TOOLS & TECHNIQUES OF PLANNED GIVING

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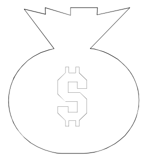
Certified Specialist in Planned Giving



Which is the best gift?

Best gift is one that meets the needs & desires of the donor & is compatible with the needs, program, direction & capabilities of the charity.

Good gift is developed in concert with the donor's advisors & the planned giving officer.

A planned gift is any gift of any kind for any amount given for any purpose -- whether given currently or deferred, if the assistance of a professional staff person, qualified volunteer, or the donor's advisor is required to complete the gift. In addition, it includes any gift which is carefully considered by a donor in light of estate & financial plans.

- Robert Sharpe Jr.

Planned giving is the integration of sound personal, financial, and estate planning concepts with the individual donor's plan for lifetime or testamentary giving.

DEFERRED GIFTS

Charity's benefit deferred, donor benefits immediately in some way.

LIFE INCOME GIFT PLANS

Provide an come for the donor for life or for a term of years.

The Gift Planning Encounter

Focus on the Donor/Client

Start by seeking to understand the donor/client.

The Gift Encounter
What are your needs?

- Increased retirement income.
- Reduce current income tax.
- Provide assets / income for heirs.
- Reduce estate or move assets out of estate.
- Avoid capital gains taxes.
- Turn appreciated asset into income.
- Gift to charity.

The Gift Encounter

- What are your desires? What would you like to do?
- What assets do you have to work with?
  - Cash, securities, real estate.
- Develop the plan.
- Transfer assets via the gift plan.

Implement the gift plan.

Ameriprise Financial Advisors
People buy services or products because they and their problems are understood by the seller.

Planned Giving Officers
Donors make planned gifts because they feel that they & their needs are understood by the organization's representative.

PLANNED GIFTS
are
SPLIT INTEREST GIFTS

Income Interest

Remainder Interest

Charitable Remainder Trust

Income Interest

Remainder Interest

People
Donors or Others

Charity

Charitable Lead Trust

Income Interest

Remainder Interest

Charity

People
Donors or Others

Why people create planned gifts?

1 Meet the need for significance & meaning.

2 Provide support for charities that are meaningful to the donor.

3 Receive significant tax savings.

- Income tax savings
- Capital gains tax savings
- Estate tax savings

Why people create planned gifts?

4 Increase the donor’s spendable income.

5 Eliminate estate problems.

Key Definitions

- Capital gain or loss -- profit or loss resulting from sale or disposal of a capital asset.
- Ordinary income -- rent, royalties, interest and dividends.
- Face value (initial value) -- established FMV at time of the gift.

Key Definitions

- Fair Market Value -- price a knowledgeable buyer would pay for the asset to knowledgeable & willing seller.
- Present Value of Remainder Interest (IRS Deduction Value) -- the value (in today’s dollars) of the remainder of a gift that will flow to a charity sometime in the future. Donor’s income tax deduction.

Key Definitions

- Applicable Federal Rate (AFR)

  §7520 Rate -- monthly discount rate used in gift calculations. Based on 120% of the federal midterm interest rate as published each month.

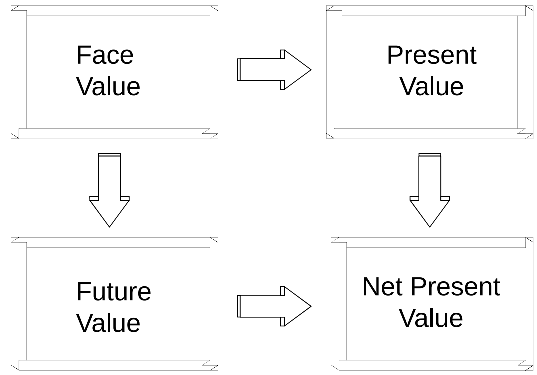
PATH OF THE §7520 RATE

March, 2000	8.2
March, 2001	6.2
September, 2001	4.8
October, 2007	5.2
March, 2008	3.6
July, 2010	2.8
July, 2012	1.2
July, 2013	1.4
June, 2014	2.2

AFR rates are the lowest in history – and have remained low.

Key Definitions

- Future Remainder Value -- the value (in tomorrow's dollars) of the remainder of a gift that will flow to a charity in the future. Calculated estimate based on assumed investment earnings.
- Net Present Value (NCPG Present Value) -- the value (in today's dollars) of a future gift, including growth in value of the principal. Future value discounted to today's dollars.



BEQUEST

Bequest is made thru donor's estate plan. Donor controls while living.

1. Give a specific amount.
2. Give a specific asset.
3. Give a % of the estate. Advantages?
4. Give a part of the residue of the estate.

LIFE INSURANCE

1 Paid-up policy -- donor can deduct lesser of FMV or net premiums paid.

2 New policy with charity as owner -- donor can deduct donations to charity that are used for premium payments.

3 Policy names charity, but donor retains ownership -- no immediate tax savings.

Life-income Gift Plans

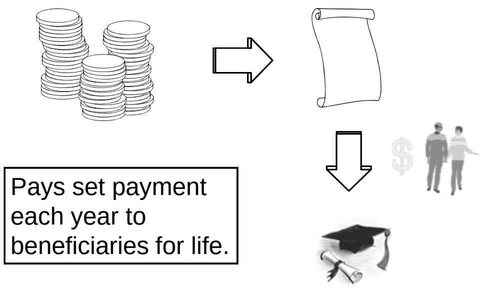
Provide income to a beneficiary and
eventual benefit to charity

Charitable Gift Annuity
Fixed Payment Contract

A contract with a charity that provides fixed payments for the life of one or two annuitants.

Payout rate based on age when gift is made.

Gift Annuity - Fixed Payment



CGAs in OREGON

- ORS 731.038 governs CGAs
- Oregon law exempts CGAs from regulation as an insurance company.
- In order for charity to issue CGAs:
  - Be a valid charity
  - Have minimum of $300,000 in net assets
  - Maintain copy of current audited fin. statement.
  - Been in continuous operation for at least 5 years.

CGAs in WASHINGTON

- Regulated state – must have Certificate of Exemption permitting operation.
- $10,000 fine for operating w/o license plus fine for each illegally issued contract.
- In order for charity to issue CGAs:
  - Possess current tax exempt status
  - Doing business in WA for at least three years
  - Minimum unrestricted net assets of $500,000 – neither permanently or temporarily restricted
  - Contract forms must be approved in advance

Gift Annuity

1 Payout rates recommended by American Council on Gift Annuities.

2 Portion of each payment tax free -- it is considered a return of principal.

3 Assets of organization provide security for payments.

4 Payments for life fo one or two people.

5 Annuity agreement is irrevocable.

Gift Annuity

6 Donor receives income tax deduction at the time the annuity is established.

7 Capital gains, if applicable, are reduced by the gift and the balance is spread over the life of the annuitant.

- Different than with unitrust where capital gain avoided.
- Is this bad?

Gift Annuity

8 Can be funded with tangible personal property w/o delay in deduction.

9 Involves a simple contract with the donor – it is not expensive for donor to establish a gift annuity.

Gift Annuity Rates

One Life		Two Life	
65	4.7%	65,65	4.2%
70	5.1%	70,70	4.6%
75	5.8%	75,75	5.0%
80	6.8%	80,80	5.7%
85	7.8%	85,85	6.7%
90	9.0%	90,90	8.2%

Example - Gift Annuity #1

Single woman	Age 77
Modest Means	CDs paying 4%
Amount of gift	$100,000
Payout rate	8.1%
Annual payout	$ 8,100
Tax-free $4,093	Taxable $4,007
Income tax deduction	$ 54,562

Example -- Gift Annuity #2

Three years later -- age 80

Amount of gift		$50,000
Payout rate		9.4%
Annual payout		$ 4,700
Tax-free	$2,805	
Taxable	$1,895	
Income tax deduction		$23,630

Example -- Gift Annuity #3

Three years later -- age 81

Amount of gift		$50,000
Payout rate		9.4%
Annual payout		$ 4,700
Tax-free	$2,919	
Taxable	$1,781	
Income tax deduction		$24,309

Example -- Gift Annuity #4

Three years later -- age 82

Amount of gift		$50,000
Payout rate		9.6%
Annual payout		$ 4,800
Tax-free	$3,180	
Taxable	$1,620	
Income tax deduction		$23,605

When to use a gift annuity?

- Older individuals seeking security of fixed payments.
- Payout rates appeal to older donors.
- Cash or high basis assets create tax-free distributions.
- Asset value too low for a unitrust.

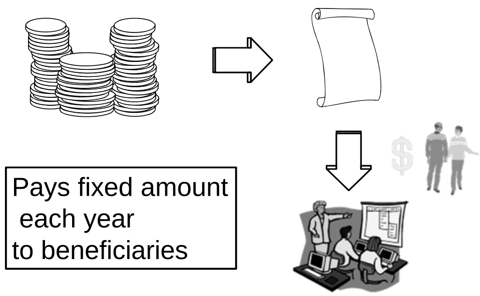
Gift Annuity Variations

- Dealing with debt encumbered property.
- Deferred Payment Gift Annuity.
- Elective Start Date Deferred Annuity.
- Lump Sum Payment
  or College Gift Annuity
- Installment Payment Gift Annuity

Charitable Remainder Annuity Trust
Fixed Payment Trust

An irrevocable trust that provides an income for the donor(s) life or up to 20 years. Annuity trust provides a fixed income based on a specific amount or percentage of the initial value of the trust.

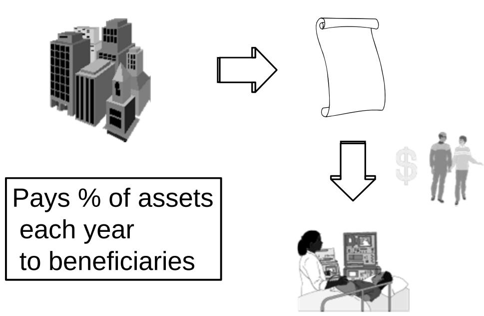
Annuity Trust - Fixed Payment



Charitable Remainder Unitrust
Variable Payment Trust

An irrevocable trust that provides an income for the donor(s) life or up to 20 years. Unitrust provides a variable income based on a percentage of the annual value of the trust assets as determined each year.

Unitrust - Variable Payment



Unitrust

1 Definition of a unitrust

A unitrust provides an annual income to a beneficiary for the term of the trust. Then, the trust assets are transferred to the charity named in the trust.

Amount payable each year will be a fixed percentage (not less than 5%) of the FMV of the assets.

Unitrust

1 Definition

Because the value of the trust assets (principal) may increase each year, the income may increase from year-to-year.

A unitrust with a 6% payout rate that earns 8% will pay the beneficiary 6% and add 2% to the trust principal.

Unitrust

2 Additional contributions can be made.

3 Payout rate must be at least 5%, maximum rate allowed by IRS is 50%.

4 Trust must provide at least a 10% PV remainder value as a gift to charity, however most charities prefer 20%.

Unitrust

5 Donor receives income tax deduction for portion of value of assets in the year of the gift.

- Deduction limited to 50% AGI for cash.
- Deduction limited to 30% of AGI for appreciated asset gifts.
- Deduction may be used in year of gift and excess deduction may be carried forward 5 additional years.

Unitrust

6 Capital gains tax avoided when trust established.

Property must be transferred to trust prior to any sale - no escrow, contract or agreement involving donor & purchaser.

7 Property transferred to a unitrust cannot be mortgaged. Debt must be cleared prior to the gift.

4 Tier Distribution of Trust Income

1 Ordinary income -- rent, royalties, interest and dividends.

2 Capital gains.

- Asset retains donor's basis.
- Pre-gift gain and post-gift gain.

3 Tax-exempt income.

4 Distribution of principal.

4 Types of Unitrusts

1 Standard -- pays the % amount, even if necessary to invade principal. Can be invested for total return.

2 Net income without make up -- payments limited to distributable net income -- rent, royalties, interest & dividends.

4 Types of Unitrusts

3 Net income with make up -- when trust income not sufficient for payments, creates a make up account to increase payments in years when investments perform better.

4 FLIP trust -- upon occurrence of an event or date, trust changes from net income to standard unitrust.

Used in most cases with real estate.

Example

- Husband & wife -- ages 62, 62
- Undeveloped property purchased for $20,000.
- FMV now is $200,000.
- Capital gain of $180,000 = potential capital gain tax of $27,000.

  (Oregon -- $40,770)

Example

- FLIP - Standard Unitrust with payout rate of 6.0%.
- Tax deduction of $47,512.
- Income tax bracket -- 31%
- Trust investment return -- 8%

  (2% ordinary income, 6% capital gain)

Example

Gross Annual Income (before tax)

Year 5	$ 12,198
Year 10	$ 12,540
Year 15	$ 12,899
Year 20	$ 13,274
Anticipated	
Total Return	$348,817

Unitrust Variations

- Term of Years Trust for Family.
- Longer of Term or Life for Family.
- Unitrust as a supplemental retirement plan.
- Wealth Replacement Trust -- Irrevocable Life Insurance Trust

Wealth Replacement Trust

Irrevocable Life Insurance Trust

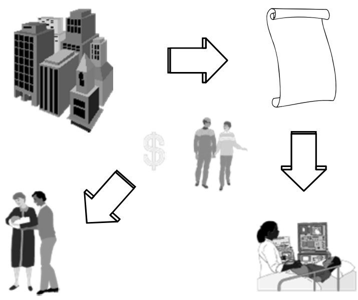
WRT is especially for the donor who …

1 Seeks to increase current income from appreciated assets.

2 Desires to support charity.

3 Wants to pass capital down to heirs.

Wealth Replacement Trust



TYPICAL CRT DONOR

1. Modestly wealth – have assets.
2. Own appreciated assets – save on capital gains taxes.
3. Over 55.
   - 55-75 for unitrust
   - 70 + for annuity trusts
4. Charitable intent – may become charitable when advantages understood.
5. CRT can provide supplemental income or diversification.

Pooled Income Fund

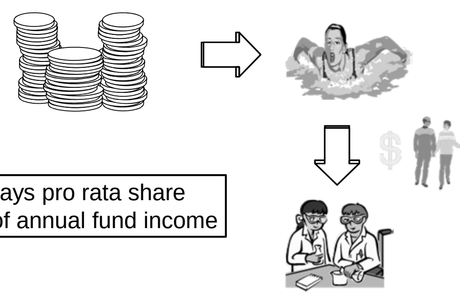
Gifts of many donors are commingled and the annual earnings are shared on a pro-rata basis.

PIF will accept smaller gifts than a unitrust.

Current income fund invests in bonds.

Growth fund will have % in equities for growth in the fund over time.

Pooled Income Fund



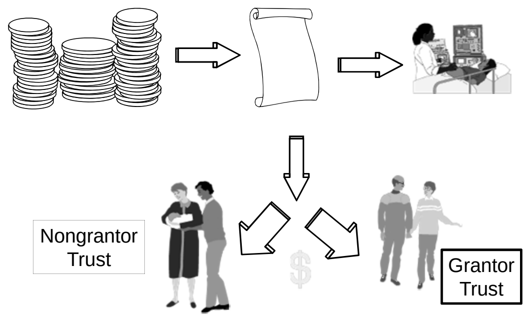
Revocable Living Trust

- Provides for management of assets.
- Additional contributions can be made at any time.
- Savings in estate settlement costs.
- No current income tax deduction.

Charitable Lead Trust

Income interest paid to charity, then remainder either returned to donor
(Grantor Trust)
or distributed to heirs
(Nongrantor Trust).

Charitable Lead Trust



Charitable Lead Trust

Income interest paid to charity, then remainder either returned to donor or distributed to heirs.

Annuity Trust (CLAT)
or
Unitrust (CLUT)

	Income Tax Deduction	Income taxable to donor
Grantor CLT	Yes	Yes
Non Grantor CLT	No	No

	Gift Tax Deduction	Estate Tax Deduction
Grantor CLT	Yes	N/A
Non Grantor CLT	Yes	Yes

Charitable Lead Trust

- Planning goal – reduce estate by $1 million.
- Provide tax-advantaged means of transferring assets to daughter.

Gift asset value	$1,000,000
Term	10 years
Payout rate	9.5%
PV of gift to daughter	$ 221,740

Charitable trusts are powerful tools to …

1. Create income from appreciated assets.
2. Avoid capital gains taxes upon transfer of assets.
3. Diversify a client’s portfolio.
4. Solve estate planning challenges.
5. Reduce size of the estate.
6. Aid charities that are important to the donor.

Other Gift Options

Transfer Gifts
Transfer Ownership from Donor to Charity

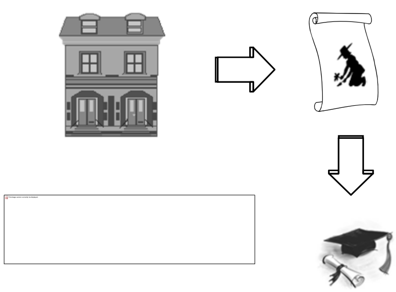
- Outright gift of property
- Bargain sale
- Installment bargain sale

Life Estate Agreement

Gift of remainder interest in residence, vacation home, or farm

- Donor transfers title to charity now & retains right to live there and/or use the real estate for life.
- At donor's demise, charity sells the property to use the proceeds as needed or directed in the agreement.

Life Estate



Life Estate Agreement

1 Donor retains right to use home for life. Donor receives any income property generates.
2 Donor receives immediate tax deduction in year of gift.
3 Capital gains tax on appreciated property avoided.
4 Property passes directly to charity at the donor's death.

Life Estate Agreement

5 Property is deducted from the donor's estate, so estate taxes are reduced.
6 Generally, donor remains responsible for maintenance, property taxes and insurance.

TYPICAL PLANNED GIVING DONOR

- Over age 55.
- Record of giving to the organization.
- Single, couple without children, or provided for children.
- Women - they live longer & control the money.
- Motivated to think about estate or financial planning issues.

The Gift Factor
Frank Minton

- Bottom life – people make planned gift decisions based on emotion – not logic.

1. PGs primarily motivated by psychological factors – loyalty, beliefs.
2. Financial benefits help determine the type, size, and timing of a gift, but rarely generate the gift.

The Gift Factor
Frank Minton

3. Practical considerations (simplifying life or management) are often more important than the financial benefits.
4. Planned giving program is not strictly a “numbers” game – emotional and practical links to assets have to be addressed.

Determining which Gift

Determine Expected Plan Term

15 Years or Less

Longer than 15 Years

Minimum Size of Gift

Gift Annuity

Annuity Trust

Unitrust

Pooled Income Fund

Asset to be Contributed

AGE-BASED VIEW OF SEGMENTATION

40-50	Emerging Parents	Baby Boomers
50-60	Empty Nesters	Baby Boomers
60-70	Happily Retired	Early Boomers Veterans
70+	Older Seniors	Veterans Roaring 20s

WEALTH-BASED SEGMENTATION

	Total Assets	**Annual Income**
Wealthy	$2 million +	$150,000 or more
Moderately Wealthy	$750,000 - $2,000,000	$75,000 - $150,000
Basic Middle Class	$300,000 - $750,000	$40,000 - $75,000
Limited Means	> $300,000	> $40,000

PLANNED GIFT VEHICLES

- Bequests - older, long-term donors.
- Gift Annuities - smaller gifts, cash.
- Deferred Gift Annuities - alternative retirement plan.
- Pooled Income Fund - smaller gifts.

PLANNED GIFT VEHICLES

- Unitrust - standard - age 60+, long-term capital gain assets.
- Unitrust for a term of years.
- FLIP unitrust - retirement trust, real estate.
- Annuity Trust - older donors.

Wealth-Based Gift Plans

Robert Sharpe Jr.

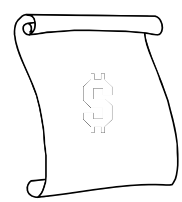
	Emerging Parents	**Empty Nesters**	**Happily Retired**	**Older Seniors**
Wealthy	Cash Appreciated property CLTs Term of Years Trusts LI Gifts > Others	Cash Appreciated Property CLTs Term of Years Trusts LI Gifts > Others	Cash Appreciated property CLTs Term of Years Trusts LI Gifts > Others LI Gifts > Donor	Cash Appreciated Property CLTs Term of Years Trusts LI Gifts > Others LI Gifts > Donor
Moderately Wealthy	Cash	Cash Appreciated Property Term of Years Trusts DCGAs	Cash Appreciated Property Term of Years Trusts LI Gifts > Donor	Cash Appreciated Property Term of Years Trusts LI Gifts > Donor
Basic Middle Class	Cash	Cash	Cash CGAs	Cash CRTs App Prop CGAs
Limited Means	Cash	Cash	Cash	Cash

Which is the best gift?

Best gift is one that meets the needs & desires of the donor & is compatible with the needs, program, direction & capabilities of the charity.

Good gift is developed in concert with the donor's advisors & the planned giving officer.

DETERMINING THE PAYOUT RATE

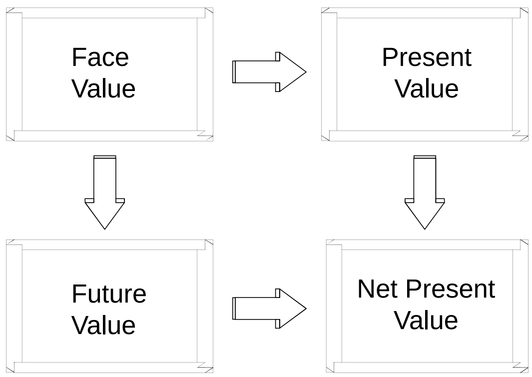


FACTORS TO CONSIDER

1 Government regulations.
2 Concerns of the donor.
3 Concerns of the charity.

FACTORS TO CONSIDER

4 Fiduciary role of the trustee.
(Donor, Bank, Charity)
5 Prudent investor rule standard.
6 Priority of the donor's interest.



EVALUATING PAYOUT RATES

1 Present Value range as a “rule of thumb”

Preferred	35 - 50%
Acceptable	20 - 35%
Questionable	15 - 20%
Not generally acceptable	< 15%

Government minimum PV = 10%

EVALUATING PAYOUT RATES

Problem with present value -- does not consider investment earnings over time that are part of a deferred gift plan.

However, present value is one consistent way to evaluate relative value of gift plans.

EVALUATING PAYOUT RATES

2 Net Present Value (NCPG Present Value) includes an allowance for investment earnings & growth in principal over time.

Many charities aim for a NPV of not less than 50%.

Factors -- assumed investment return, growth, mgmt. expenses, discount rate.

EVALUATING PAYOUT RATES

3 Some charities look at the net return from a deferred gift after expenses compared with the expected return from a current gift.

4 Donors may construct a deferred gift plan apart from considerations for the charity.