The Privilege of SHAPING TOMORROW

A GIFT-PLANNING NEWSLETTER FOR FRIENDS AND ALUMNI

UNIVERSITY of ROCHESTER
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Year-End Issues: A Charitable Planning Quiz

With the new year fast approaching, your thoughts are likely turning to steps to consider for optimum tax results in 2011 and beyond. Charitable planning options and opportunities are among the most versatile tools at your disposal. We offer a year-end planning quiz to help highlight some of the key issues.

"We have been fortunate to utilize a variety of year-end giving vehicles to support our philanthropic and financial-planning goals. Through annual, special, and testamentary commitments, we are able to provide support to nursing students now and into the future. We all benefited from those who came before and feel it's important to give back."

T.C. '60 and Pam '62 Lewis, charter and sustaining members of the George Eastman Circle, with Michael J. Hasselberg '07 N (M.S.), the Lewis Scholarship recipient.

Issue #1: How to Reduce Income Taxes This Year

Background: Charles Bishop, aged 91, would like to make a gift of $100,000 in support of his philanthropic priority at the University. Most of his assets are held in his IRA, from which he must take annual required minimum distributions. In addition to making a gift, Charles would also like to reduce his income-tax obligation.

Q: To fund his gift, which of the following should Charles consider?

A. Borrowing money on his house
B. Withdrawing money from his IRA
C. Charging his gift to his credit card
D. A direct IRA charitable rollover to the University of Rochester

Answer: D. If you take a distribution from your IRA account or another qualified retirement account, the amount of that distribution is included in your income for the year in which you take the distribution. For several years now, taxpayers aged 70½ and older have had the option to make a direct transfer of up to $100,000 from their IRA accounts to a charitable organization—a kind of charitable rollover—without the transfer being treated as a taxable distribution to the account owner. Last year's tax legislation extended this option through the 2011 tax year.

"The University had strong and enduring influences on both Beverly's and my scientific lives. We wanted to contribute to its future goals in advancing neuroscience. We were fortunate to utilize the IRA charitable rollover numerous times to help accomplish our philanthropic goals."

Charles W. Bishop '46 M (Ph.D.), Dr. Michael Tanenhaus, the Bishop Professor in Brain and Cognitive Sciences, and the late Dr. Beverly Petterson Bishop '46 (M.A.).

Issue #2: Minimizing Capital-Gain Tax

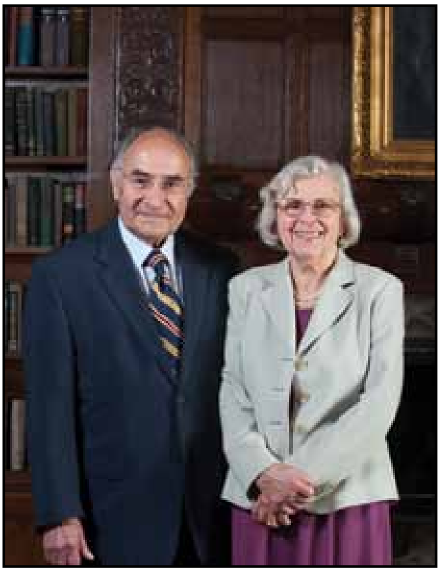
Background: Gene W, 70, retired recently. Gene has been quite pleased with the growth he has been able to achieve with his portfolio and would now like to convert some of his holdings to higher-yielding investments—especially since he has some concerns about the future direction of the stock market. He does not, however, find the current yield on income-producing investments to be attractive and is reluctant to sell stock and generate taxable capital gain. A longtime supporter, Gene would also like to find a way to make a special gift to the University of Rochester.

Q: How might Gene best achieve his goals?

A. Transfer stock to the University in exchange for a charitable gift annuity
B. Take a chance on a junk bond fund and give us part of the increased yield
C. Enter into a reverse mortgage agreement on his house
D. Sell his stock and wait for higher interest rates

Answer: A. Gene can acquire a charitable gift annuity from the University, and it will pay him a guaranteed amount each year for the rest of his life (based on the value of the stock he transfers). For instance, if Gene transferred $100,000 worth of stock, the University would agree to pay him $5,800 each year for life based on his age of 70. A portion of his annual payment would be tax-free for a number of years.

Gene would be able to take a charitable tax deduction this year. Better still, he would have to recognize and pay tax on only a portion of the gain he would have realized had he sold the stock—and he could spread the recognition of that reduced amount of gain over the period of his life expectancy.



"The occasion of my 50th reunion inspired us to invest in the Class of 1961 Scholarship Fund. It's a meaningful way to acknowledge our appreciation for our Rochester educations and provide support for deserving medical students for generations to come."

Dr. Hechmat '61 M (M.D.) and Mrs. Marge Tabechian '60 W. The Tabechians established a University charitable gift annuity with appreciated securities.

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Issue #3: Ensuring a Secure and Fulfilling Retirement

Background: Carol R, 50, wants to enjoy a secure and fulfilling retirement when the time comes. She has availed herself of all traditional tax-advantaged retirement-savings options open to her but still feels that it is important to do more and finds herself looking for ways to combine her charitable and retirement-savings goals.

Q: Which of the following addresses both of Carol's goals simultaneously?

A. Downsize her home
B. Make charitable gifts that create a source of future cash flow
C. Buy bonds that mature in 15 years
D. Open a new savings account

Answer: B. Carol can take advantage of creative opportunities that allow her to make charitable gifts to benefit the University and retain the right to receive annual payments based on the value of those gifts. Some plans would let her defer part or all of the payments until retirement, when it is most needed.

Example: Carol decides to contribute $25,000 each year for the next 15 years to a special trust that will pay her 6% of its annual value each year for life. At her death, the remaining trust assets will pass to the University of Rochester.

Because Carol doesn't need additional cash flow now, she includes provisions in the trust that she will receive payments only from the trust's income—and not appreciation—for the first 15 years. If the trust is invested primarily for growth instead of income, little or nothing will be paid out in those first 15 years and the trust will grow much more quickly. This means Carol will receive larger payments at retirement.

For instance, if the trust appreciates at an average rate of 7% per year, Carol will begin receiving payments of almost $38,000 when she turns 65. Over her life expectancy she will collect about $784,000. At Carol's death, the remaining trust assets—more than $758,000—will pass to the University.

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- ☐ George Eastman Circle

Comments

(Please fold and tape closed before mailing.)

Issue #4: Managing Your Cash

Background: Tom D is a faithful University of Rochester supporter at age 60. In reviewing the status of his investments, he discovers that he has realized 50% less in dividend income than in previous years. He would like to increase his support above his traditional level but needs to identify a secure means to generate additional income.

Q: As he plans his gift for 2011, should Tom consider?

A. Writing a check for half his typical amount

B. Skipping his gift because the decline in the value of his stock will generate a deduction

C. Giving us some of his losing stock to get it out of his portfolio

D. Funding a charitable gift annuity with $10,000 cash

Answer: D. If Tom makes a gift of $10,000 in cash and funds a charitable gift annuity, he will enjoy a guaranteed stream of annuity income of $480 annually for the rest of his life ($301 would be tax-free annually for a period of years). He will also enjoy a charitable tax deduction this year. It's a solution where he is able to continue his generous gifts to the University while guaranteeing a level of annual income for the balance of his life.

Take Your Next Steps for a Year-End Gift

1. **Visit** us online at www.rochester.giftplans.org.
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4. **E-mail** us at Kreckel@alumni.rochester.edu.

"By helping one doctor, I can affect thousands of people and their health."

Barbara A. Simms (pictured at left with UR medical student), whose estate plan provides for substantial funding of the Barbara A. Simms Endowed Scholarship Fund for medical students.

Visit our Web site at www.rochester.giftplans.org

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