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Planned Giving for Younger Donors



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Agenda

- Defining the market
- Factors motivating younger donors
- Engaging the younger donor
- Planned gifts appropriate for the younger donor
- Case studies



Defining The Market

- Those under age 70 are “younger”
- Wealth accumulation years v. wealth preservation years
- Some of the same factors motivate young and old
- Other factors unique to younger donors



Capital Gain Taxes

- Capital gains tax rate up from 15% to 20% for high income earners
- 3.8% Medicare surtax on net investment income for some
- Depending on donor income, capital gains tax rates:
 - ✓ 15%
 - ✓ 18.8%
 - ✓ 23.8%



Qualified Plan Limits

- Limits on tax-deferred savings
 - ✓ \$18,500 for most in 2018
 - ✓ \$6,000 catch-up if 50 or older
- \$24,500 per working individual over 50
- \$49,000 per working couple over 50



Engaging Younger Donors

- Perception is they can't "afford" planned giving
- Pressure to meet current commitments
- Extend marketing to general publications
- Targeted messaging focused on younger prospects
- Use Social Media
- Remember younger prospects at events



Why Bequests are Attractive to Younger Prospects

- Flexible
- Both modest and wealthy can participate
- Donor retains control
- Revocable
- Contingent



Bequest Donor Behavior

- Census Bureau HRS study 1992 to 2012
- Three areas critical to bequest decision
 - ✓ Trust in the charity
 - ✓ Presence or absence of heirs
 - ✓ Higher the net worth, higher likelihood of bequest
- 5.7% of general population with charity plans
- 9.4% of those over 50 making charitable gifts of \$500 or more have charity plans



Bequest Giving Behavior

- Importance of childlessness among over those over 50 donating \$500 or more to charity
 - ✓ 50% of these donors have no children
 - ✓ 17.1% of these donors have children
 - ✓ 9.8% of these donors have grandchildren
- Australia: those with wills and no kids – 10x more likely to include charity in will
- Childlessness on the increase



Top Five Bequest Prospect Indicators

1. Long history of giving
2. No children
3. Higher than average gift amounts compared to other donors
4. Prospect has funded a trust
5. Female



Factors Predicting Estate Planning Activity

- Changes that destabilize donor's life
 - ✓ Approaching death
 - ✓ Becoming a widow or widower
 - ✓ Divorce
 - ✓ Grandchildren
 - ✓ Increasing assets
 - ✓ Moving to retirement community
- When death becomes real



Bequest Substitutes

- Payable on death accounts
- Insurance product designations
- Savings bonds
- IRAs, qualified plans



Supplementing Retirement Income

- Avoid traditional life income gifts
- Deferred annuities
- Laddered annuities
- Flexible annuities
- Commuted annuities
- Flip unitrust



Charitable Gift Annuities

- Immediate payment annuities
 - ✓ Not appropriate for those under 60
- Deferred annuities
 - ✓ Appropriate for younger donors
 - ✓ Supplemental pension for mid-career professionals
- Current ACGA rates effective since 1/1/2012



Charitable Remainder Trusts

- Financially savvy donor
- Willing to take risk
- Experienced investor
- Annuity trusts
 - ✓ Gift annuity v. Annuity trust
- Unitrusts
 - ✓ Regular v. Flip unitrusts



Pooled Income Fund

- Trust maintained by sponsoring charity
- Pays net income to beneficiary
- Remainder to sponsoring charity
- Disfavored due to low payouts
- Worth another look?



Build-up Deferred Gift Annuity

Mr. and Mrs. Denton

- ✓ Ages 57 & 60
- ✓ \$100,000 to create 5 DGAs with \$20,000 each
- Laddered start dates
 - ✓ \$960 at age 65 and 62
 - ✓ \$1,920 at ages 66 and 63
 - ✓ \$3,040 at ages 67 and 64
 - ✓ \$4,140 at ages 68 and 65
 - ✓ \$5,300 at ages 69 and 66 continue for life!



Flexible Deferred Annuity

Mr. Jasper

- Age 56
- \$100,000 stock with \$60,000 basis
- Choice of start dates from age 65 or 75
 - ✓ \$6,200 annuity at age 65
 - ✓ \$10,600 annuity at age 75
- Longer he waits, higher the payment
- Lowest deduction
- Flexibility to choose first payment date



Commuted Payment Gift Annuity

Mr. Thomas

- Age 58
- Retiring at age 59 ½
- Wants to preserve his IRA until forced to withdraw
- Needs \$70,000 a year for 10 years
- Funds with \$872,717 in 2018
- Pays \$70,000 annuity until age 70 ½
- Remainder to charity at age 70 ½
 - ✓ \$335,016 to charity at 5% return



Retirement Flip Unitrust

Mr. and Mrs. Binstock

- Both age 55
- 5% CRUT with flip provision, flips at age 65
- Contribute \$50,000 a year to CRUT for 10 years
- Beginning at age 65, \$41,063 income
- Ten years after flip, \$55,185 income (assumes 8% return!)
- \$1,431,027 total before-tax income
- \$1,669,450 for charity



Life Income for Another

- Parent
- Employee
- Family friend
- Gift annuity v. CRT
- Capital gain tax issue with CGA
- Gift tax issues



Life Income for Another

Mr. Gomez

- Age 55, 35% tax bracket
- Must earn \$746 to give Mom \$500
- Gift annuity for Mom, age 80, paying 6.8%, partially tax-free
 - ✓ Funded with \$300,000 stock with \$70,000 basis (\$230,000 gain)
- Some capital gain tax due at funding
 - ✓ Reduced reportable capital gain - \$115,803
 - ✓ Offset by income tax deduction - \$148,953
- Gift tax issue



Reducing Current Taxes - Lead Trust

- 6,498 lead trusts in 2012, \$24 billion book value
- Around \$2 billion annually distributed to charity
- Non-grantor makes payments to charity during term
- Remainder to heirs
- Generates gift/estate tax deduction, not income tax deduction
- Primarily a tool for the ultra-wealthy



Reducing Current Taxes - Lead Trust

Mr. and Mrs. Thomas

- Both aged 55
- Children 29 and 27
- \$4,000,000 to 6% 20-year term CLAT
- \$3,706,280 gift tax deduction
- \$4,800,000 to charity 20 years
- \$5,522,332 to children in 20 years, then ages 49 and 47
- ✓ Assumes 7% return



Grantor Lead Trust to Pay Campaign Pledge

- Mrs. Watson makes 5 year \$500,000 pledge

Principal	\$1,000,000
Annuity to Charity (10%)	\$100,000
Income Tax Deduction	\$468,620
Income Tax Savings (assumes 40.8% rate)	\$173,389
Total Ordinary Income and capital Gain Tax Paid by Donor	\$48,066
Principal returned to Donor after 5 years	\$899,840 *
Total Distributed to Donor over 5 year term	\$500,000

* Assumes total return of 6% for five-year term

Total cost to make \$500,000 gift is only \$100,160!



Bargain Sale

- Sell property to charity at reduced price
- Deduction for gift portion
- Gain on gift portion forgiven
- Gain on sale portion reportable



Case Study: Bargain Sale

Ms. Sawyer

- Age 52
- Married filing jointly
- 35% income tax bracket
- 18.8% capital gain tax bracket
- Rental property worth \$575,000
- \$350,000 basis; no mortgage
- Willing to make a gift
- Wants a zero tax solution



Case Study: Bargain Sale

Options

- Sell for \$575,000
 - ✓ \$42,300 capital gains tax
 - ✓ Net to Ms. Sawyer: \$532,700
 - ✓ No gift
- Sell to charity for \$477,191
 - ✓ Charitable deduction of \$97,809 saves \$34,953
 - ✓ Capital gains tax due: \$34,953
 - ✓ Net proceeds to Ms Sawyer: \$475,133
 - ✓ \$97,809 gift to charity



Life Insurance

- Gift of paid-up policy
- Gift of policy with premiums due
- Gift of new policy
- Charity named as beneficiary, not owner



Questions and Answers





Still Have a Question?

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