Subject: Greenleaf Newsletter: A New Way to Use Your IRA for Charitable Giving. Plus HSA Inheritance Rules.
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From: Greenleaf Financial Group
To: jhartman@greenleaf-fg.com

Hello Jennifer,
Welcome to Our Client Newsletter

In the June Issue:

- **A New Way to Use Your IRA for Charitable Giving.**
- **Can My Spouse Inherit My HSA Tax-Free?**
- **Market News: Stocks Rise**

A New Way to Use Your IRA for Charitable Giving

Due to retirement changes passed by Congress last year, Individuals who have reached age 70 1/2 or older are now able to donate up to $50,000 directly from an IRA to fund a charitable gift annuity.

Larger non-profit entities have offered gift annuities for decades, but the donations previously couldn't be made directly from an IRA.

Now, charitably inclined donors

Question:

My spouse is ten years younger and therefore likely to live years past my death. I am contributing the annual maximum to my HSA (Health Savings Account) so that my spouse has an additional source of retirement spending.

Can my spouse inherit my HSA tax-free or do I have to use my HSA during my lifetime?

Market News: Stocks Rise

Stock markets gained ground in early June with technology stocks again leading the way. This month, however, small cap stocks also participated in the gains, though growth stocks easily outpaced value stocks.

Sentiment, especially a Fear Of Missing Out, appears to be the primary cause behind these stock gains. The can use the new rule to their advantage:

- Gifts count toward required minimum distributions (RMDs), which are normally taxed as income. When directed to charity, these IRA withdrawals are tax-free.
- The charity makes fixed monthly or annual payments to the donor based on the initial value of the gift and the donor's life expectancy. The payments must begin within one year of the gift.
- The payout is a minimum of 5% annually and is taxed to you as income. The older you are, the higher the annual payout. An 80-year old, for example, with a $50,000 charitable gift annuity might get a fixed payout of 7%, which is $3,500 each year.
- Any money left over when the donor dies goes to the charity. It is reasonable to expect that about half of your initial donation will eventually go to the charity.

Approximately 1,600 charities run gift annuity programs. Since the charity runs the program, the security of your payments depends upon the soundness of

Answer: Your spouse is the only person that can inherit your HSA tax-free. Otherwise, the money in an HSA becomes taxable at death. Therefore, the dollars in your HSA should be used up during your combined lifetimes, not saved for heirs.

One twist is that your executor (and your spouse's) can use HSA dollars to pay medical bills that had not yet been paid at death. Medical bills don't go away at death, but your estate can pay them with your HSA.

Since HSA accounts offer an unbeatable combination of tax breaks, your strategy of fully funding your HSA and saving the dollars for retirement medical costs is financially savvy.

<u>HSAs and Medicare</u>
You may use HSA dollars tax-free to pay for premiums, co-pays, and deductibles for Medicare Part B, Medicare Part D, and Medicare Advantage plans.

You cannot, however, use HSA dollars to pay for Medigap (supplemental Medicare) premiums.

<u>Medicare at Age 65</u>
Also, please note that if you enroll in Medicare (even if it is just part A) at age 65, you must stop your HSA contributions the first day of

Federal Reserve did not raise interest rates at their meeting this month, but they suggested that two or more increases would still be necessary to diminish stubbornly high inflation.

Normally, the promise of higher interest rates would cause markets to wobble. That may still happen, particularly since some analysts believe that interest-sensitive segments (such as manufacturing) are already in a modest recession.

In addition, if the bank failures earlier this year cause other lending institutions to tighten their lending standards, that would also contribute to a slowing economy.

Still, corporate earnings in 2023 have been stronger than anticipated and profits are the engine that drives stocks in the long term.

From here, the markets could go in several directions. We therefore think a middle path is the best route. There is danger in taking too much risk, while staying the institution.

Most charities use the American Council on Gift Annuities recommended payout rates, but you may find different charities offer different rates.

Givers need to be aware of several important nuances.

- Direct donations can only be made from IRA accounts. Other retirement accounts, including 401ks, 403bs, and Roth IRAs are not eligible accounts.
- At this time, individuals can make a lifetime maximum $50,000 in charitable gift annuity purchases with direct IRA donations. You are allowed to make one $50,000 gift or a combination of smaller ones that add up to $50,000.
- Since you do not pay income tax on your donated dollars, you cannot also take an itemized tax deduction for those same dollars.
- Brokerage firms will issue checks directly to charities from your IRA, but you are responsible for reporting your donation correctly on your tax return.

Lastly, this $50,000 charitable annuity amount counts toward a separate annual $100,000 per taxpayer limit for gifts to charity made with IRA dollars.

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contributions the first day of the month that you enroll in Medicare. You must pro-rate your contribution that year.

For example, if you turn 65 on July 21 and will enroll in Medicare, then you are no longer eligible to contribute to your HSA as of July 1. Your contribution for the year is limited to 50% of the maximum since you were eligible for the first six months of the year.

The contribution deadline for that year does not change. You may still make your final contribution as late as April 15th of next year.

Medicare After Age 65

If you have workplace-provided health insurance and continue working past age 65, then you may continue your HSA contributions under a different set of contribution rules.

For those enrolling in Medicare after age 65, there is a six-month lookback period for HSA contributions. This lookback period extends only to the month of reaching age 65, though the lookback timeline is measured by the month you apply to Medicare.

In brief, after age 65 and 6 months, you must stop your HSA contributions six months before applying for Medicare. This includes Medicare Part A, which has no cost.

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on the sidelines is equally problematic.

Historically, stock markets are several months ahead of the economy. They fall ahead of a recession and they rise -- usually very quickly -- before the economy rebounds. As an investor, it is better to be early than late.

If a recession does occur, it is likely to be shallow and, typically, bond prices rise in a recession.

We have positioned your portfolio for a variety of economic conditions and we are always happy to discuss your investments with you. If you have a question or a concern, please contact us!

California
Jennifer Hartman, CFP
jhartman@greenleaf-fg.com
323-395-8801
1239 S. Rimpau Blvd.
Los Angeles, CA 90019

GREENLEAF FINANCIAL GROUP
PRACTICAL SOLUTIONS | PERSONAL ADVICE | PROGRESSIVE IDEAS

Indiana
Kathleen Hartman, CFP, CFA
khartman@greenleaf-fg.com
317-993-3384
13295 Illinois St., Suite 322
Carmel, IN 46032

www.greenleaf-fg.com