Legacy Gifts **BULLETIN**

METROPOLITAN STATE UNIVERSITY FOUNDATION

SUMMER 2019

Prepared for the Benefit of the Friends of Metropolitan State University

Sixty percent of U.S. adults do not have a will. Are you one of them? For many, the topic of financial planning—and more specifically, the mere thought of estate planning—conjures feelings of anxiety and stress. But planning well for your family's future while also preserving your charitable giving priorities do not have to be complicated or competing issues. You can care for yourself, your kids, and your parents today while also investing in the future through Metropolitan State University.

Some relatively simple giving vehicles can help accomplish both objectives. To determine whether these solutions may be right for you, consider the following checklist:

☐ Do you find yourself with highly appreciated assets like stock or real estate?

☐ Do you have a desire for more income throughout your lifetime?

☐ Do you have a desire to avoid or minimize capital gains tax while also reducing your estate tax liability?

☐ Do you have a desire to help one or more nonprofits, like Metropolitan State University Foundation, that hold special meaning to you?

☐ Would you give more to a nonprofit like Metropolitan State University Foundation if:

- You could get a tax deduction for simply pledging assets the Metropolitan State University Foundation after you die?
- You could receive an annuity income stream from the assets that you pledge to the Metropolitan State University Foundation?
- You could pledge and sell appreciated assets without immediately paying taxes, and then reinvest the proceeds to produce a larger or more stable income stream?

If you checked even one of the boxes, you might wish to consider using your appreciated assets to establish a Charitable Remainder Trust (CRT). In the right circumstances, this instrument can increase income, reduce taxes, unlock appreciated investments, eliminate investment worries, and ultimately provide very important support to nonprofit organizations like Metropolitan State University Foundation.

A gift to Metropolitan State University is an investment in a bright future. Amid global uncertainty, our students are preparing to the lead companies, governments, nonprofits, and families of the future—and their vision is golden. You can help shape our community's future through the thoughtful planning of your own.

To award a scholarship that covers a student's tuition and textbooks for one or two classes every year, Metropolitan State University alumni and community members must contribute at least $50,000 to an endowment. Whether this gift is made outright, planned over several years, or pooled by several supporters, the Foundation invests the funds so that they will benefit Metropolitan State students far into the future. Our students tell us every day that receiving a scholarship is a powerful message of support. A scholarship is more than a means of completing their education. For Metropolitan State students, an award is a stranger saying, *"I believe in you."*

Some of our supporters have been interested in making gifts through a CRT so that they may provide a larger contribution to Metropolitan State University than would be possible through an outright gift. This issue of the Legacy Bulletin focuses on CRTs that can provide future benefit for Metropolitan State University and current financial benefits for you.

What Is a Trust?

A trust is a legal relationship established by an individual to set aside specific assets for a specified purpose. A third party trustee, such as an individual, a bank or, in some cases, another institution, manages the trust. There are a variety of trust arrangements. One of them is the CRT.

CRTs are designed to enable a person to continue receiving the earnings from his or her assets for life, without management worries, while also making a significant gift to a nonprofit like Metropolitan State University Foundation.

When you create a CRT, you will transfer money, securities, or other assets to an irrevocable trust. This removes the asset(s) from your estate and, therefore, no estate taxes will be due on it when you die. You will also receive an immediate charitable income tax deduction. The trustee then may later sell your asset(s) at full market value, paying no capital gains tax, and re-invest the proceeds in income-producing assets.

For the rest of your life or a period of pre-determined years, the trust will pay you an income. If desired, the trust also can pay income to your spouse. At your death or the death of your surviving spouse, the remaining principal in the trust goes to the designated nonprofit like Metropolitan State University Foundation. That's why it's called a charitable *remainder* trust.

The trust can be designed to fit your unique needs. First, you must decide how much to place into the trust. Second, you must determine the income you would like to receive from the donated assets. The selected rate of income return must be at least 5 percent. Usually, the rate selected is between 5 to 7 percent. Third, you decide whether an annuity trust or unitrust will work best.

Choosing a CRT depends on your personal needs. Metropolitan State University Foundation can help you and your professional advisors decide which of the options below might work best for you.

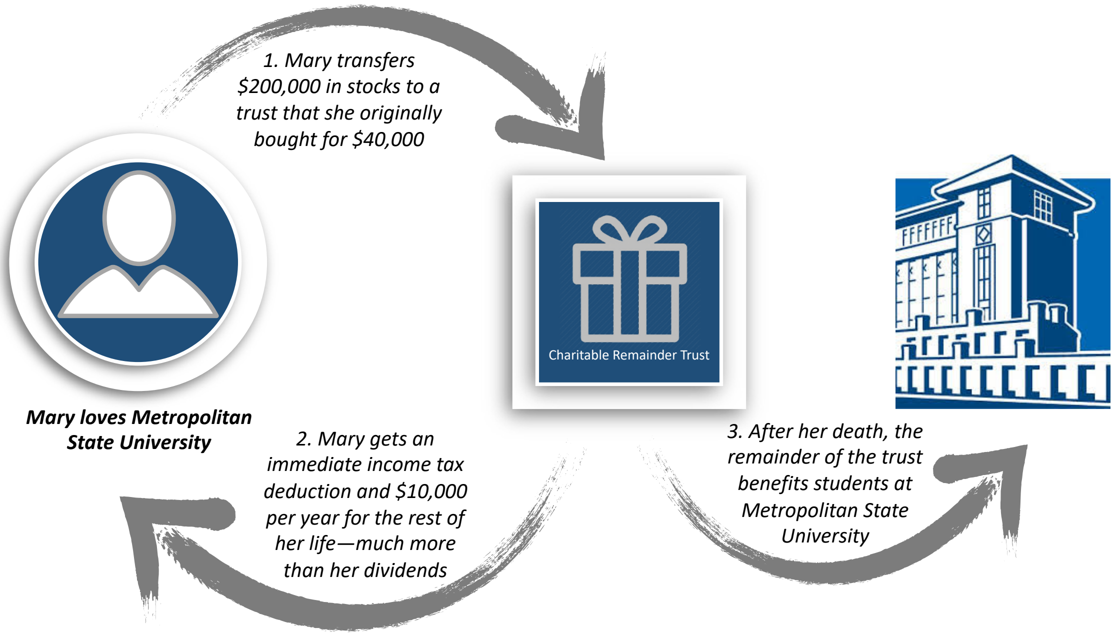
Which Is Right for Me: Annuity Trust or Unitrust?

An **annuity trust** pays a fixed dollar amount each year, which works well if you are seeking a reliable income.

The annuity trust may be advantageous if you want guaranteed income year-to-year during your retirement. If you are concerned about the possibility of a recession or falling market values, the annuity trust may have greater appeal. However, you cannot add to an annuity trust later to increase income. Rather, to increase income you would create a new trust for that purpose.

A **standard unitrust** will pay you a variable amount each year in retirement that is equal to a stated percentage of the net fair market value of the trust assets, as recalculated yearly.

A **unitrust** may be a hedge against inflation. If you foresee economic growth resulting in appreciation of the trust's assets, a unitrust may be the best option. The valuation can rise or fall, but over time, a well-managed unitrust may offer better protection of purchasing power than fixed dollar payments. Furthermore, if you want to enlarge the trust later, you can make additional contributions without the cost of creating and administering more than one trust.



Example

Mary, age 73, owns several stocks with a market value of $200,000, but they pay dividends of only $4,000 a year, or 2 percent of market value. She decides to transfer these securities to a charitable remainder annuity trust that will benefit Metropolitan State University Foundation and pay her $10,000 a year, increasing her gross income by $6,000. Moreover, Mary will receive an income tax deduction equal to about one-half of her $200,000 contribution to the trust.

If Mary had sold the stocks instead, she would pay a large tax on her capital gain. Originally, she paid $40,000 for the stocks, meaning she gained $160,000. At a federal capital gains tax rate of 15 percent, the federal tax would be $24,000, and there could also be state taxes. This would leave her with, at most, $176,000 to reinvest. She would have to find stocks that pay dividends of at least 5.69 percent to receive the same $10,000 her trust can pay her.

In addition to immediate tax savings and her desire to benefit the Metropolitan State University Foundation, Mary felt the creation of a trust made sense for other reasons. First, the trust ***relieved her of asset management worries****. Mary no longer had the day-to-day concerns of investing for needed income. Also, she freed herself of similar concerns in the future, when ill health may complicate estate management. Second, there are* ***estate tax advantages****. The charitable gift made through her CRT will not be taxed in Mary's estate after her death.*

Significant Tax Benefits

The tax law changes that went into effect in 2018 favor the formation of CRTs:

First, when you fund the trust, you immediately obtain the benefit of a sizable charitable deduction on your income tax. The deduction is equal to the present value of the remainder interest ultimately payable to a nonprofit like Metropolitan State University Foundation, and is based on Internal Revenue Service life expectancy tables and current interest rates. The older the beneficiary, and the lower the income payout (minimum of 5% is required), the greater the charitable deduction. The sizable charitable deduction you can receive when you fund a CRT makes it more likely that you can benefit from itemizing deductions under the new tax law. In addition, the new tax law eliminated the Pease provision that limited deductions for high-income taxpayers. By making a generous one-time gift upfront to a charitable trust, donors to the Metropolitan State University Foundation will be able to utilize the charitable deduction.

Second, when you fund a CRT, you avoid paying capital gains tax. Highly-appreciated assets that generate low current income are an ideal funding source. While you may be reluctant to sell such assets directly because you could pay up to 23.8% in capital gains tax, you can transfer them to the trust without incurring the capital gains tax. The trust can sell the assets without incurring any capital gains tax and then reinvest the proceeds to secure a higher current income yield (provided that there is no prearrangement of any such sale). In return for the gift, you might receive income two-to-four times greater than the current dividend from the typical growth stock.

In Conclusion

If you are considering the establishment of a charitable remainder trust to benefit your family and a nonprofit like Metropolitan State University Foundation, you should consult an attorney or other professional advisor experienced in estate planning and tax law. Professional advice is necessary to determine the suitability of certain trust arrangements to your circumstances.

We are happy to meet with you to discuss establishing a trust for the benefit of Metropolitan State University and our students. Your gift is a precious investment in what the future will look like beyond your lifetime. We can talk with you about how a gift can benefit students today and in the years ahead.

Taking care of your family and creating a legacy through your philanthropy are not competing goals. Establishing a charitable remainder trust can help you achieve your charitable vision, and as described above, also help increase your current income and lessen your tax burden.

If we can help in any way, please contact us by returning the enclosed card or by contacting Rita Dibble, Vice President of University Advancement, at 651-793-1805 or via rita.dibble@metrostate.edu. There is no obligation. Information shared or questions asked will be held in strictest confidence.

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