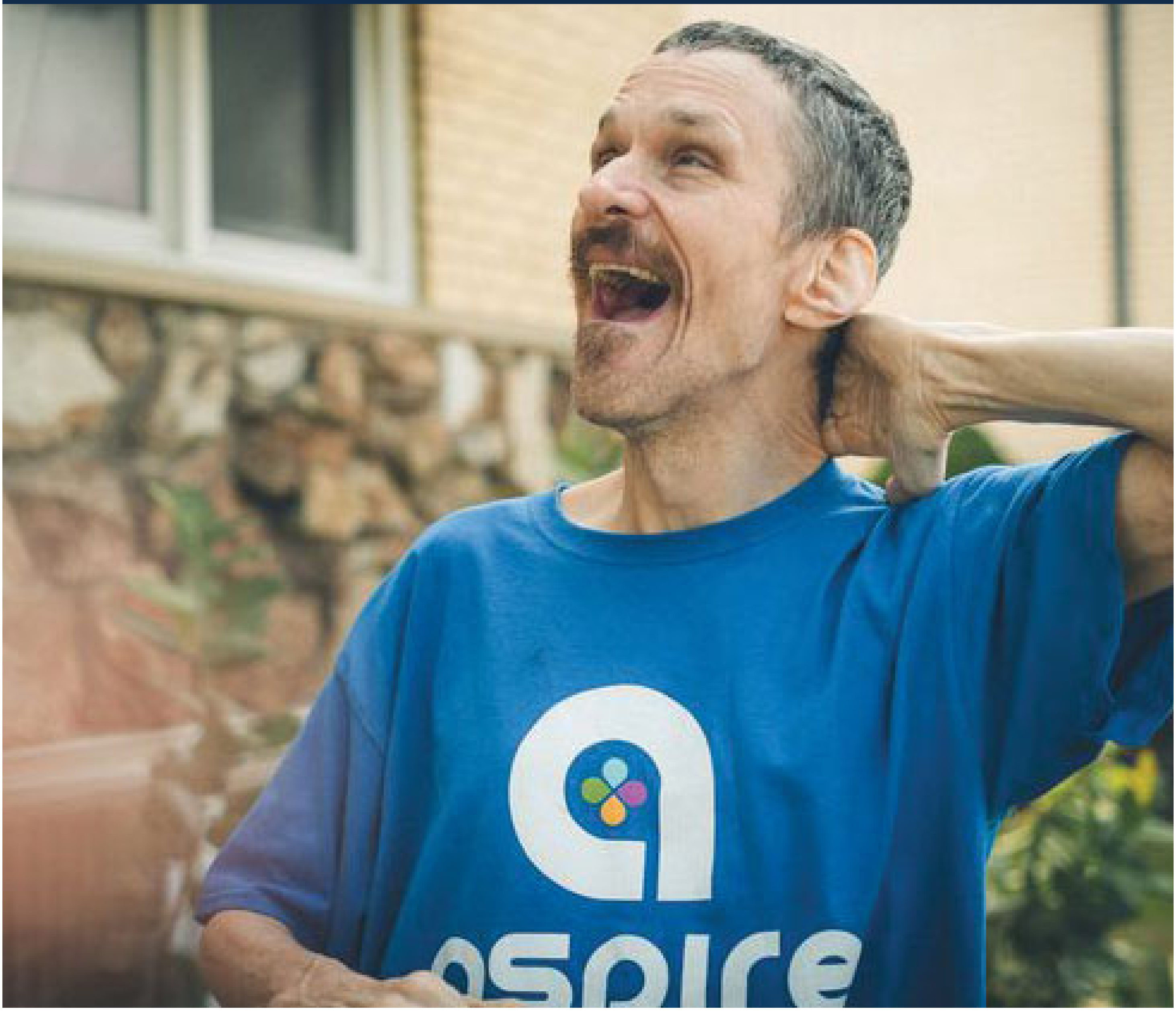
Revocable Gifts



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A Comfortable Commitment

Revocable gifts share a number of notable characteristics that make them extremely appealing. They are easy to execute. They are flexible, as individuals can change or withdraw the gift if need be in the face of altered circumstances. They require no immediate funding, allowing donors to retain the use of the assets throughout life. Most important, they provide an opportunity for donors to leave a lasting reminder of the gratitude they feel for the charities they love and support.

There are many ways to make revocable gifts, including gifts in your will, beneficiary designations of life insurance or retirement assets, and revocable living trusts.

A Gift in Your Will

When you make a gift in your will, you have an opportunity to choose a gift that best fulfills your goals and objectives for your family and your personal philanthropy.

Specific gift. This refers to a gift of a specific dollar amount or a specific asset, such as a coin collection or a vacation home.

Percentage gift. This is a gift of a fixed percentage of an estate, ensuring that heirs and charity receive the same intended proportion of an estate even as the value of the assets changes over time.

> **EXAMPLE:** Thomas would like to make a gift to us in his will in memory of his late wife. He first considered leaving a specific dollar amount, but was concerned that if the stock market experienced a sharp downward turn, he might shortchange his only daughter, who will receive the rest of the estate. Instead, he directs 75% of his estate (after taxes, debts, and costs are paid) to his daughter and 25% to us. Whether the market goes up or down, his daughter and our organization will receive gifts in proper proportion. In the meantime, Thomas retains access to his investment portfolio and can change this decision in the future if his circumstances change.*

WHAT IS A CODICIL?

You do not have to write a new will to plan a charitable gift. You can amend your existing will with a simple document called a codicil. A codicil, like a will, requires close attention and the help of an attorney in its drafting and proper execution.

*All examples are for illustrative purposes only.

Residual gift. This popular option, in which you provide for heirs first and leave whatever is left to charity, ensures that your family receives top priority among beneficiaries. The "residue" in a residual gift refers to any estate assets that remain after all other gifts have been satisfied and administration costs, taxes, and expenses have been paid.

Contingent gift. This is a "maybe" gift—a gift that actually becomes a gift only under certain circumstances. For instance, a will may direct that the entire estate is to go to a spouse, but if the spouse cannot accept or wants to decline these assets, then our organization (as the contingent beneficiary) will receive the gift.

A Beneficiary Designation

A beneficiary designation determines who will receive the proceeds of a life insurance policy or a retirement account when you die. Usually, you list one or more beneficiaries when purchasing a policy or establishing a retirement plan. However, you can change those beneficiary designations at any time.

In choosing a beneficiary, it's important to consider the needs of each person and how those needs may change over time. It's prudent to name a secondary (or contingent) beneficiary in the event that the primary beneficiary is not alive to receive the proceeds of a policy or account.

> **EXAMPLE:** Christine is a widow with a sizable retirement account. When her husband died, Christine changed the beneficiary of her account to her daughter, Rachel, who was struggling in her career. Eventually, Rachel became a successful commercial banker. Since Rachel no longer needs assistance, Christine decides to use her retirement assets to fund a charitable gift to our organization.
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> By simply making us the new beneficiary, she can rest assured that her retirement assets will eventually go into an endowed fund that will provide continued support for her favorite program long after she is gone. Christine is comfortable making this commitment because she knows that if Rachel's circumstances change, she has the flexibility to change the beneficiary designation.

Life Insurance

If you own a life insurance policy you no longer need for its original planning purpose, this can be an ideal asset for making a powerful charitable impact with no out-of-pocket expense.

With a gift of life insurance, you have a couple different options for making a substantial, cost-effective gift. Naming a charitable beneficiary is an easy way to make a powerful future gift. Or, if you no longer need the policy for its original purpose, you might consider a gift of a paid-up policy (or ask us about making a gift of a policy that is not yet paid up).

> **EXAMPLE:** Years ago, Jordan purchased a $50,000 life insurance policy to provide for his daughter's education in the event of his premature death. His daughter graduated long ago. Jordan amended the no-longer-needed policy to name us as the beneficiary. Recently, after learning about our capital campaign, he decided to accelerate the gift and donate the paid-up policy to us outright. He is pleased to know that he can take a substantial income tax charitable deduction (if he itemizes) and receive recognition for his gift, along with the satisfaction of seeing his gift make an immediate impact.

Retirement Assets

Retirement accounts have become a favored asset to leave to charity because of the possibility that the retirement assets will be taxed twice—once in the owner's estate and again when they are paid to children or other heirs. As a qualified charity, however, we pay no tax on any gifted assets—the entire amount goes toward supporting our mission.

If you have considered including a gift to charity in your estate plan, it may be wise to leave retirement account assets to charity and other assets to family members. Heirs generally prefer to receive appreciated assets that are entitled to a step up in basis, which reduces the capital gains tax liability when the heirs sell the property.

> EXAMPLE: Diego established an IRA in his 20s. When he later began participating in a company-sponsored retirement plan, he stopped making further IRA contributions. Now, at age 73, Diego discovers that this "forgotten" IRA is worth more than $20,000. Diego's daughter, Alma, is the IRA beneficiary.
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> If Alma receives the IRA at Diego's death, she will owe income taxes on all distributions. (Remember, the money has been in a tax-deferred account.) However, if Diego names us as the IRA beneficiary, we will receive the full $20,000 exempt from income tax. Diego can leave other assets to Alma (such as appreciated stock or cash) that will not be depleted by income tax liabilities. In fact, the appreciated stock will benefit from a step up in basis when Alma inherits it.

A Revocable Living Trust

As the name implies, an individual creates a revocable living trust during life and retains the right to amend it or revoke it entirely. You can use these trusts as an alternative or supplement to a will. Assets pass directly to all named beneficiaries, reducing or even eliminating the costs and delays of probate. A revocable living trust also offers a comfortable and private way to make a charitable gift since, unlike a will, the trust does not go through probate and is therefore not entered into the public record. A revocable living trust gives you the flexibility to manage income and expenses over a lifetime. Ultimately, the assets can be distributed to family members, friends, and charity.

A revocable living trust is unique in that you can change its terms. For example, you can reserve the right to add or remove property, change the beneficiaries, even cancel the entire trust arrangement.

The flexibility of the revocable living trust also makes it highly suitable for those who want to make a major commitment now but with the safety of knowing they can make adjustments to that commitment if circumstances change.

PLANNING TIP

Sometimes, a donor who has made a comfortable commitment through a charitable gift in a will or living trust later decides to enjoy the satisfaction of seeing the gift put to immediate use. Reach out to discuss the possibility of converting a gift in your will into an outright gift. By giving now instead of later, your gift can qualify for an income tax charitable deduction.

A revocable living trust is not for everyone. It requires careful thought, attention to detail, and the ongoing counsel of financial advisors. Still, it has many benefits that are worth exploring. We would be happy to discuss how this unique planning tool can help you achieve your philanthropic goals.

Your Thoughtfulness Opens Doors

Revocable gifts offer flexibility and give you the opportunity to make a meaningful charitable gift without making a permanent commitment. After setting up a revocable gift, you have the option to consider more immediate gift arrangements, including gifts that can create a lifetime income.

Whether you are exploring a revocable gift or thinking about another planned gift, feel free to contact us for help in identifying a strategy that will meet your personal philanthropic and planning goals.

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