Pittsburgh Planned Giving Council

Planned Giving 101

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Goals for Today

- To Impart a Basic Understanding of Planned Giving Strategies
- To Impart an Understanding of the Link between Today's Economy and Planned Giving Opportunities

What is Planned Giving?

- Planned Giving, sometimes referred to as Philanthropic Planning, is any technique that allows a donor to make a tax-wise gift during life or at death, as part of a financial or estate plan.
- Planned Giving allows a donor to express personal values by integrating charitable, family and financial goals.
- Planned gifts usually require the assistance of a charity's development professional and/or a knowledgeable advisor, such as an attorney, financial planner, or CPA to help structure the gift. (Definition derived from National Association of Charitable Gift Planners or CGP).

Myth Busting

- Planned Giving donors are not *necessarily* <u>older</u>, <u>wealthy</u> and <u>hard to find</u>.
- The greatest predictor of who will become a Planned Giving donor is LOYALTY to your organization. Repeat Givers are loyal
- Charity doesn't have to wait until DEATH to receive a planned gift.

Three Major Categories of Planned Gifts

- Outright Gifts that Use Appreciated Assets as Substitutes for Cash
- Gifts that Return Financial Benefits to the Donor
- Gifts Payable to a Beneficiary upon the Death of the Donor

PlannedGiving.com (2011)

United States Statistics*

- In 2015, individual, lifetime charitable giving rose an inflation adjusted 3.7%, accounting for $264.58 billion in contributions.
- Lifetime giving by individuals represents 71% of all giving.
- Giving by bequest represents 9% of all giving.
- In 2015, the number of charitable gifts given by bequest rose an inflation adjusted 2.1%, represented by $31.76 billion. The growth of bequests as a charitable mechanism, after a recession charged spurt in popularity, is starting to slow slightly in growth.

*Giving USA Foundation, Giving USA 2015.

In 2017, The Current Economic Climate + Low Interest Rates + Anticipated Tax Law Changes =

Planned Giving as a Strategy can
Maximize Outcomes for
Donors and Charities

LEGISLATIVE UPDATE: HOT TOPICS

- IRA Rollover made permanent
- U.S. Department of Labor Final Overtime Rule Regulations – probably dead
- Johnson Amendment Repeal – under debate
- What Federal Budget Cuts will affect charitable organizations?
  - State pushback to keep important state programs funded
- Income Tax Reform:
  - No consensus yet, but President and House plans are similar*
  - Goal is to finish tax reform by August, 2017
    - House Ways and Means Committee has a "Blueprint"
    - The White House has a "Plan"
    - The Senate is "Working on it"
    - A bipartisan "Problem Solvers Caucus" has been created**
    - For Corporations, both the House and President's plans call for tax reductions and lower deductions and credits**

Glossary of Legal Terms

- How To Know Enough to be Dangerous when talking to Donor/Advisors!
- Goal – some familiarity with concepts and ideas for helping Donors.
  - You will <u>not</u> become tax experts!

Key Definitions

- Appreciated Property - Securities, real estate or any non-cash property that has risen in value since the benefactor acquired it.
- Annuity – A contract to give the right to fixed payments for life or a term of years.
- Beneficiary – Person who benefits from the act of another.
- Charitable Remainder – The property that passes to a charitable organization after the life beneficiary's death.
- Endowment – Transfer, generally as a gift, of money or property to an institution for a particular purpose. Example: gift to a hospital for medical research. A true endowment conveys the intent to establish and maintain a permanent fund.

See handout for more terms.

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CHECK: Is Your Legal House In Order?

- 501(c)(3) Exemption
- Register to Solicit
- Pennsylvania Sales Tax Exemption
- Form 990's
- Guidestar / Charity Navigator

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The Roles of the Board in Planned Giving

- Understanding the Basics of Planned Giving
- Supporting Organizational Planned Giving Strategies – A Budget!
- Identifying Prospects
- Active Involvement in Securing Planned Gifts from Prospects
- Making a Planned Gift and Showcasing this Activity as an Example

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Types of Planned Gifts

- Bequests
- Beneficiary Designations
- Donated Securities / Real Estate
- Charitable Gift Annuities
- Deferred Charitable Gift Annuities
- Charitable Lead Trusts
- Charitable Remainder Trusts
- Life Estates
- Pooled Income Funds

Bequests

Very Easy!

- By will/effective at death
- The donor is not spending out-of-pocket cash in life
- The donor may reduce taxable estate
- If bequest intention is known, the charity can cultivate a relationship with donor
- With donor's permission, can use the donor's "story" to entice other donors

Sample Will Language and Advertisement

" I give and bequeath_________ (description) to _______.(charity, at your proper name/address/EIN)".

"Have you considered making a gift to _______(us) in your will?"

Common Reasons that People don't Make Bequests to Charities

- 70% of Americans don't have a will.
- Many individuals are concerned about retirement funding.
- Some individuals would rather leave their estate to their families.
- A lot of individuals do not know that leaving a gift to charity by bequest is an option.

All of these reasons present opportunities for charities to educate constituencies to use bequests and other planned giving vehicles.

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Beneficiary Designations

- Securities, Pensions, IRAs and Life Insurance, in combination with Trusts
- Outside Will/Probate
- Example – Life Insurance policy where donor no longer needs coverage (kids have grown and graduated from college).
- Deceptively easy. Pension and tax rules can make these difficult.

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Donated Securities / Real Estate

Donors can maximize a charitable gift and enjoy significant tax savings by giving appreciated securities or real estate with unrealized capital gains directly to a charity.

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High Income Donor

- On Board of Directors of local arts organization.
- No cash on his balance sheet.
- 6 daughters, 4 currently in college, 2 in high school.
- Is saving for retirement.

High Income Donor

Arts organization policy: A $10,000 per year donation is expected from all directors.

High Income Donor

SOLUTION:

Donate 10% of retirement funds and/or life insurance at death instead of cash.

Charitable Gift Annuities

- Annual payment depends on ages/rates
- Immediate Charitable Deduction
- Defer Capital Gains
- Partial tax-free recovery
- Passes outside Donor's Estate
- Real estate?
- Closely held stock?
- Minimums
- Should use rate no higher than American Council on Gift Annuities ("ACGA")

Charitable Gift Annuities (con't.)

- A CGA Is A Legal Contract
- Donor Gets Income For Life And Charitable Deduction
- Part Charitable Gift
- Part Annuity

Deferred CGA

- Same as CGA, but paid later
- Better tax results
- Retirement substitute for high earners (Physicians?)

Woman 86 Years

Donor:
- Woman, 86 years, single
- $100,000 Jumbo CD/1% rate
- $100,000 bequest to hospital
- Rates have dropped and she receives less income
- Receives Social Security, but is coming up a bit short each month

Woman 86 Years

Answer:
- CGA
- More income – ACGA rates for 86 year old are 8.0%
- Substantial tax deduction with 5 year carryover

Charitable Gift Annuity Example

Gift Annuity Data

First Person: Susan Jones — Age: 86

Gift Value: $100,000.00 — Expectancy: 8.6 Years

Summary of Annuity

Charitable Deduction:	$58,382.00
Annuity Payout:	$ 8,000.00
Exclusion Ratio:	86.7%
Tax Free Payments:	$ 6,936.00
Annual Rate:	8.0%

Charitable Trusts

Charitable Lead Trusts

Charitable Remainder Trusts

Charitable Lead Trust

- Charity receives income interest
- Donor's remaindermen get principal when Trust expires
- Annuity versus Unitrust
- Grantor Lead Trust results in immediate charitable deduction

Charitable Lead Trust

Keys to understanding:

- Excellent tool with low interest rates
- Donor gives away the "fruit but not the tree"
- Can help family, younger generation, by lowering estate / gift taxes

Charitable Remainder Annuity Trust

CRAT

- Donor gives property or cash
- Donor gets fixed annuity for life or period of years (not more than 20)
- Immediate charitable deduction
- Avoid/defer capital gains
- Cannot make additions

Charitable Remainder Uni-Trust

CRUT

- Similar to CRAT, but pay out varies
- Select percentage pay out - Fixed percentage of value
- More flexible than CRAT
- Can make additions
- Possible Retirement Vehicle - No 401(k) or IRA Limits!

Charitable Remainder Retirement Trust

- Enhance retirement income
- Not subject to qualified retirement plan limits
- Upfront charitable deduction
- Trust can sell without capital gains tax

CRUT Example 1 – Lifetime

- Dr. Jones is age 55
- Has reached maximum qualified plan limits
- Has closely held business stock
- Desires additional retirement income and to benefit charity

CRUT Example 1 (con't.)

- Contributes closely held business stock to charitable unitrust – receives deduction
- Stock is sold in five years
- Bypass capital gains
- Increasing income
- Four tier taxation
- Not included in his estate
- Substantial remainder to charity

TESTAMENTARY CRAT / CRUT

- Expert Trustee Management
- Avoid Spendthrift issues
- Spread distributions to lower rate taxpayers over time
- Assure that assets go where donor directs

Bonus: Current tax proposal limits inherited IRAs to 5 year distribution period vs. lifetime for a CRUT. Potential large tax savings.

CRUT Example 2 – Testamentary

- Option 1 – No CRUT
  - Jack (age 75) leaves $1M IRA to Jill (his second wife age 41)
    - Jill gets to roll over IRA and take RMD for her life or spend it all as she sees fit
    - Jill gets to leave money to new boyfriend, John
- Option 2 – With CRUT
  - Jack leaves $1M IRA to CRUT for Jill
    - Jill gets payments each year for life at 5% of trust assets
    - Trustee manages trust and makes payments to Jill
    - Leftover assets upon death of Jill goes to Jack's favorite charity(ies) instead of Jill's boyfriend

Life Estates – Houses & Farms

- Title transfers to Charity
- Donor keeps life usage
- Donor maintains property and pays taxes
- Immediate Charitable Deduction

University Alum

- A Married Couple has a $1.5M estate, and
- Inherited $250,000 from Mother
- Their home is in a University Town and the University has a good Football team
- Donors still want to attend University football games, want to give more to the University and still provide for their children.
- The Donors want to move to Florida and will need an income of $10,000/month. Once in Florida, they will have less deductible expenses.

University Alum

Planned Giving Answer:

- Buy condo in Florida with the inherited $250,000
- Donate a life estate in the University Town home to the University
- Remainder to University – charitable deduction will help to reduce taxable income, making donors happy
- Allow all family, including donors, to retain use of the University Town home, especially during football season. (Less expensive than hotels.)
- Kids happy – still get $1.5M estate
- University very happy with home remainder. The value of the University Town home is likely to appreciate. Donors pay all home expenses during lifetime.

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POOLED INCOME FUND

- A pooled income fund is a trust maintained by a Charity, into which various Donors contribute and which pays an income to those Donors; sometimes for life.
- A pooled income fund can be built around the shared interest of several Donors.
- Donors retain an income interest. The non-charitable beneficiary, which could be a child, spouse or even the Donor, gets a pro rata share of the income earned by the trust for life.
- Donor gets a current income tax deduction for the gift, based on the age(s) of the beneficiary(s) and on the fund's rate of return.
- At the death of the last non-charitable beneficiary linked to any particular Donor, that prorated share of the investment pool is withdrawn and given to the Charity.

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POOLED INCOME FUND ADVANTAGES AND DISADVANTAGES

Advantages:

- Allows a Donor to convert assets into future income
- Immediate tax deduction
- Donors may be able to "cash out" if other options look more attractive
- May be attractive in building a base of Donors who are too young to take full advantage of a Charitable Gift Annuity, or another option that returns income
- Younger Donors may like the ability to take a charitable deduction ***now***, and have a stream of income over a long period of time, where the **rate of return may increase**
- Pooled feature allows administrative expenses to be shared among several Donors

Disadvantages:

- Tax reporting is complicated
- Return may be too low for Donors who are age-eligible for better rates from other donative options*

**Pity the Poor Pooled Income Fund, PG Calc, www.pgcalc.com*

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EXAMPLE – POOLED INCOME FUND

- A couple, aged 65, having three adult children, transfers a $2 Million piece of real estate to a Pooled Income Fund within a Community Foundation.
- The couple receives income for life and their 3 children also will receive income for their lives.
- The couple takes a charitable income tax deduction for $1.2 Million.
- The PIF can sell the real estate and pay no capital gains tax.
- The couple uses the tax savings to buy a large insurance policy, naming the children as beneficiaries. The children's inheritance has exponentially increased.
- This option may work well with a Donor who has a large liquidity event or who wishes to sell appreciated assets.*

*Randy Fox, Planned Giving Design Center at CSJC, "The Best Kept Secret in Planning and Why It Is Important to You," [illegible] (originally published in Planned Giving Design Center on 3/21/17.)

GIFT ACCEPTANCE POLICIES

Good gift acceptance policies are important with many planned giving options, and especially so with life estate gifts.

Critical Elements of Gift Acceptance Policies Include:

- The mission statement of the charity;
- The purpose of the gift acceptance policy;
- The organization's policy with respect to gift restrictions;
- The types of gifts, forms of gifts and sizes of certain gifts that the charity will accept;
- Reporting requirements;
- The charity's adherence to ethical standards;
- The gift acceptance committee;
- The recommendation for donor to use independent advisors (legal, accounting, and financial);
- Circumstances in which the charitable organization will engage its own legal counsel, and
- Review of the gift acceptance policy.

Marketing

- Donor Ages?
- Amounts
- Prior Donor?
- Charitable Mission

Techniques

- Cultivate Donor Loyalty (Recognition is Paramount)
- Tea/Coffee/Wine/Cheese
- Seminars, direct mail, periodicals, and Internet
- Use Endowment, and Capital Campaigns as Opportunities for Planned Giving
- "Listen" to your Donors!
- Have a written plan for planned giving
- "Patience" and "Endurance" will win in the end. Usually takes 5 years to see results.

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Questions

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