# Retirement Plan Beneficiary Designation Toolkit: Everything You Need

## Everything you need to persuade your boss or your board to invest in marketing the ultimate “win-win” gift plans.

*Put it to work today. Your successors will thank you.*

## The Challenge:

You are a fundraiser, maybe an annual fund director or major gift officer, responsible for bringing in new gifts every year. Maybe your goal is $100,000, or perhaps it’s $10,000,000 annually.

You contact your donors every year. Some of them are changing their giving habits because of their age, lifestyle, health, or even the tax laws. What news can you share with them that will encourage them not only to keep giving, but to give even more in the future?

Planned giving; especially, gifts of retirement plan assets.

But here’s the problem: Your boss and board are worried about short-term results or the fiscal year. They don’t want to “invest” in the future without a certain return on that investment. Maybe they don’t even want to spend money on marketing retirement plan gifts.

That kind of thinking is all-too-common — and, as you know, a *huge financial mistake* for your organization. It’s time for your charity to face the facts:

* Donors who list an organization in their estate plans are more likely to also give a gift to the organization while living.
* About 5 percent of donors make a planned gift. This leaves substantial opportunity for organizations to encourage donors to consider planned gifts, including gifts from retirement plans.

With the **Retirement Plan Beneficiary Designation Tool Kit**, you will convince them of the fiscal logic in pursuing these planned gifts, and persuade them to provide your fundraisers with tools that will be an ongoing and reliable source of gift revenue.

## The Case:

In a recent study by Merrill Lynch and Age Wave, more than 3,000 adults (with an oversampling of people aged 55+) were surveyed about their estate planning attitudes and actions. Fifty-five percent of respondents aged 55+ did not have a will, although two-thirds agreed that having a plan in place was necessary to “having their affairs in order.”

IRAs and other qualified retirement plans now equal approximately one-fourth of household net worth. In September of 2018, the Federal Reserve estimated that the net household worth in America was $107 trillion. The Investment Company Institute (ICI) estimated in November 2018 that total retirement assets were $28.3 trillion. Of the total $28.3 trillion, the two largest components are IRAs and 401(k) accounts. The ICI estimate of IRA balances is $9.26 trillion. The 401(k) asset value in November was estimated to be $5.35 trillion dollars.

Nine in ten respondents indicated a willingness to discuss their end-of-life preferences with their family, but often act only in response to a life event, such as retirement or the advice of a trusted friend, family member, or professional. That professional could you be you.

Ask your boss or your board to think about the impact of charities receiving just 2% of this wealth: those gifts could equal *$166 billion*. And because IRAs and 401(k)s may continue to grow in value over donors’ lifetimes, that $166 billion could climb to a substantially greater amount by the time those legacy gifts are distributed. Your organization can take action now to receive a part of this substantial charitable bounty.

## Staff Resources

Because donors retain the power to change their beneficiary designation forms during their lifetimes, there is no completed gift at the time a donor names your charity as a retirement plan beneficiary. This means there is very little upfront overhead or staff cost to procuring retirement plan gifts.

However, when your donor passes away, your charity needs a process for following up on the donor’s intentions and making sure the retirement plan administrator distributes the funds according to the donor’s wishes.

To accomplish this task, you need a person who can keep track of these gifts over time and also keep track of donors who pass away. If your organization already has the capacity to monitor this information, all you need are the following tools:

1. Memo to Boss or Board

## Retirement Plan Beneficiary Letter To Donor Prospects

1. Letter of Intention from the Donor
2. Letter to Plan Custodian Requesting Distribution According to Donor’s Wishes

## Memo to Boss or Board

To: [Boss or Board]

From: [Enlightened Donor Centered Fundraiser]

Re: A Fantastic Future

Date: [Today]

We have a great opportunity to make a difference for our organization. With the right tools, we can secure major gifts from our donors who wish to donate part of their retirement plans to us. With your approval, I would like to add “Win-Win Gifts from Retirement Plans” to the next staff (or board) meeting agenda. Based on the demographics of our donor base and research from Giving USA, now is the time to market gifts from retirement plans.

I would like you (or the board) to consider the following budget of $\_\_\_\_\_\_\_ to get started and make this endeavor successful.

Attachments:

Case Statement

Budget

Retirement Plan Beneficiary Designation Toolkit from Planned Giving.com (optional purchase)

## Retirement Plan Beneficiary Letter To Donor Prospects

**[Month, Day, Year]**

Dear **[NAME,]**

**Do you have a retirement account? Smart move!**Many people wisely take advantage of tax incentives to contribute to IRAs, 401(k)s, and similar plans. These funds are often an individual’s largest asset. If you, too, are the owner of a large retirement plan, you need to know that there are significant tax advantages to making charitable gifts with retirement plan assets

The IRS regards any remaining balance left in your retirement account to be untaxed income. That means if you bequeath that balance to your heirs, the IRS will subject it to *both* income and estate tax. This **potential double taxation** **can consume as much as 60%** **of the value of your account for very large estates**. However, even if your estate is not large, there are still significant tax advantages to making charitable gifts with retirement plan assets.

You have options to reduce this potential tax hit without depriving your loved ones.  You can create a meaningful legacy at **[Your Favorite Charity]** by naming usas the beneficiary of your retirement plan – and then use other tax-advantaged assets to make gifts to children, family, and friends. As a nonprofit organization, **[Your Favorite Charity]** won’t pay income tax on the distribution (nor will the plan balance be included in your taxable estate). Your heirs will receive more of your estate because the tax-advantaged assets you leave to them will not be subject to income or estate taxes.

Learn more by returning the enclosed reply card to receive our **free brochure that explains how a gift of retirement assets might benefit you, your family, and [Your Favorite Charity]**. Of course, you should share this information with your tax or legal advisor.

Please contact me at **[email]** or **[phone number]** for a confidential, informative conversation at any time. I’d be happy to explore the possibilities with you.

Sincerely,

**[Officer**

**Favorite Charity]**

## Letter of Intention from the Donor

**[Month, Day, Year**

**Favorite Charity**

**123 Main Street**

**Town, USA 00000]**

**If sent via US Postal Service: If sent by Overnight Delivery:**

**[Charity [Charity**

**123 Main Street Attention:**

**Town, USA 0000] 123 Main Street**

 **Town, USA 0000]**

Dear \_\_\_\_\_\_:

I am pleased to inform you that I have included your charity as a beneficiary of my retirement plan. [My gift is unrestricted, to be used by the charity at its discretion for the greatest need] ***OR*** [My gift is to be applied for the benefit of the **{Specific *Program}***].

I have made a provision to distribute a sum in the amount of $\_\_\_\_\_\_\_\_\_ from my retirement plan ***OR (Preferred)*** \*a percentage of my retirement plan in the amount of %\_\_\_.

Please let me know of any questions.

Sincerely,

[Donor Name

Address

Telephone

Email]

***\*When you make a percentage distribution of your retirement plan assets, that ensures all of your beneficiaries — loved ones and charity — get something, no matter what the plan’s balance is. When you include a specific sum, you put your loved ones and charity at risk of receiving less than you intended, or even nothing, if the balance in your plan at death is less than your specific sum distributions.***

## Letter to Plan Custodian Requesting Distribution According to Donor’s Wishes

**Letter to General Counsel of IRA Custodian**

**[Month, Day, Year**

**Favorite Charity**

**123 Main Street**

**Town, USA 00000]**

Dear General Counsel:

We have been informed that [**Favorite Charity]** is a beneficiary of the IRA of [**Jane Doe]**. The IRA account number is [**123-45-678]**. We request that you liquidate the funds held for our benefit in the trust account and deliver them by check within 30 days to our organization at this address: [**Favorite Charity, Bequest Administrator, 123 Oak Street, Chicago, IL 00000].**

**[Favorite Charity]** is not required to open an IRA account with a custodian to receive an IRA distribution. Under Reg. 1.408-2(b), the IRA account must be created “for the exclusive benefit of an individual or his beneficiaries.” A charity is a nonprofit corporation and is defined as a “Person” under the IRC, but a charity clearly is not an individual and therefore not permitted to set up a Sec. 408 IRA account. In addition, as custodian you are trustee of an IRA trust under Reg. 1.408-2(b). You are required by federal and state law to comply with the fiduciary responsibilities of a trustee. If you fail to make the distribution as required in your contract with the IRA owner, you are potentially in breach of your duty of fiduciary responsibility.

**[Favorite Charity]** is not subject to USA Patriot Act (Pub. L. 107-56). Sec. 326, which requires banks and other custodians to determine that a person opening an account is not on the list of suspected terrorists. First, IRC Sec. 408 does not permit a nonprofit to open an IRA account. Therefore, the Patriot Act does not apply to an IRA distribution to charity. Second, we are a U.S. recognized exempt charity and not on a list of suspected terrorists.

Finally, IRA custodians may withhold 10% of a distribution to individuals and remit that amount to the Internal Revenue Service. We are tax exempt and elect under IRS Form W-4P to not have tax withheld. Because we are tax exempt, there is no income tax on our IRA distribution and no requirement for withholding on your part. Enclosed is a copy of our IRS tax exemption letter. Our IRS identification number is [**00-1234567]**.

Because we are not permitted to open an IRA account; the USA Patriot Act does not apply to a qualified exempt U.S. charity; and withholding is not required, we request that you remit within 30 days the full distribution to the above address. If you are unable to distribute our vested IRA funds within 30 days, then, in a manner similar to Sec. 6662(a), we should receive the IRA funds and a 20% penalty amount. Because after the 30-day period you are in clear and obvious breach of contract and breach of trustee fiduciary responsibility due to noncompliance with the distribution terms of the IRA agreement, we will be willing to settle for the IRA funds plus the 20% penalty.

If you feel you are unable to make this prompt distribution as requested, please have your Legal or Compliance Department provide us with your legal basis for holding these funds and not distributing them to us. We remind you again that this is a trust and you are potentially subject to a breach of fiduciary responsibility claim for failure to follow the trust terms.

Sincerely,

**[Officer**

**Favorite Charity]**

## Training Materials for Staff and Volunteers

Please see the following resources:

[**The Planned Giving Pocket Guide**](https://plannedgiving.com/planned-giving-pocket-guide/)

[**The Planned Giving Bible**](https://plannedgiving.com/the-planned-giving-bible/)

[**Giving Tomorrow Magazine**](https://plannedgiving.com/resources-planned-giving-tomorrow/)

[**IRAs: The Queen On Our Chessboard**](https://plannedgiving.com/shop/iras-the-queen-on-our-chessboard/) **— Webinar**

[**Understanding the IRA Rollover**](https://plannedgiving.com/answers/answers-ira-rollover/) **— Video**

[**Retirement Plans — Audio File**](https://plannedgiving.com/resources/video-and-audio-planned-giving/)

[**Book a Speaker at Planned Giving.com**](https://plannedgiving.com/resources-seminars/)

## Professional Testimonial Statement

Camilyn Leone, Esq.

I've had clients who created a perfect will, but had almost all of their assets in retirement plans, so the will had no effect. Not filling out the beneficiary designation form means the money will go directly to the estate upon death and be taxed at current estate and income tax rates. Instead, use your beneficiary designation forms. Give the most highly taxed assets to charity and give the tax-favored assets, like cash, real estate, stocks or other investments, to your heirs.

## Example with and without Retirement Plan Gift

Assume you have a retirement plan valued at $10,000, and a bank savings account also valued at $10,000. You want to leave $10,000 to your favorite charity. Whether you leave the charity the retirement plan or the savings account makes no difference to the charity: The charity is able to keep the full $10,000 either way, since no income tax applies to the receipt of a retirement plan or a savings account by a charity.

If you leave the $10,000 savings account to an individual such as your child, your child will receive the full $10,000 without a reduction for income tax. However, if you instead leave the $10,000 savings account to the charity and leave your $10,000 retirement plan to your child, your child will end up with less than $10,000, since income tax must be paid on retirement plan distributions received by an individual. The portion of the funds that your child loses to taxes could be substantial, depending on his or her income tax bracket and how quickly the funds are distributed from the retirement plan.

## Donor Recognition

We always recommend you recognize donors for their planned gifts. Recognition may be personalized to your donor. Alternatively, you may have a giving society. If your giving society is broken down into groups based on the amount of the gift, include planned giving donors in the group that matches the amount of their gift. Remember, in their minds, your donors have given the percentage of their estate or retirement plan gift *today* — even though your organization won’t receive the gift until after their death.

If you don’t have a donor recognition society, ask the donor how they would like to be recognized. It’s most meaningful when you show your donors that you appreciate and listen to them.