

Gaining through Giving

Doing Well While Doing Good

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Session Outline



- Definition & Trends
- Planned Gift Opportunities
- Charitable Gift Annuity & Charitable Trust Examples
- All You ***Really*** Need to Know



Definition & Some Useful Trends Data



Definition



- Planned giving is a program of giving and receiving gifts, usually in the future. Because of size and complexity they require “planning” and often are transmitted through a legal instrument such as a will or a trust. Frequently and increasingly they involve planners from allied professions.

Demographic Pearls



- Those over 50 control 75% of US wealth
- 70% of those over 85 are women
- There were 70,000 100-year-olds in the U.S. in 2005 and

Demographic Pearls



By 2050 the U.S. Census Bureau estimates that there will be 1-million 100-year-olds, up from 50,000 in 2000.

Economic and Demographic Trends



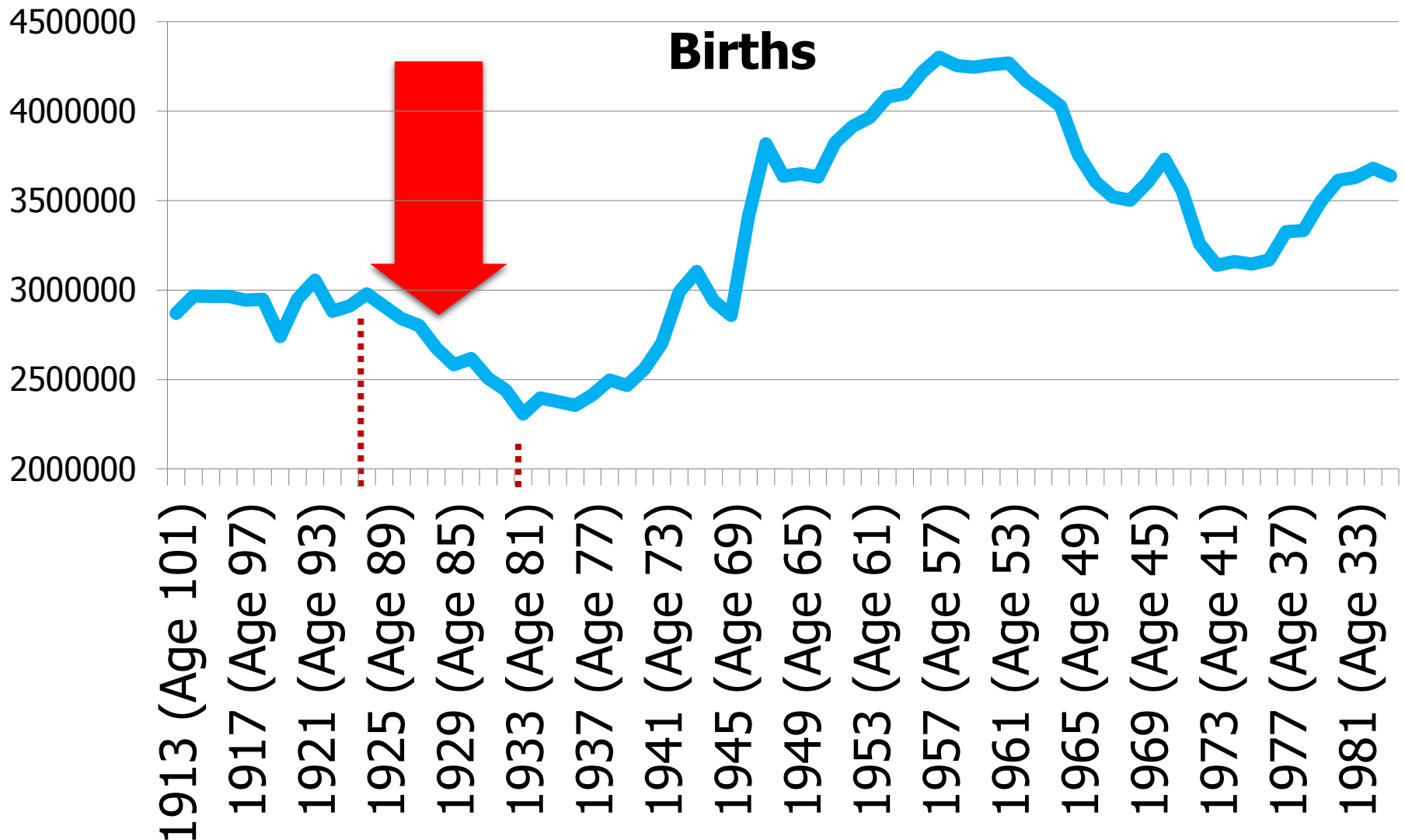
- Women make 84% of all philanthropic decisions according to the Founder of the Institute for Women and Wealth
- A Fidelity study found 7% of high-income women made gifts of securities versus 3% of high-income men

Economic and Demographic Trends



- Since 2002, the number of charitable bequests has leveled off
- The drop in birthrates 1924-1933 means that those 80+ will be an only modestly increasing number for five years, but then begin a steady climb for 25 years
- Those over 80 account for 80% of the charitable bequests, and . . .

The "baby bust" is driving demographics



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Coming demographic wave will impact CRT creation first, then CGA creation, then bequests realization



CRT Creation
Peak Age:
70-74



CGA Creation
Peak Age:
75-79



Realized Bequest
Peak Age:
88

Traditional Profile



- Older, no family
- Long-term consistent donor
- No longer accumulating wealth
- Enjoying & distributing wealth
- ACOI can be the primary estate beneficiary

Modern Profile



- Younger, with family
- Non-donor
- Want to do well and do good
- Advisors often propose and then ***strongly*** influence gifts
- Gifts are part of a large, often complex tax-wise plan

Basic Gift Instruments

- Bequests - Revocable gift
- Donor Advised Funds - Irrevocable gifts
- Life Income Plans – Gifts That Give Back
 - Charitable Gift Annuity
 - Charitable Remainder Trusts (Annuity & Uni)
 - Charitable Lead Trust
 - Pooled Income Fund
- Retirement Accounts
- Life Insurance Policies
- Gifts of Property

Basic Gift Instruments

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Life Income Plans

- *A Charity (ACOI) usually controls*
- *Donors usually control*
- Charitable Gift Annuities
- Charitable Remainder Trusts
- Pooled Income Fund(s)
- Charitable Lead Trusts

Bequests



- Concept is easy to understand
- Donors may set contingencies on terms or can change them

Bequests



- Majority do not have wills
- Few name a charity as beneficiary
- Women play a major role
 - Their longevity is greater than men
 - They decide about final asset allocations

Bequests



- Donors can name and endow programs
- Memorialize or Honor Family or Friends
- Add to operating funds, and endowment holdings

Bequests



- **Build dreams**



Gifts That Give Back



Charitable Gift Annuities



- 2nd Most Popular Planned Gift after Bequests
- Est. 350,000 Gift Annuity contracts in 2009 with an average value of \$60,000 = \$21 billion

Charitable Gift Annuities



- A simple contract
- Fixed income based on age when payments begin
- Payments guaranteed by ACOI
- Tax benefits both gift & income

Charitable Gift Annuities

- Attractive payout rates, based on your age. For example:
 - Age 90+ 9.0%
 - Age 85 7.8%
 - Age 80 6.8
 - Ages 80 and 85 6.1%



**Who's Offering
Them?**



Charitable Gift Annuities

- Virtually every major college and university: Harvard, Yale, Princeton, Indiana, U of C, NU, Stanford, etc.
- Medical schools, hospitals, churches, synagogues, social service agencies and many healthcare organizations.
- Many Community Foundations

Unitrusts




- Variable income (% of assets valued each year)
- Tax benefits (income, estate, & capital gains)

Annuity Trusts



- Fixed income (percentage of the original trust value)
- Tax benefits (income, estate, and capital gains)

Lead Trusts



- Income to ACOI for a term of years or for the donor's life, remainder to heirs - reverse of CRT
- Tax benefits (income, estate, and capital gains)

Life Insurance Policies



- New or current policies
- Paid-up policies
- Estate replacement

Retirement Assets



- IRAs, 403(b), TIAA/CREF
- Wisely left to ACOI because of IRD tax issues
- Children/heirs and the estate will pay taxes that are exempted for ACOI

Retirement Assets



- Unique giving opportunity for those with an IRA and who are at least 70½ years-old:
 - At age 70½ the IRS rules mandate an annual required minimum distribution (RMD) from your IRA.
 - The RMD is fully taxable to you.

Retirement Assets



- A permanent tax provision now allows you to send up to \$100,000 of your RMD directly to charity, AND have it count toward what you must withdraw.
- To qualify, the payment must be made by your IRA Administrator, not by you.

Retirement Assets



- While not counted as a charitable deduction, this can reduce your taxes because you do not have to report it as income.
- Sometimes called a Qualified Charitable Distribution (QCD), ACOI can help you get this done in time to reduce this year's taxes.

Gifts of Property



- Gift can lessen capital gains tax
- Donor can retain right to use
 - Appraisal, environmental and use issues involved
 - Valuation issues



A closer examination of one
planning idea...

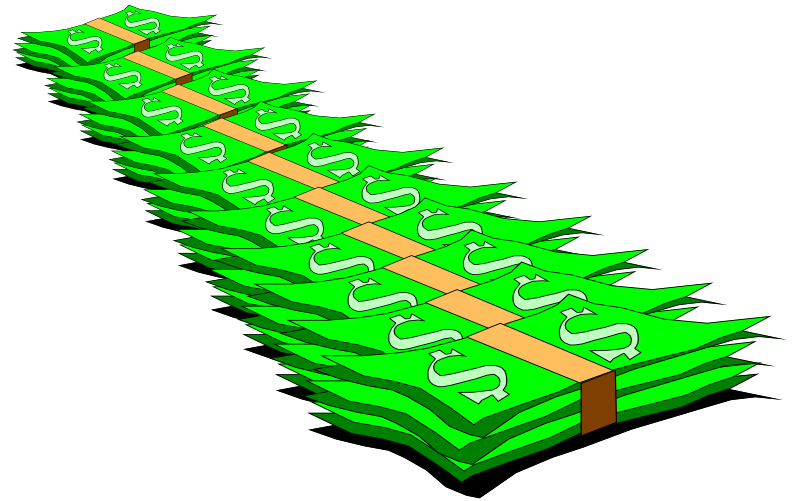
**the Charitable
Remainder Trust**



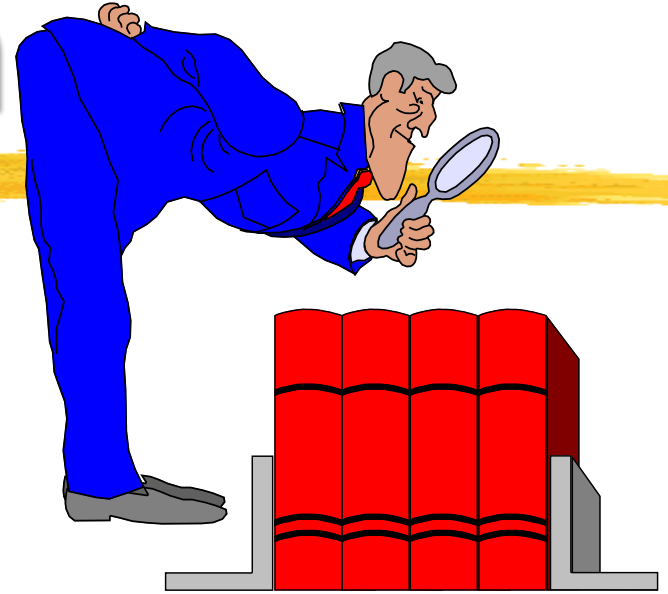
Planning Axiom

- Wealth \ 'Welth also 'Weltth \ n [ME welthe, fr. wele weal]

1. the ability to generate cash flow



Planning Axiom



Internal Revenue Code \
n. the Code

1. an often incomprehensible and contradictory set of rules designed to extract revenue
2. referred to as “the Code” because it must be deciphered

So how can we decipher this code, and meet our personal financial and philanthropic objectives?

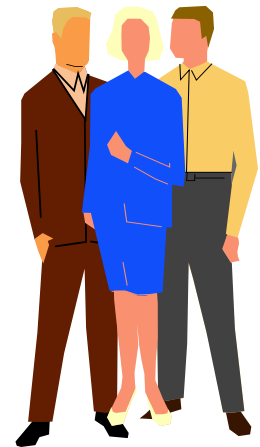
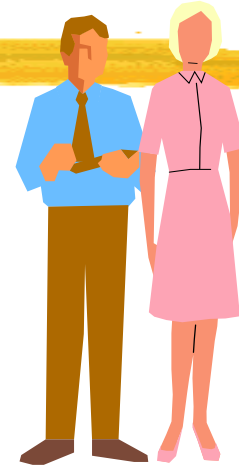
Retire, sell that appreciated stock, give something back to ACOI!




Converting Assets to Income

■ Meet Drs. Smith

- Ages 65/65
- \$4,000,000 Estate
- \$1,000,000 Founders Stock, Zero Cost Basis
- Capital Gains Tax Rate 23.8%
- Three Children



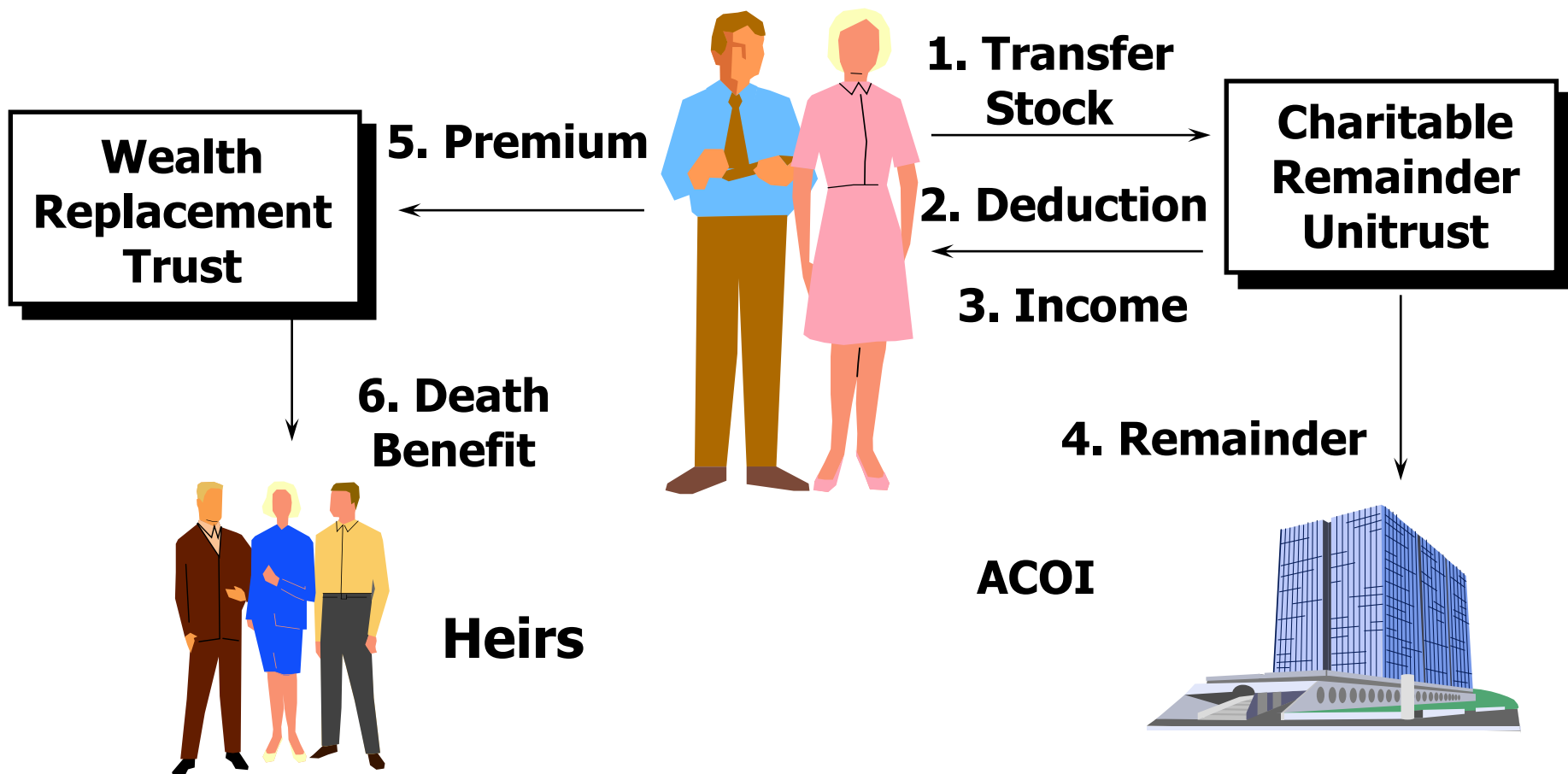
The Problem/Goal



- They would like to sell their stock to diversify assets in retirement without taxation
- They would like to make a meaningful contribution to ACOI, but
- They face a \$238,000 capital gains tax, reducing their capital to **\$762,000**
- Their asset erosion equals 23.8%

The Solution

Transfer Assets to CRUT



Who should consider a charitable remainder trust?



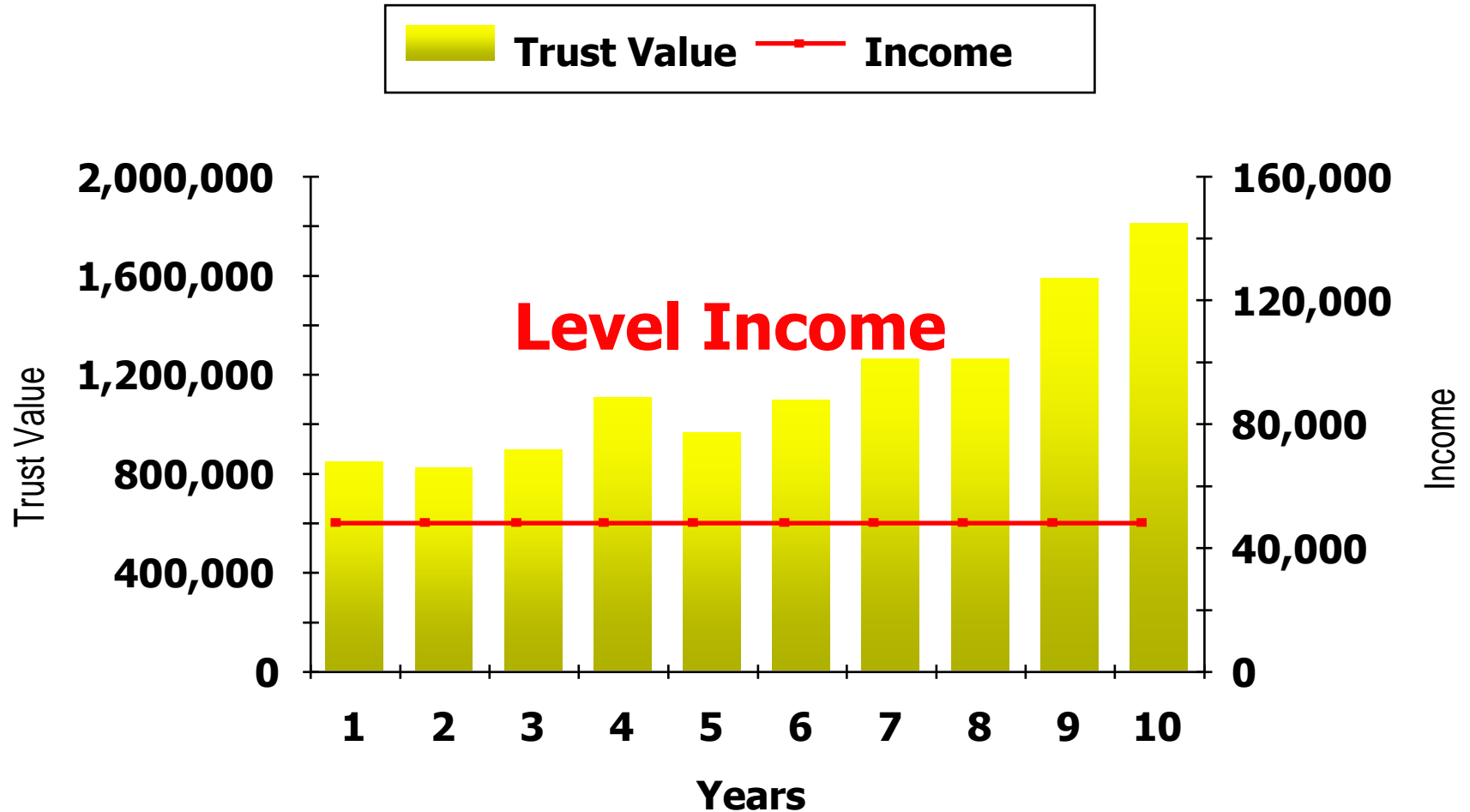
- Someone who owns a highly appreciated asset they would like to sell such as:
 - Marketable securities
 - Debt-free real property
 - Closely-held business interest
 - Collectibles
- Someone who desires to maximize the value of their assets and cash flow during their lifetime
- Someone who is retired or is anticipating retirement

Who should consider a charitable remainder trust?

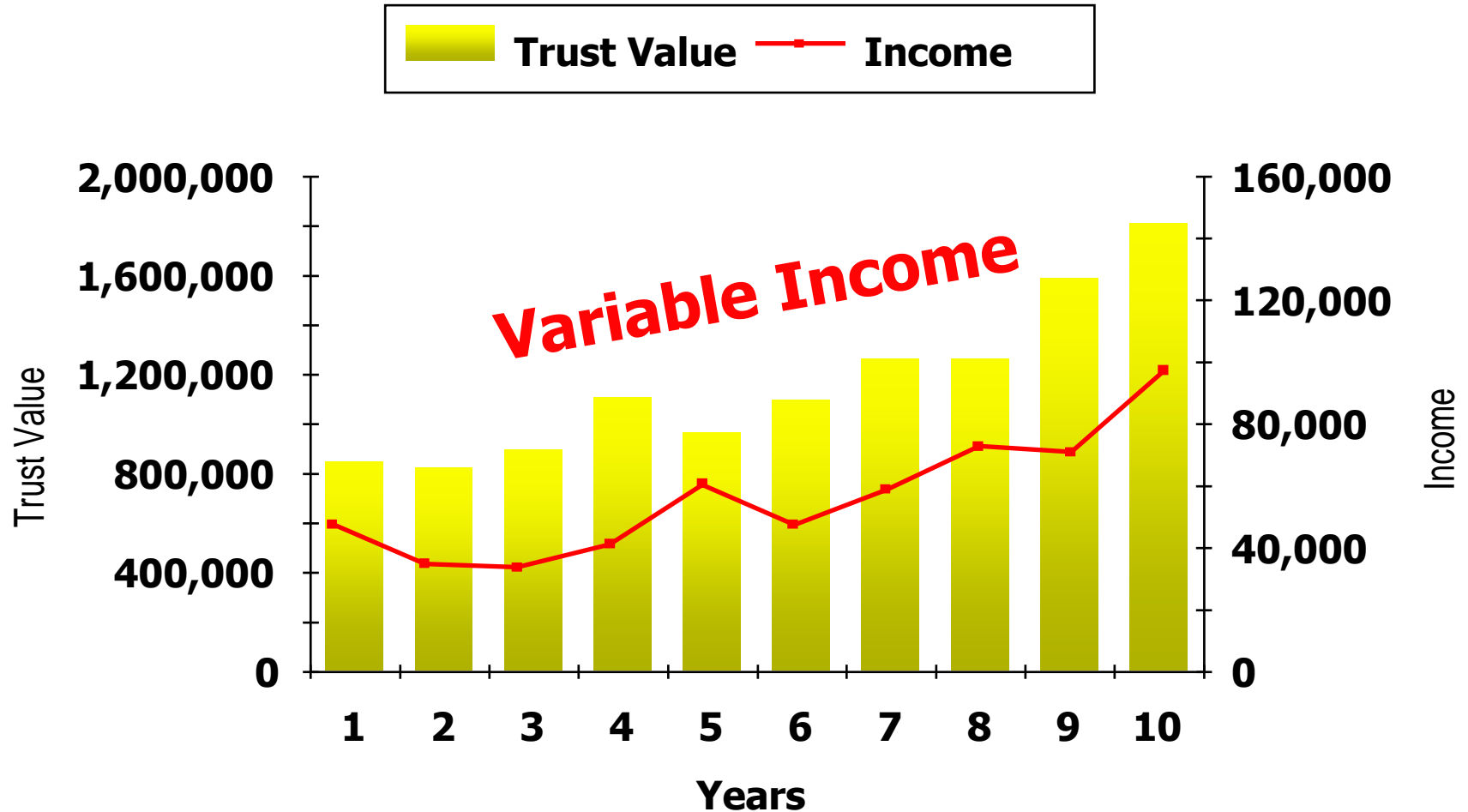


- Someone who is shifting from asset accumulation to conservation and distribution
- Someone who wants to defer current income
- Someone who may have never considered charitable giving as a way to accomplish personal financial goals
- Is one of the fortunate few subject to estate tax and wants to maximize estate for heirs
- Someone who wants to reduce asset management responsibilities
- Someone who wants to make a significant contribution to ACOI while they are alive

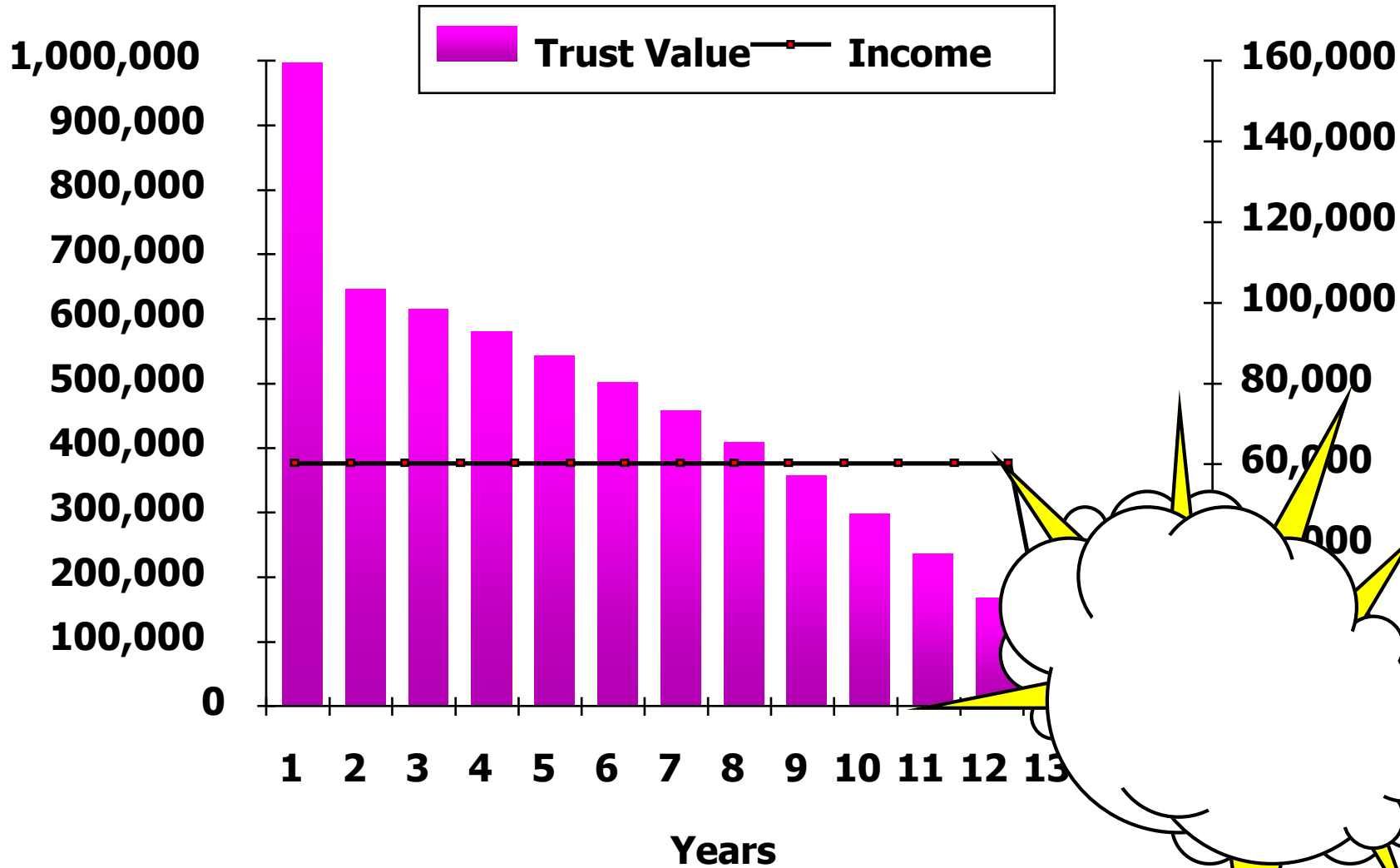
Annuity Income Example



Unitrust Income Example



Annuity Trust Catastrophe





All you *really*
need to know



7 Basic Ideas



Ways to increase personal income

1. Charitable remainder unitrust
2. Charitable remainder annuity trust
3. Charitable gift annuity
4. Pooled Income Fund

7 Basic Ideas



Ways to increase estate to heirs


5. Charitable Lead (Income)
Annuity Trust
6. Charitable Lead (Income)
Unitrust

7 Basic Ideas



A way to enjoy your asset and receive an income tax deduction

7. Life Estate Agreement
(remainder interest in personal residence or farm)



*He who deliberates
fully before taking a
step will spend his
entire life on one leg.*

— Chinese proverb





The End





**...or the
Beginning**





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