OSHER LIFELONG LEARNING INSTITUTE

CREATING A LASTING LEGACY:

ESTATE & CHARITABLE PLANNING WITH RETIREMENT ASSETS

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VICE PRESIDENT FOR GIFT PLANNING & TRUST SERVICES

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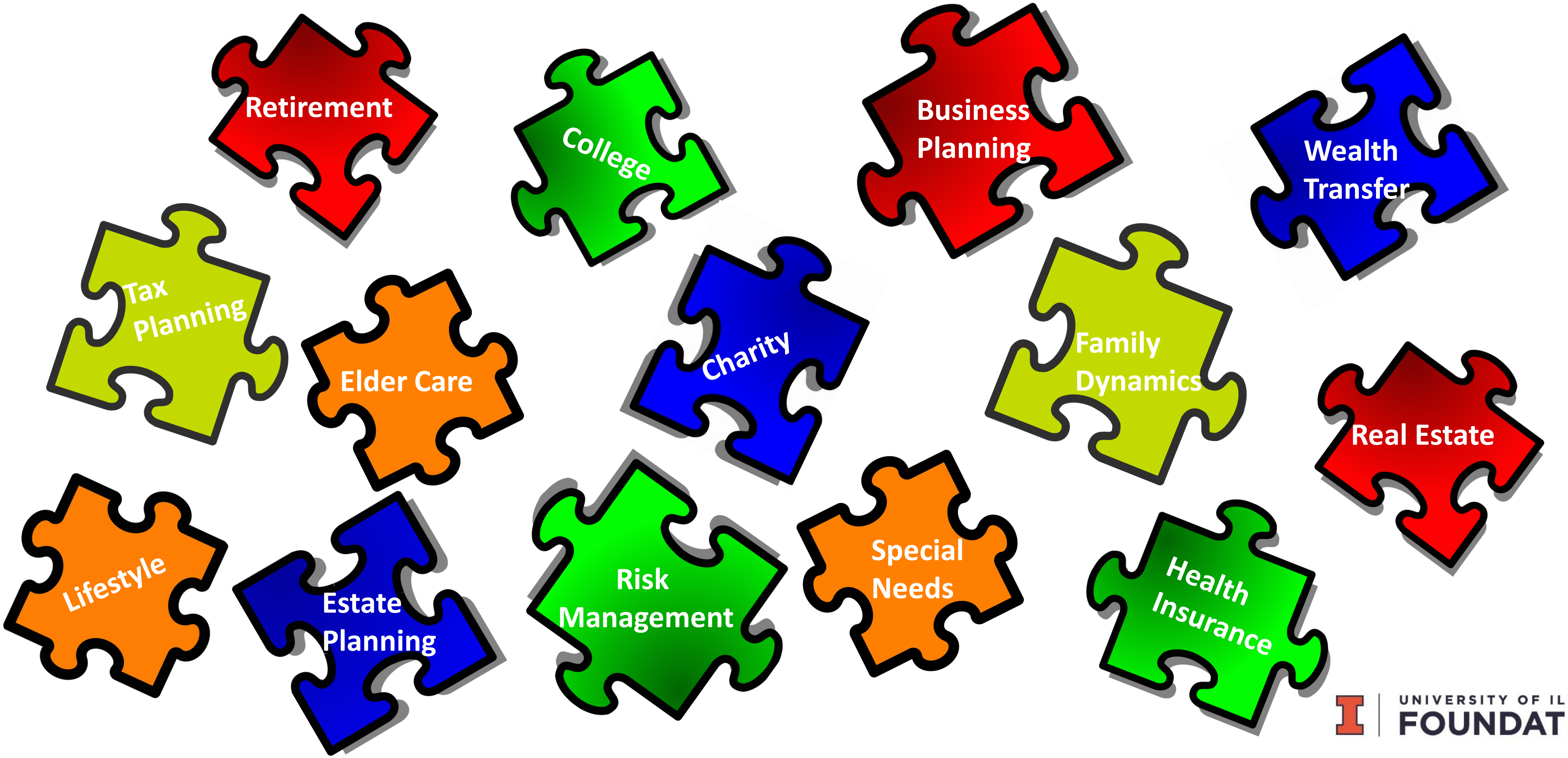
Putting the Planning Puzzle Pieces Together



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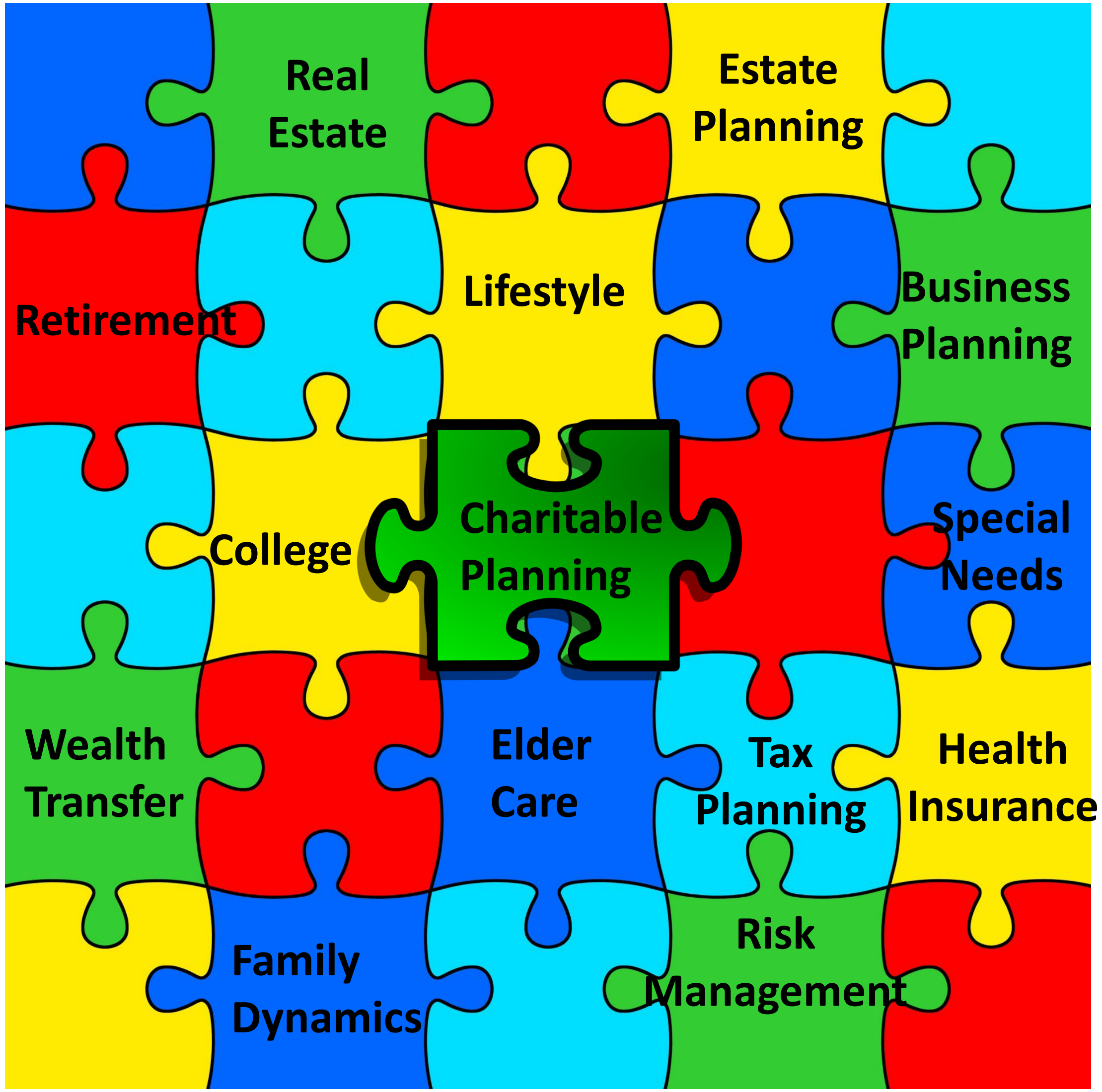

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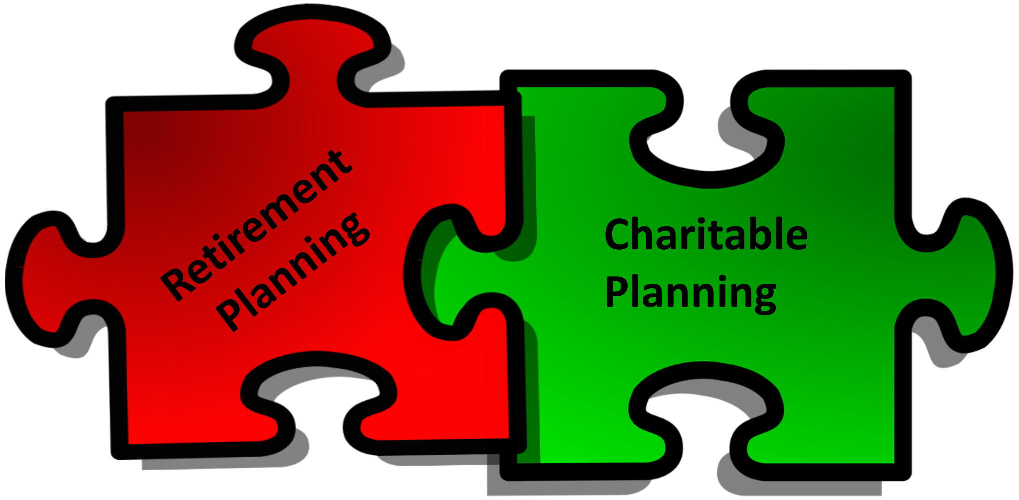
Putting the Planning Puzzle Pieces Together



Ways Charitable Planning Can Support Retirement Goals & Objectives

Overview of Taxes and Retirement Assets

- Distributions Taxed as Ordinary Income Rates (currently higher than capital gain tax rates)
- Taxed differently at the state level (in Illinois, not subject to state income taxes)
- Required Distributions based on type of plan and age
- No step up in “basis” when owner of retirement asset passes
- Distributes based on beneficiary designation (not according to will/trust or probate)
- Distribution requirements upon death dependent upon the designated beneficiary

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

QUALIFIED CHARITABLE DISTRIBUTIONS

- QCD Overview and Requirements
  - Nontaxable distribution
  - Direct from IRA custodians to eligible organization
  - Up to $100,000 across all accounts per individual
  - Up to $200,000 for joint filers with both filers owning IRAs
  - Age 70 ½ still relevant
  - May be applied against Required Minimum Distribution (RMD)
- What happened to age 70 ½?
  - Only relevant for QCDs
  - Watch for contributions
    - After December 31, 2019
    - Reduce QCD by "excess of aggregate amount of IRA contribution…."

The Case for Qualified Charitable Distributions

- Professor Smith is 75 and has an IRA which requires him to take an annual Required Minimum Distribution. He does not need the income from his IRA - - and in fact, the additional income is putting him in a higher marginal tax bracket.
- He wants to support OLLI with a gift of $25,000 to support a new initiative.
- Professor Smith does not itemize on his tax return now that there are higher standard deductions.

How does a QCD Work?

- Professor Smith contacts his IRA custodian to have a check payable to UIF sent to the Foundation.
- The $25,000 counts toward his required distribution, but it is not considered "income" to him.
- He does not get a deduction – but it is better than a deduction because he does not claim the income.

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 Tax[1]	$0	$0	$0	$0
Capital Gains Tax[2]	$0	$0	$0	$0
Income Tax[3]	$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%

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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
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

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Overview of Annuity and Life Income Gifts

- Allow you to give a gift for the future while receiving income now
- In most cases, allows for an immediate income tax deduction (except when funded with a Qualified Charitable Distribution)
- Removes the asset from your estate for estate tax purposes
- Provides income – generally at a higher rate than most investment alternatives with similar risk profiles
- Irrevocable Gift – and cannot invade the principal
- "Security" of the income stream based on type of life income gift
- Variety of "non-financial benefits" to manage wealth transitions and spending habits of heirs.

Current Annuity & Life Income Rates
Effective January 1, 2024

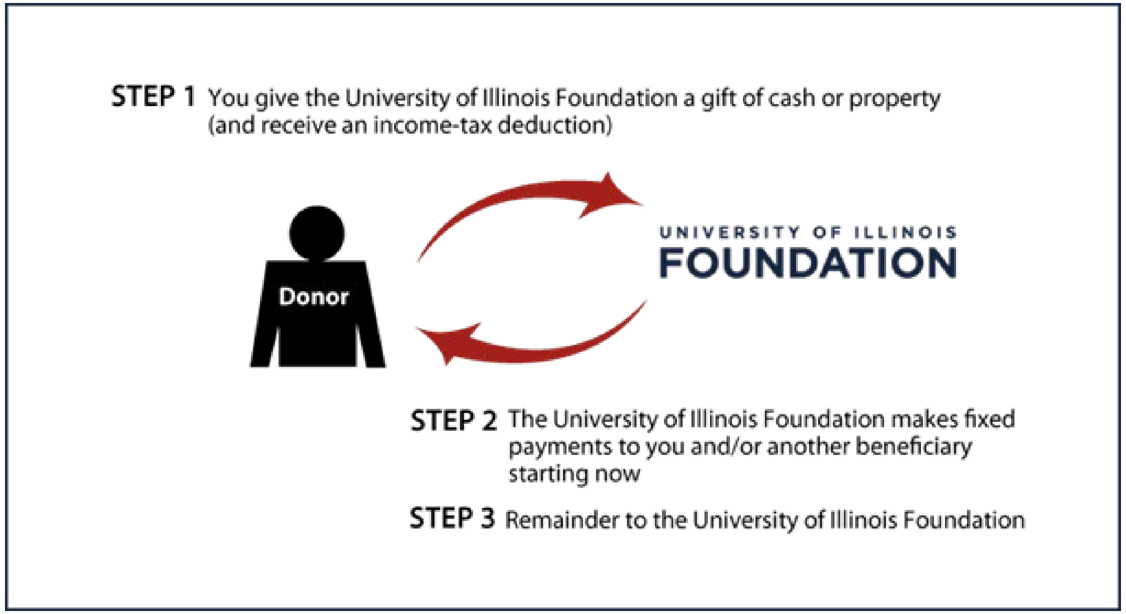
One Life		Two Lives	
Age	Rate	**Ages**	Rate
65	5.7%	**65-65**	5.0%
70	6.3%	**70-70**	5.5%
75	7.0%	**75-75**	6.2%
80	8.1%	**80-80**	6.9%
85	9.1%	**85-85**	8.1%
90	10.1%	**90-90**	9.8%

Please note UIF does not issue CGAs in all states because of regulation requirements and, the minimum CGA gift amount is $10,000. If you are under age 60 or don't need income now, consider establishing a deferred gift annuity. The longer you delay payments – the higher the rate.

Enhance Income (Now or Future)

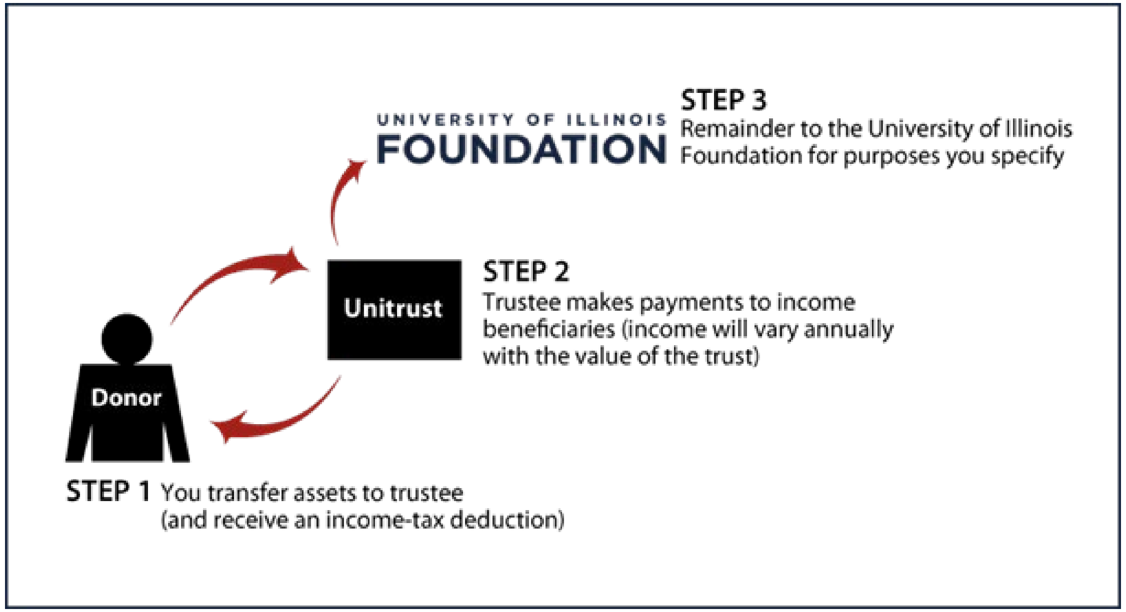
Charitable Gift Annuity/Deferred Gift Annuity

- **<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 60
- Immediate charitable deduction
- Some tax-free income; reduce capital gain tax
- General obligation of UIF



Charitable Remainder Unitrust

- **<u>Variable payments (changes annually)</u>**
- 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	8.1% fixed for Milton's Life
Payment Amount	$4,050 per year (will be paid over 4 quarterly installments)
Tax Treatment of Payments	$2,903.85 Tax Free/$1,146.15 Ordinary Income (After 9.4 years, all taxed as ordinary income)
Charitable Deduction	$22,707.50
Deduction Limitation	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	9% fixed for Alma’s Life beginning once she turns 65 (2034)
Payment Amount	$9,000 per year (will be paid over 4 quarterly installments)
Tax Treatment of Payments	$2,835 Tax Free/$6,165 Ordinary Income (After 19.9 years, all taxed as ordinary income)
Charitable Deduction	$31,287
Deduction Limitation	Deductible up to 60% of AGI with a 5 year carry forward

Remainder will be distributed to support the purpose Alma specifies.

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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	5.5% for Red's lifetime; revalued each year based on the market value of the CRT
Payment Amount	Variable; $27,500 in year one; revalued annually to be 5.5% 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	$197,665
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.

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Enhance Income (Now or Future)

<u>OTHER APPLICATIONS:</u>

- 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

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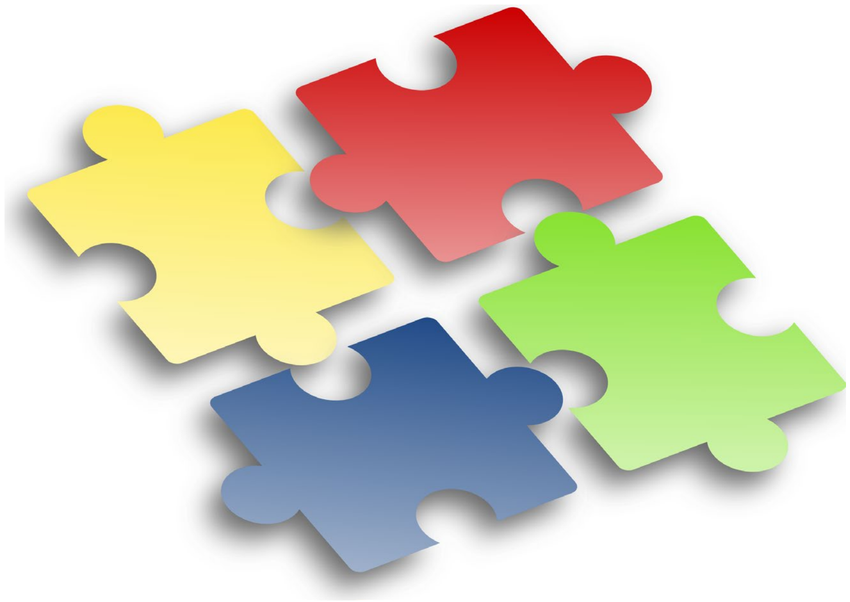

Address Tax Planning & Asset Management

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

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Managing the Farm through a CRT

- Henry (75) and Hazel (73) Morrow own a 350 acre farm ($5.25M market value).
- Henry and Hazel purchased the farm 30 years ago when they saw it as a great investment opportunity to diversify their investment portfolio ($1.25M basis).
- 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 6% of the market value (revalued annually). ($315,000 in year one)
- 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 $2 million.
- Delays recognition of and reduces capital gains taxes.

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Addressing Wealth Transfer with Retirement Assets

- Replicate the "Stretch IRA" Provision
- Wealth Transfer/Estate Tax Management
- Family Dynamics: Spendthrift Issues; Special Needs; Generation Skipping considerations; funding "pensions" for children; etc.

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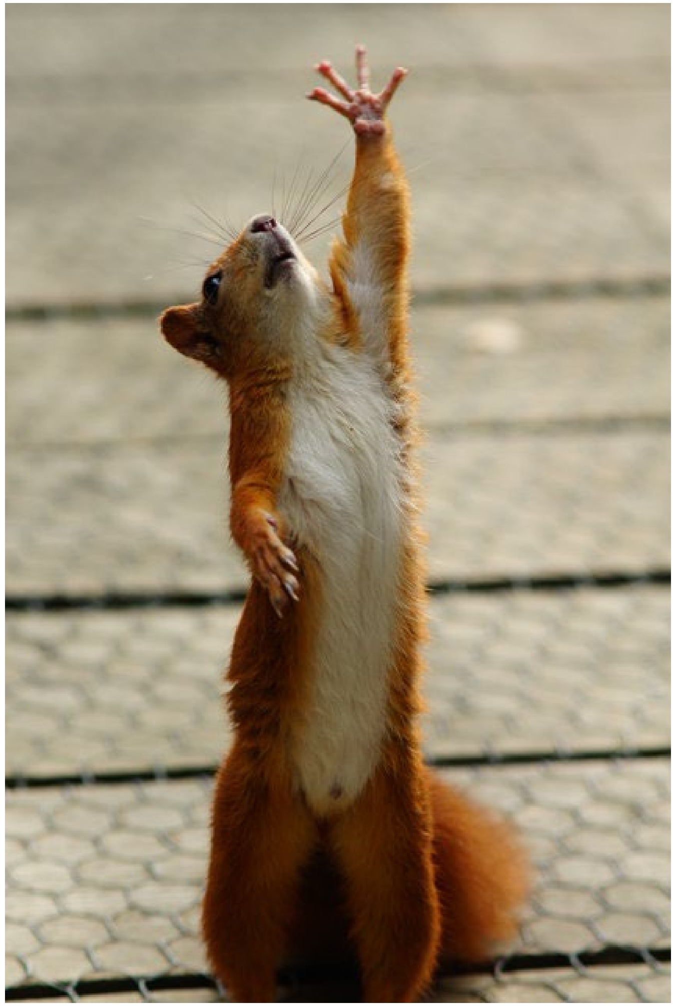
Replicate the Stretch IRA Provision

- 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)



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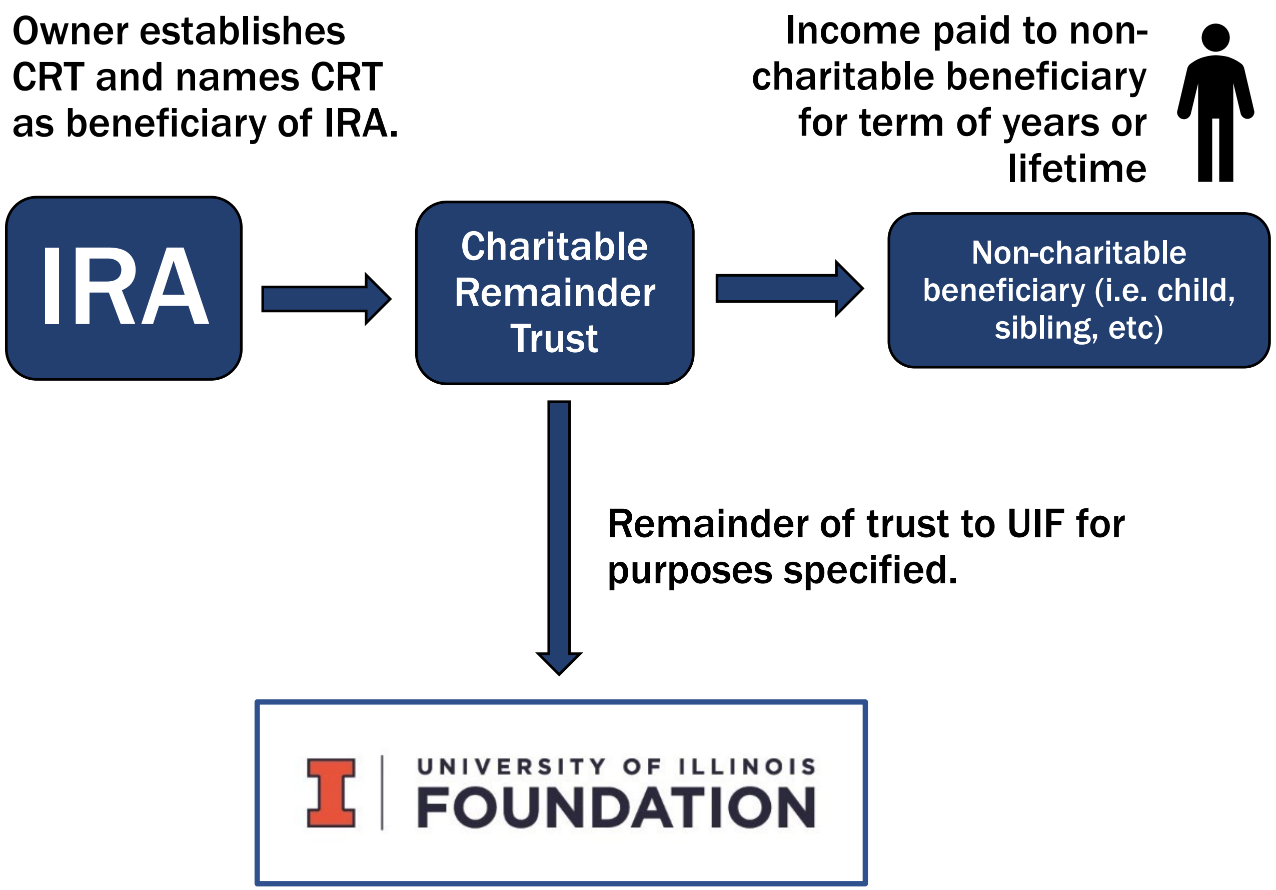
Replacing the Stretch IRA

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.



CASE #1: STRETCH IRA

- Donors ages 79 and 80
- 403(b)
- Subject to RMDs
- Donated assets to CRUT
- Made CRUT bene of 403(b)
- Paying child for lifetime (age 47)
- Remainder goes to charity.
- Bonus Content: Flip provision

Summary of Benefits

5% Flip Unitrust

ASSUMPTIONS:

Beneficiary Age	47
Cash Donated	$100,000.00
Payout Rate	5%
Payment Schedule	quarterly 3 months to 1st payment

BENEFITS:

Charitable Deduction	**$22,428.00**
Estimated Payments in First Full Year (future payments will vary with trust value)	$5,000.00

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.

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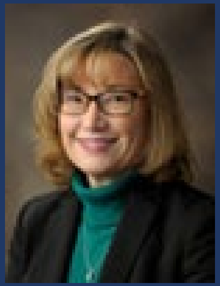
"It's always the small pieces that make the big picture."

- Unknown

Thank You!
Contacts for Further Conversation



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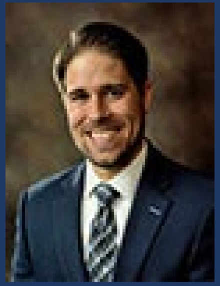

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