Planning for retirement and giving to charity: Intertwined solutions in economically puzzling times

Retirement planning no doubt is an important discussion topic during client meetings every year. In recent months, though, you may have observed an uptick in clients' questions about their plans for retirement, perhaps related to:

–Required minimum distributions ("RMDs") from qualified retirement plans, including questions prompted by media coverage of pending legislation known as SECURE 2.0;

–Stability of retirement investments, a topic that is widely covered in mainstream financial news; and

–Rising interest rates and what that means for retirement, which is also a frequent topic in the media, along with inflation's impact on retirees.

Against this backdrop, the issues become particularly complex for philanthropic clients. Here are answers to questions you may be asking:

What's going on with updates to the charitable giving components proposed in the SECURE 2.0 Act?

Right now, SECURE 2.0 includes a provision that would index the $100,000 Qualified Charitable Distribution ("QCD") allowance for inflation and also expand the technique to allow for a one-time transfer of $50,000 to a charitable remainder trust or other split-interest vehicle. But those enhancements are not the law, yet. Overall, the legislation appears to stand a good chance of becoming law. Still, a lot can happen as the House and Senate reconcile their respective bills before the legislation heads to President Biden for signature.

So what should I be telling my clients about the potential changes to the Qualified Charitable Distribution rules? Or should I say nothing?

For clients who are seriously considering a QCD, it may be worth mentioning these potential enhancements. But in general, it's usually more confusing than helpful to bring up pending legislation, no matter how exciting. Instead, consider placing your focus on the QCD rules as they currently stand. The QCD already is a strong planning tool.

When should I reach out to the community foundation for help with QCDs?

The answer is, anytime! The community foundation can help establish a qualifying fund to receive your client's Qualified Charitable Distribution, regardless of whether the SECURE 2.0 enhancements become law. The recipient fund can't be a donor-advised fund, but there are other very effective options.

With interest rates rising, are there particular techniques that I should be discussing with my clients who are planning for retirement and are charitable inclined?

Yes. Now is a good time to consider talking with these clients about charitable gift annuities. A charitable gift annuity, like any other annuity, is a contract. Your client agrees to make an irrevocable transfer of cash or assets to a charitable organization. In return, the charitable organization agrees to pay the client (or the client's designated beneficiary) a fixed payment for life. Your client is eligible for an immediate income tax deduction for the present value of the future amount passing to charity.

What if my client needs the tax deduction this year but won't be retiring for several years?

Charitable gift annuities offer flexibility, in that your client may choose to structure the contract as a "deferred gift annuity," meaning that the client starts receiving payments at a future date (or upon a future event such as retirement), rather than immediately while the client's effective income tax rate may still be high. In this way, the charitable gift annuity can be a tax-savvy component of an overall retirement plan.

How do rising interest rates factor in?

Client discussions about charitable gift annuities are especially timely because the American Council on Gift Annuities recently voted to increase the "rate of return assumption" used as guidelines for maximum payout rates. Effective on July 1, 2022, the return assumption will increase from 3.75% to 4.5%. This means that the Council's suggested payout rates will be going up. That's good news for a client's income stream.

What's the bottom line on this?

The net-net here is that rising interest rates make the charitable gift annuity an even more attractive tool for clients who want to combine charitable planning with retirement planning. The team at the community foundation can help you evaluate this option to determine if it is a good fit for your client.