How Saving Money Now Can Help Those in Need During Your Retirement

Chase Mouchet, CFP®, CIMA®
Wealth Advisor

I often speak with clients who have given generously to charities and other nonprofits during their working years and want to continue helping those in need once they leave the workforce. Developing a plan now – during their working years – is one way to ensure they can fulfill that dream.

Here's a good example. One of my clients, now in his mid-50s, plans to fund his retirement through the money he's made in his business and investments. He and his wife donate a large portion of his earnings to local charities and want to continue supporting these organizations in retirement. By setting aside money into his profit-sharing/401(k) plan, they are able to save thousands of dollars in taxes now during his peak income years. Eventually, this money will grow to become their main charitable funding source once the business is sold.

Developing a plan during your working years is one way to ensure you can continue to donate generously once you leave the workforce.

Fortunately, some of the same tax breaks that exist for common retirement accounts, such as 401(k) plans, can also be used to benefit charitable causes during retirement. With business owners, professionals and executives, I've found that socking away money for these charitable causes may provide additional motivation to start saving or contributing more to these important accounts.

For people in their 50s and 60s looking to retire within the next 10 years, here are some ways to not only maximize tax savings today, but also their charitable impact in the future.

Pre-Tax Savings for Charity Could Be a Win-Win for Savers and Charities

Setting up a 401(k) plan or an Individual Retirement Account (IRA) can be a great place to start building funds for future giving. One of the best reasons to use these accounts is the favorable tax laws when making charitable donations during retirement.

Current law allows individuals over age 70 ½ to direct up to $100,000 each year from their IRA to qualified charitable organizations. These charitable rollovers, also known as Qualified Charitable Distributions (QCDs), can be part of the required minimum amount that must be withdrawn each year.

As an example, consider how our business owner who will live off income from brokerage accounts or real estate investments can take advantage of this law. Right now, he could earmark his retirement plan to be the eventual source of his family's annual charitable giving after 70 ½. While there may be other charitable strategies worth considering that will save on taxes, such as donating funds as part of the business sale, a retirement plan could still be a beneficial source for his family's future charitable giving.

While retirees don't receive a tax deduction for QCDs, they are exempt from income taxes when these funds are withdrawn. Also, since pre-tax deferrals aren't taxed in the year they are made, they can reap the rewards of a tax deduction during their working years well before they begin withdrawing money from these accounts after age 70 ½.

Retirement Plans Can Provide a Great Charitable Legacy, Too

People who have supported a particular charitable organization for years may desire to continue their commitment and leave a lasting legacy after their passing. Donating money from traditional IRAs remains one of the most tax-efficient ways for a person to contribute to their favorite charities after their death – partly because there will be a looming tax bill due if the account is left to heirs. By naming a charitable organization or a donor-advised fund in their estate plan, the charitable, tax-exempt entity will pay no income taxes on these funds.

For example, one couple recently changed the percentage of their estate that they wanted to earmark for charity through their wills. As we discussed this amount, we noted that most of their bequests could be fulfilled by designating the husband's IRA to eventually go to charity after he and his wife are gone. In their situation, the charitable organization could be named as the beneficiary next in line behind the spouse.

By making one simple change – naming their donor-advised fund as secondary IRA beneficiary instead of their children – the couple achieved three favorable outcomes: their children will receive a more tax favorable inheritance from other assets; their children will no longer be on the hook for paying thousands of dollars in taxes from the IRA funds, and a greater percentage of this couple's estate will ultimately impact their family and charitable causes.

With some thoughtful tax planning and discipline during a person's working years, the impact of each dollar invested in retirement accounts could extend far beyond the goal of providing income into investing in worthy causes.

Chase Mouchet, CFP®, CIMA®
404 760 9000
chase.mouchet@brightworth.com

Who Is Brightworth?

Brightworth is a nationally recognized, fee-only wealth management firm with offices in Atlanta, GA and Charlotte, NC. The wealth advisors at Brightworth have deep expertise across the financial disciplines, allowing us to provide ongoing, comprehensive financial advice to families across the country.

This information is provided as a guide to assist you in your financial planning. The examples are provided for illustrative purposes only and are not intended to be specific financial planning recommendations or tax advice. Please consult with a professional for specific questions regarding your particular situation. © 2019 Brightworth. All Rights Reserved.