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## Fundamentals of Planned Giving Part 2: Basic Planned Giving Methods



**Date:** March 9, 2016  
**Time:** 1:00 – 2:30 Eastern Time  
**Presenter:** Craig C. Wruck  
 Vice President, Advancement  
 Humboldt State University



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## Agenda

- Charitable Bequests
- Qualified Retirement Plan Assets
- Life Insurance
- Bargain Sale
- “Family Foundations”

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## Charitable Bequests

- Testamentary gifts – transfer made upon death, revocable during lifetime
- Charitable bequests – specific, contingent, remainder
- Considerations regarding restrictions
- The “probate” process

Pages 1-3

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## What Percent of Americans Have a Will?

Answer to poll question.

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## Questions?



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## Qualified Retirement Plans

- “Custody” account – accepts contributions of pre-tax income, holds & invests tax-deferred
- Withdrawals are taxed as ordinary income
- Purpose: provide retirement income – not to encourage savings or build estate value
  - Before 59½: 10% early withdrawal penalty
  - After 70½: Minimum required distributions

Pages 3-4

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### Qualified Retirement Plan Contributions at Death

- \$200,000 estate: IRA and CD, each worth \$100,000
- Charitable bequest: \$100,000

	Charitable Bequest	IRA to Charity
Combined value of estate	\$200,000	\$200,000
IRA transferred to charity	n/a	- \$100,000
Net estate	\$200,000	\$100,000
Income tax on IRA (est. 35%)	- 35,000	-0-
Charitable bequest	- 100,000	n/a
Remainder to heir	\$65,000	\$100,000

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### Qualified Retirement Plan Contributions at Death

Notes:

- Expedited payment to charity
- Distribution must be directly from plan, not provision in Will
- Consider coordinating provision in Will
- Careful planning for married couples

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### Gifts During Lifetime

Simply withdraw money from qualified plan, then contribute cash to charity

- Assuming over 59½, should be a wash:
  - Withdrawal creates taxable income
  - Contribution creates offsetting deduction
- Complexities of standby withholding, timing, AGI limits, tax reporting

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### "IRA Charitable Rollover"

Transfer up to \$100,000 from IRA to charity with no income tax on withdrawal

- Donor must be age 70½ or older
- Outright contribution (no life income plans)
- Transfer must be from the IRA administrator directly to the charity
- No supporting organizations, private foundations, or donor advised funds

Pages 5-6

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### What Percent of Americans Have Investments in an IRA?

Answer to poll question.

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### Questions?



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## Life Insurance Policy

Insurer	Owner	Insured	Beneficiary
Promises to pay an amount of money (the death benefit) upon the death of the insured	Buys and (usually) pays for the policy; has right to change beneficiary and to give away ownership	The one upon whose death the insurer will pay the death benefit	The one to whom the death benefit will be paid

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## Life Insurance Premiums

The graph plots Premium (Y-axis) against Age of Insured (X-axis). 
 - **Vanishing Premium** (red line): Starts at a high premium, drops to zero at a certain age.
 - **Term Insurance** (blue line): Starts at a low premium and increases linearly over time.
 - **Variable / Universal** (yellow line): Starts at a low premium and increases with a curve.
 - **Whole Life** (green line): Starts at a low premium and increases with a curve, eventually leveling off at a higher premium than term insurance.

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## Life Insurance Premiums

The graph plots Premium (Y-axis) against Age of Insured (X-axis). A single blue curve shows a low premium at a young age that increases exponentially as age increases.

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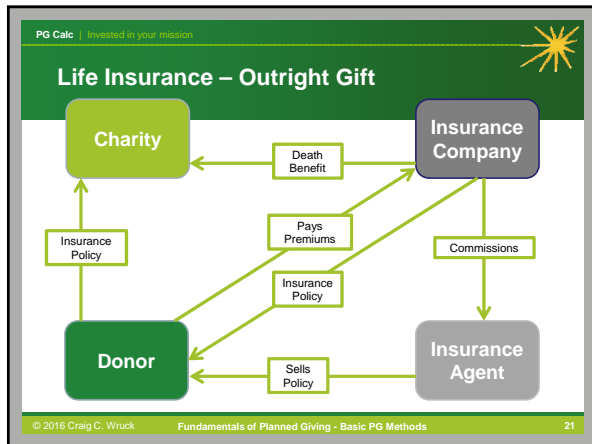
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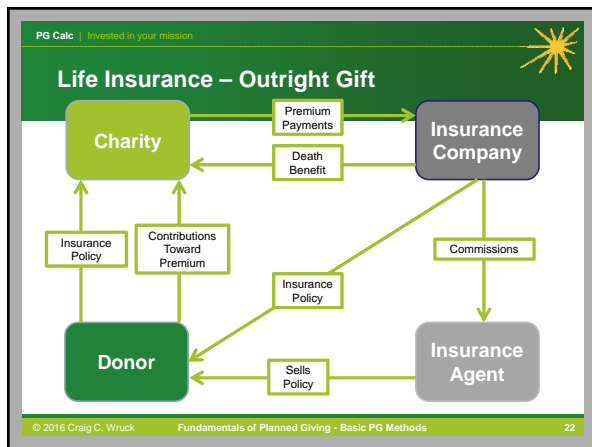
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### Contributions of Life Insurance

- Charity must be named beneficiary in order to receive death benefit
- Income tax deductions if donor transfers ownership to charity
  - Value of policy at time of gift
  - Future premium payments

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### Other Considerations

- Charity is not obligated to make premium payments – despite donor's expectations
- Outstanding policy loans, conditions may reduce value of death benefit
- Policies are valuable assets, should be periodically reviewed and evaluated

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### What Percent of American Households Own Life Insurance?

Answer to poll question.

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### Questions?



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## Bargain Sale

Donor sells property to charity for less than full fair market value

- Charitable deduction for difference between fair market value and sales price
- Donor will be liable for capital gains tax on portion of capital gain – can't give the gain only

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## Bargain Sale Example

- FMV = \$50,000, cost basis = \$20,000
- Donor sells to charity for \$10,000
  - Charitable deduction = \$40,000
- Donor pays capital gains tax on \$6,000
  - Capital gain = \$30,000
  - $(30,000/50,000) \times 10,000 = 6,000$

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## Family Foundations

	Donor advised fund	Private foundation
Origin of tax exempt status	Fund account of a public charity	Separate entity (either trust or corporation)
AGI limit on charitable deduction	50% cash 30% appreciated prop.	30% cash 20% appreciated prop.
Donor control of distributions	Right to recommend distributions by public charity	Controlled by entity limited by private foundation rules
Minimum distribution	No requirement	Minimum 5%
Donor privacy	Can be anonymous	Public disclosure
Administration	Provided by sponsoring public charity	Entity provides accounting, files tax returns, etc.

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## Questions?



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## Still Have a Question?

**Contact:** Craig Wruck

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