Ways of Giving

To The National Outdoor Leadership School

Retirement Plans and Charitable Giving

Because retirement contributions are often made with before-tax dollars, those assets are taxable when they are withdrawn. If passed to heirs in an estate, retirement assets can be subject to a double whammy of estate and income taxes, which can amount to well over 50 percent of the assets. Those assets can therefore be used to fund a charitable gift at a relatively low cost to your estate. The funds usually pass to NOLS outside of probate and free of taxes.

MAKING GIFTS FROM YOUR RETIREMENT "POCKET"

Retirement plan assets often provide a convenient pocket from which to make charitable gifts. If left in an estate, retirement plan assets are often subject to high tax rates, resulting in an unplanned "gift" to the federal government. State taxes can add even more, further diminishing the eventual value of the assets.

Individual retirement accounts (IRAs), tax-sheltered annuities, Keogh plans, self-employed plans (SEPs), 401(k), 403(b) and other qualified pension and profit-sharing plans can provide significant support for NOLS at a relatively low cost to your estate.

PENSION PLAN STRATEGIES FOR YOU AND YOUR SPOUSE

Many married couples postpone receiving income from qualified pension plans until they reach the mandatory age of 70 1/2. The couple then takes the minimum income distribution over their joint lives. Thus the plan continues to grow, and, if left in the estate, it eventually faces confiscatory taxation. Total combined income and estate taxes can be 70 to 80 percent of retirement assets passed to heirs through an estate, and state taxes can add even more. One strategy for avoiding excessive taxation is to name your spouse as primary beneficiary and then name a nonprofit such as NOLS as secondary beneficiary.

An alternative tax-saving strategy is to name a charitable remainder unitrust or annuity trust as primary beneficiary of the plan at your death. The trust then pays an income to the surviving spouse or another designated beneficiary for his or her lifetime. The trust saves federal estate tax and federal income tax, and thus this plan often provides an increased income to the surviving spouse and creates an important eventual gift for NOLS.

Charitable remainder trusts and charitable annuity trusts are examples of life income gifts. For more information on life income gifts, contact the NOLS development office or consult the "Ways of Giving" document on that specific gift vehicle.

PENSION PLAN STRATEGIES FOR YOU, YOUR SPOUSE AND YOUR CHILDREN

Most of us would like to have a retirement plan that provides income tax savings, tax-free growth of assets, a flexible retirement date, and a sufficient retirement income. Many also want to provide an eventual inheritance for their children. The federal government's taxation of pension plans often takes a large percentage of the property and drastically reduces the children's or grandchildren's share of the assets.

ILLUSTRATION 1

Since Jonathon Brown learned leadership skills on his 1973 NOLS Sea Kayaking course, he has used them in every area of his life. He and his wife, Judy, have sent 2 of their children to NOLS, and they are regular contributors to the NOLS Annual Fund. Both in their early sixties, the Browns are reviewing their financial and estate plans to ensure a secure retirement for themselves, maximum inheritance for their three children, and a meaningful donation to NOLS, the nonprofit that has impacted their family so profoundly.

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Rather than make an unintended donation to the federal government, the Browns can use their retirement assets to fund a charitable donation. There are a couple of ways to accomplish this—the Browns could name NOLS as a contingent beneficiary, or they might use the retirement assets to establish a charitable remainder trust, which would provide income to a surviving spouse or child. The trust would pay income for the surviving person's life or a specific term of years and eventually fund an important gift to NOLS.

This plan might very well produce the pleasant result of their heirs receiving more than they would have if retirement assets were left to family and charitable bequests were made from other assets in the estate. The Browns are protecting their retirement assets and their children's inheritance from excessive taxation. They are also making a difference in wilderness and leadership education by supporting NOLS.

PENSION PLAN STRATEGIES FOR THE SINGLE PERSON

Many individuals defer receiving income from qualified pension plans until they reach the mandatory age of 70 1/2. The single person then takes the minimum income distribution over his or her life, and thus the plan continues to grow and eventually faces confiscatory taxation. One tactic for avoiding excessive taxation is often to name NOLS as primary beneficiary of the plan at your death.

An alternative tax-saving strategy is to name a charitable remainder unitrust or annuity trust as primary beneficiary of the plan at your death. The trust then provides an income to a survivor for his or her lifetime. This plan also often saves federal estate tax and federal income tax, and thus can provide increased income to the survivor while making an important eventual gift to NOLS.

SUPPLEMENTING RETIREMENT PLANS

In addition to using existing retirement plans as a convenient, tax-smart "pocket" from which to make a charitable gift, some types of charitable gift vehicles can be structured to augment existing retirement plans and establish a future donation to NOLS.

Donors can establish a charitable unitrust that is designed to maximize future income rather than focusing on current needs. With a charitable retirement unitrust, you can build future retirement income, save taxes, and make a meaningful gift to NOLS.

For example, you establish a charitable retirement unitrust 10-15 years before you retire. To do so, you transfer cash, stocks, land or other assets to a trust. The goal during these pre-retirement years is to invest for maximum growth. If you create the unitrust with highly appreciated assets that provide low income, the trustee can sell those assets and reinvest for maximum growth. You pay no capital gains tax on the sale once the property has been transferred to the trust.

Deborah Sussex

While you are still working, you can continue to add to the trust assets, but you also receive a modest income from those assets. The amount you receive may be an annual percentage of the trust's fair market value or the income it generates, whichever is less. You may return this income to the unitrust if you wish, helping it grow and saving more federal income tax.

After you retire, the unitrust assets are reinvested again to yield maximum income—again without incurring capital gains taxes. Thus, the trust provides you with maximum retirement income for the rest of your life and that of your spouse.

Eventually, the trust will revert to NOLS as a charitable gift. One of the most appealing features of this type of charitable gift is its flexibility. You select the amount you put in the plan each year, the trustee, the date when you retire and how much income you, or you and your spouse will receive.

As with traditional charitable remainder unitrusts, retirement unitrusts often provide big income tax savings. The size of the deduction will depend on several factors: the value of the property held in trust, the age of the beneficiaries and whether additional contributions are made to the trust. You can claim the gift as a charitable deduction in the year you establish the trust—up to 30 percent of your adjusted gross income. If the deduction exceeds the 30 percent limit, you have five years to carry it forward until the full amount is deducted. This gift strategy also frequently generates substantial estate tax savings and reduces probate costs for your estate.

ILLUSTRATION 2

Kathleen, a 54-year-old professional, has contributed the maximum allowable amount to her retirement plan, but would like to do more to ensure her later security. She also has powerful memories of her transformational 1971 NOLS mountaineering course and would like to include a significant gift to the school in her long-range plans.

A charitable remainder trust can help Kathleen work toward both goals. She transfers stock valued at $400,000 into a trust, and names herself the recipient of income generated by the assets during the trust term—her lifetime or a period up to 20 years. The trust assets can be invested for maximum growth until Kathleen's retirement, at which time the investment strategy would shift for increased income.

The capital gains tax is completely bypassed on the sale of the stocks, and Kathleen receives a charitable income tax deduction of up to 30 percent of her adjusted gross income. Any unused portion of the charitable deduction can be carried forward for the next five years until the full amount is deducted.

Eventually the trust assets pass to NOLS as a donation, enabling the school to continue its important work teaching wilderness and leadership skills to people around the world. Kathleen has the satisfaction of knowing that her gift is opening the door to wilderness for future generations of NOLS students

PENSION PLAN STRATEGIES

We would like to help you select the strategy that maximizes benefits for you and your family. We would also like to help you eliminate the federal government from your plan and substitute NOLS. Please consult us to determine which plan is most appropriate for you and your needs. We would be happy to answer your questions and provide more assistance. And, as always, we urge you to consult your own advisors, too.

JOIN THE NOLS SUMMIT TEAM

An additional benefit to each of the gifts described in this article is membership in the NOLS Summit Team, our recognition society for donors who include NOLS in their estate plans or other long-term giving strategies.

Through their generous commitments of current and future support, NOLS Summit Team members are creating a legacy of wilderness education.

CONTACT NOLS FOR MORE INFORMATION

None of us donates to NOLS simply to save taxes. Each of us gives for personal reasons: a belief in NOLS' mission, a desire to preserve wilderness, a commitment to creating opportunities for wilderness and leadership education, or maybe a compelling interest in the school's past and future achievements. Regardless, most individuals want to stretch their assets to do the most good for the most people.

We would welcome the opportunity to talk with you and your advisors about these and other tax-smart ways to achieve your goals.

NOLS

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