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New Ways to Support Charities with Your IRA

If you are 70½ or older, you can use a qualified charitable distribution (QCD) to donate from your traditional IRA and get a tax break, even if you claim the standard deduction on your tax return. While your contributions are not tax-deductible, the distributions — which would normally be subject to ordinary income tax — are not taxable. Better yet, donations made with QCDs can satisfy all or part of your required minimum distribution, which might otherwise increase your taxable income.

The SECURE 2.0 Act modified the rules for QCDs. In 2025, up to \$108,000 may be contributed from your traditional IRA to qualified public charities. Up to \$54,000 of this QCD limit can now be used to fund a charitable gift annuity (CGA) or a charitable remainder trust (CRT), either of which could provide a lifetime income in return for the gift. (Both limits are indexed annually for inflation.)

The CGA/CRT option can only be used once in your lifetime, but multiple gifts can be made in the same year, up to the annual limit. If you are married, you and your spouse could each contribute from your own IRAs to make up to a \$108,000 bequest in 2025.

Charitable gift annuity

A charitable gift annuity is a contract between you and a charitable organization that generally guarantees a fixed

Thanks to the SECURE 2.0 Act, retirees now have two new giving opportunities that might help reduce their tax liability.



payment in return for the bequest. Payments can be made monthly, quarterly, semiannually, or annually and extend for the lifetime of the beneficiary(ies). These annuities are not new, but they previously could not be funded from an IRA. CGAs are commonly offered by colleges and universities, as well as by many other organizations.

Charitable remainder trust

When you place assets in a charitable remainder trust, you designate an income beneficiary (or beneficiaries) to receive specified payments for a term of up to 20 years or for life. Income payments must be made at least once a year and may be fixed or variable depending on the type of CRT. Upon the end of the term or the death of the beneficiary(ies), the assets in the trust go to the charity.

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*If you have any questions about the topics in this newsletter or about your financial future, call us.
We are available to help.*

Have You Set a Retirement Savings Goal?

It's difficult to reach a destination unless you know where you're heading. Yet only 54% of workers or their spouses have tried to estimate the savings they would need to live comfortably in retirement.¹

To get a start on establishing a retirement savings goal, use the simple worksheet on this page to compare the income you think you will need (or want) with the sources of income you expect. Keep in mind that estimates are in today's dollars, so your desired income should account for the rising cost of living between now and the time you plan to retire.

How much will you need?

Everyone's situation is different, but one common guideline is that you will need at least 70% to 80% of your pre-retirement income to meet your retirement expenses. This assumes that you will have paid off your mortgage, will have lower transportation and clothing expenses when you stop working, and will no

longer be contributing to a retirement savings plan.

Although some expenses may be lower, others might increase, depending on your retirement lifestyle. For example, you may want to travel more or engage in new activities.

Unfortunately, medical expenses will likely be higher as you age. A recent study suggests that a man, woman, or couple who retired in 2024 at age 65 — with median prescription drug expenses and average Medigap premiums — might need \$191,000, \$226,000, or \$366,000 in savings, respectively, to cover retirement health-care expenses (not including dental, vision, or long-term care).² Future retirees may need even higher levels of savings.

Estimate income sources

You can estimate your monthly Social Security benefit at different retirement ages by establishing a my Social Security account at ssa.gov/myaccount. The closer you are to retirement, the more accurate this estimate will be. If retirement is many years away, your benefit could be affected by changes to the Social Security system, but it might also rise as your salary increases and

the Social Security Administration makes cost-of-living adjustments.

If you expect a pension from current or previous employment, you should be able to obtain an estimate from the employer.

Add other sources of income, such as from consulting or a part-time job, if that is in your plans. Be realistic. Consulting can be lucrative, but part-time work often pays low wages, and working in retirement is less likely than you might expect. In 2025, 75% of workers expected to work for pay after retirement, but only 29% of retirees said they had actually done so.³

The income from your savings may depend on unpredictable market returns and the length of time you need your savings to last. Higher returns could enable your nest egg to grow faster, but it would be more prudent to use a modest rate of return in your calculations. Remember that all investing involves risk, including the possible loss of principal, and there is no guarantee that any investment strategy will be successful. Investments seeking higher rates of return also involve a higher degree of risk.

A more detailed projection

A rough estimate of your retirement savings goal is a good beginning, and a professional assessment may be the next step. Although there is no assurance that working with a financial professional will improve investment results, a professional can evaluate your objectives and resources and help you consider appropriate long-term financial strategies.

1–3) Employee Benefit Research Institute, 2025 (Health-care expenses include Medigap premiums, Medicare Part B premiums and deductibles, Medicare Part D premiums, and out-of-pocket prescription drug expenses; projection is based on a 90% chance of meeting expenses and assumes a 7.32% return on savings from age 65 until expenditures are made.)



Get Started

This worksheet might give you a general idea of the savings needed to generate your desired retirement income.

| | Example | You |
|---|-------------|-----|
| 1. Annual retirement income desired | \$80,000 | |
| 2. Expected income from sources such as Social Security or a pension | \$30,000 | |
| 3. Income you need to generate from savings and investments (line 1 – line 2) | \$50,000 | |
| 4. Savings needed to provide desired income for 25 years, assuming 5% annual return (line 3 x 14.1 income generation factor)* | \$705,000 | |
| 5. Savings needed to provide desired income indefinitely, assuming 5% annual return (line 3 ÷ .05) | \$1,000,000 | |

*Use a factor of 12.5 for 20 years or 15.4 for 30 years; factors are rounded.

This hypothetical example does not account for taxes or inflation and is used for illustrative purposes only. Rates of return will vary over time, particularly for long-term investments. Actual results will vary.

Avoiding Probate with a TOD Deed and TOD Account

If you want to leave your home to your children or other heirs and keep the property out of the costly and time-consuming probate process, you could place your home in a living trust. Trusts offer numerous advantages, but they incur up-front costs, often have ongoing administrative fees, and involve a complex web of tax rules and regulations.

More than half of U.S. states offer a simpler and less expensive way to avoid probate through a transfer-on-death (TOD) deed (also called a beneficiary deed). As the name suggests, this is a legal document that directly transfers ownership of the property from you to your designated beneficiary or beneficiaries upon your death. You retain full ownership and control while you are alive, and your beneficiary has no rights to the property until after your death. (Beneficiaries also inherit any associated financial obligations, such as a mortgage or lien.)

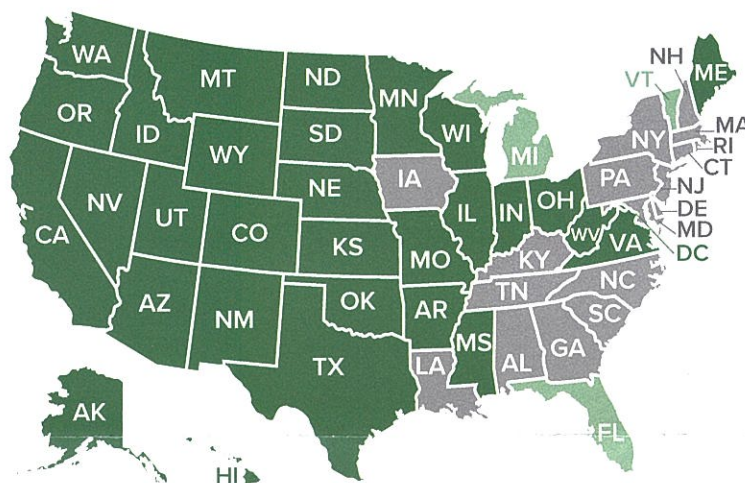
The TOD deed must be filed with the appropriate land records office. The deed supersedes your will, so be sure the provisions of your will match the deed. If you change your mind, the deed can be revoked and/or replaced through a new filing. As with all beneficiary documents, it would be wise to designate contingent beneficiaries in the event that a designated beneficiary predeceases you.

In some states, a married couple who own a house together through joint tenancy or as community property with right of survivorship would each have to complete a TOD deed. The deed for the first spouse who dies would be void, and the deed for the second spouse would transfer ownership to the designated beneficiary(ies).

TOD accounts

In most states, you can apply a transfer-on-death provision to individual non-retirement brokerage accounts. This typically involves filing a form with

States in dark green allow a TOD deed



Florida, Michigan, and Vermont (light green) allow a similar document called an enhanced life estate deed or Lady Bird deed. Texas and West Virginia allow TOD and Lady Bird deeds.

Source: Nolo, October 8, 2024

the financial institution to designate a beneficiary or beneficiaries (including contingent beneficiaries) and register the account as TOD. Ownership of the TOD account would transfer directly to the designated beneficiary(ies) upon your death without going through probate. Like TOD deeds, a TOD account designation supersedes your will.

For a joint account, the effect of a TOD designation would depend on the type of account.* Retirement accounts generally go directly to the beneficiary(ies) without probate and do not require being retitled as TOD.

Bank accounts offer a similar designation called Payable on Death (POD). One key difference is that POD accounts typically do not allow contingent beneficiaries.

Estate and capital gains taxes

A TOD deed or account designation does not remove the property or account assets from your taxable estate. However, with high federal estate tax exclusion amounts (\$13.99 million in 2025, \$27.98 million for a married couple), few estates would likely be subject to federal estate taxes.**

If your heirs sell your home or account assets, they could be subject to capital gains taxes regardless of whether they receive the property/account through a living trust or a TOD deed. However, the *step-up in basis* provision of U.S. tax law automatically sets the basis as the fair market value of the home or account at the time of your death, effectively eliminating all capital gains up to that time. Your heirs could shelter \$250,000 of gains (\$500,000 for a married couple) if they live in the home for two out of five years before selling. (There is no shelter provision for financial accounts.)

Although you do not need an attorney to execute a TOD deed in most states, you may want to consult an attorney familiar with the laws of your state. You should consider the counsel of experienced estate planning, legal, and tax professionals before implementing trust strategies.

*A TOD designation on a *joint ownership/tenancy* or *tenants by/in the entirety* account would only become effective if both owners die simultaneously. A TOD on a *tenants in common* account would be similar to an individual account.

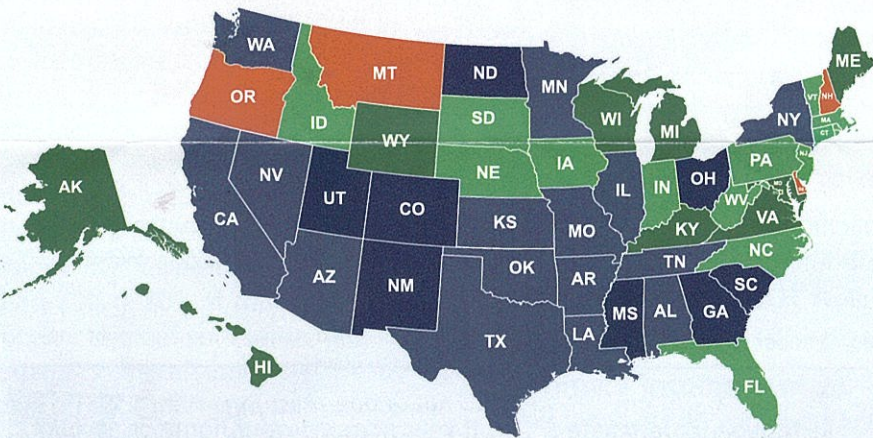
**The federal estate tax exclusion is scheduled to revert to 2017 levels (\$5.49 million, \$10.98 million for a married couple, indexed for inflation) in 2026, but it seems likely that Congress will extend the current provision.



State and Local Sales Tax Across the Map

Among the 46 states (and the District of Columbia) with a state and/or local sales tax, the combined state and average local sales tax rates range from about 1.8% to 10.2%. The sales tax base (defining what is taxable and nontaxable) can also vary greatly. Some states exempt groceries and/or clothing from the sales tax or tax them at a reduced rate. Five states have no statewide sales tax, and of those, only Alaska allows local sales taxes.

Combined state and average local sales tax rates



- No sales tax
- 1.8% to 6%
- More than 6% to 7%
- More than 7% to 8%
- More than 8% to 10.2%

Source: Tax Foundation, February 2025



8 Number of states that don't have a state income tax: Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, and Wyoming; and Washington taxes only capital gains

Source: Tax Foundation, February 2025

New Ways to Support Charities with Your IRA

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Key points to consider

Funding a CGA or CRT from sources outside your IRA has more flexible rules. For example, you can gift highly appreciated assets such as stocks — which could have other tax benefits — and you can designate a beneficiary other than you or your spouse. For the QCD option, the funds must be distributed directly from the IRA trustee to the CGA or CRT, and the beneficiary(ies) must be you or you and your spouse.

Only a new CRT can be funded by the QCD option, and a QCD-funded CRT cannot receive other funding from the IRA or other donated assets.

Payouts must begin less than one year after making the bequest. The minimum payout rate is 5%. The CRT maximum rate is generally 50%; maximum CGA rates typically target a residual value of at least 50%.

Although the contribution is not tax-deductible, it must pass the 10% test for tax-deductible contributions, meaning the charitable value must be more than 10% of the contribution. All payments are taxable at the recipient's ordinary income tax rate.

Although payments from a CGA or CRT are guaranteed under the terms of the contract, the guarantee depends on the strength of the charitable organization. If you choose to fund a CRT, keep in mind that the use of trusts involves a complex web of tax rules and regulations, and there are initial costs and ongoing expenses. You should consider the counsel of experienced estate planning, legal, and tax professionals before implementing trust strategies or funding a gift annuity.



Ed Slott is a professional speaker and the creator of several public television specials, including "Retire Safe & Secure! with Ed Slott." He is the author of *The Retirement Savings Time Bomb...And How to Defuse It* and many other books about IRA planning.

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