Charitable Giving in Retirement

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When we think about retirement, our thoughts often focus on dream vacations, the pursuit of hobbies or spending more time with our loved ones.

Retirement can also be a time of giving back to our community through gifts of our time, expertise and financial resources.

However, by definition, retirement usually means that you no longer earn a salary, bonus and commissions. Rather, we rely on our investments, retirement accounts and, yes, Social Security to cover our expenses. Consequently, it makes sense to think differently about how we make our charitable gifts in retirement. If you plan to give charitably in retirement, here are a couple of suggestions for your consideration.

Qualified Charitable Distributions from your Individual Retirement Account (IRA)

If you have ample income in retirement and you are age 70½ or older, you can make tax-free gifts from your IRA of up to $100,000 per year. When you make a gift directly from your IRA to the charity of your choice, your gift, known as a qualified charitable distribution (QCD), qualifies as part of your mandatory required minimum distribution (RMD). While you must pay income tax on any distributions you receive from your IRA, if you give part or all your RMD directly to charity, you will avoid realizing the income and thus avoid tax on your required distribution. The good news is this decision to take your RMD or make a QCD from your IRA annually means that if your personal circumstances change, you have the flexibility to change your election from year to year.

Charitable Remainder Trusts (CRTs)

For individuals who want to support one or more of their favorite charities, own highly appreciated assets and need more income in retirement, a charitable remainder trust can be a great solution. Here is the basic concept:

An individual ("grantor") places a highly appreciated asset in a CRT. This trust pays annual income for the individual's lifetime or a set time (not to exceed 20 years). When the trust terminates, the remaining balance of the trust is distributed to the designated charity.

From a tax and wealth management perspective, a CRT offers several attractive features. First, the highly appreciated asset can be sold within the CRT without creating a taxable event to the grantor; only the distributed annual payments are taxed. Second, once the highly appreciated asset is sold, the proceeds can be used to create a more diversified portfolio of assets, thus reducing risk. Third, through a CRT, the grantor can create a reliable stream of annual income in retirement that they would not have had otherwise.

Like any irrevocable trust, many rules must be followed in the creation and management of a CRT. That said, if handled properly, a CRT can be a powerful and effective way to generate additional annual income for retirees and still make a meaningful gift to one's favorite charity. To learn more about charitable trusts, contact your private wealth advisor.

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