PRESBYTERIAN FOUNDATION

# COMPOSING A LEGACY

A GUIDE TO CHARITABLE ESTATE PLANNING

## YOUR ESTATE PLANNING TEAM

The Foundation has been serving the Church and individual Presbyterians in their desire to bring mission and people together for over two centuries. Our mission is to support charitable goals through the cultivation and management of gifts given by individuals, and churches, governing bodies and church-related institutions.

As a skilled network of development officers and support staff with highly trained specialists in gift compliance, accounting, investment management, law and gift administration, we offer many valuable resources. Our services are aimed at assisting you in giving and making the most of the resources you share and invest. We do not recommend any particular gift vehicle or any specific beneficiary; we are here expressly to serve the wishes of our donors.

Your Foundation development officer has expertise in charitable giving and is always available for consultation. As with any decision regarding legal and financial matters, we recommend you consult with your own independent professionals including: attorneys, accountants, trust officers, life insurance professionals, investment advisors, and real estate brokers.

To learn more about reaching your charitable and estate planning goals, contact us at 800.858.6127, option #2 or visit our web site at www.PresbyterianFoundation.org. To reach your local development officer, simply use the search feature located on the web site for contact information.

## WHAT IS ESTATE PLANNING?

Estate planning is the process of managing accumulated assets for the present and future. It is a written expression of your intentions for the protection and preservation of your assets during your lifetime and their management and distribution upon your death.

A will is the cornerstone of a sound plan, but on its own does not make an estate plan. A good estate plan should include: decisions regarding guardianship for dependent children; power of attorney for your finances should you become incapacitated; and a healthcare proxy with the responsibility of making medical decisions on your behalf, if necessary. A living will directive stating your wishes for life support should also be considered to eliminate this difficult decision from loved ones.

Reducing estate and probate taxes may also be a consideration when planning your estate, allowing you to pass along more to your loved ones and charity with less to the government. Frequently, married couples' assets are held in joint ownership, so that when one partner dies the assets pass to the surviving spouse without going through probate. This is good in most cases, but for some it may be advantageous to consider a marital bypass trust to allow assets to pass to other heirs tax-free after the second spouse dies. Your financial or legal advisor can provide you with more details on these issues.

### KEY FACTORS IN ESTATE PLAN

- Will
- Durable power of attorney
- Healthcare proxy
- Tax reduction plans
- Guardian for dependents
- Ownership of assets
- Living will directive
- Trusts

## A CHRISTIAN APPROACH TO CHARITABLE ESTATE PLANNING

Estate planning offers Presbyterians the opportunity to make an enduring statement of faith. This act of stewardship can leave an indelible mark on your Church or a mission program of your choice. You may be surprised that even a small asset can be turned into a gift which will support your choices in perpetuity. You may even identify assets previously not considered that could be used to make a generous gift.

This booklet will concentrate on some of the charitable giving opportunities available through estate planning. Equipped with this information, you can more fully evaluate and discuss estate planning options with your financial and legal advisors.

## GETTING STARTED

1 Taking an inventory of all assets and liabilities is groundwork for a good estate plan. A *Personal Record Book* and an *Estate Planning Worksheet* are available to assist you in this process. It is important to share this information with children or the executor you may have named.

2 After you have compiled a comprehensive list, you must decide how you want your assets distributed. List your heirs and what you would like each to receive, including charitable beneficiaries you would like to support. Also consider your personal goals for the management and protection of your resources.

3 There is more than one way to achieve your goals. As you familiarize yourself with the various estate planning concepts and charitable giving options, you will be able to make informed decisions regarding your plan. Consult with your legal and financial advisors to discuss and finalize your plan.

### WHY ESTATE PLANNING?

- Organized approach - see Estate Planning Worksheet and Personal Record Book
- Prepare for possible future needs: health, accidents, unforeseen financial challenges
- Provide for spouse, dependents or other loved ones
- Reduce tax consequences on current assets and future estate taxes
- Create legacy of your faith through a charitable gift

## CHARITABLE GIVING

There are many ways to give. Although the choices may seem overwhelming at first, they are simply different options designed to fit various circumstances and meet individual goals. Only you will be able to determine how a charitable gift fits into your estate plan. For the purpose of planning with charitable intentions, we will divide giving into two broad categories.

### WAYS TO BENEFIT CHARITY LATER

- Bequest in Will
- Charitable Remainder Trust
- Life Insurance
- Retirement Accounts
- Charitable Gift Annuity
- Real Estate

### WAYS TO BENEFIT CHARITY NOW

- Permanent Fund
- Direct Giving
- Appreciated Securities
- Donor-Advised Fund
- Charitable Lead Trust

## WILLS AND BEQUESTS

If you do not have a will, you are not alone. A majority of Americans do not have a will. It is never too early to write a will; it can only be too late. Writing your will is the most important step you can take in planning your estate. Without it, the probate court will make decisions about the distribution of your assets and appoint guardianship of any survivor left in your care. No assets will be given to any charitable organization, no matter how important that organization was to you during your lifetime.

If you do have a will, this may be a good time to review it. Wills should be kept up-to-date and reviewed from time to time to mirror the changes that may take place in your life.

A properly prepared will is a very effective means to accomplish many goals, including charitable intentions. A bequest can be written to give a percentage of your estate, a residual amount (after expenses and other bequests have been deducted) or a stated amount to any charitable organization you specify.

A bequest can be made directly to the Church; we refer to this as an outright gift. Another option is to make a bequest to the Foundation to establish a permanent fund or endowment, which will be professionally managed to provide income in perpetuity to the Church or charitable cause you designate.

Dying without a will, called dying intestate, gives the state authority to make decisions concerning the distribution of your estate without regard to your wishes.

### CONSIDERATION FOR REVIEWING A WILL

- Birth or adoption of children
- Children have grown or married
- Loss of spouse or loved one
- Divorce or marriage
- Move to another state
- Change in financial situation or holdings

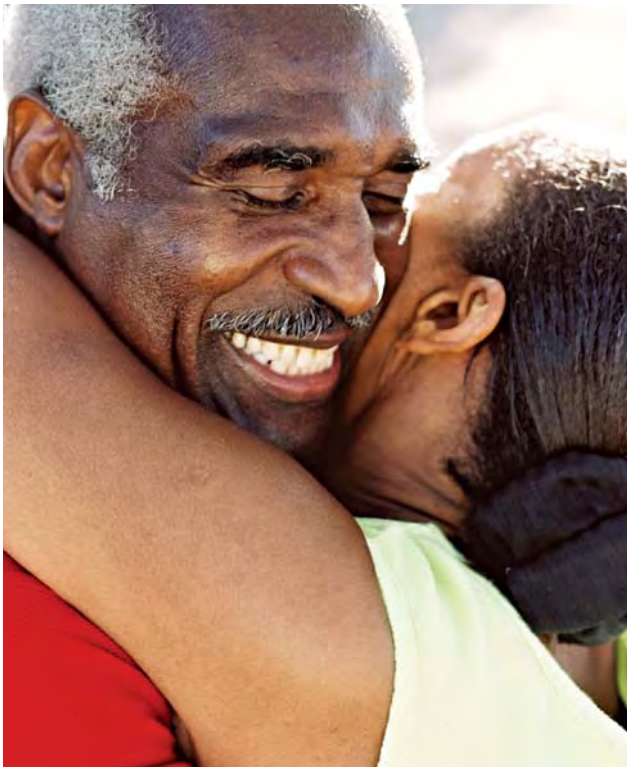
## CHARITABLE REMAINDER TRUSTS

A charitable remainder trust* is a way to make a future gift to the Church or its mission while receiving income during your lifetime. The trust also offers certain tax advantages.

A charitable remainder trust involves an irrevocable transfer of assets to a trustee and the creation of a trust agreement. The trustee manages assets and makes payments to the income recipient. You can designate yourself as the income recipient or one or more other recipients. At the termination of the trust (either at death or a set term of years) the remaining trust assets are used to support the work of the Church as you designate.

There are two types of charitable remainder trusts, annuity trust and unitrust. The primary difference is how trust payments to you are calculated.

*Trust services provided by New Covenant Trust Company, N.A., a subsidiary of the Presbyterian Foundation.



### Example: Trust Gift

At age 64, Susan decides it is time to sit down with her accountant and examine her estate plans. Susan had always wanted to make a difference in the quality of life of other aging Presbyterians, yet making an outright gift was not feasible. Susan owned securities purchased for $30,000 currently valued at $300,000. Susan decided to use these securities to fund a charitable remainder trust, providing herself an annual 6% payment, much more than she was receiving from dividends on the securities. She is also able to claim a charitable contribution on her tax return and avoids immediately realizing long-term capital gain. The trust will ultimately benefit a Presbyterian retirement home.

### REASONS TO CONSIDER A CHARITABLE TRUST

- Increase income
- Obtain income tax deduction
- Realize capital gain over time, not at once
- Diversify investment holdings
- Minimize transfer taxes (gift, estate)
- Provide support for a charitable beneficiary you select

## LIFE INSURANCE

Giving life insurance may offer you benefits and a chance to make a gift where other options are not feasible. Policies may no longer be needed or serve the purpose for which they were originally intended, such as a business that no longer exists, or for children or loved ones who may not need the additional income. You may also be able to establish an endowment type gift that may not have seemed possible under other circumstances.

There are several ways a life insurance policy can be used to make a charitable gift, such as:

1 Naming a charity as a beneficiary on an existing life insurance policy. Because you have the option of changing or revoking the designated charitable beneficiary, no charitable contribution is allowed.

2 Transferring ownership of a policy to a charity. This allows you to claim a charitable deduction for the approximate cash surrender value of the policy. For example, you may be able to transfer ownership of a policy to the Foundation for the benefit of the mission or cause you choose. Once the gift is made, it is owned by the charitable organization and cannot be revoked.

3 Purchasing a new policy in order to make a charitable gift. A policy you have given to a charity that continues to require premium payments may allow you to declare premiums you continue to pay as tax deductible gifts. (Applicable in most states. Check with your lawyer or financial advisor.)

### Example: Life Insurance Gift

When he turned 65, John and his wife, Ann, totaled their assets and determined they had enough to support them through retirement. They no longer needed the life insurance protection John had originally acquired to provide for Ann, so they gave the policy to the Presbyterian Foundation. After John's lifetime, the life insurance proceeds will benefit a Presbyterian children's home, which they have supported throughout the years with many volunteer hours. John and Ann claimed a charitable contribution in the year they made the gift, and they may also claim deductions for the contributions made to the Foundation to pay the policy's premium. By using their insurance, they are delighted to have made a gift far larger than they imagined was possible.

## RETIREMENT PLANS

When planning your estate, assets that have increasing importance are retirement plans. IRAs, 401(k)/403(b), Keogh, and other retirement accounts build tax-free income. The account, which can become quite sizable over the years, will be included as part of your estate at your death. Beneficiaries of account balances will be subject to federal income tax upon receipt. Possible estate and income taxes can result in the loss of a substantial portion of your retirement savings. By designating a charitable beneficiary for your retirement account(s), you and your heirs may reduce income and estate tax liabilities.

Another option is to name a charitable trust as beneficiary to provide lifetime income (or income for a number of years) to a person you select, such as your spouse. After the person's lifetime, the balance of the trust will benefit the charity you select. Your estate will be entitled to a charitable contribution deduction.

You can also establish a charitable trust during your lifetime using assets from your retirement account. Withdrawals from your retirement account will be subject to income tax, but you will create a charitable contribution deduction, further reducing the income tax due on the withdrawal.

It's easy to make a gift from your retirement assets. Obtain a change of beneficiary form and indicate the amount or percentage of your assets that you wish to give to a charitable beneficiary.*

### Example: Gift of Retirement Assets

Sharon's $600,000 estate (which includes a $100,000 IRA), leaves $500,000 to her five children, $50,000 to her church's program for aid to the homeless, and $50,000 to a charity which ministers to battered women and displaced families. Although there is no Federal estate tax on an estate this size, when the proceeds of the IRA are distributed, they are subject to federal and state income taxes (assuming a 28% tax, that's a minimum $28,000 loss from Sharon's estate). Yet, if Sharon leaves the same amount to charities, but uses the IRA account for her gifts instead of other assets, the full income tax liability will be avoided, thus providing more for her children.

* However, please consult a tax advisor before making such a change if you intend to name a spouse as a beneficiary of the same account.

## REAL ESTATE

Real estate can provide unique gift opportunities regardless of whether it has increased or decreased in value. Sizeable capital gains often occur when property that has been held for many years is sold. An outright gift of real estate will result in tax savings since you will receive a charitable income tax deduction for the appraised value of the property. Capital gains tax is avoided if the charity sells the property.

If the property has decreased in value, it is better to sell the property outright and make a gift of the proceeds. You may be entitled to a capital loss to deduct from your taxable income as well as the charitable deduction for the amount of the gift.

You may make a gift of your home or farm property and still retain the use of it during your lifetime. This allows you to claim a charitable deduction for the gift while retaining all the benefits of ownership. After your lifetime, the charity will have complete control of the property. A portion of the value of the property is deductible as a charitable donation in the year of the gift.

A gift of real property should be readily marketable, but a sale should not be prearranged. A contribution that exceeds the annual charitable deduction limit may be carried forward for up to five additional years.

## GIFT ANNUITY

A charitable gift annuity is a very popular gift vehicle that may address your income needs and complement your estate plan. In exchange for your irrevocable gift, the Foundation agrees to pay you, and/or your loved one, a fixed payment for life. After your lifetime, the charitable remainder interest in the gift annuity becomes available for the ministry you designate.

At the time of the gift, the maximum fixed payment is determined by the age of the person or persons to be paid. You may claim a charitable contribution deduction for the year the gift is made. The annuity payments may also be deferred to time your payments with other scheduled events, such as retirement.

## PERMANENT FUNDS

A permanent fund, often referred to as a memorial or endowment fund, is an enduring tribute to a spouse, family member or loved one. You make a gift to the Presbyterian Foundation which invests your gift and pays the income in perpetuity to the charitable beneficiary you named in your gift agreement. The fund can be established during your lifetime or through a bequest. You or your heirs can also contribute additional gifts to the fund after it is established.

Through a permanent fund, you can provide continuous financial support for a variety of mission activities. Select those important to you or a program or mission much loved by the person being memorialized or honored. From evangelism to peacemaking, to music and education, supporting an important ministry through a permanent fund is a lasting legacy to one's faith and love.

Establishing a permanent endowment fund with the Foundation allows you to make an expression of faith that will provide support for your congregation or chosen ministry today, tomorrow and well into the future.

## DONOR-ADVISED FUND

A donor-advised fund offers a unique giving opportunity. It is especially appealing to individuals who are interested in staying involved in the giving process.

Through an irrevocable gift to the Foundation, a donor-advised fund allows the donor to make periodic "advisory recommendations" for the charitable distributions from the fund. A fund is sometimes established with family members serving as advisors to make recommendations for the fund's grants. This family involvement can provide the opportunity for sharing personal values, evaluating charitable mission needs, and establishing priorities for your witness to others - in effect, it can shape a culture of giving for your family.

A donor-advised fund also offers tax advantages. Appreciated assets used to establish the fund may be deductible at the current fair market value and will bypass capital gains tax liability.

### DONOR-ADVISED FUND

- Flexibility to support a variety of programs and agencies
- Ability to recommend distribution of principal, in whole or in part, to meet immediate needs of the charities you support
- Avoidance of cumbersome responsibilities associated with creation of a private foundation

## DIRECT GIVING

Direct giving or outright gifts can be given at any time. As part of your estate planning, you should include any considerations you may want to make towards your church or other charity during your lifetime. This may not only help you to realize stewardship goals but may also offer beneficial tax deductions as well.

## APPRECIATED SECURITIES

Gifts of appreciated securities may offer the benefits of reduced tax liability while furthering a charitable goal. Using appreciated securities which you have held for over one year to make a charitable gift may avoid the long-term capital gains tax and possibly allow you to deduct the full fair market value of the stock. To achieve this result, shares must be transferred to the charity, not sold, redeemed or exchanged. If they are sold from your account, the gift becomes a cash gift rather than a gift of securities and you will personally realize the capital gains.

Making a gift of appreciated securities allows you to claim a charitable contribution, avoid capital gain and reduce your estate.

## CHARITABLE LEAD TRUST

A charitable lead trust* is appealing to individuals who may be subject to a large estate tax. The donor establishes and funds an irrevocable trust. The charitable beneficiary named by the donor receives payments from the trust, usually for a set term of years. At the end of the term, the trust assets are returned to the donor's estate or passed on to heirs.

The trust payments to the charitable beneficiary can be a fixed dollar amount or a fixed percentage of the fair market value of the trust assets as revalued each year. The term of years can also be determined to achieve a near 100 percent charitable gift tax deduction when the trust is established.

The charitable lead trust is another example of an estate planning vehicle worth discussing with your estate planning team. It is a way of passing assets to family members at reduced or no gift tax cost while fulfilling your stewardship goals.

*Trust services provided by New Covenant Trust Company, N.A., a subsidiary of the Presbyterian Foundation.

The materials provided in this guide are examples of a general and informative nature, and do not constitute advice, legal or otherwise. Through careful estate planning, you can attain your objective for providing for loved ones as well as for Presbyterian missions and ministry. Please consult with your attorney or advisor for financial and estate planning advice before you take any action.

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