



STELTER

The SECURE Act and Beyond

WHAT IT MEANS FOR YOUR NONPROFIT AND YOUR DONORS

BONUS CONTENT:
TOP 5 GIFTS TO MAKE IN 2020

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- + Joined The Stelter Company in December 2011
- + Prior to coming to Stelter, Lynn worked as an associate attorney for 10 years with Duncan, Green, Brown & Langness, P.C., a law firm in Des Moines, Iowa, specializing in estate planning, charitable planning, probate, guardianships, conservatorships, real estate and business planning
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- + Past president and board member of the Mid-Iowa Planned Giving Council (2014–present) and member of the National Association of Charitable Gift Planners' Leadership Institute

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- + Former chair of the American Bar Association Tax Section Fiduciary Income Tax Committee
- + Active member of The American College of Trust and Estate Counsel
- + Creator of Tiger Tables actuarial software, which is widely used by tax lawyers and accountants
- + Co-author of Bloomberg Tax Management Portfolio Charitable Remainder Trusts, Charitable Gift Annuities and Pooled Income Funds

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Agenda

1. SECURE Act
2. The SECURE Act and Charitable Giving
3. Top Gifts to Make in 2020
4. Best Practices for Talking to Your Donors
5. Summary and Next Steps
6. Questions

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The SECURE Act

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The SECURE Act: A Little History

- + Passed by the House of Representatives on May 23, 2019
- + Incorporated into a spending bill and passed by the House of Representatives on Dec. 17, 2019
- + Passed by the Senate on Dec. 19, 2019
- + Signed into law on Dec. 20, 2019
- + Most provisions took effect Jan. 1, 2020
- + Most significant retirement plan legislation since the Pension Protection Act of 2006

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The SECURE Act

Three main changes that relate to charitable giving

1. Removes age restrictions on IRA contributions
2. Changes the age for required minimum distributions (RMD)
3. Eliminates "stretch" IRA for most non-spousal beneficiaries

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1. No Age Restrictions on IRA Contributions

Removes age limitation for contributions to IRAs

- + Old law: Additional contributions not available for those 70½ or older
- + New law: The SECURE Act repealed that limitation
- + An IRA contribution can be made only if the taxpayer has taxpayer compensation such as wages, tips or bonuses
- + Current dollar limits are the lesser of: \$6,000 for those under 50
\$7,000 for those 50 and over
or your taxable compensation for the year

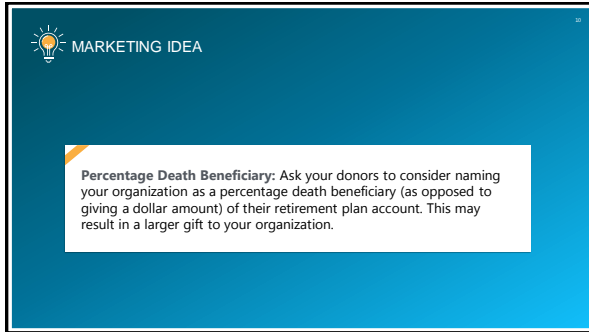
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No Age Restrictions on IRA Contributions

What it means for nonprofits and your donors:

- + Individuals can continue to make IRA contributions well into their retirement years
- + Retirees have more time to save; accounts have more time to grow
- + Retirement plan account balances have potential to be larger—great for nonprofits that have been named as a percentage death beneficiary or for future qualified charitable distributions

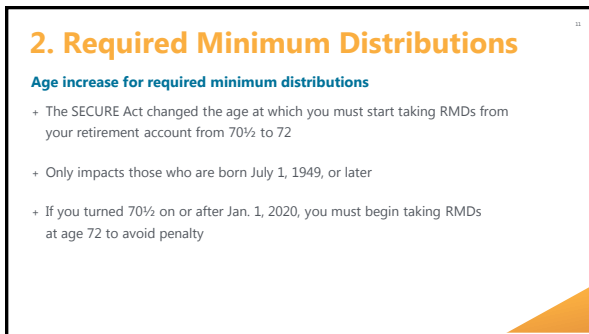
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MARKETING IDEA

Percentage Death Beneficiary: Ask your donors to consider naming your organization as a percentage death beneficiary (as opposed to giving a dollar amount) of their retirement plan account. This may result in a larger gift to your organization.

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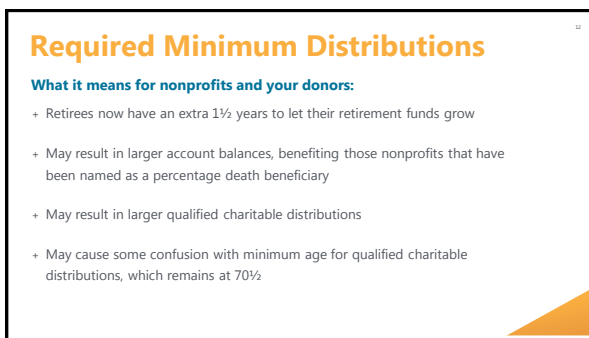


2. Required Minimum Distributions

Age increase for required minimum distributions

- + The SECURE Act changed the age at which you must start taking RMDs from your retirement account from 70½ to 72
- + Only impacts those who are born July 1, 1949, or later
- + If you turned 70½ on or after Jan. 1, 2020, you must begin taking RMDs at age 72 to avoid penalty

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Required Minimum Distributions

What it means for nonprofits and your donors:

- + Retirees now have an extra 1½ years to let their retirement funds grow
- + May result in larger account balances, benefiting those nonprofits that have been named as a percentage death beneficiary
- + May result in larger qualified charitable distributions
- + May cause some confusion with minimum age for qualified charitable distributions, which remains at 70½

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 **MARKETING IDEA**

Review Your QCD Marketing Material: Make sure your language is clear that donors can begin using QCDs at 70½ but it will not count toward their RMD until 72 for those turning 70½ on Jan. 1, 2020, or later

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3. IRA Beneficiary Distribution Rules

Elimination of the "stretch" IRA for most non-spousal beneficiaries

- + Old law: Beneficiaries could take distributions over their lifetime
- + New law: The SECURE Act eliminated the "stretch" IRA for most non-spousal beneficiaries. They must withdraw the entire account balance by the end of 10 years
- + Applies to defined contribution retirement plans (IRAs, 401(k)s)
- + Effective date: The RMD rules for accounts inherited from owners who passed away before Jan. 1, 2020, are unchanged

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IRA Beneficiary Rules

Elimination of the "stretch" IRA for most non-spousal beneficiaries

- + Does not apply to retirement accounts inherited by a non-spousal beneficiary as a result of a death occurring on or before Dec. 31, 2019
- + A surviving spouse who inherits the retirement account of a deceased spouse will still be permitted to "roll over" those accounts to their own IRA and delay taking RMDs based on their lifetime until they turn 72

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IRA Beneficiary Rules

What it means for nonprofits and your donors:

- + This is a tax-generating provision
- + Roth IRAs may be more attractive now. The IRA owner may wish to convert traditional IRA funds into a Roth IRA. The account owner pays income taxes now, but future withdrawals will be tax-free
- + Interest may increase in naming a nonprofit as a death beneficiary and leaving other assets to loved ones
- + Charitable individuals with retirement plan accounts may be interested in testamentary life income gifts such as charitable gift annuities or charitable remainder trusts

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Other Key Provisions

"What to expect when you are expecting" — Penalty-free withdrawals for adoptions or birth of a child

- + You can still withdraw funds starting at age 59½ with no penalty
- + If you need to access your retirement savings prior to 59½, there is a 10% early-withdrawal penalty
- + The SECURE Act adds an exception. It allows up to \$5,000 to be withdrawn, without penalty, from a retirement account within one year following the birth or adoption of a child. For married couples, each spouse can withdraw up to \$5,000 from their retirement accounts penalty-free

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Other Key Provisions

Grad student fellowship/stipend payments treated as compensation

- + Aid amounts paid to students who pursue graduate and post-doctoral study or research will now be treated as compensation for purposes of making IRA contributions
- + These students can now begin saving for retirement while still pursuing advanced degrees

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Other Key Provisions

529 accounts

- + Allows 529 distributions up to \$10,000 of qualified student loan principal and/or interest payments. This change applies to distributions made after Dec. 31, 2018
- + Allows the \$10,000 for a lifetime payment, not an annual limit
- + Allows 529 distributions to cover eligible apprenticeship costs. This change also applies to distributions made after Dec. 31, 2018
- + Expands coverage for homeschooling

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Other Key Provisions

Part-time workers — 401(k) eligibility

- + Allows employees who have worked at least 500 hours per year for at least three consecutive years to be eligible to participate
- + The employee must also be 21 by the end of the three-year period

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The SECURE Act and Charitable Giving

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The SECURE Act and Charitable Giving

- + Qualified charitable distributions
- + Testamentary life income gifts
 - + Charitable gift annuities
 - + Testamentary charitable remainder trusts

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Qualified Charitable Distributions

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Qualified Charitable Distributions (QCDs)

Details of gift:

- + IRA account holder must be at least 70½ at time of gift
- + The distribution must be made directly to the charity
- + The gift can be any amount up to \$100,000 per year
- + The gift must be made to a qualifying public charity (not to a supporting organization or a donor advised fund)

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Qualified Charitable Distributions

New under the SECURE Act:

- + Any QCD will be reduced by the amount of tax-deductible contributions to your IRA
- + Effective for QCDs made on or after Jan. 1, 2020

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Example of Interplay Between IRA Contributions and QCDs

- + The QCD is reduced by the total amount of IRA contributions on or after a person reaches age 70½.
- + Jane, 72, makes a \$7,000 contribution to her IRA in 2020. She would also like to make a \$50,000 qualified charitable distribution to her favorite charity in the same year.
- + Jane is allowed to make a tax-free qualified charitable distribution in the amount of \$43,000.



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Example of Interplay Between IRA Contributions and QCDs

- + The QCD is reduced by the total amount of IRA contributions on or after a person reaches age 70½.
- + Jane works part time.
- + Jane continues to save and make contributions to her IRA in her retirement years. She makes \$5,000 annual contributions for three years. She makes a \$50,000 qualified charitable distribution to her favorite charity after three years.
- + Jane is allowed to make a tax-free qualified charitable distribution in the amount of \$35,000 (\$50,000 – \$15,000 in total contributions).



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Qualified Charitable Distributions

Special messaging needed for those between 70½ and 72

- + IRA account holder must be at least 70½ at time of gift
- + RMDs begin at age 72 for those who turn 70½ on or after Jan. 1, 2020
- + Donors in the 70½-to-72 age range may consider waiting until they can satisfy all or part of their RMD

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Qualified Charitable Distributions

Continue to motivate donors in the 70½-to-72 age range

- + Gift allows them to make a difference today
- + Make a gift from the most highly taxed assets
- + Gift may not impact current spending
- + Gift does not count as income
- + Make gift now when markets are high to avoid possible market decline

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Testamentary Life Income Gifts

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Testamentary Life Income Gifts

Why consider these gifts?

- Under the new retirement plan rules, non-spousal IRA beneficiaries now have to withdraw the entire account by the end of 10 years
- If your donors prefer that their non-spousal beneficiaries receive their entire IRA proceeds over a lifetime, have them consider naming a charitable gift annuity or a charitable remainder trust as the beneficiary of their retirement plan

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Testamentary Life Income Gifts

Donor profiles:

- IRA owners with high-net-worth accounts
- IRA owners with younger adult non-spousal beneficiaries who do not wish that their beneficiaries withdraw the entire balance by the end of 10 years
- IRA owners with non-spousal beneficiaries in high tax brackets (additional large distributions by the end of 10 years could send beneficiaries into even higher tax brackets)
- IRA owners who are charitable and want to minimize taxes

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Charitable Gift Annuities

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Charitable Gift Annuities

Steps to establishing a testamentary CGA:

- + Name a nonprofit as beneficiary of a retirement plan asset as payment for a gift annuity
- + Detail the terms of the gift annuity. Use the ACGA rate in effect at death
- + Name one or two annuitants to receive fixed lifetime payments
- + At the end of the annuitant's lifetime, the balance supports your organization

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Charitable Gift Annuities

Tips on establishing a testamentary CGA:

- + Give donors special language to insert in their beneficiary designations
- + Sample language will be provided to you after the webinar
- + Language should include reference to ACGA rates
- + If you do not have a CGA program, consider working with a third party such as a community foundation or the National Gift Annuity Foundation

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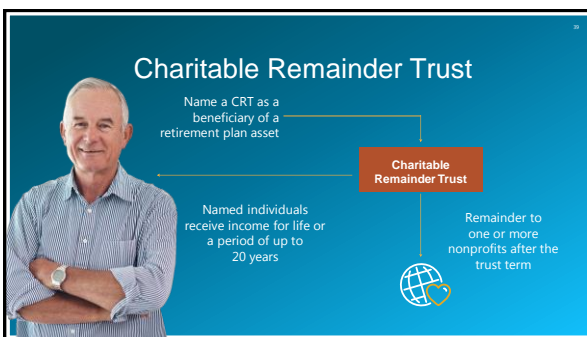


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Charitable Remainder Trusts

- + Name a charitable remainder trust as a beneficiary of an IRA
- + Name one or more beneficiaries to receive fixed (annuity trust) or variable (unitrust) lifetime payments or a term of up to 20 years
- + At the end of the trust period, the balance supports one or more charitable organizations, or a donor advised fund

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Charitable Remainder Trusts

Tips to guide your donors:

- + Discuss the increased flexibility with a CRT
- + More than two life-income beneficiaries
- + One or more charitable remainder beneficiaries
- + Provide a sample gift illustration
- + Recommend that your donor work with a qualified estate planning attorney to set up the trust

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Top 5 Gifts to Make in 2020

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1. Gifts of Appreciated Stock/Property

Outright Gift | CGA | CRT

Reasoning:

- + Stock market is at or near all-time highs
- + Many real estate markets are experiencing strong growth
- + Minimize or eliminate capital gains tax

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2. Qualified Charitable Distributions

Reasoning:

- + Gift allows donors to make a difference today
- + Make a gift from the most highly taxed assets
- + Gift does not count as income
- + Great for non-itemizers
- + Tax Cuts and Jobs Act + SECURE Act + Aging baby boomers

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3. Donor Advised Funds

Reasoning:

- + More than \$121 billion in total charitable assets*
- + Contributions to DAFs increased 24.1% from 2017 to 2018*
- + Grants from DAFs to qualified charities totaled \$23.42 billion in 2018
- + The number of DAF accounts increased 75% from 2017 to 2018*
- + Fastest-growing source of philanthropy
- + Donors are using them to bunch gifts

*Source: 2019 Fidelity Charitable Giving Report


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MARKETING IDEA

Take a Deeper Dive: Send a targeted marketing piece to those who have donor advised funds. You can move beyond the basics and highlight other aspects such as naming your organization as a beneficiary or creating a legacy of giving by recommending recurring gifts.

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MARKETING IDEA

Target Market:

- The average DAF donor is between 46 and 64
- Most giving accounts (58%) have balances under \$25,000. Just 8% have a balance of more than \$250,000*
- Donors of all histories are giving
- Fidelity Charitable made \$5.2 billion in donor-recommended grants in 2018, a 17% increase from 2017

Source: 2018 Fidelity Charitable Giving Report

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4. Gifts From Retirement Plan Assets

Percentage death beneficiary designation

Reasoning:

- + Great tax strategy
- + Retirees have new opportunities to save into their retirement years
 - + SECURE Act allows for additional contributions past age 70½
- + Retirement accounts now have additional opportunities to grow, leaving nonprofits that have been named as a percentage death beneficiary a potentially larger portion of the account

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MARKETING IDEA

Include a Call-Out: Some retirement plans' documentation has clauses that there is not a "duty to locate" beneficiaries. Encourage donors to notify you of these gifts so you can thank them for their gift and ensure their wishes are carried out by your organization.

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5. Life Income Gifts (CGAs and CRTs) Inter vivos and Testamentary

Reasoning

- + Research shows individuals in the mature and baby boomer generations are concerned about retirement income
- + IRA owners with younger adult non-spousal beneficiaries may not wish that their beneficiaries withdraw the entire balance by the end of 10 years
- + IRA owners with non-spousal beneficiaries in higher tax brackets

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10 Best Practices for Talking to Your Donors

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10 BEST PRACTICES

1

Understand what it is about your organization that is important to your donors

2

Listen to how your donors want to make an impact

3

Encourage your donors to meet with their professional advisors to review their estate and financial plans and make sure they formalize their wishes

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10 BEST PRACTICES

4

Many of your donors will have larger retirement account balances

Ask if they would consider naming a percentage of their retirement account to charity

5

The stock market is at or near all-time highs

Ask your donors to consider giving a gift of stock to minimize capital gains taxes

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10 BEST PRACTICES

6

Many taxpayers are only now realizing the impact of the Tax Cuts and Jobs Act and the increase in the standard deduction

Ask your donors to consider giving a gift that exceeds that amount (bunching gifts)

7

If the donor is concerned about the new non-spousal beneficiary distribution rules, discuss testamentary life income options

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10 BEST PRACTICES

8

Use the maximum rates suggested by the ACGA

Remember that these are suggested maximum rates

Your donor could select a lower rate, which increases the income tax charitable deduction

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Talk with your donors about your institution and the impact they are making

The gift vehicle should be secondary

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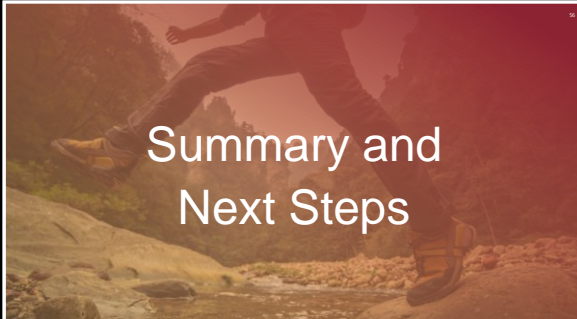
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10 BEST PRACTICES

No matter what gift your donor may be considering, start your gift conversation by asking if there was someone important in the donor's life who influenced him or her regarding your mission or organization. This is important because:

- + Stelter's research* shows that when it comes to types of planned gifts, donors to all nonprofit sectors prefer honor and tribute gifts by a statistically significant margin
- + Making an emotional connection between the gift and the donor's family members or another important individual can improve your chances of closing that gift


*2017 NIM Healthy Aging Database® study

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Summary and Next Steps

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Your donors will undoubtedly have questions about their retirement plans. **Here is some homework:**

- + **Understand** how the laws impact your organization and donors
- + **Review** marketing and collateral material for outdated provisions

SUMMARY AND
NEXT STEPS

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Questions?



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Additional Questions?

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Additional Resources

- + The recording
- + Sample testamentary CGA language
- + The presentation slides

www.stelter.com/webinars

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