

# FOUNDATIONS



*For the future of Memorial Hospital*

ESTATE AND FINANCIAL PLANNING NEWS • MEMORIAL FOUNDATION, INC.

## Making the Most of Your Retirement Funds

In today's world of fluctuating investment values, increased health care costs, and longer life expectancies, planning for and managing assets in retirement is a topic that is on the minds of many.

These discussions can sometimes overlook the ways thoughtful and careful planning can bring enhanced financial security to you and your loved ones while you also support your charitable interests such as Memorial Hospital.

There are actually ways you can make meaningful charitable gifts while you reduce or eliminate taxes and make certain more of your assets remain for loved ones in the future.

### Benefiting today

Recent changes in the nation's tax laws have made it even easier and more attractive for many to make gifts from Individual Retirement Accounts (IRAs) and certain other retirement accounts.

It is now possible to make gifts from these assets in ways that assure the funds will be used for purposes you choose rather than be largely consumed by state and/or federal income and estate taxes.

Those over the age of 70½ will be especially interested in opportunities to make gifts in totally tax-free ways this year.

### More for your heirs

If you are among those who can now leave more to your heirs free of estate and gift tax, you may also be surprised to learn how making charitable gifts from retirement plans can further increase the amounts received by your loved ones from your estate.

Through careful planning, you may find that retirement funds can provide an untapped source, or a new "pocket," from which to make charitable gifts to Memorial Foundation, Inc., now and in future years.

## Good News for IRA Gifts

Congress has once again made it possible for those over the age of 70½ to make tax-free gifts from traditional and Roth Individual Retirement Accounts (IRAs).

Continue reading for more information and check with your advisors about the best ways to take advantage of this giving opportunity.

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**Reduce taxes on retirement fund withdrawals**

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# Benefit From Gifts Now... and Later

If you have accumulated retirement funds in amounts you believe will be adequate to meet your future needs, it may be wise planning to use a portion of these funds to make charitable gifts now and in the future. That is because retirement accounts may otherwise be among your most heavily taxed assets during lifetime and as part of your estate.

## Making gifts today

Funds contributed to qualified retirement accounts are not taxed at the time of contribution and they are allowed to grow over the years free of income tax. These funds are, however, taxable at your maximum rate when withdrawn during lifetime, and are included with any assets that are taxed in your estate.

If you are over the age of 59½ and can remove funds from your IRA and certain other retirement accounts with no early withdrawal penalties, you may wish to consider using tax-favored retirement funds to make all or a portion of your charitable gifts.

Such amounts are reportable as income when withdrawn, but if you use them to make charitable gifts you are entitled to an income tax charitable deduction that can fully eliminate tax on the withdrawn funds.

This allows you to make your gifts using funds that will never be subject to federal income tax or taxed under the laws of most states.

## Giving what's left

Like many other assets you own or control, the amounts remaining in your retirement accounts are normally included as part of your estate.

Depending on your state of residence and other factors, retirement plan balances can be subject to estate taxes that could consume a large percentage of amounts your loved ones would otherwise receive.

Even if your estate will not be subject to tax, when heirs receive what remains of your retirement accounts, they will owe federal (and perhaps state) income tax upon receipt of these funds. This could consume 35 percent or more of what remains.

The combination of income and estate taxes on retirement accounts could in some cases combine to consume an even larger total portion of these assets.

Because of this, it may be wise to use all or a portion of your retirement assets to make charitable gifts through your estate. This results in totally eliminating the tax on these funds.

## Other assets for heirs

Other assets that will not be subject to income tax when received, such as investment accounts, life insurance proceeds, and real estate, can be left to heirs instead.

Charitable gifts from retirement fund assets now and in the future can be among the easiest gifts to arrange.

We will be pleased to provide more information about making gifts to support Memorial Hospital in this manner. Or, check with your tax advisor if you think this could be a good option for you.

## Making Gifts From Retirement Plans

If you have reached the age when withdrawals from retirement accounts are permitted without penalty, it may be convenient to make immediate charitable gifts from those withdrawals.

Including Memorial Foundation, Inc., to receive gifts from what remains in your retirement plans can be as simple as completing a Change of Beneficiary form. This can be done when a new account is opened or at a future date.

Seek the advice of your professional advisor(s) when considering these types of gifts.

# Special Opportunity for IRA Gifts this Year

As part of tax legislation enacted in the fall of 2010, Congress included special tax incentives for those over age 70½ to make charitable gifts from Individual Retirement Accounts (IRAs) that are completely free of federal income taxes.

## Who can benefit?

Some taxpayers encounter limits on the amount of charitable gifts they can deduct and may also see other tax benefits phased out as their incomes increase. Others may find that increases in their income due to mandatory IRA withdrawals cause more of their Social Security income to be taxed. Making gifts directly from IRA funds can eliminate these and other challenges.

**Example:** Ellen and Mark, ages 72 and 75, are retired and enjoy a comfortable income. They are concerned that they are required to withdraw more from their IRA each year than is necessary for living expenses. The IRA withdrawals are fully reportable as part of their adjusted gross income (AGI), causing a number of adverse tax consequences, even when they use those funds to make charitable gifts.

This year, they have decided to make charitable gifts to Memorial Foundation, Inc., and others directly from their IRA. While these gifts do not result in a tax deduction, they are nevertheless tax free, do not result in withholding tax, and count toward their mandatory withdrawal amount.

**Example:** Harold, age 75, lives comfortably on his pension, savings, and Social Security. When he takes required withdrawals from his IRA, he is not only taxed on those funds, the additional income also means that more of his Social Security income is taxed. If he makes his charitable gifts directly from his IRA this year, he avoids reporting the amount donated as income, pays no taxes on those funds, and does not trigger additional tax on his Social Security benefits.

**Example:** Gloria, age 81, has been told that her estate will be no longer be subject to federal estate tax but is concerned because the combination of income and state inheritance taxes could still consume a large portion of what might remain in her IRA in the future.

She decides to begin making her charitable gifts through tax-free distributions directly from her IRA to charitable interests this year and take full advantage of income and, in her case, state estate tax savings opportunities.

## Act today

Tax-free charitable gifts from IRAs can be made in any amount one chooses up to \$100,000. A couple with separate IRAs each enjoy their own limit.

Check with us or your IRA administrator for additional information or assistance in completing your gifts.

## Required to Take IRA Withdrawals?

If you are required to take unneeded taxable distributions from an IRA, you may be pleased to learn of a recent revision of the law.

You are allowed to direct that your mandatory withdrawal amount (or any amount up to \$100,000) be used to make charitable gifts on a totally tax-free basis.

To qualify, your gifts must be completed by December 31, 2011. Check with your plan administrator or other advisors for more information on the best ways to make tax-favored gifts from your retirement accounts.

# A Retirement Planning Quiz for You

Take this quiz to test your knowledge about giving through IRAs and other retirement plans.

1. Funds contributed to traditional IRAs and other qualified retirement plans are not taxed in the year they are contributed.  True  False
2. The amounts in IRAs and other qualified retirement plans grow tax free until the time of their withdrawal.  True  False
3. Making charitable gifts today from IRAs and certain other retirement fund assets can be a convenient and tax-favored giving option.  True  False
4. There are special benefits available for those over the age of 70½ for gifts made directly from IRA accounts.  True  False
5. Amounts remaining in tax-qualified retirement plans at death could be subject to both estate and income taxes.  True  False
6. Using retirement fund assets to make charitable gifts from one's estate can result in more assets being received by heirs.  True  False
7. More than one charitable recipient can be named to receive retirement fund assets.  True  False

## How did you do?

The answer to each of the statements above is true. If you answered false to any questions, there is no need to worry.

However, you may wish to check with your advisors about your retirement goals and how to meet them in the most effective manner.

Always seek competent professional advice when planning to make charitable gifts using retirement fund assets.

## Memorial Foundation Is Dedicated to the Charitable Support of Memorial Hospital

Healthcare services and programs at Memorial benefit thousands of patients and their families from throughout Southwestern Illinois. Contributions to Memorial Foundation are an investment in the future of Memorial Hospital—they help to purchase diagnostic equipment and renovate patient care facilities. They also help provide charitable care and assist in funding a wide variety of community education programs, support groups, and health screenings. If you would like more information about the many ways to make a gift to Memorial, please contact us at (618) 257-5659.

Memorial Foundation is a tax-exempt corporation pursuant to Section 501(c)(3) of the Internal Revenue Code. Gifts to the Foundation are tax deductible to the extent allowed by law. When making a bequest or establishing a trust to benefit Memorial, legal documents should include the following corporate name: Memorial Foundation, Inc.

If you do not wish to receive future fund-raising materials from Memorial, please write to Memorial Foundation, 4500 Memorial Drive, Belleville, Illinois 62226.