Making the Most of Your Retirement Assets

What are Retirement Assets?

Nearly 70 percent of American workers have saved for retirement and a significant portion of their assets are resting in an IRA (Traditional or Roth), a 401k, a 403b, a Tax Sheltered Annuity (TSA) or some other vehicle that the IRS recognizes as a qualified retirement plan. The goal with each of these qualified plans is to put away as much pre-tax income as possible and to accumulate wealth while deferring taxes.

Because there are penalties for early withdrawals, most will allow the asset to grow until they reach 59.5 years old. Some will continue to defer withdrawals until reaching what is termed the Required Beginning Date (RBD). The RBD for most plans is April 1after reaching the age of 70 ½ but may vary from plan to plan. Once reaching the RBD, the IRS requires a Minimum Required Distribution (MRD) that is determined by multiplying the fair market value of the asset by a factor with the Single Life Expectancy Table. Failure to take the MRD after reaching 70.5 years old will result in a 50% penalty enforced by the IRS.

Retirement Assets and Taxes

What's important to remember about any qualified retirement plan is that no tax has been paid on this income. While you can strive to defer taxes as much as possible but at some point taxes will need to be paid either by the employee who set it up or the beneficiary when withdrawals are made. If withdrawals are taken by the employee after the age of 59.5, they prevent the 10 percent "early withdrawal" fee.

When employees sign-up for a qualified plan they are required to designate a beneficiary in the event the employee dies before all assets have been withdrawn. Typically, this will be a spouse, child or other close relative. When the beneficiary receives the inherited IRA the balance may be subject to estate taxes as much as 35 percent or more plus income taxes when making withdrawals. There are no early withdrawal penalties for disbursements made from an inherited IRA.

With the help of a skilled estate planner, you can set up a withdrawal process that minimizes or stretches out the tax burden. Some will take the initiative to establish an estate plan and push the assets into a trust and distribute withdrawals to the intended beneficiary throughout their lifetime. Doing this helps minimize an instant and fairly large tax burden to the beneficiary, yet many 401k and 403b plans do not allow payouts to beneficiaries from a trust.

Donating Retirement Assets

> The master commended the dishonest manager because he had acted shrewdly. For the people of this world are more shrewd in dealing with their own kind than are the people of the light. I tell you, use worldly wealth to gain friends for yourselves, so that when it is gone, you will be welcomed into eternal dwellings.
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> Luke 16:8-9 (NIV)

Depending upon the size of your estate, as much as 60 percent can be taxed when you leave retirement assets to family members. That means and IRA valued at $100,000 could be reduced to only $40,000 for your loved ones.

An IRA can serve as a strategic way to support churches, ministries, or charitable causes that are important to you. Many 401k, 403b and other qualified plans that are holding retirement assets are eventually rolled over into an IRA. Current tax law still provides significant incentives for what is termed as a qualified charitable distribution from and IRA. The IRS defines a qualified charitable distribution as a gift:

- Made by an individual age 70 ½ years of age or older
- Paid out of an individual's traditional or Roth IRA;
- Given to a qualified charitable organization

Because charitable gifts made from an IRA are not subject to income taxes and also count towards the required minimum distribution for the year, donating assets can oftentimes be more beneficial. Staying with the inherited IRA example above, a chartable distribution would result in the full $100,000 being realized by the church or charitable organization to help fuel the mission and vision.

Can I receive a tax deduction if I make a charitable distribution from an IRA?

Individuals cannot receive a charitable tax deduction for distributions made from an IRA. The primary tax benefit is not having to include the distribution in your gross income and avoiding income taxes. Taking a charitable deduction is viewed as a double benefit and is strictly prohibited.

Why donating from retirement assets is strategic for the Kingdom

Read Matthew 25:14-30. This passage is most commonly known as the Parable of the Talents and encourages believers to consider how to multiply what God has entrusted to them and to invest those assets according to the Master's strategy. If we can distribute 60 percent more of our assets to Kingdom purposes leveraging current tax law, we are being shrewd with what we have, and following the example shared here in Matthew 25.