OSHER LIFELONG LEARNING INSTITUTE

CREATING A LASTING LEGACY:

STRATEGIES TO BLEND FINANCIAL PRIORITIES AND CHARITABLE INTENTIONS

PRESENTED BY: MEG CLINE, CFA, CFP®

VICE PRESIDENT FOR GIFT PLANNING & TRUST SERVICES

OCTOBER 31, 2023

UNIVERSITY OF ILLINOIS FOUNDATION

TRICK OR TREAT?

Maybe you can learn a few tricks so you can enjoy more treats!

The idea is not
to live forever,
but to create
something
that will.

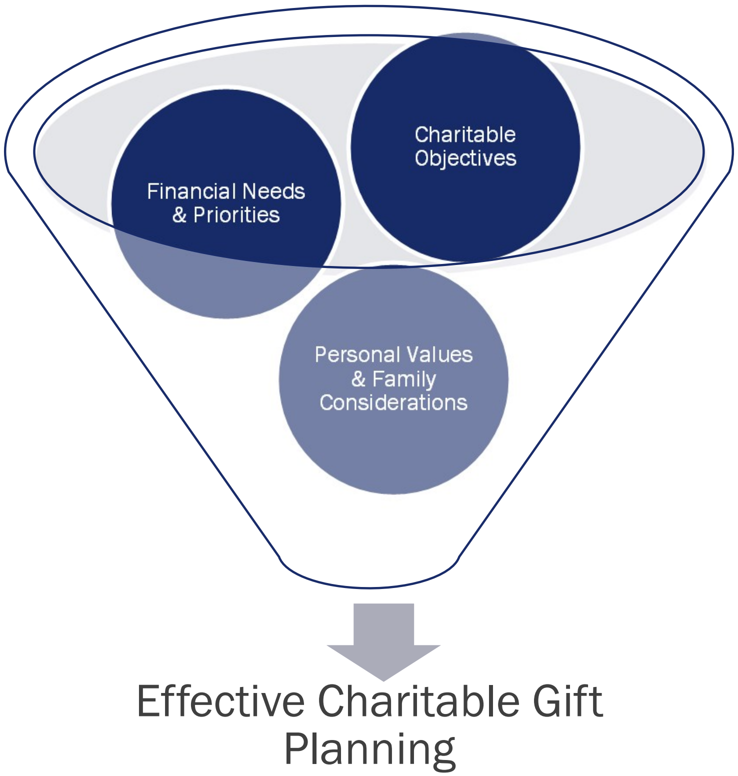
ANDY WARHOL

DISCLAIMERS

- The University of Illinois Foundation does not provide tax, legal, or accounting advice. This material has been prepared for informational purposes only and is not intended to provide, and should not be relied on for, tax, legal, or accounting advice. You should consult your own tax, legal, and accounting advisors before engaging in any transaction.
- All illustrations assume no benefits (i.e. tickets for athletic events, preferential seating, etc.) are received in exchange for contributions.
- Gifts need to be given to the "University of Illinois Foundation" (Tax ID 37-6006007) for the benefit of the University, not to "The University of Illinois," the "University of Illinois at Urbana-Champaign," or "U of I."

GETTING THE MOST OUT OF YOUR GENEROSITY REQUIRES - - -

- An evaluation of your charitable objectives
- Assessment of personal financial needs and priorities
- Personal values and family considerations
- *Aligning tax incentives with assets and giving instruments to make the most cost-effective gift while maximizing the impact of your giving.*



Aligning tax incentives with assets and giving instruments to make the most cost-effective gift while maximizing the impact of your giving.

Assets:

- Cash
- Securities
- Retirement plans
- Life insurance and annuity products
- Closely-held stock
- Real estate (commercial, farmland, residential, etc.)

Instruments:

- Bequests
- Charitable remainder trusts (CRUTs & CRATs)
- Charitable gift annuities (CGAs & DGAs)
- Qualified Charitable Distributions (QCDs)
- Charitable lead trusts (CLATs & CLUTs)
- Retained Life Estates
- Donor Advised Funds (DAFs)
- Family Foundations

GIFTS OF CASH

- Check, credit card, wire
- If itemize, deductible up to 60% of Adjusted Gross Income
- 5 year carry forward

Deduction of Cash Gifts

2023
Adjusted Gross Income (AGI): $100K
Cash gifts to UIF: $80K
Maximum allowable deduction (60% of AGI): $60K
Taxable federal income: $40K (and may carry forward the remaining $20K into next year subject to AGI limitations.

STRATEGIES:

- “Bunching” to alternate itemizing vs. taking the standard deduction
- Prepaying pledges/multi-year gifts up front
- Use of Donor Advised Funds

GIFTS OF APPRECIATED ASSETS

SOMETIMES CASH ISN'T KING

- Highly appreciated assets – low cost basis
- Held for longer than one year to qualify
- Immediate tax deduction equal to fair market value (if you itemize)
- Deduct up to 30% of AGI with 5 year carry forward
- Zero capital gain tax

Note: Assets with a fair market value below cost basis, should be sold for a loss and proceeds donated.

Gifts of Appreciated Assets

	Option 1: Sell the Stock and Donate the Net Proceeds	Option 2: Donate the Stock Directly
Basis Value for the Stocks in Question	\$5,000	\$5,000
Current Fair Market Value of Stocks	\$100,000 (1,000 shares × \$100/share)	\$100,000 (1,000 shares × \$100/share)
Long-Term Capital Gains Tax Paid[1]	\$14,250	\$0
Amount Donated	\$85,750	\$100,000
Personal Income Tax Savings (0.32 × Amount Donated)[2 & 3]	\$27,440	\$32,000

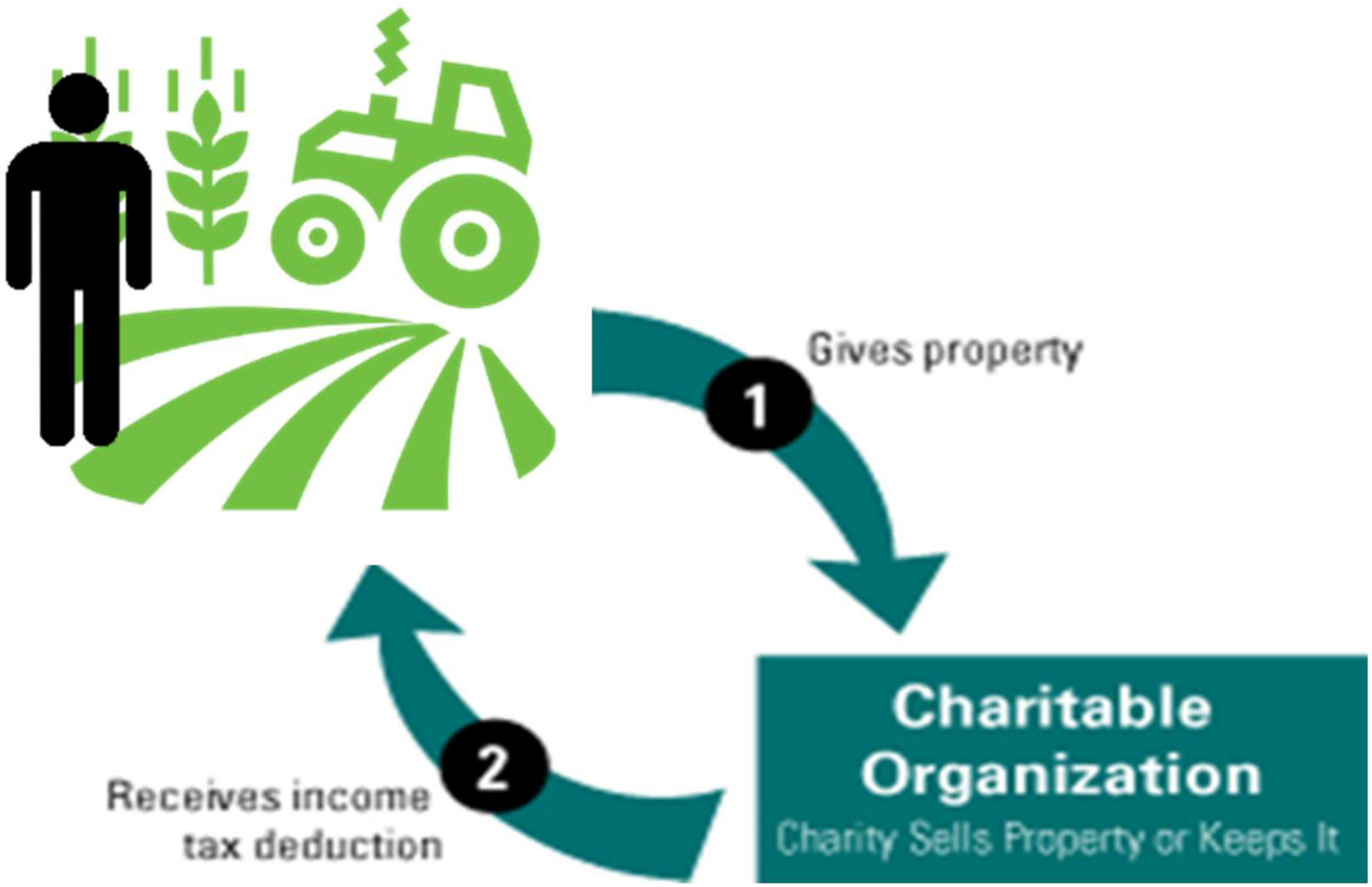
[1] This analysis assumes the donor has held the investment for more than a year, and that all realized gains are subject to a 15% long-term capital gains tax rate. It does not take into account any state or local taxes.
[2] This analysis assumes the donor is in the 32% federal income tax bracket and also does not take into account any state or local taxes.
[3] Deductions may be carried forward 5 years beyond year of the gift subject to limitations for each subsequent year.

Strategies with Gifts of Appreciated Assets

- Prepayment of pledges or advance funding of charitable gifts for multiple years given concern for market volatility going forward
- Funding of Life Income Gifts (such as Charitable Remainder Trusts and Charitable Gift Annuities) to unlock gains and provide a more stable and diversified stream of income.
- Managing long-term succession plans around complex assets heirs may not be interested in holding (farmland, homes, commercial real estate properties)
- As part of an exit strategy related to the sale or transfer of closely held business interests
- “Reset the basis” – i.e. give away the appreciated asset, and buy it back to reset the basis

UNIVERSITY OF ILLINOIS FOUNDATION

Gift of Farmland or Real Estate



Outright Gift of Real Estate

- Mary owns an 80-acre farm that she and her late husband purchased 20 years ago at $4,000 per acre.
- Her basis in the property is $320,000. Today the farm is worth $16,000 per acre for a total value of $1,280,000.
- Mary lives in Illinois and has a state estate tax issue. She has used her late husband's exemption amount and has a taxable estate well in excess of the $4 million exemption level.
- She has ample sources of income – in fact, she would like to shelter her income from taxation.
- She has two children who have no interest in the farm.
- Mary is charitably inclined and would like to do more to support the University of Illinois. What might she consider?

OUTRIGHT GIFT OF REAL ESTATE

	Sells the Property	Gifts the Property to Charity
Value of Property	$1,280,000	$1,280,000
Cost Basis	$320,000	$320,000
Capital Gains	$960,000	$960,000
Capital Gains Tax Due*	($192,000)	$0
Charitable Income Tax Deduction	$0	$1,280,000
Federal Income Tax Savings**	$0	$448,000
TOTAL TAX SAVINGS	$0	$640,000 (Capital Gains Tax due + Federal Income Tax Savings) Excludes any possible state income tax savings
After-Tax Cost of the Gift		**$640,000**

**Assumes 20% capital gain tax rate.*

***Assumes 35% marginal income tax bracket, itemizes, and can utilize the entire deduction limited to 30% of AGI in the year of the gift plus a 5-year carry-forward.*

Outright Gift of Real Estate

- Charitable income tax deduction up to 30% of AGI in the year of the gift plus 5 years to carry forward.
- Based on the utilization of the income tax deduction, may consider making gifts of acres over time.
- Removes asset from estate for federal and state estate tax purposes
- May work to advantage to remove this income producing asset that may trigger them into higher tax brackets and activate the Medicare surcharge tax.
- Note on Requirements:
  - Qualified appraisal within 60 days of gift
  - IRS Form 8283 (signed by appraiser and charity)
  - IRS Form 8282 (signed by charity if sold with in 3 years)

BEQUESTS

Benefits:

- Flexibility
- Allows legacy after death
- Provides an opportunity for larger gifts then donors dreamed possible
- Avoidance or reduction of estate taxes

MAKING THE CASE FOR BEQUESTS

Jane Smith is a longtime donor to OLLI. Each year she makes a $75 gift to support the College. She would like to see this support continue beyond her lifetime, but she is concerned that she will need her savings to supplement her pension.

What might Jane consider to satisfy her philanthropic goals while maintaining peace of mind about retirement?

FORMS OF ESTATE GIFTS

- Naming UIF in will or trust
- Beneficiary designations
  - Life insurance
  - Retirement plans
  - Tax deferred annuities
  - Donor advised funds
- Transfer-on-death (TOD) and Payable-on-death (POD) plans
  - Bank accounts
  - Brokerage accounts
  - Real estate

HOW DOES YOUR ESTATE PASS?

Items outside of your will or trust:	Items directed based on will, trust or probate court if no will or trust:
Life Insurance	Anything owned individually
Retirement Plans (IRAs, 401ks, 401a, 457 plans)	Anything you cannot add a beneficiary designation to that is not named to the trust
Assets with TOD and POD provisions	Personal property
Assets Owned JTWROS	

Recommended Basic Language

For Beneficiary Designations:

UIF f/b/o Osher Lifelong Learning Institute
Tax ID 37-6006007
Attn: Gift Planning and Trust Services
303 St. Mary's Road, MC 386
Champaign, IL 61820

For Bequests:

I leave *[$x/x%/residue]* to the University of Illinois Foundation, a nonprofit corporation (Tax ID 37-6006007) located in the State of Illinois, to support the Osher Lifelong Learning Institute at the University of Illinois Urbana-Champaign.

On average, retirement accounts/plans represent what percentage of your client's overall wealth?

UNIVERSITY OF ILLINOIS FOUNDATION

Total US retirement assets were $37.5 trillion as of March 31, 2022. Retirement assets accounted for 32 percent of all household financial assets in the United States at the end of March 2022.

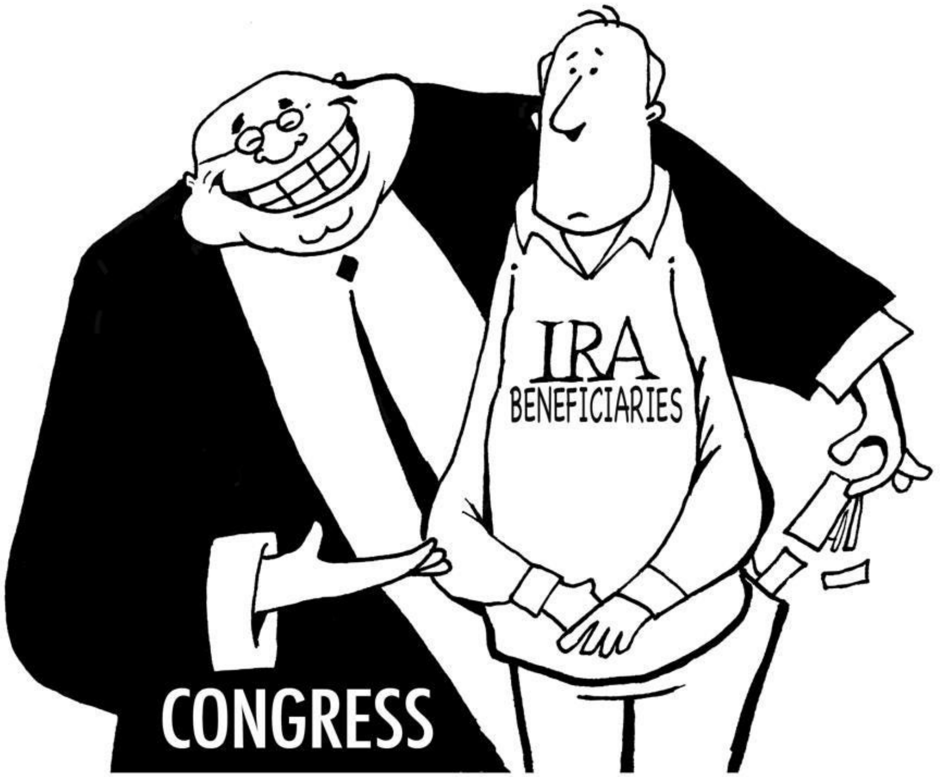
- Investment Company Institute

UNIVERSITY OF ILLINOIS FOUNDATION

“By failing to prepare, you are preparing to fail.”

– Benjamin Franklin

UNIVERSITY OF ILLINOIS FOUNDATION



Randy Bish

Considerations with Retirement Assets

During Lifetime: Tax implications when start required minimum distributions are generally amplified.

Upon Death: Create significant tax issues at death (even for individuals without estate tax issues).

UNIVERSITY OF ILLINOIS FOUNDATION

LIFETIME PLANNING CONSIDERATIONS WITH RETIREMENT ASSETS

- Income needs upon retirement and timing from sources
- Managing income tax burden over time (Income now vs. later)
- Considering the “flavor” of income over the lifespan
- Consideration for Medicare Surtax

UNIVERSITY OF ILLINOIS FOUNDATION | I UIC UIS

CHARITABLE IRA ROLLOVERS

TAX-FREE GIFT FROM YOUR IRA – QUALIFIED CHARITABLE DISTRIBUTION (QCD)

- 70 ½ or older
- Counts toward your required minimum distribution (RMD) (Note: RMDs begin at age 73 if you reach age 72 after December 31, 2022)
- Cannot exceed $100,000 per year per taxpayer (indexed for inflation starting in 2024)
- Transfers to UIF directly from IRA administrator
- Must be an outright gift with no benefit, such as athletic ticket preference
- Direct to Charity (no gifts to Donor Advised Funds or Family Foundation)

Note: The QCD is particularly attractive to donors who do not itemize deductions.

QUALIFIED CHARITABLE DISTRIBUTIONS

Traditional
IRA

Up to $100,000

Charity

BENEFITS:

- No income taxes due
- Charitable goal achieved – must go direct to a charity (not a Donor Advised Fund or Family Foundation)
- Reduces Adjusted Gross Income
- A benefit for non-itemizers
- May help control client's tax bracket
- May eliminate Medicare surcharge

UNIVERSITY OF ILLINOIS FOUNDATION

Qualified Charitable Distribution - Example

- Jane is 70 ½ years old.
- She has a very sizable IRA and is concerned that when she has to begin taking RMDs, she will have a significant income tax burden.
- Her tax advisor has indicated that when she begins taking RMDs, she may find herself in a higher income tax bracket and subject to the Medicare surcharge.
- Jane is charitably inclined. What action might Jane take now to help reduce future anticipated income?

Starting QCDs at 70 ½ (even prior to RMDs) might be a good planning consideration to reduce her IRA balance and minimize future tax implications.

QCDs and Life Income Gifts

CONSOLIDATED APPROPRIATIONS ACT OF 2023

- New provision in the law allows one time QCD up to $50,000 to a Charitable Remainder Trust or Charitable Gift Annuity.
- Cannot exceed $50,000 in the lifetime – and must be in one calendar year
- Cannot commingle with other assets in a CRUT (with one exception – spouses can each make a one-time QCD up to $50,000 to the same CRUT)
- May not assign income to anyone other than a spouse
- May not terminate early
- May not defer payments – must begin immediately

QCDs and Life Income Gifts - Advantages

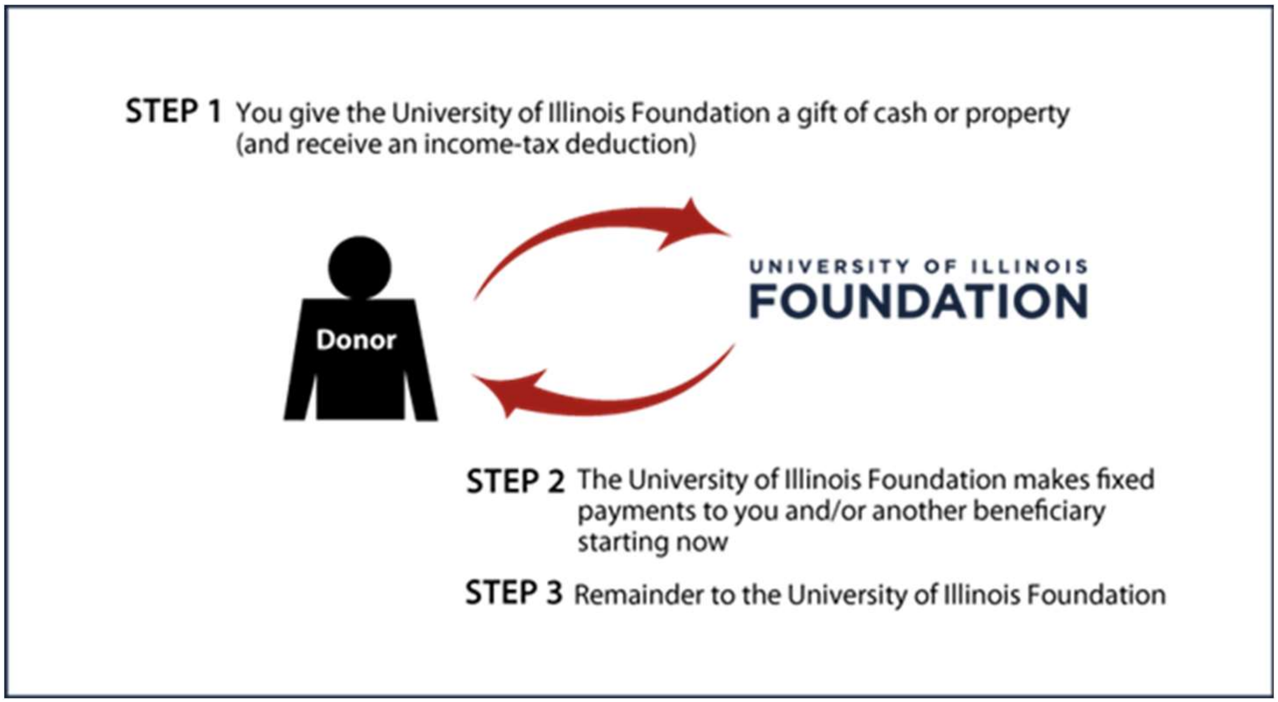
- Satisfies RMD while not having to recognize income
- Delays recognition of the income over the life of the donor and spouse
- Allows donor to continue to benefit from income over lifetime they may be dependent upon.

GIFTS THAT PROVIDE INCOME

BENEFITS

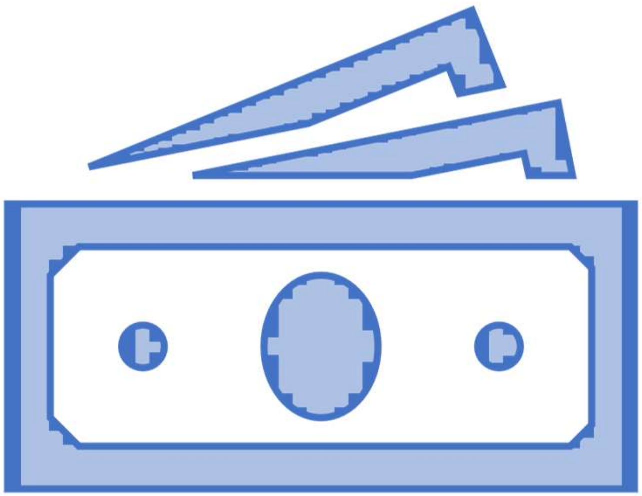
- Lifetime income
- High rates of income *(usually exceeding bank deposits, stocks, bonds, etc.)*
- Converts risk assets, such as stocks, into secure source of income
- Capital gain tax savings when donating appreciated assets
- Immediate charitable deduction and income tax savings if you itemize
- Increase retirement income

Charitable Gift Annuity: The Basics



Charitable Gift Annuity: The Basics

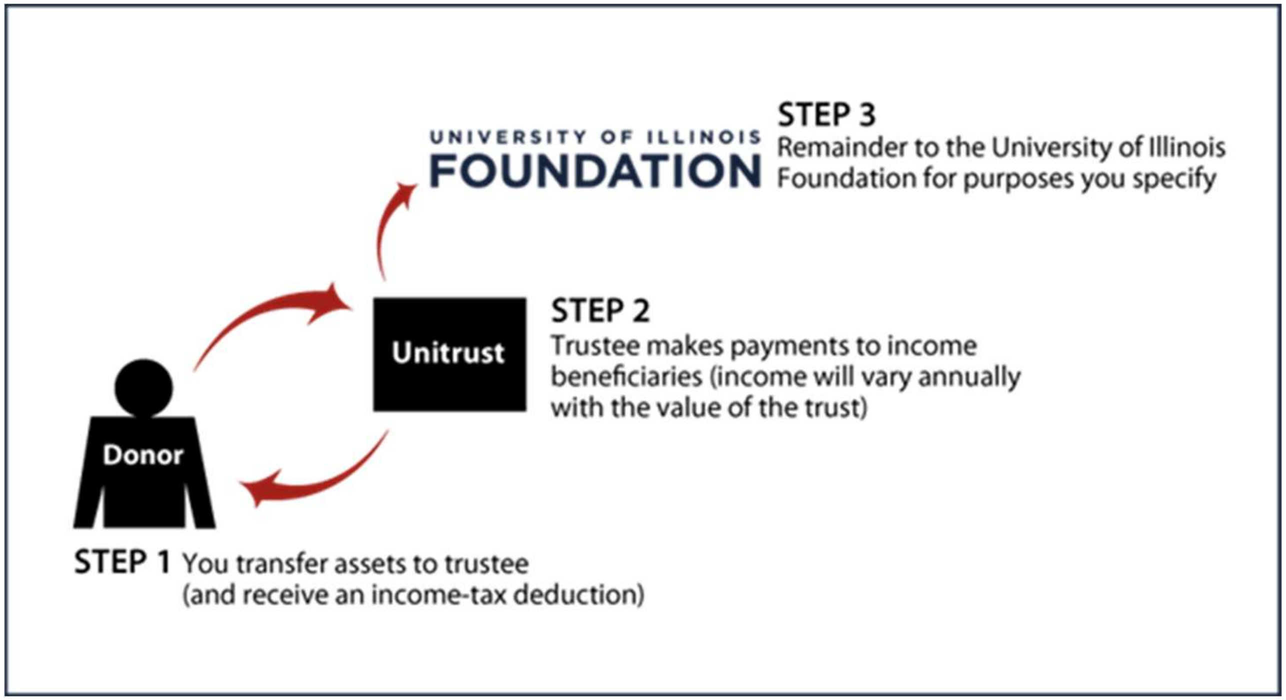
- **<u>Fixed lifetime payments</u>** based on age
- Two lives jointly or two successive lives
- Income for yourself and/or others
- Immediate or deferred payments
- Minimum age set by issuing charity (60 is standard recommendation)
- Immediate charitable deduction
- Some tax-free income; reduce capital gain tax
- General obligation of charity



Charitable Gift Annuity Rates

RATES AS OF OCTOBER 2023			
ONE LIFE		TWO LIVES	
Age	Current Rate	Ages	Current Rate
60	4.9%	60	4.4%
65	5.4%	65	4.7%
70	5.9%	70	5.2%
75	6.6%	75	5.8%
80	7.6%	80	6.5%
85	8.7%	85	7.7%
90+	9.7%	90+	9.4%

Charitable Remainder Unitrust: The Basics



Charitable Remainder Unitrust: The Basics

- **<u>Variable payments (changes annually)</u>**
- Minimum 5% payments
- For life, lives or term (yourself or others)
- Minimum age varies by requirements of Trustee (UIF has stated minimum age of 55)
- Immediate charitable deduction
- Some tax-free income; reduce capital gain tax
- Not a general obligation of charity
- More flexibility on assets for funding

PLANNING CONSIDERATIONS AT DEATH

- Income needs of heirs
- Tax Implications to heirs (spouse vs. non-spouse vs. charity)
- Managing income tax burden for heir's lifetime (Income now vs. later)

UNIVERSITY OF ILLINOIS FOUNDATION | I UIC UIS

RETIREMENT ASSETS

GIFT AT DEATH VIA BENEFICIARY DESIGNATION (IRA, 401K, 403B, ETC.)

- Avoidance of estate tax (Federal Estate >$12,920,000; Illinois Estate >$4,000,000)
- Flexibility
- Avoids income taxation

Note: There are more attractive assets to pass to heirs (stocks, real estate, etc.).

RETIREMENT ASSETS

SHOULD I GIVE MY HEIRS THE RETIREMENT PLAN OR OTHER PROPERTY?

	$500,000 stocks to UIF via will/trust	$500,000 IRA to heirs	$500,000 to heirs via will/trust	$500,000 IRA UIF
Estate Tax (not a taxable estate)	$0	$0	$0	$0
Capital Gains Tax (tax-free to charity and step up in cost basis for heirs)	$0	$0	$0	$0
Income Tax (taxable at 32%)	$0	$160,000	$0	$0
Net Proceeds	$500,000	$340,000	$500,000	$500,000
Total Combined Net Benefit	$840,000		$1,000,000	

Reminder on Beneficiary Designations

Please direct all bequests as follows:

University of Illinois Foundation FBO (University/College/Purpose)
Tax ID 37-6006007
Attn: Gift Planning and Trust Services
303 St. Mary's Road, MC 386
Champaign, IL 61820

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

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

UNIVERSITY OF ILLINOIS FOUNDATION | I | UIC | UIS

THE *SECURE ACT* OF 2019

- No more "stretch IRA"
  - Non-spousal heirs are now required to take the entire IRA balance out within 10 years.

Note: *This change is particularly taxing to younger heirs. Prior to the SECURE Act these individuals could stretch out the IRA distributions and the taxation over their entire life expectancy*

Replicate the Stretch IRA Provision

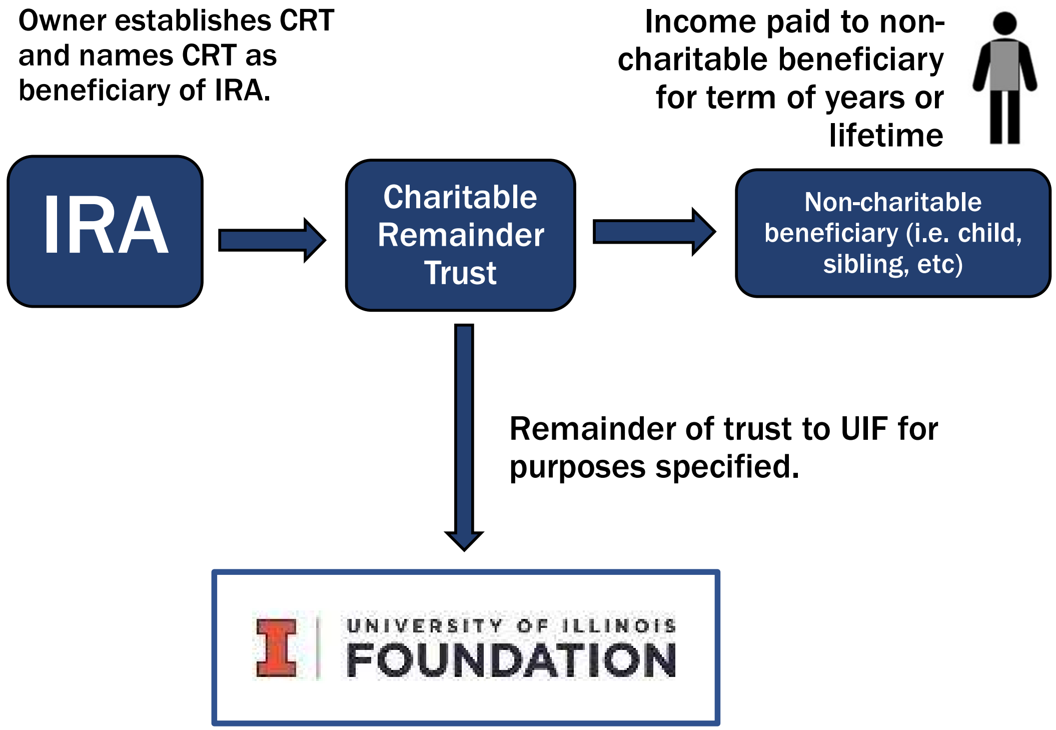
- SECURE Act that went into effect January 1, 2020 eliminated the "stretch" IRA
- Eliminated the provision that allowed non-spousal beneficiaries to stretch IRA distributions out over their lifetime.
- Non-spousal beneficiaries now must take distributions out within ten years of account owner's death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

UNIVERSITY OF ILLINOIS FOUNDATION | I | UIC | UIS

Opportunity : 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.



REPLACING THE STRETCH IRA

- Beneficiary is a Charitable Remainder Trust
  - Income to loved ones for their lifetime or a term of years, up to 20
  - Payout of at least 5% and not more than 50%
  - Payments must occur at least annually
  - Must have a greater than 5% probability that at least 10% of the original gift amount be available at the end of trust term.
  - Beneficiary can be any individual or a qualified special needs trust.
  - The remainder must go to charity.
  - Charitable deduction for the estate

Additional Considerations with Retirement Assets

- Considerations for contingent beneficiaries for disclaiming strategies
- Addressing spend thrift issues
- Generations skipping considerations
- Giving heirs the opportunity to have a charitable influence over gifts beyond lifetime
- Funding a “pension” for children or other family members beyond your lifetime

OTHER STRATEGIES FOR ANNUITY & LIFE INCOME GIFTS

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 would love to make an impact at OLLI, 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	7.6% fixed for Milton's Life
Payment Amount	$3,800 per year (will be paid over 4 quarterly installments)
Tax Treatment of Payments	$2,698 Tax Free/$1,102 Ordinary Income (After 9.4 years, all taxed as ordinary income)
Charitable Deduction	$24,651.50
Deduction Limitation	Deductible up to 60% of AGI with a 5 year carry forward

Remainder will be distributed to support OLLI.

UNIVERSITY OF ILLINOIS FOUNDATION

Additional Considerations with Gift Annuities

- Regulated state-by-state by Department of Insurance
- Some charities do not issue in every state and some charities may not have the resources to start a program.
- Laws and investment requirements for gift annuities vary in each state
- Will likely not provide an inflation hedge for the long-term
- General obligation of the charity – some re-insure and some do not
- No option to invade “the principal” if need for funds arrive – charity is the irrevocable beneficiary
- Removes asset from donor’s estate - -and income tax deduction may be more advantageous for estates that fall below exemption level

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 "Galloping 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 Galloping 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; $27,000 in year one; revalued annually to be 5.4% 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	$200,880
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.

Additional Considerations with Charitable Remainder Trusts

- IRS provides regulations
- More flexibility in funding assets
- More types of CRTs that allow funding for specific time frames and payouts to change around triggering events
- Financial institutions can serve as a trustee, keeping assets under the management of the donor's advisor
- Required minimum payout of 5%
- Generally a better inflation hedge for inflation over the long-term
- Not a general obligation of the charity – if the trust exhausts, payments cease
- No option to invade "the principal" if need for funds arrive – charity or charities are the irrevocable beneficiary
- Removes asset from donor's estate - -and income tax deduction may be more advantageous for estates that fall below exemption level

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

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 (or designated financial institution) as trustee of the CRT.
- Charity or financial institution 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.

UNIVERSITY OF ILLINOIS FOUNDATION

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 local food bank.
- 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 charity to benefit the purposes Goldie specified.

UNIVERSITY OF ILLINOIS FOUNDATION

"It's always the small pieces that make the big picture."

- Unknown


QUESTIONS
ANSWERS

WE ARE MOVING!

US Postal Service: (cash gifts)

University of Illinois Foundation

P.O. Box 734500

Chicago, IL 60673-4500

FedEx or UPS: (cash gifts)

JPMorgan Chase

Attn: University of Illinois Foundation

LBX 734500, 131 S. Dearborn, 6th Floor

Chicago, IL 60603

Correspondence/Beneficiary Designations

University of Illinois Philanthropy Center

303 St. Mary's Road, MC 386

Champaign, IL 61820

Thank You!
Contacts for Further Conversation

Margaret A. “Meg” Cline, CFA, CFP®
Vice President for Gift Planning & Trust Services
217.244.0800
mcline@uif.uillinois.edu

Judy Schneider
Director of Gift Planning
217.244.3351
judiths@uif.uillinois.edu

Nancy Geubelle, CFP®
Director of Gift Planning
217.333.4671
nancy.geubelle@uif.uillinois.edu

Justin Seno, CFP®
Director of Gift Planning
217.244.8273
jtseno@uif.uillinois.edu

THANK YOU!

Meg Cline, CFA, CFP®

Vice President for Gift Planning and Trust Services

217 • 244 • 0800

mcline@uif.uillinois.edu http://uif.giftplans.org/