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assets

a business, tax, and financial newsletter

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Family Foundations: Benefits Stretch Beyond Charitable Giving

Many affluent individuals view the **family foundation** as a means for meeting specific philanthropic goals. For some, it also creates visible evidence of a donor's charitable intent. In addition, a family foundation may serve two unique purposes within the confines of familial walls. A foundation can assist a donor in maintaining the integrity of his or her charitable intent for many years into the future, as well as help to inspire the character, sense of community, and love of knowledge of future generations.

Establishing a Philanthropic Legacy

A family foundation allows a wealthy donor to establish a set of ground rules for future charitable work, as well as provide heirs with incentives to carry forward the donor's (and family's) philanthropic legacy. However, this can only be achieved by carefully evaluating existing and potential family relationships and implementing proper planning.

Generation after generation, the grant-making agenda of ***new*** board members may begin to differ from that of the *original* donor. In addition, it is equally possible that the philanthropic vigor displayed by the original donor may be lost in future years. Hence, some donors choose to include at least one "outsider" seated on the foundation's board to provide stability and objectivity. However, the involvement of outside professionals can slowly move a family foundation toward the direction of a ***public*** foundation—something that the original donor may wish to avoid.

To alleviate these potential future problems, a donor can tie an incentive-based estate plan together with the family foundation. In doing so, the donor can create a family environment and attitude that is more consistent with the donor's goal of preserving the integrity of the foundation. Under such an arrangement, heirs are rewarded for overall participation and employment by the foundation, as well as the execution of the foundation's original mission.

Family Involvement: More Than an Incentive

Wealth certainly provides many heirs with an additional means to help meet specific goals. However, one of the greatest challenges that some heirs will face in their lifetimes is learning how to handle inherited wealth. For some parents or grandparents, teaching a child to be willing to learn complex financial subjects and management skills is an equally imposing

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Hire Your Children and Help Them Save

Hiring your teenage children to work in your business can give them valuable employment experience and teach them to handle responsibility. Plus, if you can persuade them to deposit at least part of the money they earn into a **Roth Individual Retirement Account (IRA)**, this can also give them a head start in saving for their future.

Because children seldom make enough to owe tax on their income, they may be better off with a Roth IRA than a tax-deferred traditional IRA. In 2017, your child is allowed to contribute $5,500 (or his or her earned income, whichever is smaller) to a Roth IRA. Contributions are nondeductible, but potential earnings and qualifying distributions are tax free.

A Roth IRA offers the greatest growth potential if the account is left untouched until the holder reaches the age of 59½. At that age, the holder can withdraw earnings tax free without penalty, provided the account has been owned for five years. Although the IRS does permit penalty-free Roth IRA withdrawals to pay for education or to help with a first-time home purchase, taxes are owed on nonqualified early withdrawals.

Before you open a Roth IRA for your child, keep in mind that you cannot stop your child from withdrawing money from the account whenever he or she wants after reaching the age of majority, which is 18 in many states. If you are uncertain about your child's ability to manage money, opening an account in your child's name may not be the best choice.

In addition, only taxable compensation income can be sheltered tax free in a Roth IRA. Generally, paying your children for doing chores around the house does not qualify as compensation income, as this is an intrafamily transaction usually not reported to the IRS. As a business owner, however, you are permitted to hire your minor children to perform certain jobs. As long as you pay your children a fair market wage for the services they perform, the money they earn can be considered compensation income and be invested in a Roth IRA.

It is essential to keep detailed records of how the money contributed to a Roth IRA was earned, even if a teenager's working arrangements were informal and he or she did not earn enough to owe income tax. If

the IRS determines that the funds deposited in a Roth IRA were not matched by compensation income, severe penalties could apply.

Your toughest task may lie in convincing your adolescents to save, rather than spend, their earnings. The good news is that, even if your teenager goes out and blows his paychecks on a new smartphone and skateboard, all saving is not lost. If, for example, your son earned $2,500 over the summer but spent all the money, you could still contribute the amount equivalent to his taxable earnings into a Roth IRA on his behalf, thereby helping to ensure he has something set aside when he retires and his skateboarding days are behind him. ■

Your Income Is Your Wealth, but Is It Protected?

How much money do you spend to protect your assets? Most of us have automobile insurance to protect our cars, homeowners insurance to protect our home and its contents, and, possibly, additional coverage for items or collections of particular value. Most likely, these assets are quite valuable. However, their income-producing value is negligible.

Your true wealth, and perhaps your greatest asset, is your ability to earn money. Your earnings probably fund all of your expenses, including housing, transportation, food, clothing, and entertainment. If your income from your job or your business were to cease suddenly, how would you pay these expenses?

Disability income insurance may offer a solution. Disability income insurance policies help replace a portion of your income should you sustain a debilitating illness or injury and are unable to work for a period of time. To learn more about protecting your financial future, contact your financial professional. ■

Social Security: Is Your Age a Retirement Numbers Game?

When preparing for your retirement, think about how much income you may need each year to fund the lifestyle you want. To help maintain your living standard, you may need to save enough money to supplement other sources of retirement income, such as a company pension and/or Social Security. It is also important to be aware of how your ***age*** factors into your retirement decisions. Here are some important age milestones to consider:

Age 55. If you take an early retirement, quit, or are otherwise terminated from employment, you can generally withdraw money from **401(k)**, **403(b)**, and **profit-sharing plans** without being subject to a 10% Federal income tax penalty for early withdrawals. As specified in IRS *Publication 575*, the following apply: you must reach age 55 by December 31 of the year you leave the workforce; money must be distributed to you from your employer's plan and cannot be transferred to an **Individual Retirement Account (IRA)**; early withdrawals are subject to the plan's provisions; and only money from your last employer's plan qualifies (not funds from previous employers). You may take early distributions from a traditional IRA without penalty, provided you receive "substantially equal periodic payments." Since certain rules govern this provision, be sure to consult a qualified tax professional.

Age 59½. Generally, you can withdraw money from traditional IRAs and qualified retirement plans after the age of 59½ without being subject to the 10% tax penalty, if plan-specific qualifications are met. Ordinary income tax is due if your contributions were tax deductible. No income tax or penalty applies to distributions from a **Roth IRA**, provided you have reached age 59½ and have owned the account for at least five tax years.

Age 60. Widows and widowers may be eligible for Social Security benefits. For the most up-to-date information, visit the Social Security Administration's website at www.ssa.gov.

Age 62. Some companies may allow retirement at 62 with full pension plan benefits. This is also the earliest age for receiving regular Social Security benefits, but the benefit amount is permanently lower than its potential maximum.

Ages 62–64. For those who are working and collecting Social Security benefits while younger than full retirement age—the age at which an individual is eligible to receive full Social Security benefits—the earnings threshold is $16,920 for 2017. One dollar in benefits is withheld (a "give back") for every $2 earned above that amount. A portion of benefits may also be taxed as income based on a complex formula that includes wages and tax-exempt income.

Age 65. Many company pension plans provide full benefits at this age. However, the age may vary by the company plan. **Medicare** eligibility also generally begins at age 65.

Ages 65–67 (or the year in which full retirement age is attained). Traditionally, full retirement age was 65. However, for those born between 1938 and 1959, full retirement age has been rising incrementally, and for those born in 1960 or later, the age for receiving full benefits is 67. The lower earnings threshold

amount still applies for years prior to full retirement age, and a second earnings threshold rule applies for the year in which full retirement age is attained.

For those who are working and receiving Social Security benefits, there is a benefit give-back in 2017 of $1 for every $3 over $44,880 earned in the months prior to attaining full retirement. Once full retirement age is attained, the earnings threshold no longer applies, and a portion of benefits may be taxed as income based on a complex formula that includes wages and tax-exempt income.

Age 70½. Required minimum distributions (RMDs) from qualified retirement plans, such as a 401(k) or IRA, must generally begin by April 1 of the calendar year following the year in which you reach age 70½. Roth IRAs, however, are not subject to the age 70½ mandatory distribution rules.

You have worked many decades to accumulate assets to prepare for enjoyable "golden years." Be sure to consult with qualified tax and financial professionals to help you stay on the track to achieving your retirement goals. ■

family foundations: benefits stretch beyond charitable giving

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challenge. In addition to providing a means for gaining insight into the importance of charitable giving, a family foundation can create an ideal platform for heirs to hone their financial management skills.

Heirs can be involved in a family foundation as volunteers, employees, and/or board members. As a volunteer or employee, an heir can gain valuable business management skills, as well as witness firsthand the positive impact charitable giving can have on the community. Heirs who are selected to become board members may further delve into the decision-making and grant-making process, which can foster greater accountability and further expand knowledge of financial matters.

If the donor already has several grown children who are regularly involved in the family foundation, he or she may consider making all of them board members. If this is logistically impractical, it may be wise to establish a rotating seat on the board. For instance, every two years, a different child could occupy a seat on the board.

Additionally, one might suspect that the age of a younger heir might limit his or her overall participation in the foundation. On the contrary, many donors welcome the opportunity to start heirs early when it comes to financial and philanthropic education. How young is too young? That depends on each individual set of circumstances. Generally, twelve- and thirteen-year-olds are certainly not too young to volunteer some of their time and begin to gain an understanding of charity.

In fact, it is fairly common for many donors to encourage their entire families to participate, to some degree, in their foundation's activities. To enhance the learning experience, some donors have initiated creative methods for promoting life skills development, in addition to more traditional foundation activities. For instance, a donor could set up a contest in which each heir is responsible for managing $10,000 of the foundation's assets. After a specified period of time, all portfolios can be analyzed and discussed. Or, when younger, school-aged heirs are involved, a donor could establish an essay contest asking each heir to write about a charity they would wish to benefit. Again, all essays, when complete, can be reviewed and discussed. In both cases, modest prizes can be awarded to heirs whose portfolios yielded positive returns or whose essays were well written and topical. The benefits of such programs can be immeasurable for the participant, the donor, and ultimately, the foundation.

A Lifetime of Dividends

Without question, philanthropy is extremely important to many affluent individuals. At the same time, many wonder how they can instill in their children and/or other heirs a similar passion for philanthropic pursuits. In addition, many affluent individuals may be concerned about how they can teach future generations to handle wealth. When properly established, the family foundation can provide the means to accomplish these goals.

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