Strategic Giving for Retirees

By Dana J. Holt

People have been tithing for millennia. In Christian tradition, the aim of many is to give 10% of their household income to the church as offering to God. But how much should we give after we retire and don't have a regular income from work anymore? And where should that money come from: Savings? Investments? Retirement accounts?

The answer boils down to cash flow and asset location during retirement. The United States Federal Reserve estimates that only about 5% of personal wealth is held in cash at any given time. We keep only enough cash to cover daily expenses and emergencies. The other 95% is held in things like real estate, insurance, businesses, banks, and retirement accounts.

Over the past several decades, employees have become more active in contributing to personal retirement accounts. Gone are the days of private pensions, so it's up to individuals to save money for retirement. According to the Investment Company Institute, we currently hold **over [$29 Trillion in retirement accounts](#)! About $9.5 Trillion is held in IRAs alone.** (That will become very relevant soon, so read on….)

Most retirees live on a combination of Social Security income and distributions from their retirement accounts, such as IRAs (Individual Retirement Accounts). It may surprise you that many retirees don't need all the money in their IRAs, but they are forced to take distributions when they are six months past turning 70 years old. These distributions are commonly referred to as RMDs (Required Minimum Distributions) and are virtually 100% taxable. They are often quite sizeable—five, six, or even seven digits large!

Until recently, people had no choice but to withdraw these (sometimes large) RMDs and pay the corresponding tax. That extra income often causes additional expenses, such as:

- Increasing someone's overall tax rate
- Increasing the amount of Social Security Income that is taxed
- Increasing the cost of Medicare premiums

Today, people have a choice. If they don't need or want those sizeable RMDs, they can send some or all of it to their favorite charities and avoid those uninvited costs mentioned above. This technique is called a **"Qualified Charitable Distribution"** (QCD) and it's becoming *extremely* popular.

Here are some of the finer points of a QCD.

- Must be 70 ½ or older at the time of the transfer.
- May distribute up to $100,000 per year, per IRA owner.
- Counts towards satisfying RMD.
- Distribution is not taxable to IRA owner or to charity.
- Must be sent *directly* from IRA custodian to charity.
- Only applies to IRAs—*NOT 401(k), 403(b), etc.*

Of course, people could certainly take distributions of those RMDs into income, recognize the additional taxes, and make a tax-deductible cash donation to their favorite charities. Unfortunately, they may not itemize their deductions. Furthermore, the deduction may not offset the additional income tax, and this workaround doesn't help with increased Social Security taxation or Medicare premiums.

The Qualified Charitable Distribution is probably the most tax-efficient way for retirees over 70 ½ to give to charity. They can use it to tithe, or to make significant contributions for any charitable purpose, easily sending a check.

Unfortunately, not everyone knows about the Qualified Charitable Distribution yet. It's up to neighbors and friends to spread the word. When working with my nonprofit clients I always encourage them to tell their supporters about QCDs in all the ways they communicate—in person, e-mail, website, newsletters, etc. During such awareness-building, pay attention to the professional advisors in your congregation; financial planners, attorneys, and CPAs will want to know about this too, so they can support their clients and promote broad financial understanding.

A "donor profile" or anecdotal story is one of the best ways to share this information. When you tell a story about someone with whom the reader identifies, it becomes much more real and relevant to them. Try finding a member who has used her IRA to make a Qualified Charitable Distribution to your congregation, and highlight her story to inspire other donors!

Don't forget, the giver can also name your congregation as a partial or full beneficiary of that IRA so that when she passes, more of those IRA assets will support your ministry. If left to family, those assets will become taxable, but there are no taxes on what is willed to charity, so some people prefer designating the entire distribution to a cause or organization, including churches.

Stewardship leaders, make your job easier by making tithing options clearer, namely by explaining how participants can give from their asset base—/span>**not** that tiny bit of cash they keep on hand.

Dana J. Holt, JD RICP AEP® is the owner of HOLT Consulting, LLC. You can read more from Dana at www.HoltPlannedGiving.com