plan assets to us.

#### **Option 1: Make a tax-free gift today with an IRA charitable rollover**

You can make a tax-free gift by directing the administrator of your traditional IRA or Roth IRA to transfer funds directly from your plan to Bentley. You can instruct your IRA administrator to transfer the funds directly to Bentley or to send you a check that is made out to Bentley University.

When you make an IRA charitable rollover gift, you won't need to include the transferred funds in your income for that year and therefore will not pay any tax on them. If you were to withdraw the funds yourself and then make a gift to us, you would have to include the withdrawal in your income. Even if you take an offsetting income tax charitable deduction, the result could be more income tax for you to pay overall. You cannot make a IRA charitable rollover gift from other qualified retirement plans, such as SIMPLE or SEP IRAs, 401(k)s, or 403(b)s.

Another great feature of an IRA charitable rollover gift is that it may count toward the amount you are required to withdraw from your IRA for the year your RMD. If you don't need these funds for your own use, you can use them to make gifts to Bentley and your other favorite charities and avoid paying income tax on these withdrawals.

## **The benefits of making an IRA charitable rollover gift include:**

- Your withdrawal is not included in your income so it doesn't affect your taxes.
- If 72 years of age or older your withdrawal counts toward your required minimum distribution for the year.
- You have the satisfaction of providing immediate support to Bentley.

There are several **requirements** you must meet in order to make an IRA charitable rollover gift to Bentley:

- Your distribution must be from your IRA or Roth IRA.
- You must instruct your IRA administrator to make a distribution directly to Bentley.
- You must be at least 70 ½ years old.
- The total of all your qualified charitable distributions for the year must be no more than \$100,000.
- Your distribution cannot be made to a donor advised fund, private foundation, or supporting organization.
- You cannot receive any benefit in exchange for your gift.

## **Option 2: Designate remaining retirement plan assets for Bentley**

The simplest and most common way to give retirement plan assets is to make our organization a beneficiary of your retirement plan. All you need to do is to file a revised beneficiary designation form with your retirement plan administrator to designate our organization as a beneficiary of your plan and name the percentage of your remaining assets that you want us to receive. The retirement plan assets that you designate for us will avoid all income tax and estate tax. In order for your estate to enjoy both of these tax benefits, it is especially important that you make our organization the designated beneficiary of these retirement plan assets, not your estate.

Please identify us on the form with our legal name: Bentley University, 175 Forest Street, Waltham, Middlesex County, Massachusetts and include our Federal Tax Identification Number: 04-1081650

## **Option 3: Designate remaining retirement plan assets for a life income plan**

Prior to the passage of the Secure Act in 2020, inherited IRAs could stretch out their taxable distributions over the life expectancy of your heirs. The Secure Act requires an inherited IRA to distribute all of its assets within 10 years. With the elimination of the stretch IRA, an attractive option for planning so that inherited retirement plan assets can pay income for life is to designate a charitable remainder trust or charitable gift annuity as the beneficiary of your retirement plan. Passing assets to us through a life income plan allows you to provide income to your loved ones after you are gone and then provide support to us. Such a plan strikes a balance between leaving all of your retirement plan assets to loved ones subject to significant

taxation and leaving all of these assets to us and eliminating taxes on them altogether.

Here's how a life income plan works:

1. Your retirement plan transfers the designated portion of its final balance to a charitable remainder trust or a charitable gift annuity.
2. The heirs you have chosen receive payments from the plan each year, typically for life.
3. When the life income plan ends, its remaining principal goes to support Bentley University.

Using retirement plan assets to fund a life income plan spreads out income tax and reduces estate tax on these assets, if your estate is subject to estate taxes. A typical result is to reduce total taxes on your retirement assets by more than half compared to distributing them to your heirs through your estate.

### **Life income plan options**

There are several life income plan options to choose from. The one that is right for you will depend on a variety of factors. Please contact us if you would like to learn more about funding a life income plan with assets from your retirement plan.

### **Example**

Jake, 75, is a retired business executive who has accumulated \$500,000 in the retirement plan that he set up through his company years ago. He takes minimum distributions from his plan in order to preserve as much tax-free growth inside the plan as he can. At this rate, he expects that his account may still be worth 500,000 when he dies.

Jake has reached the time in his life when he has begun thinking about the legacies he wants to leave behind after he is gone. He decides to leave a bequest to Bentley to create an endowed fund that will perpetuate generous support in his name. To accomplish his goals, he designates 40% of the final balance in his retirement account for Bentley.

## Benefits

- There will be no income tax or estate tax on the \$200,000 of Jake's retirement plan assets that are transferred to Bentley. If Jake were to pass the same amount to his family and make his charitable gift with stock instead, his family would owe income tax of \$74,000 (37% bracket) on the IRA assets, leaving only about \$126,000 for their own use. There would be even greater tax savings if Jake's estate was large enough to pay estate tax.
- Jake has the immediate satisfaction of knowing that he has put a gift plan in place that will keep his name alive and support Bentley long after he is gone.

### NEXT STEPS:

To receive further information about gifts of retirement plan assets, or to learn more about how your gift can help Bentley, please contact Liz Siladi, Director of Gift Planning and Senior Philanthropic Advisor.

- **call Liz at 781-891-2475**
- **email Liz at [esiladi@bentley.edu](mailto:esiladi@bentley.edu)**

\* We are pleased to provide this information to you; however, it should not be considered professional advice. We encourage you to contact your own legal and/or tax advisor(s) for applicability to your personal circumstances.



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