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The Advanced Planner

Fall 2009

Retirement Plans and IRA Beneficiary Designations

Contributions to retirement plans can provide an excellent opportunity for growth as they are invested tax-free. The earnings are taxed when they are withdrawn, and this has allowed more dollars to be invested for more growth. Additional savings can occur if the recipient is in a lower tax bracket when the funds are withdrawn (for example, during retirement) than when the investments were growing. Sometimes deferred retirement accounts can be great opportunities for charitable donations or planned gifts. The account owner might find the best asset to transfer to a charity is the income and estate taxable 401(k) plan or IRA. Two of the reasons this could be true are: all distributions out of the deferred account are taxable; the account is included in the decedent's estate and can be subject to estate taxes.

This issue of *The Advanced Planner* examines a case study involving a couple that wishes to leave a portion of the deferred retirement accounts to charity. We hope that you will find this information helpful to your practice and your clients.

If you would like more information about the works supported by the Foundation or these planned gift arrangements, please let us know. We would be happy to be of any assistance to you.

Jeanine Hedman
President

Bill Altavilla
Planned Giving Specialist

Mercy Foundation North is a philanthropic organization raising funds to support the Sisters of Mercy's healthcare, educational and social ministries in the north state. Three not-for-profit hospitals and two social service organizations are among the healing endeavors sponsored by the Sisters of Mercy, and all are part of Catholic Healthcare West: Mercy Medical Center Mt. Shasta; Mercy Medical Center Redding; St. Elizabeth Community Hospital; Shasta Senior Nutrition Programs, Inc.; and Golden Umbrella.

∞ The Case ∞

Frank and Elaine had often put some of their savings into the stock market. They were also employed by companies that had 401k plans. They kept investing and the value of their plans kept growing. They had long been active in charitable giving.

Frank: *"Our tax-sheltered retirement plans kept growing and just recently we rolled them into our IRA. It's grown beyond our wildest dreams."*

Elaine: *"But taxes will eat up so much of it. Not that we need it all, but we were hoping to get more value out of it."*

Frank: *"We recently sat down with our attorney to look at our overall financial plans to make sure we had set up our affairs to best suit our needs. Our attorney suggested we consider making a charity a partial beneficiary knowing how much we would like to help others."*

Elaine: *"Tax benefits for our estate, protecting our future, and knowing we're making a difference in other peoples' lives - it feels good!"*

However, careful planning concerning the withdrawals from retirement funds needs to be done. Not only is there a potential income tax burden, but if there is a balance in your retirement account at your death, there may be estate taxes as well. Estimates are that taxes could eat up as much as 70-75% of retirement assets under certain circumstances.

Using qualified retirement plan funds is an excellent source of assets to fund bequests. By designating Mercy Foundation North as a beneficiary (it can be a contingent beneficiary after the death of a spouse), funds pass to the Foundation free of taxes. It is possible to set up the beneficiary as the recipient of the entire remaining funds in the account or establish a percentage to fund the bequest.

Please note - the designation of any charity as a beneficiary of retirement fund assets cannot be simply written in your will or trust. The charity must be designated as a beneficiary of the retirement plan. Everyone's personal circumstances are different, so please consult your tax advisor concerning the use of qualified retirement funds. We would be glad to make suggestions that could be effective in accomplishing you and your client's needs and benefit Mercy Foundation North as well.

Do You Need More Information?

Proposal/Illustrations Available: We can provide a confidential proposal for any interested advisor or individual(s). Please contact our office at (530) 247-3424.

The information provided herein is to assist you in planning for your future. Proper tax and legal advice should always be obtained.