Estate Planning for Retirement Assets – key points

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Four key points:

- #1. Take care in making beneficiary designations for retirement assets
- #2. There are pros and cons of Roth (versus traditional) retirement accounts
- #3. It can be advantageous to roll over your Penn 401(a)/403(b) to an individual IRA once you are no longer employed by Penn
- #4. Charitable gifts from your estate should be made from non-Roth retirement assets

To begin, a glossary – very important

- **IRA**. An Individual Retirement Arrangement (IRA) is a tax-advantaged personal savings plan designed to help individuals save for retirement, independent of workplace plans. Key types include **Traditional IRAs** (contributions in pre-tax dollars, tax-deferred growth, taxable distributions) and **Roth IRAs** (after-tax contributions, tax-free growth and distributions).
- **401(a) and 403(b) plans.** These are tax-advantaged retirement savings plan for employees of tax-exempt 501(c)(3) organizations, allowing for pre-tax payroll contributions, reducing taxable income, with investments growing tax-deferred until withdrawal.

- **401(k) plans** are private-sector counterparts to 403(b) plans.
- **Penn's three plans:** a 401(a) basic plan, a 403(b) matching plan and a 403(b) supplemental plan. Contributions to the supplemental plan can be traditional or Roth. The three plans are separate entities. ***Investment choices and beneficiary designations must be made separately for each plan*.**
- **RMD.** Required Minimum Distributions are mandatory annual withdrawals from tax-deferred retirement accounts (traditional IRA, 401(k), 403(b)) starting currently at age 73.

- **QCD.** A Qualified Charitable Distribution allows individuals aged 70½ or older to transfer up to $111,000 directly from a traditional IRA to qualified charities, excluding the amount from taxable income. QCDs count toward required minimum distributions (RMDs) without increasing adjusted gross income (AGI), helping manage tax brackets, Medicare premiums, and deductions.
- **Rollover.** The transfer of funds between retirement accounts. Rollovers are tax-free if funds are moved between a traditional (non-Roth) account, e.g., a Penn 403(b), to a non-Roth IRA. However, rollovers are taxable if funds roll over from a traditional to a Roth IRA.

#1. Take care in making beneficiary designations for retirement assets

- See page 5 of Moshang deck: An individual's Will and/or Revocable Trust ***do not*** control how an individual's retirement assets will be distributed at his or her death. Instead, the beneficiary designation on file with the custodian of these accounts will direct how such assets are distributed. **Accordingly, IT IS IMPERATIVE THAT AN INDIVIDUAL'S BENEFICIARY DESIGNATIONS ARE COORDINATED WITH HIS OR HER ESTATE PLAN.**
- Again, remember to make beneficiary designations for each plan.

- Consult your estate attorney and financial adviser before completing or redoing beneficiary designations on forms or webpages of the custodian of your retirement account(s).
- Sometimes, a letter to the custodian is needed to convey beneficiary designations. But the custodian must accept the terms of your letter—do not assume that a letter sent and received by the custodian will govern the distribution of your retirement account.

#2. There are pros and cons of Roth (versus traditional) retirement accounts

- Pros: no RMDs during owner's lifetime. Voluntary distributions are not taxable. No RMDs from inherited Roths in years 1-9 but inherited Roth accounts must be fully distributed by the end of year 10, again without income tax. Note, however, that Roth accounts are, like traditional retirement accounts, subject to estate/inheritance taxes.
- Cons: Contributions to Roth IRAs are in post-tax dollars, in other words, dollars contributed directly to Roths or rolled over from traditional retirement plans to Roths are taxed as ordinary income.

- A complication, page 15 of Moshang deck: Final Regulations [eliminate lifetime RMDs] only where the participant’s sole interest was in a designated Roth account that did not have a traditional component. If an employee’s work retirement account consisted partially of a traditional [account] and partially of a Roth [account], then the Roth 401(k) would be treated the same as the traditional portion in terms of determining the pre- or post-RBD [required beginning date] distribution rules for the beneficiaries of the account.
- In other words: if your Penn supplemental account is split between non-Roth and Roth portions as some advisors recommend, then the entire account is subject to lifetime RMDs.

#3. It can be advantageous to roll over your Penn 401(a)/403(b) to an individual IRA once you are no longer employed by Penn

- Page 17 of Moshang deck: Section 408(d)(8) of the Internal Revenue Code permits an individual taxpayer who is at least 70 ½ years old to distribute up to $111,000 (for 2026) directly from the taxpayer's IRA to a qualified public charity on a tax-free basis each taxable year as a qualified charitable distribution (or "QCD").
- ***This provision does not apply to 401(a) and 403(b) plans like Penn's***—it applies only to non-Roth IRAs. To take advantage of QCDs, which are extremely tax efficient, you must roll over (see definition above) Penn 403(b) into a traditional IRA (see definitions above).

- Consult with your tax adviser. The QCD option can offer substantial tax advantages in that (a) the QCD counts toward your required minimum distribution or RMD and (b) the QCD is recognized neither as income nor as a charitable deduction, which allows you to make tax-free charitable gifts (via the QCD), take the standard deduction, and possibly reduce your marginal tax rate and Medicare premiums.

#4. Charitable gifts from your estate should be made from non-Roth retirement assets

- Page 29 of Moshang deck: Retirement assets are still often the ideal place from which to make charitable gifts because charities do not pay income tax.
- For most people, non-Roth retirement assets are the assets most heavily taxed. When distributed, retirement assets are taxed as ordinary income, even retirement assets distributed to spouses. There can be estate/inheritance taxes as well. The rules governing how retirement assets are distributed are also complicated—see pages 30-33 for spouses, 34-36 for others. Charitable gifts from retirement assets, of course, are not taxed.