U.S. Charitable Gift Trust®

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the Philanthropist

Dear Donor,

Saving for your retirement and philanthropic goals is best done over a long period, allowing time to adjust to evolving income levels and ambitions over the years. With current stock market returns at relatively low levels compared to earlier highs, this edition of The Philanthropist focuses on the strategic uses of two well-known financial tools: the Roth IRA and Donor-Advised Funds (DAFs).

If, like millions of Americans, you own a traditional IRA, now may be an opportune time to convert some of those pretax dollars to a Roth IRA. Combining this strategy with a DAF may also be worth considering based on your unique charitable circumstances.

For years, Roth IRA conversions have been used by investors who believe that their income tax bracket may become higher in the future. Take a look inside to better understand the tax consequences of owning a traditional IRA on you and your beneficiaries and whether a Roth IRA conversion combined with a DAF contribution may make sense at this time.

Keep in mind that Roth IRA conversions must be completed by December 31. At the U.S. Charitable Gift Trust®, we are always looking for ways to support your philanthropic vision. We look forward to sharing more ideas with you in the future.

Sincerely,

Lawrence L. Fahey
President
U.S. Charitable Gift Trust®

In This Edition

Estate Planning

Understanding the Tax Benefits of Converting Your Traditional IRA to a Roth IRA

Introduced in 1997 as an alternative to traditional individual retirement accounts (IRAs), Roth IRAs have grown in popularity in recent years, especially among younger Americans trying to save for their retirements. In 2020, Roth IRAs were owned by 26.3 million—or 20.5%—of U.S. households, according to the Investment Company Institute.[1] Unlike traditional IRAs, Roth IRAs are funded with after-tax dollars, allowing owners to make qualified withdrawals tax free later in retirement, among other benefits.

What's the Difference?

- **A traditional IRA** allows you to use pretax contributions to grow assets in a tax-deferred account.
- Owner pays federal income taxes when taking withdrawals from a traditional IRA.
- May be a good option if you expect to be in the same or lower tax bracket when you retire in the future.

- **A Roth IRA** allows you to use after-tax dollars to grow assets in a tax-free account.
- Owner pays federal income taxes up front when transferring assets from a traditional IRA.
- May be a good option if you can afford to pay taxes now and want to avoid taxes after you retire.

What Is a Roth IRA Conversion?

Though a proven financial tool, it is important to remember that investors *may not* keep pretax retirement dollars in a traditional IRA indefinitely. The IRS demands traditional IRA owners must start taking required minimum distributions, or RMDs, at age 70.5 (age 72 if born after June 30, 1949), which are then taxed as ordinary income. The core idea behind using a Roth IRA conversion is to reduce RMDs that may otherwise trigger higher marginal tax rates later in your retirement years.

If you are nearing retirement age, you may want to consider the upside of transferring some of your traditional IRA assets to a Roth IRA:

- You may start taking tax-free withdrawals from your Roth IRA if you have owned the account for at least five years and are at least 59.5 years old.
- Even after retirement, you may contribute to your Roth IRA as long as you generate earned income.
- While alive, you will never have to take RMDs from your Roth IRA and, therefore, may pass on the entire account to beneficiaries tax free.
- The maximum Roth IRA contribution for 2022 is $6,000, with an additional $1,000 catch-up option if you are over 50.

These qualified retirement accounts may be converted to a Roth IRA:

- Traditional IRAs
- SEP IRAs
- SIMPLE IRAs
- 401(k) plans
- 403(b) plans
- 457(b) plans
- Profit-sharing plans

[1] Source: Investment Company Institute, "The Role of IRAs in U.S. Households," 2021.

Charitable Strategy

A DAF May Help Offset Taxes on Your Roth IRA Conversion

If you are thinking about converting a traditional IRA to a Roth IRA, you may also want to explore the potential advantages of combining the conversion with a Donor-Advised Fund (DAF) as a simple, flexible and efficient way to manage your unique financial needs and charitable goals.

Pairing a DAF with a Roth IRA may offer certain benefits:

You become eligible for an immediate federal income tax deduction after making your irrevocable DAF contribution, which may help offset the taxes owed on your Roth IRA conversion.

Because there are no required minimum grants from a DAF, except as may be required by a DAF sponsor, your after-tax contributions may grow tax free over many years, giving you time to decide which charitable organizations to support and when to make grants.

Extend your philanthropic legacy and vision to future generations by bequeathing the honor and role of Donor Advisor to designated family members.

Idea: Convert taxable assets at your own pace.

The IRS gives you the flexibility to roll over tax-deferred savings into a Roth IRA either all at once or over years at your pace. With this freedom, you may want to lower the impact of taxes by making multiyear Roth IRA conversions. This strategy may allow you to convert targeted amounts of pretax dollars during lower market environments as a way to keep you from bumping into a higher tax bracket.

To learn more about Donor-Advised Funds, visit **uscharitablegifttrust.org**.

Work With Your Financial Advisor

Sooner or later, retirees must withdraw pretax dollars from their qualified investment accounts. Talk to your financial advisor about an approach and timetable that may work for you and your family. Whether you decide to convert to a Roth IRA and use a Donor-Advised Fund (DAF) depends on your unique financial situation. Some factors you and your financial advisor may need to consider include:

- Your age
- Investment time horizon
- Value of assets being converted
- Current and future tax bracket projections
- Your philanthropic objectives

Reasons to Consider a Roth IRA Conversion

You anticipate being in a higher tax bracket in the future.
Since Roth IRAs require you to pay taxes up front on contributions—but none on qualified distributions later—a conversion may work well if you are expecting to move into a higher tax bracket after you retire.

You want to leave tax-free inheritances to nonspouse heirs.
If you want to leave proceeds to someone other than your spouse—typically children and grandchildren—they must by law withdraw all funds from IRAs within 10 years. With a traditional IRA, this could create unexpected tax consequences on them. But because you prepay income taxes up front with a Roth IRA conversion, your beneficiaries will not have to pay taxes when receiving distributions.

You do not need to take RMDs at age 72.
For most retirement accounts, required minimum distributions (RMDs) will start at age 72. Because Roth IRAs have no RMDs while the owner is alive, these accounts may grow tax free for a longer time, giving you the potential to build and distribute even more money to heirs and your favorite charities over many years.

IDEA: A good time to execute a Roth IRA conversion may be early in retirement when earned income tends to drop but before RMDs start. Be mindful that making Roth IRA conversions within two years of filing for Medicare and Social Security benefits may increase Medicare premiums and the taxes you pay on Social Security.

Every situation is different, so please consult your financial advisor to see if this strategy is right for you.