

PHILANTHROPIC PLANNING SERIES:

OPPORTUNITIES FOR EFFECTIVE RETIREMENT & CHARITABLE PLANNING

October 6, 2021 | 12:00 p.m. (CDT)



UNIVERSITY OF ILLINOIS
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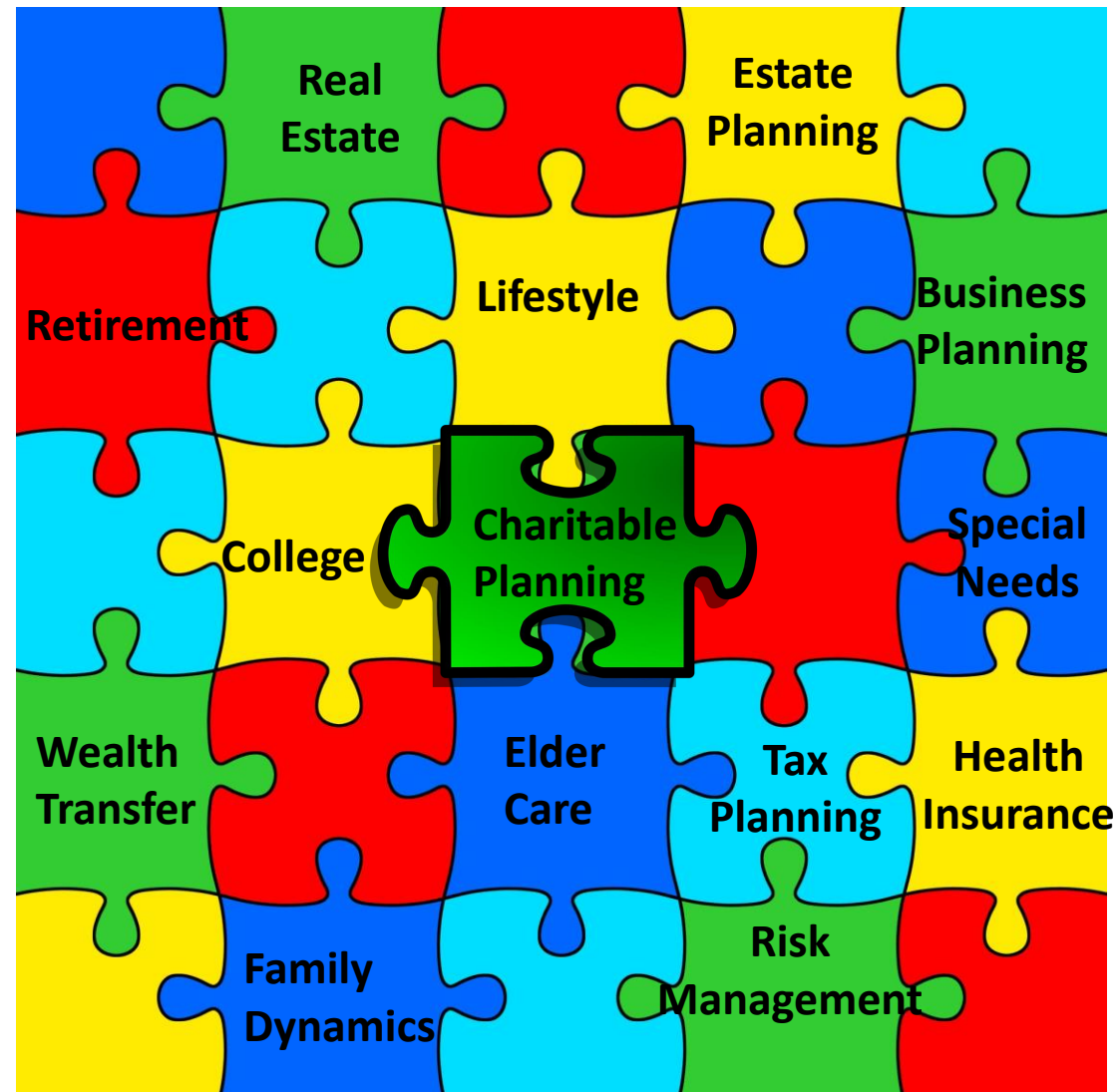
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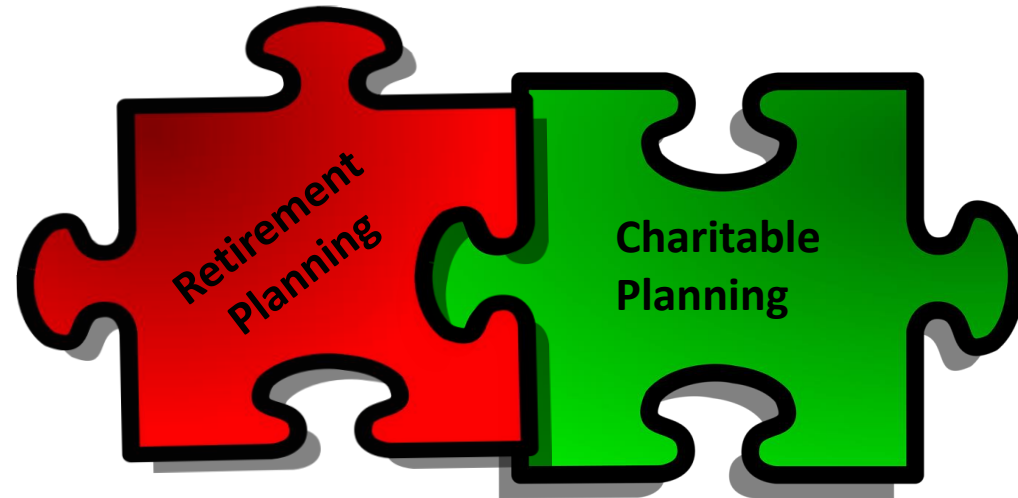
Putting the Planning Puzzle Pieces Together



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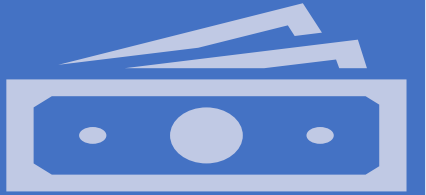


Ways Charitable Planning Can Support Retirement Goals & Objectives



Enhance Income (Now or Future)

- Charitable Gift Annuities (CGAs)
- Deferred Gift Annuities (DGAs)
- Charitable Remainder Trusts



Address Tax Planning & Asset Management Issues

- Low Yielding Assets (CDs)
- Reduce Tax Burden of Highly Appreciated Assets
- Issues around Management of Assets



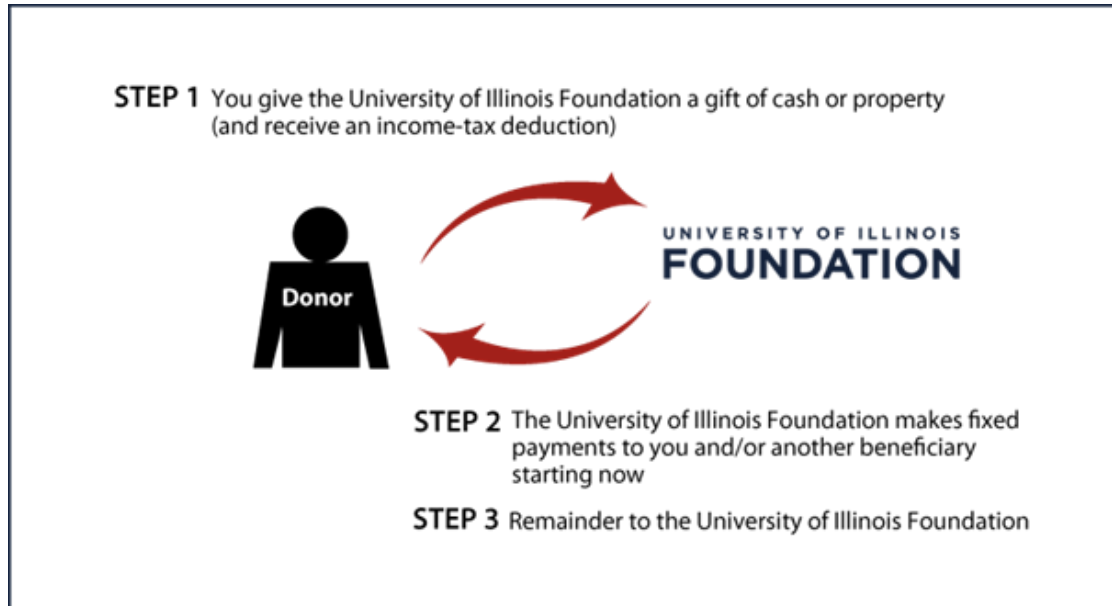
Address Wealth Transfer with Retirement Assets

- Replicates “Stretch IRA” Provisions
- Wealth Transfer
- Family Dynamics: Spendthrift Issues, Special Needs, etc.

Enhance Income (Now or Future)

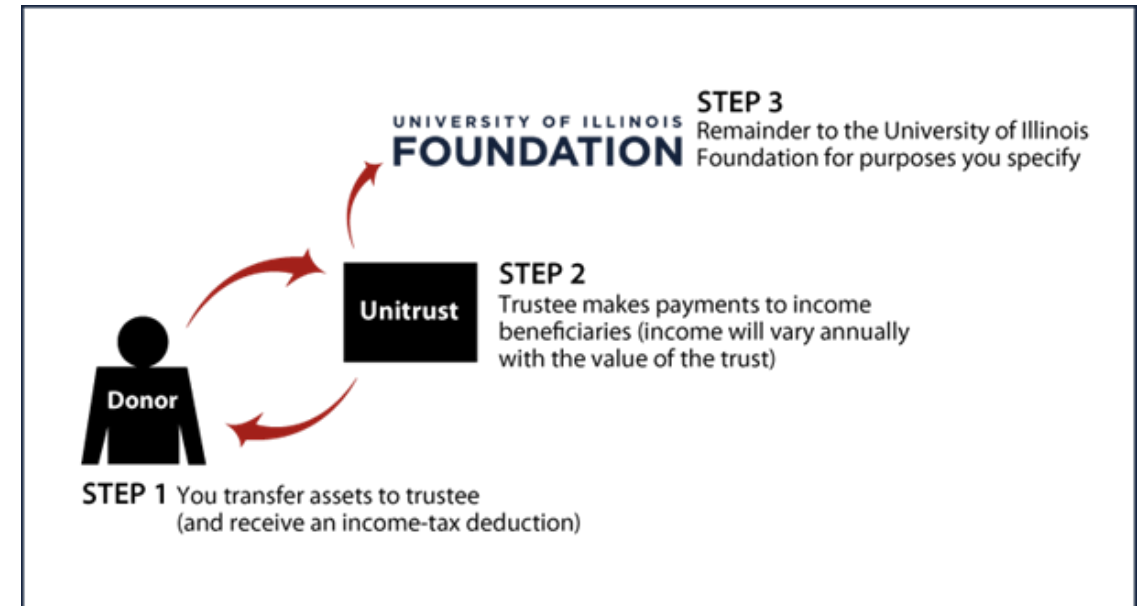
Charitable Gift Annuity/Deferred Gift Annuity

- **Fixed lifetime payments** based on age
- Two lives jointly or two successive lives
- Income for yourself and/or others
- Immediate or deferred payments
- Minimum age 60
- Immediate charitable deduction
- Some tax-free income; reduce capital gain tax
- General obligation of UIF



Charitable Remainder Unitrust

- **Variable payments (changes annually)**
- Minimum 5% payments
- For life, lives or term (yourself or others)
- UIF serves as Trustee (minimum age 55)
- Immediate charitable deduction
- Some tax-free income; reduce capital gain tax
- Not a general obligation of UIF
- More flexibility on assets for funding



The Case for a Charitable Gift Annuity

- Milton is 80 years old and retired.
- He has adequate savings and reserve funds.
- He lives primarily on his pension, social security, and modest income he receives from a portfolio of CDs.
- He is a very conservative investor. His primary motive is to ensure enough income while minimizing the variability of his income.
- He recently read about the new Carle Illinois College of Medicine and would love to make an impact, but knows he is not in a position to give away assets now that he needs to support his lifestyle.

Might Milton increase his income while also making a charitable gift?

The Case for a Charitable Gift Annuity

| | |
|---------------------------|--|
| Funding | \$50,000 cash |
| Payout Rate | 6.5% fixed for Milton's Life |
| Payment Amount | \$3,250 per year (will be paid over 4 quarterly installments) |
| Tax Treatment of Payments | \$2,710.50 Tax Free/\$535.50 Ordinary Income (After 9.4 years, all taxed as ordinary income) |
| Charitable Deduction | \$24,522.50 |
| Deduction Limitation | 100% of AGI in 2021; after 2021, deductible up to 60% of AGI with a 5 year carry forward |

Remainder will be distributed to support the purpose Milton specifies.

The Case for a Deferred Gift Annuity

- Alma Jones is 55 years old and in her peak earning years. She has maximized all tax-deferred savings opportunities available to her through her employer.
- She remains concerned about saving enough for retirement.
- She plans to retire in 10 years at age 65.
- She recently heard about the growing need for scholarship support for students at the University of Illinois. She would like to do something significant for Illinois to support this effort; but she is concerned about giving up access to assets she may need to support her lifestyle in retirement.

Might Alma continue to save for retirement while also making a charitable gift?

The Case for a Deferred Gift Annuity

| | |
|---------------------------|---|
| Funding | \$100,000 cash |
| Payout Rate | 5.5% fixed for Alma's Life beginning once she turns 65 (2031) |
| Payment Amount | \$5,500 per year (will be paid over 4 quarterly installments) |
| Tax Treatment of Payments | \$3,454 Tax Free/\$2,046 Ordinary Income (After 19.9 years, all taxed as ordinary income) |
| Charitable Deduction | \$31,287 |
| Deduction Limitation | 100% of AGI in 2021; after 2021, deductible up to 60% of AGI with a 5 year carry forward |

Remainder will be distributed to support the purpose Alma specifies.

The Case for a Charitable Remainder Unitrust

- Red Grange is 65 and interested in supporting capital improvements for Illinois Athletics.
- He was an early investor in “Gallopig Ghost Technologies” and has amassed a small fortune in company stock that has a very low basis and pays a very low dividend.
- Red remains concerned that he has a very large and concentrated position in Gallopig Ghost Technologies and also needs to generate more income.
- If he sells his stock, he will incur significant capital gain taxes.

Might Red be able to “unlock” some of the gains from his investment success while also making a charitable gift?

The Case for a Charitable Remainder Unitrust

| | |
|---|---|
| Funding | \$500,000 of Galloping Ghost Stock; Cost Basis is \$100,000 |
| Payout Rate | 5% for Red's lifetime; revalued each year based on the market value of the CRT |
| Payment Amount | Variable; \$25,000 in year one; revalued annually to be 5% of the market value |
| Tax Treatment of Payments | Payments will be taxed as a combination of ordinary income; capital gains tax; and tax-free |
| Charitable Deduction | \$223,480 |
| Deduction Limitation | 30% of AGI with a 5 year carry forward |
| Avoid Immediate Recognition of Capital Gain | \$400,000 capital gain recognition spread out over years of trust payments |

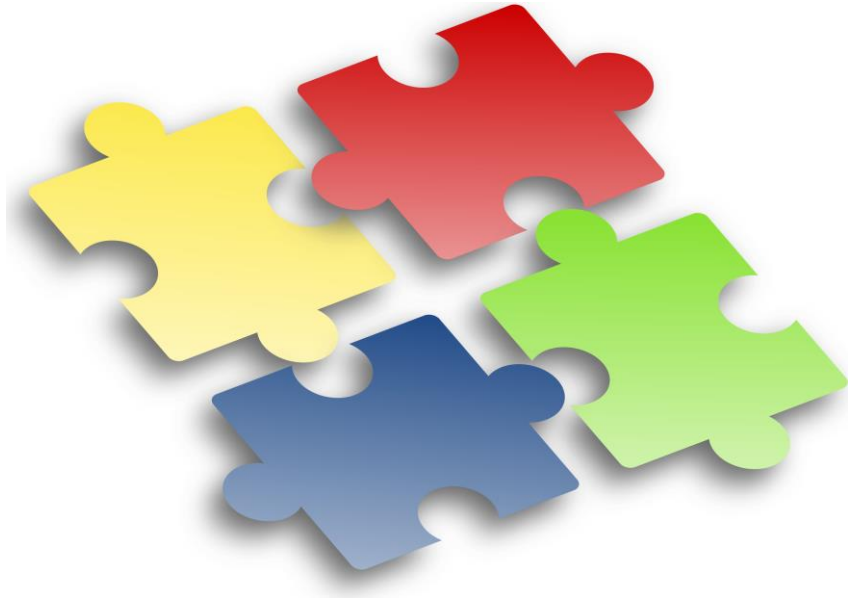
Remainder will be distributed to support the purpose Red specifies.

Enhance Income (Now or Future)

OTHER APPLICATIONS:

- Funding a “pension” for children
- Providing care for family member beyond your lifetime
- Providing support for a family member as part of a “charitable planning” strategy instead of a direct payment





Address Tax Planning & Asset Management

- Convert low yielding assets into higher yielding assets with similar risk profile
- Reduce tax burden of highly appreciated assets
- Eliminate management headaches and issues

Managing the Farm through a CRT

- Henry (75) and Hazel (73) Morrow own a 350 acre farm.
- Henry and Hazel purchased the farm 30 years ago when they saw it as a great investment opportunity to diversify their investment portfolio.
- Their tenant has farmed the land for 25 years and is retiring in a few years.
- Henry would like to retain the farm, as he enjoys following the commodity markets, going to the coffee shop to talk all things “farming” with his buddies, and enjoying the diversified income stream the farm provides.
- Henry has had some health scares in recent years. He is concerned that if something should happen to him, Hazel would be overwhelmed with the management decisions of the farm, but they still need income from this asset.

Might Henry and Hazel use a CRT to solve some of their management concerns?

Managing the Farm through a CRT

- Maintain income, and coordinated management with Henry, Hazel and UIF as trustee of the CRT.
- Charity as trustee agrees to hold farm for an agreed period of time.
- Henry and Hazel receive net income from the farm as the underlying asset in the trust.
- Upon sale of farm, CRT converts to a straight CRUT paying out 5% of the market value (revalued annually).
- Eliminate concerns of Hazel (or Henry) having to manage the farm should it become a burden.
- Provides continuous income stream.
- Immediate income tax deduction and removal from gross estate. Estimated income tax deduction of approximately \$1.6 million.
- Delays recognition of and reduces capital gains taxes.

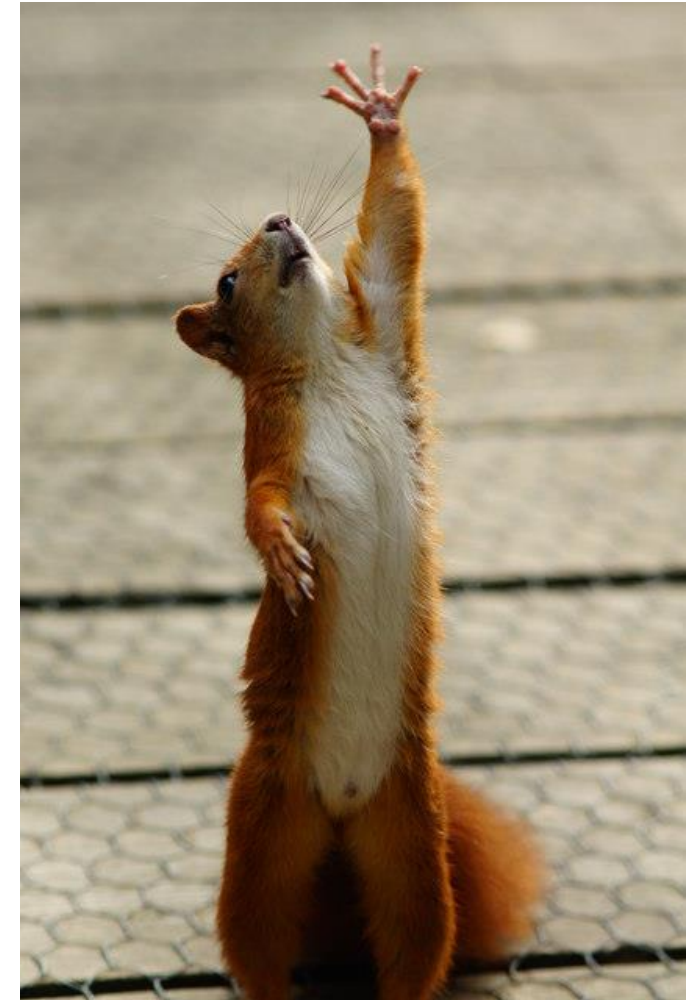
Addressing Wealth Transfer with Retirement Assets

- Replicate the “Stretch IRA” Provision
- Wealth Transfer
- Family Dynamics: Spendthrift Issues; Special Needs; etc.



Replicate the Stretch IRA Provision

- SECURE Act that went into effect January 1, 2020 eliminated the “stretch” IRA
- Eliminated the provision that allowed non-spousal beneficiaries to stretch IRA distributions out over their lifetime.
- Non-spousal beneficiaries now must take distributions out within ten years of account owner’s death (with a few noted exceptions)



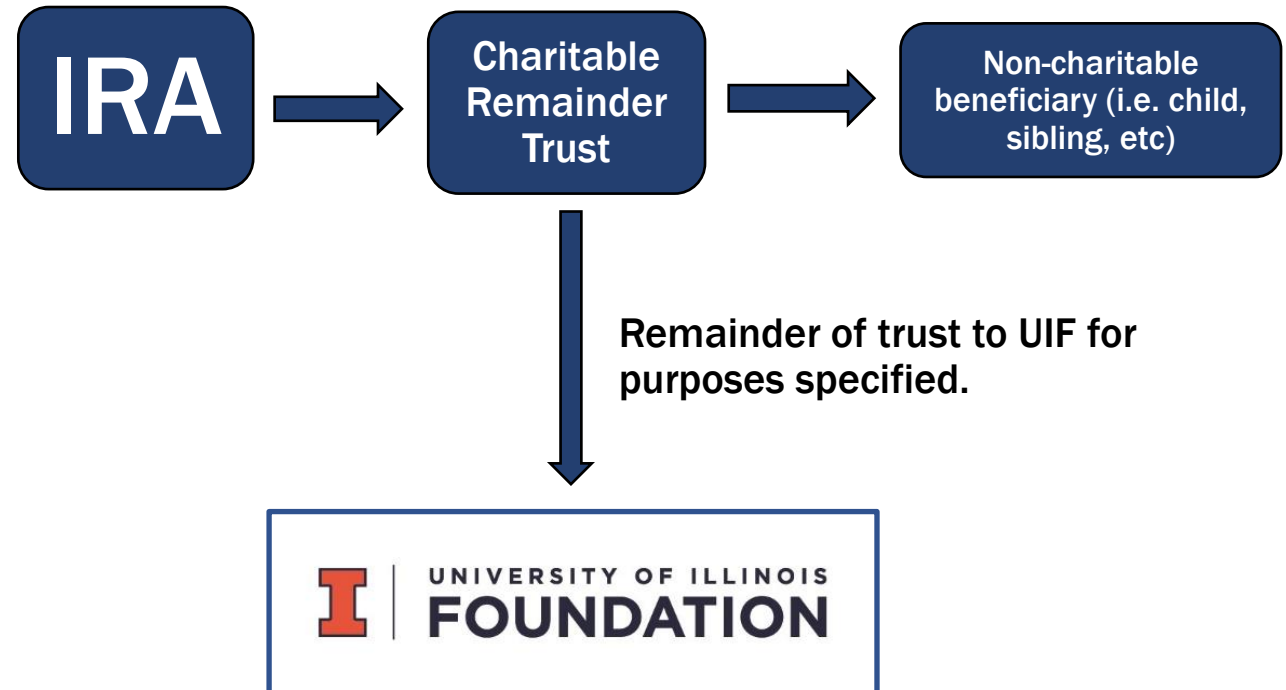
Replacing the Stretch IRA

APPLICATIONS:

- Name a Charitable Remainder Trust (CRT) the beneficiary of your IRA or qualified retirement plan
- IRA pays to CRT following account owner's death
- Payments begin for the lifetime or term of years of the named beneficiaries of the CRT with the remainder going to the charitable purpose you designate.

Owner establishes CRT and names CRT as beneficiary of IRA.

Income paid to non-charitable beneficiary for term of years or lifetime



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Wealth Transfer – Not All Assets are Equal

| | Donor #1 | | Donor #2 | |
|--------------------------------------|----------------------------------|-------------------------|-----------------------------------|------------------------|
| | \$1,000,000 Stock Account to UIF | \$1,000,000 IRA to Kids | \$1,000,000 Stock Account to Kids | \$1,000,000 IRA to UIF |
| Estate Tax¹ | \$0 | \$0 | \$0 | \$0 |
| Capital Gains Tax² | \$0 | \$0 | \$0 | \$0 |
| Income Tax³ | \$0 | \$220,000 | \$0 | \$0 |
| Net Proceeds | \$1,000,000 | \$780,000 | \$1,000,000 | \$1,000,000 |
| Total Net Benefit | \$1,780,000 | | \$2,000,000 | |

¹ Assume this estate isn't subject to the estate tax

² Assume a step up in basis and a sale upon the donor's death as well as a 20% capital gains tax rate

³ Assume a withdrawal in first year with the tax rate being 22%

Reminder on Beneficiary Designations

Please direct all requests as follows:

University of Illinois Foundation FBO (University/College/Purpose)
Tax ID 37-6006007
Attn: Gift Planning and Trust Services
1305 W. Green Street
Urbana, IL 61801

More details on how to designate provisions in your estate plans may be found at:

<https://uif.giftplans.org/index.php?cID=123>



CRTs to Manage Spending

- Goldie Green is widowed and has an adult son, Marty, who is 55.
- Goldie is philanthropically-minded and would like to do something to support her beloved alma mater, the University of Illinois, with an unrestricted gift to the University's most pressing needs.
- After a period of estrangement, Goldie and Marty, have reunited after Marty has kicked his drug habit and is now gainfully employed.
- While Goldie is proud of Marty's commitment to sobriety, she remains concerned that receiving a lump sum of money could trigger a relapse to old habits.
- If he should relapse, she wants to ensure he has some minimal support to pay for his living expenses, but not enough means to support his drug habit.

Might a CRT help manage concerns about spending?

CRTs to Manage Spending

- At death, Goldie creates a CRT with \$1 million through her estate
- Marty is the income beneficiary of the trust and will receive payments equal to 5% of the market value each year (\$50,000 in year one; variable thereafter)
- Assets placed in the CRT avoid estate taxation.
- Marty receives payments for the remainder of his lifetime
- At the end of Marty's lifetime, the remainder value goes to UIF to benefit the purposes Goldie specified.



Juggling the Pieces Under PROPOSED Tax Legislation



—

“It’s always the small pieces that make the big picture.”

- Unknown



Thank You!

Contacts for Further Conversation



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