

Planning Your Gift: Alternative Techniques

In addition to options for Current Giving, there are a variety of planning techniques available to help you achieve the combined benefits of conservation of income and considerable tax savings.

Note that this summary is provided for informational purposes only. It is not legal or financial advice, and should not be relied upon as such. You should always consult with an attorney or financial advisor to discuss your particular circumstances.

WILL POWER

Importance of Wills

Making a will – though often difficult to contemplate because of the emotions involved – is essential to make sure that your family is taken care of and your assets are distributed according to *your wishes*. Otherwise, the state is left with no choice but to follow the “laws of descent and distribution” in effect at the time of your death, which often bear no relationship whatsoever to your intent. Even though certain property may pass outside the will (e.g., residence held in joint tenancy), that is not the entirety of your estate. Don’t leave anything to chance – take control of your future estate and your legacy by writing a will and updating it as your circumstances change.

Combining Your Legacy with Padua Franciscan

Remembering your favorite charities such as Padua Franciscan in your will is really the last opportunity you will have to perpetuate your values beyond your lifetime. If you feel that a charity is important enough for you to financially support now, it will be even more so in the future.

A gift through a will is the most popular way of making a planned gift to Padua. Such a bequest may be expressed in terms of either a specific sum or a percentage of the residuary estate. Such gifts are traditionally administered by the Padua Franciscan High School Endowment Trust to ensure that your wishes are fulfilled in perpetuity.

Types of Charitable Bequest

- A *General* bequest directs that a specified amount of money be paid to Padua Franciscan.
- A *Percentage* bequest specifies that Padua will receive a specified fraction of an estate.
- A *Specific* bequest directs that particular property will pass to Padua.
- A *Residuary* bequest states that Padua will receive everything remaining in an estate after all necessary costs, all general bequests, and all specific bequests have been satisfied.
- A *Contingent* bequest may be used to benefit Padua if a person named in a specific, general, percentage, or residuary bequest is not living when the will is probated.

Donors should consider bequeathing to charity property that would cause tax problems to other beneficiaries. Your financial and/or legal advisor can help you consider your courses of action based upon your particular circumstances. This website contains sample language which your attorney may consider in drafting your will.

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LIFE INSURANCE

Insuring the Future of Padua Franciscan High School

When most people think about a gift to charity, they picture themselves sitting down to write a check or reaching into their pocketbook for a few dollars. Even fewer consider themselves in a position to make a major gift. Yet, they don't realize that they have the ability to make a truly significant contribution just by going to their file drawer and examining their insurance policies. Amazingly, life insurance is one of the most viable assets with which to fund a charitable gift, and within the means of nearly every individual.

That "Extra" Policy

Does your portfolio include a policy you bought under far different financial circumstances? Perhaps the original purpose for which it was purchased has passed, such as policies purchased while dependents were still residing at home. Or an older policy, already paid-up, had been supplemented with additional, more elaborate coverage. In any case, you may not need that coverage any longer. It makes sense, from the perspective of tax planning, to use the policy to reduce your current income tax and estate tax burden by transforming it into a charitable contribution. This technique is particularly useful for those who have a good income but do not wish to part with other assets.

Here are a few facts about gifts of life insurance that can "insure" the future of Padua Franciscan while providing you with an immediate tax deduction and estate planning benefits:

1. If your life insurance policy is fully paid-up, then you can deduct the replacement value of the policy at the time of the donation. However, to qualify for the income tax deduction, the charity needs to be irrevocably assigned as owner and beneficiary.
2. If premiums are still being paid on the policy, you may generally deduct the total of all premiums paid less any dividends you received. If you continue to make contributions to the charity in order to pay future premiums, those funds qualify for a tax deduction as well. This even applies to term insurance.
3. No estate taxes will be levied on the donated policy. Usually, the value of the donated policy will not be included in your estate (the gift will remain a part of the estate for up to three years from the time of the gift). Even in the event that it is included in your estate, it will be offset by an estate tax charitable deduction. A gift of life insurance also ensures that your values will be perpetuated beyond your lifetime. Your gift will not be delayed or diminished by probate or subject to challenge by creditors.

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New Life Insurance Policies

Another technique is to purchase a new life insurance policy for the specific purpose of benefitting Padua Franciscan. Funding a life insurance gift and paying the premiums with appreciated securities is a unique way of reducing the actual cost down to pennies on the dollar. This is possible when a donor contributes a policy and then annually contributes appreciated stocks or bonds so that the charity can pay the premiums. Often times the resulting tax savings equal or exceed the original cost of the securities.

A gift of life insurance is one of the most appealing and practical methods of making a charitable contribution. It is confidential, there are no legal expenses, and the gift is non-contestable. Above all, gifts of life insurance make it possible for you to receive the satisfaction and recognition during your lifetime of making a major gift.

RETAINED LIFE ESTATE

Under a Retained Life Estate plan, you can give real property to Padua and receive the benefit of a current income tax charitable deduction, yet continue to use the property for the duration of your life (and the life of a survivor, if you desire). The amount of your tax savings depends on your age and the value of the real estate.

CHARITABLE GIFT ANNUITY

Did you know that there is a way to make a significant contribution to Padua Franciscan High School while contributing to your own needs and, if you wish, that of another individual? It is called a Charitable Gift Annuity and it is partly a gift and partly the purchase of an annuity. In essence, a Gift Annuity is an agreement between you and Padua Franciscan High School, Inc. under which you provide a specific sum of cash, securities or other property (valued at \$10,000 or more) and, in return, are guaranteed a fixed annual income for life. The result of this unique arrangement is that both the donor and the school receive long-term benefits from a single generous act.

You may include a second beneficiary (such as your spouse) in the Gift Annuity agreement. Should the second beneficiary survive you, Padua will continue to make the payments for the life of the second beneficiary. You may also choose to defer payment of the Gift Annuity until retirement or when your income tax liability is reduced.

In short, you (and the second beneficiary, if named) will receive a guaranteed and fixed annual income for life. The amount of your payments is guaranteed by Padua Franciscan and does not fluctuate with the markets. Often the income rate is higher than that received from certificates of deposit or securities. A large portion of the annual income will be a tax-free return of principal. This

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increases your after-tax income. You will also have available a charitable contribution deduction amounting to a portion of the value of the cash or asset given.

Income payments start at the interval you select – quarterly, semi-annually, or annually. The amount of the annuity payment depends upon the age(s) of the individual receiving the annuity and the amount of the gift. At the death of the donor in a one-life annuity, or at the death of the second beneficiary in a two-life gift annuity, the balance reverts to Padua Franciscan for the purpose you specify in the Gift Annuity agreement.

Gift Annuity Benefits

- Provide an immediate guaranteed income, while Padua looks forward to a future gift – a win/win situation.
- Guarantee you life-long tax-sheltered income.
- Assure Padua of future support.
- Result in an immediate contribution deduction for income tax purposes;
- Protect a substantial portion of your annuity income from annual taxes;
- Minimize capital gains taxes;
- Eliminate gift tax, cut probate costs, and in some cases reduce estate taxes;
- Offer solution to investment and money-management problems and worries about collection or income, fire, theft, or loss; and
- Increase retirement income.

We use a payout rate determined by the Committee on Gift Annuities, which depends on the ages of the beneficiaries at the time of the gift and the time their payments are to begin. The longer you defer your payments, the higher the payout rate will be. Here is a simple example for you to consider:

Gift Annuity Example

John Smith is 65 years old as of 1/1/08 and purchases a Gift Annuity for a single life* (his own), payable quarterly, from Padua Franciscan in February of 2008.

Charitable Value at Time of Gift	\$25,000.00
Gift Value to Padua at End of Life (Charitable Deduction):	\$7,775.35
Annuity Payout Percentage**:	6%
Exclusion Ratio (until 2027)**:	57.7%

<u>Income Tax</u>	<u>Quarterly Payment</u>	<u>Annual Payment</u>
Ordinary Income	\$158.63	\$634.50
Tax Free	\$216.37	\$865.50
Total	\$375.00	\$1,500.00

*The annuity can also be structured over multiple lives, typically two. **This will vary by age.

***After 2027, 100% of the annuity payments for this annuitant will be taxed as ordinary income.

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Ways to Fund Gift Annuities

It is important to consider carefully how you will fund the type of Gift Annuity you select. You may receive the largest return on your gift if you fund it with appreciated assets. Some examples of these assets are:

- Appreciated stocks
- Appreciated real estate
- Appreciated family business
- Appreciated personal property

Learn More About Gift Annuities

We would be pleased to provide you with additional information and answers to your questions about Gift Annuities. We can also provide a no-obligation illustration of the tax implications and income of the gift you have in mind. Call Gerald R. Jindra, Vice President for Institutional Advancement, or Laurie K. Grabowski, Associate Director of Institutional Advancement, at 440.845.8224.

CHARITABLE REMAINDER TRUSTS

Unlike Gift Annuities, a Charitable Remainder Trust is not based on age. You should consider a Charitable Remainder Trust if you wish to receive income for life, to provide for your favorite charity, and receive substantial tax benefits. That's the promise of Charitable Remainder Trusts.

There are two kinds of Charitable Remainder Trusts: the Annuity Trust and the Unitrust. Before we discuss the details, bear in mind that the return on an Annuity Trust is at least five percent of the *original market value*, whereas the return on the Unitrust is at least five percent of the trust's assets *valued annually*.

Charitable Remainder Annuity Trust

The benefits of a Charitable Remainder Annuity Trust include:

- The higher your tax bracket and greater the proportion of trust's assets attributable to capital gains, the greater your benefits.
- Substantial income tax and estate tax savings available.
- Income can be partially tax-free.
- If income fails to cover payments, trustee may invade the trust corpus.
- May be funded with cash or other property, except tangible personal property.

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A Charitable Remainder Annuity Trust may be for you if:

- You have significant appreciated property (securities, real estate).
- You are willing to donate non-liquid assets for guaranteed income and big tax savings.
- You have low-income property, and wish to convert assets into moderate-to-high income.
- You desire risk-free, guaranteed income.

Some additional considerations about Charitable Remainder Annuity Trusts:

- Charitable Remainder Annuity Trusts are irrevocable. Once created, you cannot get your money back.
- Trustee can make any reasonable investments and you cannot interfere with these decisions.
- Your payment is based on a specified percentage of the trust's value at time of creation.
- Fixed percentage must be at least five percent of original market value.
- Income beneficiary(s) must be living at time annuity trust is created, and payments must continue for their lifetime(s), or for a period not to exceed twenty years.
- No additional gifts are permitted to a Charitable Remainder Annuity Trust.

Pro: Like a fixed annuity, these lifetime payments remain reliable and constant even when the trust fund's value falls.

Con: Payments remain fixed during times when inflation is eroding value of a dollar, even if the fund's value increases.

Charitable Remainder Unitrust

Similar to a Charitable Remainder Annuity Trust, a Unitrust differs mainly in the method used to determine your annual payout. A Charitable Remainder Unitrust returns a specified percentage of at least five percent of the trust's assets *as valued annually*. However, because asset values may vary each year, depending on how well the trustee manages the trust's investments, income from a Unitrust may also vary.

A Unitrust theoretically provides a better hedge against inflation than does an Annuity Trust because your yearly payment will increase as the trust's assets grow. However, should the trust's assets decline, so would your income.

The benefits of a Charitable Remainder Unitrust include:

- Unitrusts benefit donors in most high tax brackets and with highly appreciated property.
- If income fails to cover payments, the trust corpus may be invaded unless the trust limits payments to net income.
- Income may be partially tax-free.
- Substantial income tax and estate tax savings available.
- May be funded with cash or appreciated property. You can add to the trust and collect additional income; however, the percentage used to determine payments remains the same.

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A Charitable Remainder Unitrust may be for you if:

- You have significant appreciated assets.
- You are willing to donate assets for increased income and significant tax savings.
- You are willing to take some risk to keep up with inflation.

Some additional considerations about Charitable Remainder Unitrusts:

- Income is based on an agreed upon percentage of market value of assets, valued yearly.
- Your annual payments from the trust fluctuate depending upon investment performance.
- Unitrusts are irrevocable. Trustee is empowered to manage and invest trust assets.
- Income beneficiary(s) must be living at time the Unitrust is created and payments must continue for their lifetime(s), or payments must be made for a period not to exceed twenty years.

Pro: If the market value of the fund grows over the years, so do the dollar amounts of the payments, thus providing protection against inflation.

Con: When market values drop, there is a risk of lower payments.

TODAY'S HOT TOPIC: CHARITABLE LEAD TRUSTS

With a Charitable Lead Trust, the lower the Federal discount rate, the higher the tax deduction – making this type of trust ideal when interest rates are low. The Charitable Lead Trust is the opposite of the Charitable Remainder Trust in that it makes a gift of interest income to Padua Franciscan, and then the assets revert back to you (the donor) or to non-charitable beneficiaries after an agreed-upon term of years.

Benefits of a Charitable Lead Trust

- Can reduce, and in some cases eliminate, gift, estate, and generation-skipping transfer tax on rapidly appreciating assets passing ultimately to family members;
- Can generate an income tax charitable deduction if certain conditions are met;
- Generous individuals can make before-tax dollars available to Padua even though they have exceeded their percentage of adjusted gross income ceiling or who have fully utilized their 5-year charitable deduction carryover;
- No 5% payout minimum (unlike Charitable Remainder Trusts);
- No limit on the length of the Charitable Lead Trust except for the Rule Against Perpetuities applicable to all trusts;
- Reduces probate costs; and
- Can be created by donor during lifetime or by will.

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Lead Trust Characteristics

1. To get federal income, gift or estate tax deduction for the present value of the income interest, the Lead Trust must be in the form of either:
 - a. A Charitable Lead Annuity Trust paying to charity a fixed percentage of the *initial* net fair market value of assets used to fund the trust; or
 - b. A Charitable Lead Unitrust paying a fixed percentage of the *annual* net fair market value of trust assets.
2. In order for you to be eligible for an income tax deduction, all trust income including capital gains allocated to principal, including charitable payout, must be taxable to you.
3. The federal income tax deduction for creating a Lead Trust is limited to 30% of your adjusted gross income (with a five-year carryover for any excess) because income from a Lead Trust is considered to be "for the use of" rather than "to" charity.
4. The Lead Trust itself is not tax exempt. If you transfer long-term capital gain property to a trust that will ultimately pass to family members other than you and/or your spouse, and if the property is sold by the trust within two years of the transfer, the trust will be taxed at the your individual tax rates. After two years, the trust is taxed at the ordinary trust rates.

FINAL THOUGHTS – LEAVING A LEGACY

What you can do to leave a legacy?

1. Prepare a will.
 - a) Only 40% of those who pass away have one. Without a will, you may lose control over your property and belongings.
 - b) Leave a specific dollar amount or a percentage of the assets in your will to Padua Franciscan High School. Did you know that while 70 percent of Americans give to charity each year, less than six percent have included non-profits in an estate plan? Imagine the positive impact you could make with a charitable bequest!
2. Consider using appreciated assets to fund current charitable gifts and planned gifts. These include, but are not limited to, stocks, bonds, certificates of deposit, real estate, vehicles, art and jewelry. Such gifts may even provide tax savings.
3. Name Padua Franciscan as the beneficiary of your retirement plan or IRA. Doing so can avoid estate and income taxes that might otherwise be due on your plan. Be sure to seek the advice of an attorney or financial planner when designating a charity as beneficiary of a retirement account.
4. Name Padua Franciscan High School as the owner and/or beneficiary of a new or existing life insurance policy.
5. Call Padua's Institutional Advancement Office (440.845.8224) about special needs or individual programs you can support.
6. Remember loved ones with memorial gifts.
7. Encourage family and friends to leave gifts to Padua Franciscan in their wills.
8. Participate in a Padua Franciscan Gift Annuity, Charitable Remainder Trust, or Charitable Lead Trust programs.

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MAY WE PLAN TOGETHER?

Will you benefit from a major charitable gift? The answer is probably yes. The best way to find out is to do a quick analysis of your financial situation. You should contact your legal, financial, or other professional advisors, particularly with regard to significant or deferred gifts.

Call Gerald R. Jindra, Vice President for Institutional Advancement, or Laurie K. Grabowski, Associate Director of Institutional Advancement (440-845-8224). They will be happy to discuss how a gift to Padua Franciscan can be shaped to meet your specific interests.