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Can You Use Your Retirement Funds to "Invest" In A Nonprofit? With Jeff Beck – Transcript

Jess Birken 00:00:02 Welcome to Charity therapy, the podcast where we explore the ups and downs of the nonprofit sector and answer your burning questions. I'm your host, Jess Birken, owner of Birken Law Office, and I'm excited you're here. Imagine hanging out with me and my super smart, funny, nonprofit expert pals. You get to ask them anything about your nitty gritty nonprofit life and get their wisdom for free. Whether you're a seasoned pro or just strapping on your nonprofit boots, we're here to share stories and remind you you're not alone on this journey. So get ready to join the conversation and bring me the tough questions I ain't scared. Ready to rock? Let's dive in. Hello and welcome to this episode of Charity therapy. Today I am joined by my friend Jeff Beck. He's a wealth advisor at COE Financial Group. Jeff, thank you for being here.

Jeff Beck 00:00:56 Absolutely. Thanks for having me.

Jess Birken 00:00:58 So, Jeff, before we kind of like jump into the meat and potatoes here. I have a okay. First of all, I feel like reporter on the street.

Jess Birken 00:01:08 If you're watching this on video every Sunday, I'm literally holding my microphone because I just broke my microphone before we started recording. So I feel ridiculous right now. Like, we're in some, like, cartoon where I'm about to, like, put my microphone over to you, but you're we're on the zoom, so I'm just gonna look silly. All right, so before we jump in, I want to know you are obviously working with folks who maybe are thinking about retirement, maybe thinking about leaving a legacy and maybe thinking about how their wealth could benefit nonprofits. And I'm wondering, what are

some of the ways that you tend to see, or that you advise people that they can contribute to the nonprofits or to the issues and the causes that they care about.

Jeff Beck 00:02:02 Yeah, absolutely. There's, I think there's a thought that there's a lot of loopholes and different things that you can do to take advantage of doing this, but honestly, the kind of short answer is it's really just kind of the traditional way that most people do it.

Jeff Beck 00:02:17 It's you receive your paycheck, you pay taxes, you have money in your checking savings or taxable account, and you want to donate to a charity or a nonprofit, and you just send in, send in your check, send in your donation. And at the end of the year when you're filing taxes, you're you're getting a tax deduction depending on how you file and how you set things up. You're getting a tax deduction at the end of the year. And that's really kind of the the the simple answer of it. There's a couple small things that will probably jump into your shortly, but that is really the traditional way that that clients are going about it.

Jess Birken 00:02:54 Yeah. I mean just a straight up donation is a great place to start. Absolutely. So, okay, are you ready for this question? Because I feel like this question's a little bit of a doozy, which is why I called you in. So are you prepared?

Jeff Beck 00:03:08 I hope so. Let's do it.

Jess Birken 00:03:11 All right, here we go.

Jess Birken 00:03:13 My partner has a traditional IRA with about \$100,000 in it. My understanding of IRAs is that you can choose where to invest the money in it. So she could use the money in her IRA and invest it in my 501 C3 without penalties. Or do we need to set up a for profit company for her IRA to invest in first? Either way, I'm

imagining we could have modest returns for her. Also, are there IRS rules against her investing in something I founded and run? We've been together for 20 years but aren't married. I don't want to accidentally mess up our tax exempt status. Okay, I Yeah, there's a lot going on here, Jeff. So I think like maybe the starting place is for anybody who actually doesn't know what an IRA is. Maybe we start there.

Jeff Beck 00:04:06 Yeah. Yeah, we can do that. Yeah. So an IRA, an individual retirement account. It's a way for individuals to save for their retirement. It's a pre-tax vehicle. So you're putting your money in before you're paying any taxes on that money, and then it's growing tax deferred.

Jeff Beck 00:04:25 When you do take qualified distributions. So when you're allowed to actually take distributions from there that's when you pay the taxes. So instead of, you know, having to pay additional taxes, if you're in a high tax bracket today, you're kind of deferring those taxes to somewhere down the line.

Jess Birken 00:04:42 Gotcha. So all right, now that that's out of the way, when you choose to invest the money that's in your. I had never heard of that before. Which why I called you. Because you're the financial person. So, like, is that a thing you can invest, you can make choices about where your IRA funds are invested.

Multiple Speakers 00:05:05 Yeah. So I think the starting.

Jeff Beck 00:05:06 Point with it, I hear a lot of times from clients, they might say, well, I have an IRA, there's a Roth IRA, I have a CD at the bank. And they'll say, well, what does the IRA earn in interest compared to the CD? And what I try to explain to them is that those are simply the vehicles in which the money's held.

Jeff Beck 00:05:28 But inside of that vehicle we can invest in different things. So that kind of thought process to the question is correct. We can have a traditional IRA open and we could invest all of that money. I think you said \$100,000. We could invest \$100,000 into Apple stock. We could take \$100,000 and we could invest it into the S&P index fund. So there's a wide range of investment options available inside of your IRA. Typically those are traditional investments which are stocks bonds mutual funds ETFs. Those are kind of your your traditional investments that are available. So I think the best way to probably start it would be to go into a secondary option with IRAs. So the way that the question was phrased about maybe opening up a for profit business, I think that could be a potential avenue for, you know, this potential listener. There are what you call.

Jess Birken 00:06:31 Yep. I'm gonna stop you there.

Jeff Beck 00:06:32 Okay.

Jess Birken 00:06:32 Okay. So what what I'm hearing you say is, yes, you can make choices about where the dollars that are in your IRA are invested and where I feel like you're about to go is that if you start a company, a for profit company, we're not touching the non-profit piece yet.

Jess Birken 00:06:49 A for profit company. Your own IRA fund could, like, purchase shares in your company. That's a privately held company. Obviously.

Multiple Speakers 00:07:01 Yeah.

Jeff Beck 00:07:02 Yeah. You're you're you're spot on with it. Yeah. Basically the. So a typical traditional IRA is going to be held on a platform with a certain custodian. There are certain custodians that offer what they call a self-directed IRA. Yeah.

Jess Birken 00:07:16 And you pay extra for that is my understanding.

Jeff Beck 00:07:18 Yeah, you might be. I don't know all the fees in that. We don't do any self-directed IRAs, you know, at our company that we work with. But I have had clients that are interested in investing in a private company. The main things people do, I would say, are private companies, real estate and precious metals. Those are probably.

Jess Birken 00:07:38 Maybe like a big Bitcoin wonk. And you want to buy stock in MicroStrategy or one of the like a Chip. Computer builders for minors or something like that. That makes sense to me.

Jeff Beck 00:07:49 You got it.

Jeff Beck 00:07:50 Yeah. Those are probably the four most common things I hear about. So I think the one client I recently worked with was a real estate thing. Some private real estate deal. They wanted to be able to invest in it. Doing a self-directed IRA allows you to invest in some of these alternative investment options outside of your traditional investment options. So that's where when the listener mentioned maybe opening up a for profit company, I don't know now how the charity and for profit would figure things out, that that might be something they'll go through.

Jess Birken 00:08:19 But Jeff, that makes two of us.

Jeff Beck 00:08:21 But in theory, the for profit, that would be something you could have the self-directed IRA and you could invest into a for profit company, and you could do that without paying taxes or penalties on that IRA money.

Jess Birken 00:08:35 Okay. So let me let's just stick with the this is like your lane, right? I'm gonna get in my lane in a minute, but, like, would you actually like my brain just recoils at the idea that you would take your your retirement fund, that you would have a startup, that you would then take your retirement money and invest it into the pioneering costs of a brand new for profit company.

Jess Birken 00:09:05 Therefore, risking your retirement funds on this very speculative investment in your company that you own that may or may not succeed versus leaving it in an index fund, which where we know like number go up over time. Like, would you actually want someone to do this just based on the limited facts we have here?

Jeff Beck 00:09:29 I mean, this sounds like it is your lane. I feel like you're you're right. You're right on right on top of it. that's a great question. I the way I share it with clients, you know, with a lot of these things are private deals. There's not a lot of information for people to read, so they might be handed some kind of brochure or something they can read through. I'll try and take a look for the client. And this does not come up often. I mean, these are kind of very rare situations, but I'll take a look and and I'll tell them, you know, it's your money at the end of the day. So you do get to choose what you want to do with it.

Jeff Beck 00:10:02 I would just caution that if you do this, that, you know, we keep it to a certain percentage of your portfolio. So, you know, maybe 10% is kind of the high end that I would go with. To your point. Yeah. I mean, it's a start up coming. There's a lot of risk involved. And this is your life savings that you've been building for however many years for your retirement. We want to be a little cautious with it. I understand wanting to see some potential upside, but we definitely have to be cautious. So yeah, you're right, it's risky and you just have to know what you're you're getting into.

Jess Birken 00:10:31 I'm like, where is this partner? Because this this person says, we've been together for 20 years but aren't married. And I'm like, honey, you sweet summer child. Your your significant other is trying to take your retirement funds and invest in

their fly by night company. Look, I have questions. I have more questions. I'm like, are you the kind of person who just fritters away all of your significant others money? And and this is the the last holdout.

Jess Birken 00:11:03 And we're now we're looking for how to get access to I mean, this I'm being rude and cynical, but like, you're not you're not married to this person. Why would you let them take your direct your I just I think that's crazy town. And whoever you are, if you're out there, you need to call Jeff person. Whoever the partner is with this IRA, you need to be calling Jeff and getting some advice because this this smells like a bad idea to me. Okay. So let's let's go to the nonprofit piece because this person says, can she use the money in her IRA and invested in a 501 C3. Well, first of all, non-profit public charities, one of the requirements for being a public charity is that there are no shareholders, there are no dividends, there are no owners. Therefore there is not really anything to invest in. And yes, there are complex, very advanced baseball ways that people may, you know, let's say Broadway productions, theaters that are non-profits, and they bring in people to invest and split the proceeds of the theater, you know, the box office sales, things like that, or perhaps like a real estate deal that is extremely advanced baseball and all has to be managed very carefully with contracts that are written in such a way that preserves the public charity's tax exempt status, because nobody owns a nonprofit.

Jess Birken 00:12:36 and I did not do the research for this before this episode. Obviously I'm just going on the fly here, but there's got to be an IRS issue with you somehow taking your own money or your significant others money, putting it into a charity in some way, and then getting a yield for yourself because it sounds like the finagling a partner who wants to gain access to her IRA is somehow on the board or involved at a high level with this 501 C3 guarantee. That is not going to be okay. That's going to be some sort of impermissible private enrichment, private benefit, creating a very bad problem for you if the IRS ever finds out. So I don't see any way in. This sounds like not an advanced baseball situation where an investor in a nonprofit would make sense to me, so I don't. Yeah.

Jeff Beck 00:13:38 You know, all that stuff. That is your lane. Totally. If there's any possibilities in doing that. To your point, I don't think that that's really something very possible to have an investor and receive any kind of yield.

Jeff Beck 00:13:52 There is one way we work with clients where they can make charitable donations with their retirement account that is more tax efficient, but it's it's kind of a very, fairly unique situation when you can actually do that. There's one option for that. But to your point, as far as investing and receiving a return, yeah, I don't I don't know the the ins and outs of that.

Jess Birken 00:14:17 And certainly I don't I'm not. You need to correct me if I'm wrong. You can't just take the money from an IRA and contribute it to a non-profit like you'd be taking a draw essentially.

Jeff Beck 00:14:31 Yeah, yeah, you're exactly right. So the the scenario where it comes up is basically being over age 70.5 is where you can do this efficiently. And seven and a half is a little background. Having an individual retirement account. The IRS has implemented required minimum distributions which originally were done at 70.5. Right. So you have to start taking distributions each year so they can receive their tax dollars. So it's still set at 70.5.

Jeff Beck 00:15:00 Even though the RMD age has gone up 70.5. That is when you can make direct charitable donations. And you don't have obviously any penalty because you're of age, but you don't have to pay the income tax on it. So you're if you're essentially in a position where you're very comfortable, you maybe have pension, Social Security, you have your income sources covered, and you don't need this money. You don't want to pay additional taxes. You can send that money directly to a charity nonprofit, and then you don't have to pay the taxes on that. And that will count as your required minimum distribution. So that's the one spot you can do that is over 70.5 or older. Clients get that option to be able to do that.

Jess Birken 00:15:41 I did not even know that existed because I am nowhere near that age. So I, I love that we just learned that that that sounds wonderful. That sounds like a great way to tax advantage and make a gift that sounds so legitimate and not scammy at all. I love that for for those people.

Jess Birken 00:16:02 So I don't love really anything about this listener's plan. I'm not I, I just I'm very worried for the girlfriend. Yeah, I think they said she. I'm very worried for the girlfriend. I don't think it's a good idea to empty your retirement account to invest in your boyfriend's for profit company, and unless you actually have the age, you know, if you're eligible to make a distribution to a charity and you are financially set and you don't need that money and you don't want anyone to inherit it, because that's the other thing you can if you don't use the money, you can leave it to your children. Just saying boomers, the millennials and down are are hurting. So thank you. Think of us. But I don't love this idea. For for the girlfriend I know, but the listener is not the girlfriend. I'm so sorry Guy.

Jeff Beck 00:17:00 But that's your biggest tech. I was just concerned on the different pieces. Like, how can we make this work? And you're just like, this plan just sounds like trouble all the way through.

Jeff Beck 00:17:08 I know now that you're saying it, I'm like, I.

Jess Birken 00:17:11 Why are you trying? Why is this? Is this the last bastion of her funds that you haven't gotten your sticky fingers on yet? Like what is happening? Why is this even a conversation?

Jeff Beck 00:17:24 Well, to your point, you know, they're \$100,000, IRA. Odds are you're not in a position that you don't need that money for yourself or want to leave it behind. I work with a wide variety of clients, and very few of them are at a point in their lives where they're just like, hey, I have this money to spare and give to that much money, right? We all make our donations and stuff throughout the years, whatever. But that much money to just say my kids don't need it, we don't need it where they can. They can give that much away. So, you know, typically that is for some, you know, higher income earners or high net worth people.

Jess Birken 00:18:03 Yeah. You're like deductive reasoning.

Jess Birken 00:18:05 \$100,000, IRA. You can't afford to do this. Probably, yeah. And if they've been together for 20 years, let's say maybe they're 40. You know, if, if, if they got together when they were 20 and they've been together 20 years. Hey, if you're 40 and you got 100 K in your IRA, you you're not done. Don't don't be risking those dollars. Okay. We need to say that's such a good insight there. Yeah, she can't afford it, friend. She cannot afford it. Please do the right thing and protect this faithful partner's retirement funds. And just leave it. Leave it alone.

Jeff Beck 00:18:46 Leave it alone. Let it grow. Index fund something. Something safe.

Jess Birken 00:18:51 Oh my gosh. Okay. I was, like, so amped up about this, I didn't even think about what our takeaways are. I think, first of all, you know, life is not a buffet. Nonprofits are not a buffet. They are not just like a thing where you can pick and choose the pieces that you want, when you want it, and the the whole enchilada has to be eaten.

Jess Birken 00:19:15 Sorry. So that's that's takeaway number one. And then, you know, number two is really don't forget your your fiduciary duty. I didn't use that word previously, but like, you need to do what's in the best interest for the nonprofit. If you are the founder and you run it, you're on the board. You need to do what's in the best interest of the nonprofit. And frankly, your personal fiduciary duty to your partner is to do what's in her best interest. So I think that's takeaway number two is like, even if something would benefit the nonprofit, don't hurt yourself, right. And I've seen way too many nonprofit founders hurt themselves by, you know, over giving in various ways to a new nonprofit. So don't do that. And then I think third is, you know, your retirement fund is serious, and probably you should not be talking to a nonprofit lawyer about what to do with your retirement fund. You should be calling somebody like Jeff? That's my take on takeaway number three because this is somebody's nest egg.

Jess Birken 00:20:28 This is their their long term strategy. And it it's not something that you should be asking me about first. It's something you should be asking somebody like Jeff about first. Is there anything else there Jeff. Do you think I missed anything?

Jeff Beck 00:20:42 No, I think that's, you know, really fantastic. I think, yeah. To kind of recap that from our perspective on the financial end is, you know, we love people doing things, giving back, participating in charities. You know, that's fantastic. It just reminds me of, you know, having all these travel plans I just had that were delayed hours and hours putting your life vest on before you help somebody else. I think that's the biggest thing. You know, we want our clients to be able to do that. We want them to do what they're passionate about with their money. Our job is a fiduciary for them is to make sure that they're taken care of first before we do these other things. And I think the way you put that is exactly right.

Jeff Beck 00:21:21 It's get that in order to do that and then we can look at these different things. You mentioned your serious money. Most of my clients have their serious money and we have some fun money. But this money, fun money is a much smaller amount than the serious money. So we just have to keep all that in mind, no matter what good we're trying to do. We're hoping to do. You know, we just have to keep that in mind.

Jess Birken 00:21:40 Yeah. Love it. Jeff, thank you so much for being here today. If folks want to connect with you, how can they get in touch?

Jeff Beck 00:21:47 Yeah. You can go to our website cofinancial.com. And there's all our information right there on the website which is great. My email address is just Jeff at [Co financial.com](http://cofinancial.com). And my phone number is (847) 737-3281. And we are always available. Absolutely.

Jess Birken 00:22:08 Awesome awesome. And we'll put all that in the show notes. Folks, if you enjoyed this episode, do me a huge favor. Share it with a friend.

Jess Birken 00:22:16 If you know somebody who's looking for creative ways to empty their retirement fund. Share this with them. Okay. They might need you to be a good friend to them right now. If you know a nonprofit founder who's dumping all of their last dollars into a new nonprofit and you need to have an intervention, this is good listening. Okay. Great review. Subscribe on your podcast app. It really does help people find the show. And if you have a question or a story to share, I'll try not to be salty with your story and I'll keep it anonymous. So if I am salty and sassy, if no one will know it was about you. So send me a note online at Charity therapy and thanks for listening.

About the Author



Hi, I'm Meghan Heitkamp.

I'm the owner of Birken Law Office, I help nonprofits solve problems so they can quit worrying and get back to what matters most – The Mission. I'm not like most attorneys, I actually have an outgoing personality, and – like you – I like to think outside the box. Most of my clients are passionate and have an entrepreneurial spirit. I'm like that too. My goal is to help you crush it. Getting bogged down in the minutia sucks the joy out of the important stuff. My clients want to do the work – not the paperwork.

Let's connect!

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