



## THE PROS AND CONS OF NAMING A CHARITY AS IRA BENEFICIARY

The common question for someone wishing to bequest assets to charity at their death is, "How much should I leave?" But another important question is, "Which assets should I leave?"

One often overlooked answer is to leave your individual retirement account (IRA) to charity. There are pros and cons to this strategy, but the benefits typically outweigh the downside.

Let's say you have a \$1 million estate. Half of it is in an IRA and the other half is in highly appreciated stocks and bonds. You want to give half of the estate to charity and the other half to your children. If you want to give the assets to the charity while you're still alive, usually the best method is to bequest the highly appreciated stocks and bonds that are outside the IRA. You receive an income tax deduction for the donation and the securities escape capital gains taxes. In the meantime, the assets inside the IRA continue to grow tax-deferred.

If you intend to bequeath at your death, however, the reverse strategy will likely be the better choice. Name the charity as the IRA beneficiary and give the securities to your children at death. The securities will pass to your children with a step-up in basis. Your estate will owe estate taxes on the value of the securities, but you'll avoid capital gains taxes on the appreciation. If you name your children as the IRA beneficiary instead, they will pay income taxes on the assets as they are withdrawn from the IRA.

What if you don't want to give the entire IRA to the charity, but want some of it to go to your children or perhaps your spouse? One approach is to split the IRA into two or more IRAs, naming the charity as the beneficiary of one IRA and your children as beneficiaries of the other IRA.

This strategy overcomes one of the problems of naming charities as IRA beneficiaries. IRAs with charities as beneficiaries are treated as though they have no designated beneficiary. Generally, this means that minimum distributions during the owner's lifetime will be based on a single-life expectancy, instead of a joint-life expectancy common when a spouse or child is the beneficiary. Single-life distributions are larger than joint-life. Second, distribution of the assets left in the IRA at death will be accelerated, possibly as quickly as one year. Distribution of assets to named

beneficiaries, such as a spouse or child, usually can be spread out for a much longer time, including lifetime.

Consequently, if you keep a single IRA, and name a charity to receive some of the benefits and children the remainder, the entire IRA will be treated as if no beneficiary were named. You'll lose the benefits of joint-life distributions, and the distribution of the remaining assets at death will be accelerated, even for named beneficiaries. Splitting the IRA into two IRAs, designating one for the charity and the other for the named heirs, avoids this problem.

What if you want your spouse to be the IRA beneficiary because you want to be sure he or she will have enough money during the rest of their years? You have several choices.

First, you can leave the IRA to your spouse, and he or she can leave it to the charity at their death. You can leave it to a qualified terminable interest property (QTIP) trust, in which your spouse receives the income from the trust and the principal goes to the charity at your spouse's death. Another option is to put the IRA into a charitable remainder trust at death. A CRT can be useful for limiting income to the spouse in order to provide more to the charity, but it has the disadvantage of treating the IRA as a single-life beneficiary.

Clearly, this is a complicated area, so you'll want to talk to your Certified Financial Planner practitioner and an estate planning attorney.

December 1998—This column is produced by the Institute of Certified Financial Planners, a national association representing the top financial planners in the country, and is provided by Joseph Hoffman, a local member in good standing of the Institute.