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Effective Gift Planning Strategies in Turbulent Times



Date: June 25, 2020

Time: 1:00 – 2:30 Eastern

Presenter: Jeff Lydenberg
Vice President



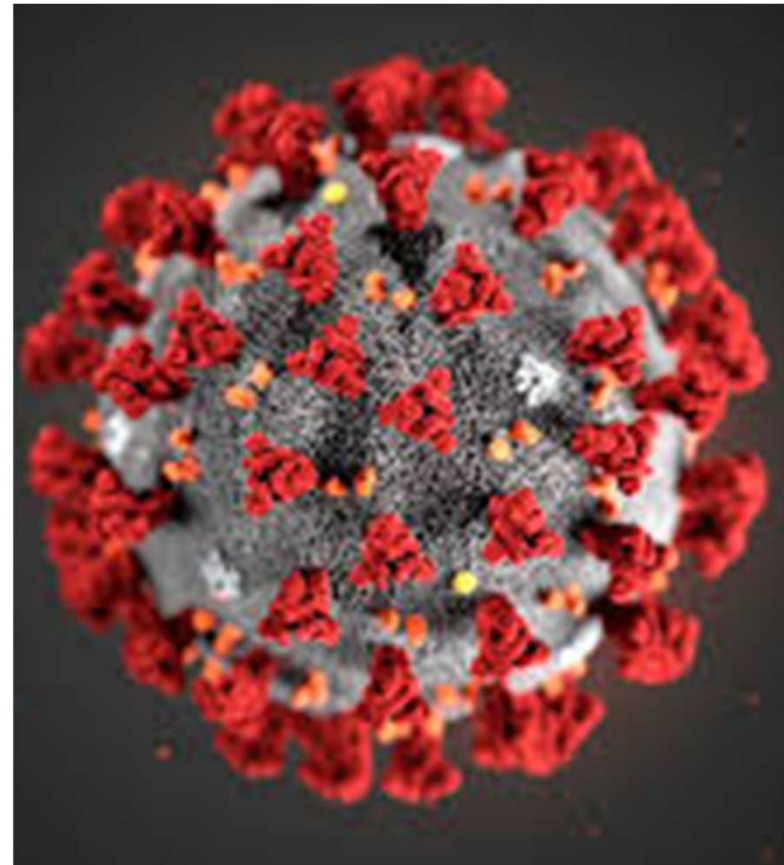
Agenda

- The American economy in June 2020 and legislative charitable incentives
- Planned gift solutions in hard times
 - ✓ Bequests/beneficiary designations
 - ✓ Gift annuities
 - ✓ Deferred gift annuities
 - ✓ Charitable remainder trusts
 - ✓ Virtual endowments
 - ✓ Blended pledges/planned gifts
 - ✓ Creative naming gift solutions



Agenda

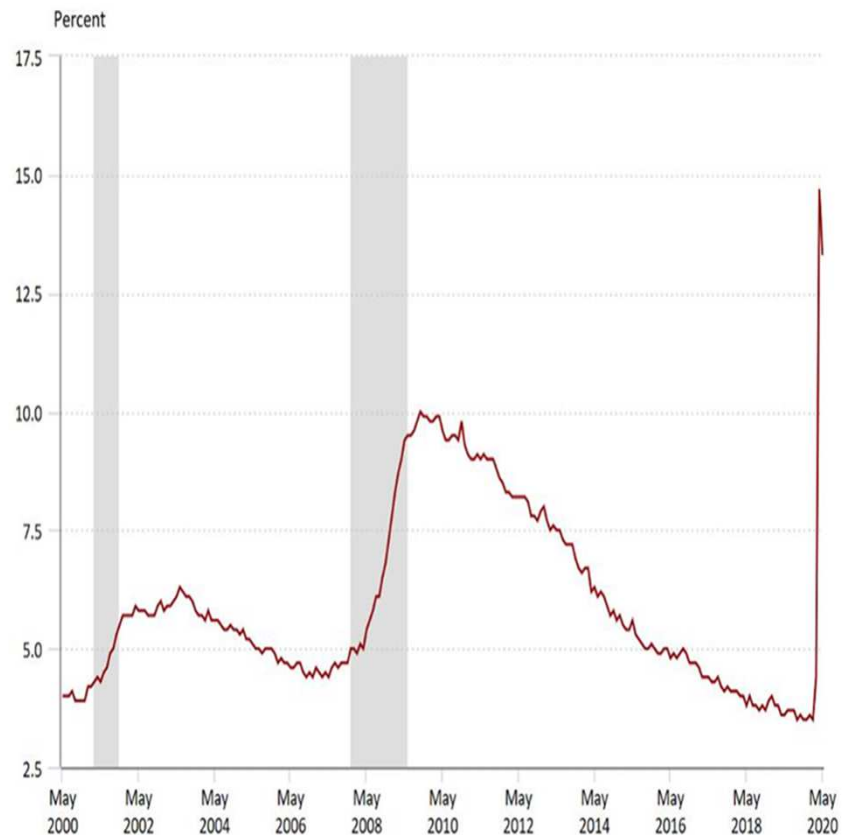
- Covid-19 pandemic first hit U.S. in January 2020
- First state shut down March 21, 2020
- All 50 states soon followed suit
- Crowd generating businesses forced to close
- Economic impact has been staggering
- State restrictions being relaxed as of June 2020





The American Economy-June 2020

- Record-setting unemployment compensation claims
- Sharp declines in retail sales
- Falling freight shipments
- Plummeting industrial production
- Unimaginable lows in price for crude oil
- U.S. officially in a recession





The American Economy-June 2020

- The High Net-worth Donor
 - ✓ Experiencing asset loss and volatility
 - ✓ Expecting deep negative short-term growth in 2020
 - ✓ Latter 2020 optimism for significant growth
 - ✓ Not all donors affected equally
 - ✓ Some stimulus provisions yield lucrative tax benefits



Approaching Loyal and HNW donors

- Acknowledge the impact of virus on society and the economy
- How is your charity involved in Covid-19 relief?
- First contacts focus on stewardship
 - ✓ Are you and your family ok?
 - ✓ How have you been affected by the pandemic?
 - ✓ Follow the donor's lead



Loyal and HNW donors

- Uncertainty
 - ✓ The 2020 watch word
 - ✓ Economic
 - ✓ Health
 - ✓ Lifestyle
- Major life changes
 - ✓ Motivated to get affairs in order
 - ✓ Anecdotally estate and wealth planners very busy



CARES Act

- Donors are planning now
- Donors are contemplating their legacy
- Donors want to help
- The needs continue





CARES Act

- The Coronavirus Aid, Relief, and Economic Security Act, or **CARES Act** signed into law on March 27th
- **100% of AGI limit available in 2020 for cash gifts**
 - ✓ In 2020 only, may deduct up to 100% of income
 - ✓ Normally may not deduct all that you earn to zero out tax
 - ✓ Under prior law, could not deduct more than 60% of earned income



CARES Act

- **For 2020 only, non-itemizers may reduce their reportable income by \$300.**
- Limited to \$300 per tax return
- May not make gifts to donor advised funds or supporting organizations
- Encourages the 90% of non-itemizing taxpayers to make more cash gifts in 2020
- Donors who itemize still take charitable deduction



CARES Act

- **Required minimum distributions waived in 2020**
 - ✓ Minimum distributions not required from IRAs, 401(k)s, 403(b)s
 - ✓ Required minimum distributions that would have had to start in 2020 don't have to start until 2021
 - ✓ Could dampen interest in making qualified charitable distribution (QCD)
 - ✓ **Nonetheless, a QCD in 2020 allows non-itemizers to make gifts to charity with the same benefits of a fully deductible gift**





Proposed Legislation

- Senate considering plan to increase the \$300 adjustment to income for non-itemizers
- Initial amount would be one-third of the standard deduction
- In 2020, that is \$4,133 for individuals and \$8,267 for married couples
- Economic models suggest provision would reduce federal tax revenue more than it increases charitable gifts



Planned Gifts for Hard Times

- Planned gifts acknowledge uncertainty considering economics and pandemic
- Testamentary (effective at death) gifts offer greatest flexibility
- Revocable gifts responsive to changing conditions
- Life income gifts benefit donor and charity





Bequests and Beneficiary Designations

- Why donors love these gifts
 - ✓ Flexible
 - ✓ Revocable
 - ✓ Donor maintains control
- Why charity should love these gifts
 - ✓ Largest gift these donors will ever make
 - ✓ Many multiples greater than life-time giving
 - ✓ Require fewest charity resources of all planned gifts





Bequests and Beneficiary Designations

- Majority of planned gifts made this way
- Largest source of planned gift dollars
- Generally revocable and can be contingent
- Legacy Society cornerstone of estate giving program



Life Income Gifts to Calm Troubled Waters

- **Gift Annuities**
 - ✓ Best gift for donors seeking fixed, guaranteed payments
- **Pooled Income Fund**
 - ✓ Accommodates smaller gifts from donors seeking income growth
- **Charitable Remainder Trusts**
 - ✓ Best suited for six figure plus gifts
 - ✓ Unitrust most popular because it offers inflation protection
 - ✓ Best option when funding with real estate/illiquid assets



The Gift Annuity

- Rates based on annuitants age using ACGA rates
 - ✓ Uniform rates discourage charity shopping
 - ✓ Updated rates effective July 1, 2020
- Older annuitant, higher the payment
- Payments are fixed and guaranteed by charity
- No inflation protection, but safe



The Gift Annuity

- George and Rita, 76 and 75
- **\$25,000** gift for a CGA
- Pays annuitants \$1,175 (**4.7%** of 25,000) annually for life
- **\$9,018** income tax deduction (0.8% discount rate)
- 85% of each payment **tax-free** for first 16 years
- Payments to George and Mary as long as they live!



The Deferred Gift Annuity

- Matt and Jenna, 68 and 65
 - ✓ Immediate annuity rate 3.9%
 - ✓ Defer payments until Matt 73 and Jenna 70, **4.9% rate**
- \$25,000 deferred annuity
 - ✓ Income tax deduction **\$6,864** (0.8% discount rate)
 - ✓ Compounded annuity payment of **\$1,225**
 - ✓ **77%** of each annuity payment tax-free for first 19 years



Charitable Remainder Unitrust

- Unitrust pays fixed percentage of trust value as revalued annually
- Year one: 5% payout, trust value \$1,250,000; Unitrust payment **\$62,500**
- Year two: 5% payout, trust value \$1,450,000; Unitrust payment **\$72,500**
- Year three: 5% payout, trust value \$1,100,000; Unitrust payment **\$55,000**



Charitable Remainder Unitrust

- Trip and Bunny, 60 and 58
- Commercial office building valued at \$2.5M
- Building sale generates significant capital gain
- Trip and Bunny still want the cash flow
- How can they save taxes, generate income, and benefit charity?





Charitable Remainder Unitrust

- Building donated to a charitable remainder trust with a flip provision
- Prior to sale, trust pays its net income (current rents) to Trip and Bunny
- Year after sale, trust will pay a regular unitrust amount
- Income from trust investments for life



Blended Gift Solutions

- **The Virtual Endowment**
 - ✓ Solicitation for \$3M endowment fund
 - ✓ Donors balk
- The annual spend rate on a \$3M endowment is 5% or \$150,000 per year
- Donors pledge to make annual gifts of \$150,000 per year for life
- Additionally agree to fully fund endowment at death
- Consider a portion up front, balance at death



Flexible Gifts to Maximize Giving

- **Endowment Backed by Estate Gift**
 - ✓ \$5M solicitation
 - ✓ To be paid in 5-year pledge
 - ✓ Donors concerned about market conditions
- Pledge for \$2.5M payable in 5 to 7 years
- Balance payable from estate
- Gift agreement contemplates variance of recognition



Flexible Gifts to Maximize Giving

- **Creative Capital Naming Opportunities**
 - ✓ Solicit \$10M naming opportunity
 - ✓ Revocable planned gifts not eligible for naming spaces





Flexible Gifts to Maximize Giving

- **Creative Capital Naming Opportunities**
- Combination of outright gift and irrevocable planned gift
 - ✓ 75% outright portion shall be payable in a 5 to 7-year pledge
 - ✓ If the planned gift is an irrevocable bequest:
 - ✓ Donor must be 75 years or older
 - ✓ Require documentation of donor's estate plan
- Naming/recognition may be modified commensurate with gift actually received



Flexible Gifts to Maximize Giving

- **SECURE Act eliminated the stretch IRA**
 - ✓ Under prior law, parents could spread out payments to heirs from IRAs over life expectancy of heirs (the "stretch IRA")
 - ✓ Inherited IRA must be distributed within 10 years of plan owner's death
 - ✓ Accelerates taxes due and eliminates tax-free growth
- **Life income gifts for heirs**
 - ✓ Make CRT the beneficiary of the IRA
 - ✓ IRA money has never been taxed, taxable as paid to heirs
 - ✓ CRT delays heir's liability for taxes, reducing net cost



Questions?





Still Have a Question?

Contact: Jeff Lydenberg

Email: jeff@pgcalc.com

Phone: 888-497-4970