Legacy Gifts BULLETIN
METROPOLITAN STATE UNIVERSITY FOUNDATION

SPRING 2019

Prepared for the Benefit of Alumni and Friends of Metropolitan State University

Americans are living longer and healthier lives, altering thoughts about what constitutes our "golden years". Retirement is no longer a short stretch at the end of a long working life. It is an opportunity, a new phase, a time to do what you've always wanted to do, and an occasion to redefine your priorities.

A retirement that begins at age 65 can easily last fifteen to twenty or more years. According to the Social Security Administration, a 65-year-old man will live an average of 17½ more years and a 65-year-old woman will live an average of 20 more years. Financial experts estimate we need to replace at least 70% of our pre-retirement income to maintain our lifestyles after we stop working. That means we need to rethink how we save for retirement, how we convert those savings into income-producing assets, and how we spend during our golden years.

Whatever your current situation, retirement planning begins with an informed calculation that incorporates future income needs, Social Security benefits, pension benefits, and other savings and investments. Visit the following Social Security Administration website to access several retirement resources, including a planning calculator: www.ssa.gov/retire2/.

Charitable Planning Options

Are you wondering how to start or continue your philanthropy in retirement? There are four primary options that combine retirement income with charitable giving: 1) gifts through Individualized Retirement Account (IRA) contributions, 2) the bequest of all or part of your retirement plan to a nonprofit organization, 3) the deferred payment gift annuity, and 4) the charitable remainder unitrust.

IRA Charitable Rollover

The recent tax law change made the IRA Charitable Rollover a permanent option for making a gift to a nonprofit like **Metropolitan State University Foundation**. If you are 70½ or older and have an IRA, you are required to take a minimum distribution. Normally, these distributions are subject to income taxes. However, for persons aged 70½ and older, the IRA Charitable Rollover provision allows you to transfer up to $100,000 to charitable organizations each year directly from your IRA tax-free. To qualify, contributions must go directly from your traditional or Roth IRA to a public charity. You must not receive goods or services in return for your contributions and must obtain written documentation of the gift from each recipient organization.

If you take the mandatory distribution from your IRA, it triggers a tax burden. This is true even if you subsequently donate the distribution to a charity. To avoid taxation, designate that the charity receives the distribution directly from your IRA. If you have a gift that you would like to make to **Metropolitan State University Foundation**, or a pledge payment to fulfill, consider funding that gift with a non-taxable distribution from your IRA.

Bequeath Retirement Plans to Charity

If you are retired with the bulk of your assets in individual retirement accounts, corporate or partnership pension plans, or profit-sharing plan accounts, there are significant advantages to giving or bequeathing funds to charitable institutions such as **Metropolitan State University Foundation.**

Retirement funds are subject to income tax when distributed unless you give the funds to tax-exempt charities. One good way to fund a charitable bequest at your death is through your retirement plan. If you are 70½ or older, naming a charity as the beneficiary of your retirement plan generally will not accelerate the required minimum yearly distributions to you during your life.

At your death, if persons other than your spouse or tax-exempt charities are beneficiaries of your retirement funds, these funds are potentially subject to estate taxes. *Under current estate and income tax rates, if your estate is worth more than $11,400,000, the total estate and income taxes on retirement plan assets can reduce the value your heirs receive to 40 cents on the dollar or less.*

Joan Hershbell knows scholarships help Metro State students achieve their goals. Joan has entrusted funds for future scholarships through her will.

Much of an individual's other assets, such as real estate, taxable investments, and business ownership are not subject to income taxes when distributed. Thus, if you have decided to leave some of your assets to charity upon death, charitable bequests funded with retirement accounts minimize taxes and enable you to pass assets to **Metropolitan State University Foundation** without a prohibitive cost to your heirs relative to the after-tax assets they otherwise would receive.

The disposition of IRAs, pensions, and profit-sharing plans is not governed by your will, but by beneficiary designation forms provided by the plan itself. You designate on the beneficiary form who you wish to receive the retirement benefits that remain after death. In the absence of a designation, the plan's terms govern who is the primary beneficiary. A nonprofit organization, such as **Metropolitan State University Foundation**, can be named as beneficiary with your spouse's consent. (Not all states require spousal approval to designate an institutional beneficiary in an IRA.)

The designation can take several forms. You can name **Metropolitan State University Foundation**:

- As the beneficiary for full benefits, a fraction of the account, or a stated cash amount.
- As a *secondary* beneficiary. For example, your spouse is named the primary recipient of the retirement benefits. *Then*, the institution would receive payments of those benefits only after he or she passes. Your spouse would be free to change the secondary beneficiary.
- As a *contingent* beneficiary, meaning that the institution would receive the benefits if your spouse predeceases you.
- Or as a combination of the above options. For example, if your spouse and children survive you, the designation can be to your surviving spouse for his or her life and thereafter the balance in the account is divided between **Metropolitan State University Foundation** and your children, as well as any other charities you name.

*Please consult a financial/tax advisor or a lawyer if you have an IRA, pension and/or profit-sharing plan account balance and are considering naming **Metropolitan State University Foundation** as a beneficiary.*

The Deferred Payment Charitable Gift Annuity

A deferred payment charitable gift annuity offers an attractive way to make a gift to **Metropolitan State University Foundation** *now* while guaranteeing personal annual income when you retire or at another time of your choosing. If you need tax deductions during your peak earning years and supplemental income when you retire, the deferred payment gift annuity could be a sound option for you. A deferred payment gift annuity could allow you to receive an income tax deduction today for the value of the gift minus the value of your future annuity payments. The following example will illustrate this opportunity.

Example:

Situation: Consider a hypothetical case involving Jennifer Lynn, a 55-year-old accomplished sales executive and supporter of **Metropolitan State University**. Jennifer is in the 32% income tax bracket. She is looking ahead to retirement and wants to make certain that she will have sufficient annual income. To supplement her taxable investments, Jennifer has decided that a deferred payment gift annuity would accomplish two of her primary objectives: to assist **Metropolitan State University** and to provide retirement income for herself.

Solution: For purposes of this example, we will assume that Jennifer currently does not need the income that could be produced by a traditional investment of $50,000 and uses that amount to purchase a deferred payment gift annuity. She decides that she wants to begin receiving annual income from the annuity when she reaches age 68, her target retirement date. During the next 13 years, when Jennifer does not earn income from the annuity, the investment accumulates in value on a tax-deferred basis. Then, at age 68, when Jennifer begins receiving income from the deferred payment gift annuity, a portion of it will be tax-free.

Alternatively, Jennifer could have funded a series of gift annuities for $10,000 each year for five years. This planning strategy takes advantage of the fact that payment rates may increase with each new annuity entered into at an older age. Jennifer also could have chosen a "flexible" deferred gift annuity that would allow her to take the annuity earlier or later than the target date of 13 years.

Advantages to Jennifer:

- Jennifer makes an outright gift of $50,000 to a grateful **Metropolitan State University Foundation** now, reducing her tax burden during a time when she is earning and her taxes are higher.
- The annuity guarantees income in her retirement years when she will presumably be in a lower tax bracket.
- She has removed $50,000 from her estate, thus reducing potential estate tax liability, if applicable, when she dies.

The approximate results of this transaction are summarized as follows:

Principal amount for deferred payment gift annuity	**$50,000**
Number of years payment is to be deferred	**13**
Annuity rate	**8.2%**
Annual annuity payments beginning in 2032	**$4,100**
Amount of annual annuity payment excluded from taxes	**$1,566**
Tax deduction in year of gift	**$21,988**
Current year tax savings at 32%	**$7,036**

**Note that this illustration assumes a rate of return that may not be applicable when an actual deferred gift annuity is established.*

The Charitable Remainder Unitrust

Have you reached retirement age and realized that some of your investments do not yield the income you desire? Are you liable for substantial capital gains tax on your long-term investments that have appreciated significantly? A possible solution to this dilemma is a charitable remainder unitrust (CURT).

To establish a CURT you can irrevocably transfer cash, securities, or other property to the trustee named in the trust. **Metropolitan State University Foundation** could serve as trustee, or it could be a bank, trust company, some other funds manager, or an individual. The trust agreement provides that the trustee shall pay you (or your spouse or other designated beneficiary) an annual payment from the trust, usually for the life of the beneficiary(ies).

The amount of the payment is determined by applying a fixed percentage (not less than 5%) to the trust assets, as valued each year. (The payout percentage is agreed upon when the trust is established.) The annual income from a unitrust fluctuates as the value of the trust assets changes, but the payout percentage remains the same. You may add to the trust in future years. The trust assets pass to **Metropolitan State University Foundation** to advance our mission when you or your other beneficiary(ies) pass away.

Example:

Situation: Sean Kelly has stock he purchased in 1996 for $20 a share. Today it sells for $200 a share. It is paying Sean an annual dividend of 2%. In retirement, Sean needs more income, but if he sells the stock, he will pay at least a 15% capital gains tax on the $180 gain in the price of each share since he purchased the stock. Sean's federal capital gains tax could be as high as 23.8% if he is in an upper tax bracket.

Solution: Sean creates a CURT with a 6% annual payout, naming **Metropolitan State University Foundation** as remainderman, and transfers his stock to the unitrust. The unitrust sells the stock and replaces it with assets that allow the unitrust to pay the 6% annual amount.

Advantages to Sean:

- His annual income from the asset has *tripled*.
- He avoided paying immediate capital gains tax.
- He receives an immediate charitable income tax deduction for the present value of the trust remainder, computed based upon his age, current interest rates, and the current fair market value of the stock when the unitrust is funded.
- His income will increase if the value of the trust grows over time.
- He is pleased to know that at his death the remaining trust assets will benefit **Metropolitan State University**.

Retirement should be a time in our lives when we can do things such as travel, spend time with our friends and family, and allow our assets to benefit the institutions that reflect and perpetuate our values. Thoughtful preparation can make retirement a truly "golden" time.

*We welcome any and all conversations and wish you health and prosperity in 2019. Please feel free to contact **Rita Dibble** at **651-793-1805** or **rita.dibble@metrostate.edu**. You may also visit our website at **www.metrostate.edu** to make a gift online. We are here to help you in any way we can.*