


PG Calc YOUR PARTNER IN PLANNED GIVING SUCCESS

Planned Giving for Younger Donors



Jeff Lydenberg
 Vice President, Consulting
jeff@pgcalc.com
 617-497-4997

March 29, 2018

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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


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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


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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%


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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


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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


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Why Bequests are Attractive to Younger Prospects

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


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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


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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


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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


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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


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Bequest Substitutes

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


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Supplementing Retirement Income

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


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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


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Charitable Remainder Trusts

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


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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?

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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!

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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

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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

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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


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Life Income for Another

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

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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


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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

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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

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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!


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Bargain Sale

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

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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

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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

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Life Insurance

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

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Questions and Answers



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Still Have a Question?

Contact: Jeff Lydenberg
Vice President, Consulting
PG Calc Incorporated
E-mail: jeff@pgcalc.com
