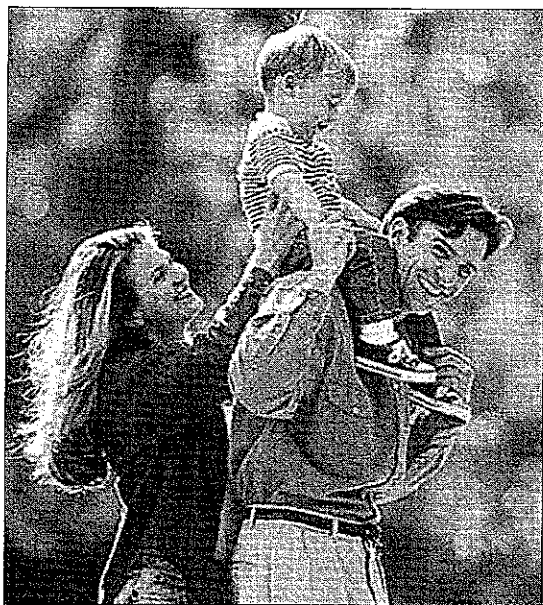


# — PERSPECTIVES —

A Publication of Financial Planning Ideas for Pacific Lutheran University Alumni & Friends

Issue 32

## Charitable Bequests: Giving with a Will



**M**any of our friends would like to make a significant gift to Pacific Lutheran University but feel that their generosity must be tempered by financial responsibility for themselves and loved ones. Some, however, have discovered that under their wills it is possible to help us without neglecting other obligations.

*Perhaps you, too, find yourself torn between generosity and responsibility. If so, consider the various ways that you can make a charitable bequest to help ensure that our work will continue.*

### Outright Bequests

When you think of making a gift to charity under your will, the outright bequest usually comes to mind first—you simply direct in your will that your entire interest in certain money or property be transferred to a designated charity, such as Pacific Lutheran University. Of course, your estate will be entitled to a charitable deduction for the *full fair-market value* of your gift.

An outright bequest can take various forms:

■ **The general bequest** is probably the most popular type of charitable bequest. You simply leave a specified dollar amount to the designated charity. For example, a bequest of \$10,000 is a general bequest.

■ **A specific bequest** is another popular way to benefit a charity. You designate specific property that you want a charity to receive.

For example, a bequest of specified stock or a vacation home is a specific bequest.

■ **A residuary bequest** is used to give a charity all—or a portion of—one's property after all debts, taxes, expenses, and all other bequests have been paid. It may augment a general or specific bequest to the charity if the size of the estate allows—after ensuring that other beneficiaries receive their bequests prior to distribution to the charity. For example, giving Pacific Lutheran University “the rest of the property that I own at my death” is a residuary bequest.

■ **A percentage bequest** can be expressed as a percentage of an estate or a residuary estate. For example, a donor might leave Pacific Lutheran University 50% of the residuary estate. If fortune

#### Contents Summary

Receive a charitable deduction for the full fair-market value of your gift bequest

Provide a gift to further our work and establish a stream of income

Qualify for special tax consideration with a unitrust or an annuity trust

Send for our free booklet, **Planning Your Will For All It's Worth.**



changes the size of the estate over the years, this bequest will change in the same proportion.

■ **A contingent bequest** is used to provide for the situation when a beneficiary dies before you or disclaims the property. To prepare for such an occurrence, consider naming a charity such as Pacific Lutheran University as the contingent beneficiary. This will ensure that the property will pass to the designated charity in one of these situations rather than to unintended beneficiaries.

## Providing Income for a Beneficiary

Your financial responsibilities can easily extend beyond your lifetime. Continuing income may be needed to provide for a surviving spouse, elderly parents, or others who count on you for help. In such a situation, an outright bequest to a charity may not best meet your needs.

However, Pacific Lutheran University offers a number of plans that can provide both a gift to further our work and a stream of income for life (or, with some plans, for a term of years) to one or more selected beneficiaries.

**Planning pointer:** You can arrange a charitable bequest to accomplish both goals by directing that the bequest be used to establish a *testamentary charitable remainder trust* or a *gift annuity*.

## Testamentary Charitable Remainder Trust

In recent times, the trust has received increased attention as a financial- and estate-planning tool.

Basically, under a trust, property is transferred to a trustee to be held for the benefit of specified beneficiaries while the trust lasts. Commonly, the benefit received is the payout from the trust. When the trust ends, the remaining trust property passes to another beneficiary.

**“More than 70% of adults die without valid wills”**

While the charitable remainder trust is essentially similar to other types of trusts, a distinguishing feature is that the amount distributed at its termination—the *remainder* in legal parlance—is paid to a charitable beneficiary. To qualify for special tax consideration, the trust must be in one of two forms: a *unitrust* or an *annuity trust*.

**Unitrusts.** The primary feature of the charitable remainder unitrust is that it provides for payment to the beneficiary(ies)

of an amount that may vary. The payment must equal a *fixed percentage* (at least 5%) of the net fair-market value of the trust assets as valued annually.

**Example:** A 6% unitrust valued at \$100,000 its first year will pay out \$6,000. If the trust assets are valued at \$120,000 in its second year, the payout will be \$7,200. The variable nature of the unitrust payments may provide your beneficiary with a hedge against inflation—assuming the assets grow in value.

**Annuity trusts.** While the charitable remainder annuity trust shares many features in common with the unitrust, the major difference is that the annuity trust provides for a *fixed payout*. This amount must equal a specified amount of not less than 5% of the initial fair-market value of the gift in the trust.

**Example:** If an annuity trust has a 6% payout and its initial fair-market value is \$100,000, the payment for the first year will be \$6,000. If the value of the trust assets

## Impact of the Federal Estate Tax

Fewer and fewer estates will be affected by the federal estate tax for the rest of this decade as the exemption equivalent amount climbs to \$3.5 million in 2009 (see chart on back). The tax is repealed for the year 2010—but it will be back in 2011 in full force with an exemption of \$1,000,000 unless repeal or higher exemption amounts are re-enacted at that time.

The uncertainties surrounding the eventual fate of the estate tax and even the exemption amount in the intervening years will require your constant vigilance to avoid getting trapped in an unforeseen situation.

If you have a moderate-to-sizeable estate, your estate plans will require periodic reviews with your attorney and other advisors as the phase-in schedules of the recent tax act of 2001 unfold.

## Drafting Your Will: Some Basic Considerations

**I**ntestacy means dying without a valid will. More than 70% of the adults in this country die intestate, leaving the disposition of their property up to state law.

Avoiding the unfortunate consequences of intestacy is a relatively simple and inexpensive procedure, and the surest antidote is a properly drafted will.

A will need not be a complicated instrument to be effective. Further, a will that

- makes provisions for the payment of debts, administration expenses, and taxes;
- provides for the payment of certain specific bequests (certain of your personal possessions, for example, may have special meaning to particular children), and
- leaves the remainder of the estate to the surviving spouse

avoids the unsatisfactory disposition of property often confronted when a state's intestacy law comes into play.

Additional provisions usually name an executor of the estate with authority to serve without bond and with additional management powers not otherwise authorized by state law, providing as well

for the alternative disposition of the estate in the event of a husband's and wife's concurrent deaths.

Enough said? Not quite. A "simple" will can solve still another complicated problem. Consider for a moment. Have all of your children been equally blessed mentally and physically? Have they all experienced the same success in business and in marriage?

One or more of your children, after reaching adulthood, may still require your assistance—and may require such assistance after your death. Others may have more than adequate financial resources of their own. The laws of intestate distribution do not differentiate such situations. Generally, share and share alike is the intestate rule where your children are concerned. To provide one child with some sort of special consideration, you will have to plan for it yourself. How? Perhaps a specific bequest may be in order.

Under your will, you can also memorialize a lasting interest in Pacific Lutheran University. A custom will makes it possible to arrange your gifts in a manner designed to support your charitable interests *and* reduce taxes—while enhancing your family's security.

increases to \$120,000, for example, in the second year the payment will still be \$6,000. The fixed-payout feature of the annuity trust may make it particularly suitable for a beneficiary who needs the security of a specific amount of income.

**Establishing a trust.** When creating a testamentary charitable remainder trust, you must specify in your will:

- the amount of property to be placed in the trust;
- the type of vehicle to be used;
- the term of the trust (a period of years or the lifetime of the beneficiary);
- the payments to be made and their frequency;

- the beneficiary of the trust; and
- the provisions for the eventual distribution of the principal.

### **Charitable estate-tax deduction.**

If you establish a testamentary charitable remainder trust, your estate will be entitled to a *charitable deduction* equal to the present value—as of the date of death—of the remainder interest that will pass to the charity. In addition, if your surviving spouse is the only noncharitable beneficiary of the trust, your estate will also be allowed a *marital deduction* for the value of the spouse's payment interest.

**Example:** Mr. M has a taxable estate valued at \$1,500,000. His will

*directs that \$200,000 be placed in a charitable remainder unitrust with Pacific Lutheran University, which will pay his wife 6% of the annual value of the trust. Upon Mrs. M's death, the trust principal will pass to us.*

*As a result of this arrangement, Mr. M's estate will be allowed a marital estate-tax deduction for the value of Mrs. M's payment interest and a charitable deduction for the value of the remainder interest. At Mrs. M's death, the full value of the unitrust will pass to us, free of federal estate tax.*

### **Testamentary Gift Annuity**

Another option to provide help for both loved ones and our work is the *testamentary*

*charitable gift annuity.* A gift annuity is a combination of a gift and a purchase under which, in exchange for a transfer of cash or property, a charity will contractually guarantee to pay a specified annuity to one or two beneficiaries for life.

***Establishing an annuity.***

To provide a testamentary gift annuity for selected beneficiary(ies), you simply direct your executor to transfer a specified amount to Pacific Lutheran University in exchange for our agreement to make the annuity payments. The amount of your bequest passes immediately to us, and we use our resources to make the annuity payments as they fall due.

***Charitable estate-tax deduction.***

If you create a gift annuity under your will to help both a loved one

and our work, your estate will be able to claim a charitable deduction for the value of the gift portion of the arrangement.

them. The will is the foundation of testamentary charitable planning; indeed, it is the basis of estate planning in general.

If you would like more information about how to use your will to accomplish charitable and family objectives, please send for a complimentary copy of our booklet, *Planning Your Will for All It's Worth.*

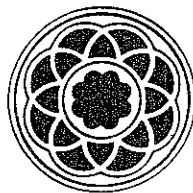
You should consult your attorney about the applicability to your own situation of the legal principles contained herein.

**Rates will be cut and the exemption will grow according to the following table:**

Calendar Year	Exemption	Highest Tax Rate
2002	\$1 Million	50%
2003	\$1 Million	49%
2004	\$1.5 Million	48%
2005	\$1.5 Million	47%
2006	\$2 Million	46%
2007	\$2 Million	45%
2008	\$2 Million	45%
2009	\$3.5 Million	45%
2010	Estate Tax Repealed	

**It Begins with Your Will**

We have discussed a number of ways that permit you to make a significant gift to Pacific Lutheran University without jeopardizing your ability to meet current and future obligations. These options all have one thing in common—you need a will to implement



Office of Development

**PACIFIC  
LUTHERAN  
UNIVERSITY**

Tacoma, Washington 98447  
 (253) 535-7177  
 1-800-826-0035  
 Fax (253) 535-8377  
 www.plu.edu  
 e-mail: development@plu.edu