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Planned Giving for Younger Donors



Date: December 17, 2015
Time: 1:00 – 2:30 Eastern Time
Presenter: Jeff Lydenberg
Vice President, Consulting
PG Calc Incorporated




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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
 - \$18,000 for most in 2015
 - \$6,000 catch-up if 50 or older
- \$24,000 per working individual over 50
- \$48,000 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 in 2020
 - \$1,920 in 2021
 - \$3,040 in 2022
 - \$4,140 in 2023
 - \$5,300 in 2024 and 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 59½
- Wants to preserve his IRA until forced to withdraw
- Needs \$70,000 a year for 10 years
- Funds with \$840,293 in 2015
- Pays \$70,000 annuity until age 70 ½
- Remainder to charity at age 70 ½
 - \$442,712 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%!)
 - \$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, 33% 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 capital gain income- \$115,803 income
 - Offset by 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
- Pays income first to charity
- 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 6.1157% 20-year term CLAT
- 100% gift tax deduction
- \$4,892,560 to charity over 20 years
- \$7,449,171 to children in 20 years, then ages 49 and 47
 - Assumes 8% return


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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 \$475,133
 - Charitable deduction of \$99,867 saves \$34,953
 - Capital gains tax due: \$34,953
 - Net proceeds to Ms Sawyer: \$475,133

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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

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