



**The First Pocket for Giving:
Focusing on What's Best for the Giver**

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The Challenge of Giving

“To give away money is an easy matter...and in anyone’s power. But to decide to whom to give it, and how large and when, for what purpose and how, is neither in everyone’s power nor an easy matter. Hence it is that such excellence is rare, praiseworthy and noble.”

- Aristotle

Who gives to you today?

Think about your donors, age 70+

- the “**Greatest Generation**”
- born 1925 to 1944
- age 70 to 89

What have they done?

- survived **Great Depression**
- sacrificed and won **World War II**
- built the **strongest economy in the world**

**Lessons learned: sacrifice, accumulation,
service**

A Window in Time

- 70% of giving to NPs is from age 65+**
- basically the “Greatest Generation”
 - annual/major giving sustains us today

- Will future generations be as generous?**
- accumulators or debtors
 - prosperous or flat economy
 - leaders with vision think beyond today

Enormous transfer of wealth... window is now open to replace the loss of these gifts in the future with the building of endowments.

People Look for Significance

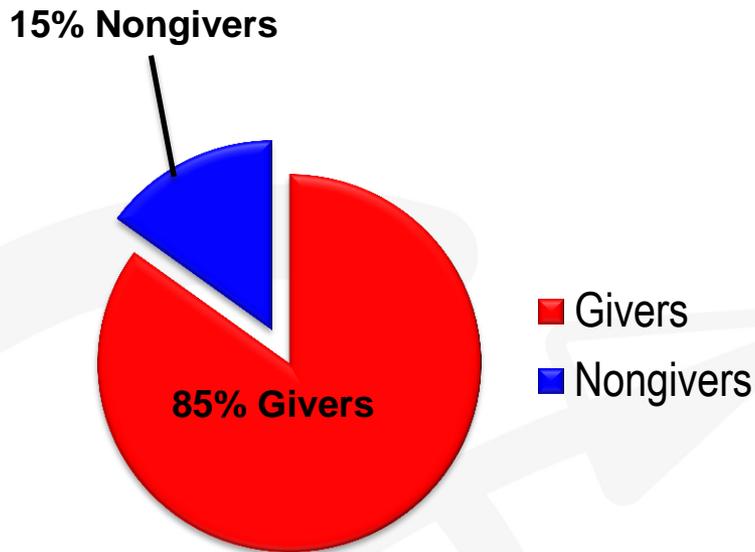
“We make a living by what we get, but we make a life by what we give.”

-Sir Winston Churchill



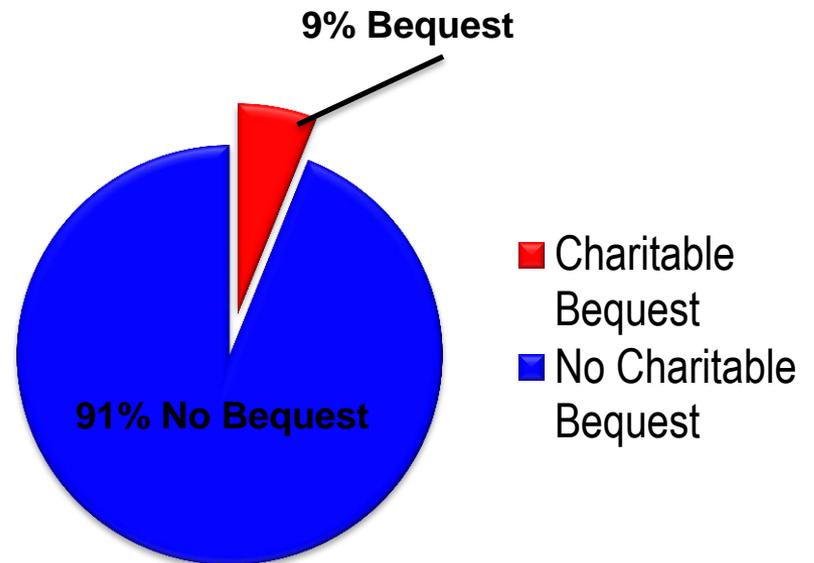
People Want to Help

The vast majority of Americans give regularly to organizations about which they care



Mismatch at Death

Unfortunately, very few match their lifetime charitable habits with their estate planning



What We Know About Most Plans

Chronicle of Philanthropy 4/1/2009

Prof. Russell James, U of Georgia, tracked 20,000 Americans over age 50 – from 1995 to 2006...Among people who donate \$500 or more/year to charity... fewer than 9.5% had a charitable estate plan

“For those who think the generational transfer will automatically flood their organizations with resources, it’s time to think again,” said Mr. James.

“Without putting in the hard work of generating these planned gifts, 90 percent of donor mortality will simply result in lost current giving.”

Why Planned Giving?

- **People want to make gifts, but lack knowledge**
- **Planned Gifts are often 200-300 times larger than a donor's largest annual gift**
- **Current and planned giving follow each other—getting on their radar works!**
- **Charities that at least “dabble” in planned giving eventually earn 50% to 100% more than those who don't**

Why So Few Bequests?

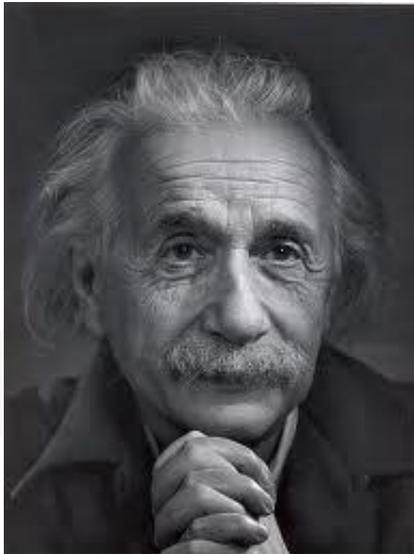
Partnership for Philanthropic Planning (PPP) Giving Survey

Top reason given for not making a bequest:

1. Nobody asked them
2. Professional advisor never mentioned it
3. They never thought of it

Ultimately, all the same cause—Lack of knowledge!!

People Care about their Legacy



“It is the responsibility of every human being to aspire to do something worthwhile, to make this world a better place than the one they found.”

-Albert Einstein

Tax Benefits of Giving

- **Income Tax Charitable Deduction**
- **Estate Tax Charitable Deduction**
- **Avoidance of Capital Gains**
- **Increased Current Income**

Do Taxes Really Drive Giving?

- Taxes are important, and do drive some behavior
- But 65% of Americans do not itemize deductions on federal tax returns
- Thus, for current gifts, taxes clearly are not the motivator for most people

Getting Started

First, you do not have to be an expert!

Second, it starts with relationships.

Third, keep the donor's best interest first.

Fourth, get your “elevator speech” or “talking points” in order.

Fifth, keep it simple.

A Gentle Way to Start...

“If I can show you ways to redirect your taxes to benefit your family, your community, and our organization, will you give me 30 to 60 minutes to discuss it with you?”

Assets Suitable for Giving

Almost any assets can be a suitable gift in the right circumstances:

- **Cash**
- **Appreciated Stock**
- **Farmland and other Real Estate**
- **Life Insurance Policies or Proceeds**
- **Tangible Personal Property**
- **Tax-Deferred Retirement Plans**

Problematic Assets

Special Tax Issue Assets:

- Encumbered real estate
- Closely held stock
- Tangible personal property (artwork, antiques, cars, etc.)
- Sole proprietorships
- Partnerships
- S-corporation stock

Assets Best Avoided:

- Property with an existing sales agreement
- Installment notes
- Stock options
- *Lifetime* transfers of IRAs, qualified retirement plans, commercial deferred annuities and savings bonds

Bequest From a Will or Revocable Trust:

The “Starter Gift”

Prospective Donor Profile

- **Most charities ask... “Have you remembered us in your Will?” ****Planning Pointer******
- **Someone who wants to make a gift after he or she is gone**
- **Not interested in current income tax deduction**
- **Lacks the assets to make gifts now**
- **Not looking for higher income**
- **A new or irregular donor**

Making the Match

Matching Donor Needs: “A bequest allows you to leave a legacy without giving up assets you need now.”

Options:

- **Specific Dollar Amount (e.g., \$25,000)**
- **Specific Asset (e.g., shares of XYZ stock)**
- **Percentage of the estate (e.g., 5% of net, gross, or residuary estate)**
- **Contingent bequest (only if heirs don't survive)**

Bequest Example

- **Natalie sees her attorney to update her Will.**
- **She decides to leave a bequest of 10 percent of the residue of her estate to Charity X.**
- **She provides for her family and loved ones with the other 90 percent.**



Bequest Results

- **Natalie's estate receives a deduction for the value of the bequest**
- **She maintains flexibility by making a revocable gift**
- **Charity X is now on her mind, and likely to receive current gifts as funds become available, and larger planned gifts as her estate grows**

Outright Gift of Appreciated Securities:

Doubling Down on the Tax Benefit

Prospective Donor Profile

- **Someone who has stock or with built-in capital gain.**
- **Would like a current income tax deduction.**
- **Would like to avoid capital gains tax on the sale of the asset.**
- **Interested in supporting your mission now.**

Making the Match

Matching Donor Needs: “A gift of securities you have owned more than one year provides you a tax-advantaged option to support our organization now.”

Benefits:

- **Capital gains tax will be avoided.**
- **Current income tax deduction for the full fair market value of the securities.**
- **Deduction helps save taxes on other income.**

Securities Example

- **Sarah owns 1,000 shares of stock.**
- **She originally paid \$10 per share at least one year ago.**
- **The fair market value today is \$30 per share.**



Securities Results

- **Selling the stock would have resulted in a recognizable capital gain of \$20,000.**
- **The tax on that sale would have been \$3,000 at 15% (or \$4,000 in 2014 at 20%).**
- **Her net proceeds would have been \$27,000 (or \$26,000 in 2013 or later).**
- **The sale may also have pushed her into a higher income tax bracket**

Securities Results (cont.)

- **By making the gift, Sarah bypasses the capital gains tax of \$3,000**
- **She may deduct the fair market value of \$30,000 (up to 30% of her adjusted gross income).**
- **If she is in a 25% income tax bracket, the \$30,000 deduction saves \$7,500 in taxes on other income.**

Gift of a Life Insurance Policy:

Putting a Stale Asset to Good Use

Prospective Donor Profile

- **Someone with a life insurance policy no longer needed for his or her spouse or children.**
- **Would like to make a charitable gift at death.**
- **Does not necessarily need an income tax deduction this year.**

Donor Profile (cont.)

- **Would like to make a simple gift without a trust or any complexity**
- **Perhaps needs to keep flexibility to change the beneficiary in the future**



Making the Match

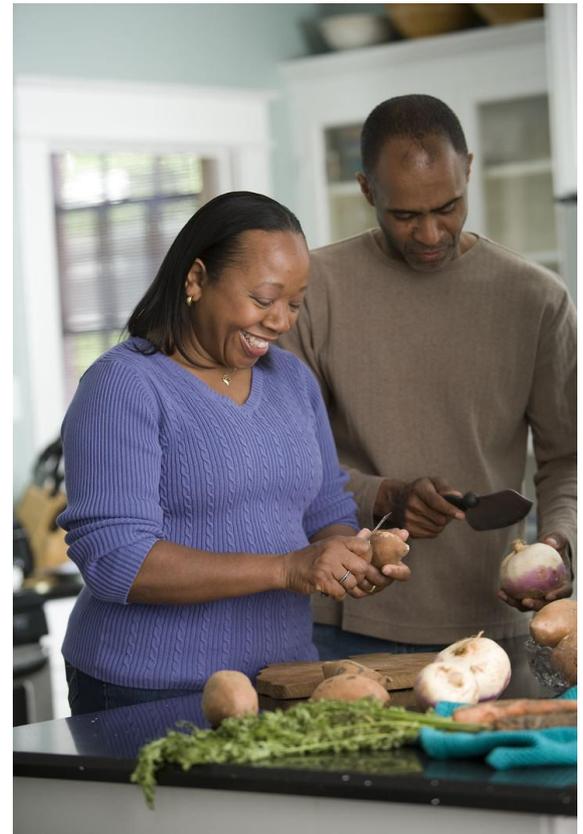
Matching Donor Needs: “Now that the original need for that life insurance has passed, how about using it in an way that benefits our work?”

Options:

- **Name charity as the beneficiary**
- **Transfer ownership of the policy to charity**

Life Insurance Example

- **Jim owns a \$50,000 life insurance policy he has had since his children were young.**
- **Now all his children have grown and the need for this policy is no longer there as Jim has plenty of other assets to support his wife, should he die prematurely.**



Life Insurance Example (cont.)

Jim weighs two options for his insurance policy:

- **Option 1: Name Charity X as the beneficiary and retain ownership of the policy**
- **Option 2: Transfer ownership of the policy to Charity X**

Life Insurance Results

Naming Charity as Beneficiary:

1. **Charity X stands to receive a substantial gift upon Jim's death.**
2. **Jim retains control of the policy if circumstances change and he needs the insurance for family or business purposes.**
3. **There is no income tax deduction**
4. **The proceeds will not be part of his estate for federal estate tax purposes**
5. **Premiums, if due, will be paid by Jim**

Life Insurance Results (cont.)

Transferring Ownership to Charity X:

- 1. Jim receives a current income tax deduction for the gift of the policy.**
- 2. Jim is relieved of all ownership responsibilities (premiums, estate tax).**
- 3. Charity X is responsible for payment of premiums, if any.**
- 4. Jim may receive additional income tax deductions if he pays premiums for Charity X.**
- 5. Charity X stands to receive a substantial gift upon Jim's death.**

Gift of Retirement Plan Assets:

The “First Pocket” in Charitable Estate Giving

Prospective Donor Profile

- **Someone with a 401(k), IRA or other “qualified” pre-tax retirement plan account.**
- **Does not like the fact that estate and income taxes may consume 50% or more of the asset.**
- **Is not looking for a current tax deduction**

Donor Profile (contd.)

- **Is interested in making a gift after death more than in life**
- **Has other assets to provide for a spouse and loved ones.**



Making the Match

Matching Donor Needs: “If you plan to leave something to charity in your estate plan, could I share with you a way to make sure the best assets are used for the gift to minimize the loss in taxes?”

Benefits:

- 1. Retirement assets remain available for life.**
- 2. Deduction for estate for amount to charity.**
- 3. Donor retains ability to change beneficiary.**
- 4. Leaves more to heirs than simple bequest of same amount from other assets.**

Retirement Plan Example

- **Fred is a 65-year-old widower.**
- **He has \$700,000 in an IRA.**
- **Fred names Charity X as the beneficiary of the IRA.**
- **He has full ownership and access his entire life.**



Retirement Plan Results

- **Charity X receives \$700,000 at Fred's death.**
- **The IRA escapes income taxes and any applicable estate tax**
- **His taxable estate value is reduced by the amount of the gift**
- **He leaves to heirs assets that are not taxable rather than an asset that would have been subject to income and perhaps estate taxes**

Contrast Bequest & IRA Gift ("Starter Gift" vs. "Smarter Gift")

Additional Assumptions for Fred:

- **Total Estate Value:** **\$2,500,000**
 - **IRA:** **\$ 700,000**
 - **Other Assets:** **\$1,800,000**
- **Income Tax Rate:** **30%**
- **Fred wants to gift \$700,000 to charity in memory of his late wife**
- **He wants the rest of the estate to benefit his children**

Contrast Bequest & IRA Gift ("Starter Gift" vs. "Smarter Gift")

Death in 2014 (\$5.34 Million Estate Tax Exemption)

<u>BEQUEST TO CHARITY</u>	
Estate Value	\$2,500,000
Income Tax (30%)	(\$ 210,000)
Estate Tax	(\$ 0)
TOTAL to Taxes	\$ 210,000
TOTAL to Charity	\$ 700,000
TOTAL to Heirs	\$1,590,000

<u>IRA GIFT TO CHARITY</u>	
Estate Value	\$2,500,000
Income Tax (30%)	(\$ 0)
Estate Tax	(\$ 0)
TOTAL to Taxes	\$ 0
TOTAL to Charity	\$ 700,000
TOTAL to Heirs	\$1,800,000

NET GAIN TO HEIRS: \$210,000

Inside an IRA

- ***A Retirement Account – Not an Inheritance Account***
- ***The Worst Tax Trap in Estate Planning***
- ***The First Pocket for Giving***

Transfer by Beneficiary Designation

First or primary beneficiary:

- Usually is directed to spouse (if appropriate)
- Most often 100%
- Normally, no beneficiary change for primary

Secondary or contingent beneficiary:

- Usually directed to children (if parents)
- Use beneficiary change to reallocate
- Select a percentage for heirs
- Select a percentage for charities of choice
- Name charities, % to each, specific purpose?

Lifetime Options for IRAs

Charitable IRA Rollover:

- Law first passed in 2006, renewed annually*
- Only for donors 70 ½ and older
- May direct up to \$100K per person
- Counts toward annual RMD

Use RMD Income to Fund Life Insurance Policy :

- Income tax still due if distribution taken
- Use life insurance to replace IRA gift to charity for heirs
- Or, use life insurance to leverage larger gift

Summary

Simple Gift Strategies to Get Started:

- 1. Bequests—Simple, direct, easiest**
- 2. Appreciated Securities—Lifetime giving, easy, extra tax bang for the buck**
- 3. Life Insurance—Puts stale asset to good use, easy, flexible, possible tax benefits**
- 4. Retirement Plan Gifts—the First Pocket, taxable assets to nontaxable beneficiary, flexible, may get more to heirs than bequest**



Questions?

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