

THE PLANNER



Summer 2010 | Ideas on Financial, Gift, and Estate Planning

WESTERN
ILLINOIS
UNIVERSITY

Dear Alumni & Friends,

Many of us wonder about the mark we will leave on the world. Will our footsteps be visible long after we are gone? Will the world be a better place because of our efforts?

As we consider the life we've built through family, business, and community, many of us may be surprised to discover the difference our actions have already made.

Through charitable giving, it is possible to continue to make a difference by supporting the Western Illinois University Foundation; you will help guarantee that we can pursue our mission for the benefit of generations to come. You may be surprised to learn that your philanthropy will also have financial benefits for you.

Philanthropy is vital to our work. In this issue of *The Planner*, you can learn how your gift to us not only supports this important work but can also provide you with significant financial benefits.

I invite you to contact our office to help you explore charitable opportunities. All discussions, of course, are confidential and involve no obligation on your part. We would like to work with you to design a gift plan that can fulfill your wishes and provide meaningful support of an excellent education at WIU.

Sincerely,

Brad Bainter
WIU Foundation

Why Are Gift Annuities So Popular?

The charitable gift annuity is so popular because it's simple, safe, and guarantees you—or someone you choose—income for life. With a simple contractual agreement, you can make a gift to the Western Illinois University Foundation and receive guaranteed lifetime income for yourself or your designated beneficiary or beneficiaries. In return for a gift of a specified amount, we will pay you, or whomever you designate, a stream of income for life. The payments are a fixed amount and generally depend on the number (up to two) and age(s) of the beneficiary(ies). For instance, income would be higher for an annuity payable for life to one person, aged 70, than to a couple, both 70, because of the longer life expectancy of the couple. In addition to the income from a gift annuity, you get a charitable deduction for a portion of your gift.

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Example: John and Mary A, both 70, make a gift of \$10,000 to WIU in return for an annuity of \$540 per year as long as either of them lives. The gift generates a current tax deduction of \$2,738. Better still, for the remainder of their life expectancies, \$354 of the \$540 annual payments John and Mary receive will be tax-free.

In addition to all its other benefits, a gift annuity offers the opportunity to reduce capital-gain tax when long-term, appreciated property is used to fund it. And the reduced amount of tax that is due can be spread over the donor's life expectancy.

Example: Fred B, 72, owns stock worth \$10,000 that he bought two years ago for \$5,000. If he sells it, he will realize a gain of \$5,000 and will owe \$750 in capital-gain tax at the 15% rate. Instead, Fred uses the stock to fund a gift annuity with WIU that will pay him \$600 per year for life and has to recognize only \$2,972 of gain; he can spread that over his life expectancy of 14.5 years, at a rate of \$205 per year. Plus he receives a charitable deduction of \$4,057.

Because of its simplicity, a gift annuity typically does not require a great deal of time or expense to complete—making it suitable for gifts of any size. Sometimes a gift annuity can even be the best choice for the largest of gifts.



4 Benefits of an Immediate Gift Annuity You'll Want to Know

In addition to the tax benefits, people are often attracted to the gift annuity for other, less obvious reasons:

- A donor can establish a gift annuity with a relatively small sum of money;
- the procedure is straightforward and uncomplicated;
- there is no need to make a new will; and
- because a donor can receive payments from his or her gift, the gift annuity vehicle enables a person of modest means to make a gift during his or her lifetime without financial sacrifice.

What the gift annuity means to many donors is the security of a generous, regular, nonfluctuating stream of income. It also means that you are free from the burdensome details involved in managing your own investment portfolio, since we arrange for investment of the funds.

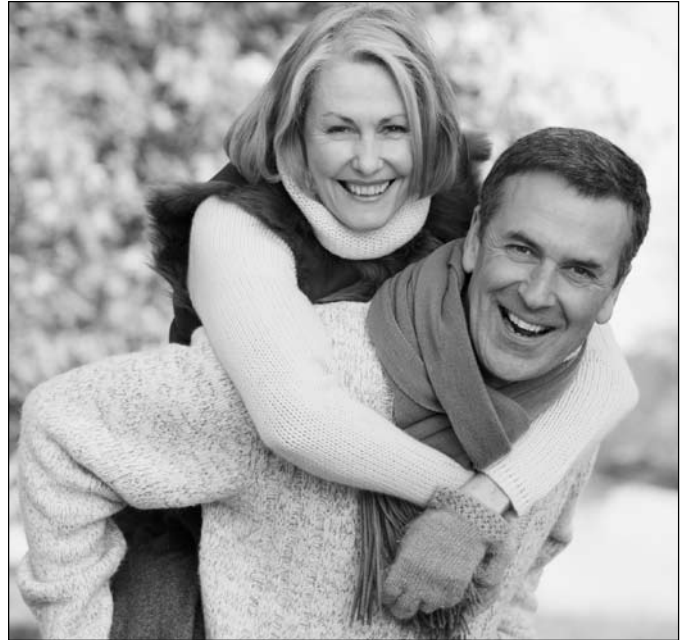
3 Benefits of a Deferred Gift Annuity: Maximize Deductions, Reduce Taxable Income, and Provide Retirement Income

The future holds few guarantees, especially when it comes to financial matters. One way to ensure predictable future income is the deferred charitable gift annuity. A deferred gift annuity lets you make a current gift, receive an immediate tax deduction, and select when fixed-annuity payments will begin.

Many features of the deferred gift annuity make it extremely attractive, including:

- **Larger annuity payments.** The deferred gift annuity pays more income than an immediate gift annuity. The longer the deferral period between the gift and the start of income payments, the higher the income.

- **Larger tax deductions.** The charitable tax deduction is also greater compared to an immediate gift annuity, and it increases as the deferral period lengthens.
- **Flexibility.** Income can begin at any time you choose, as long as it is at least one year from the date of the gift.
- **Tax-free return.** A portion of your income is treated as a return of principal. Consequently, it is not taxable income.
- **Reduced and deferred recognition of long-term capital gain.** If you fund a deferred gift annuity with long-term appreciated capital-gain property, the annuity payments and the charitable deduction are based on the full fair-market value of that property. And you do not have to recognize all the gain.



\$10,000 WIU DEFERRED GIFT ANNUITY			
Payments begin at age 72			
AGE(S)*	ANNUAL DISTRIBUTION	TAX-FREE PORTION	DEDUCTION
One annuitant			
60	\$1,010	\$375	\$4,564
65	\$ 810	\$378	\$4,511
70	\$ 650	\$395	\$4,276
Two annuitants			
60 – 60	\$ 920	\$372	\$3,020
65 – 65	\$ 740	\$366	\$3,124
70 – 70	\$ 590	\$362	\$3,201

*Age(s) of beneficiary(ies) at time of gift. Federal discount rate @ 3.4%.

Make Retirement Money Last: How Much to Withdraw

Doing your favorite things in retirement—visiting the grandkids, supporting your favorite charities, taking up that hobby you’ve always thought about—will depend on your portfolio withdrawal rate. That’s the percentage of your assets that you take out each year to pay your expenses. You want it to be high enough to allow you to have fun and be generous, but low enough that you have little risk of running out of money.

In recent years financial advisers said that withdrawing as much as 5 or 6% annually is prudent. But with

the huge hit to the stock market during the recession, should you decrease your withdrawal rate?

Not necessarily, according to data from Yale University research analyzing the overall market’s price-earnings ratio. (That’s taking the current price for the Standard & Poor’s 500-stock index divided by the average inflation-adjusted earnings for the past 10 years before the date of withdrawal.) Let’s say you have a portfolio of 60% stocks and 40% bonds meant to last through 30 years of retirement.

... with the huge hit to the stock market should you decrease your withdrawal rate?

If the price-earnings ratio for your portfolio was between 12 and 20 (the historical median is roughly 15.5), a 5% withdrawal rate would be safe, tested against

every historical period for which data was available. If the ratio was above 20, indicating that stocks were overvalued, then cutting back to a 4.5% withdrawal rate would be reasonable, given that the stock market was likely to fall.

In fact, the most recent figure was 17.67, which suggests a 5% withdrawal rate will continue to be prudent for current retirees.

Increase Your Retirement Income with a Gift Annuity

Profile: Doris T is 79 years old and a widow. Most of her investment assets are cash and fixed-income investments, and she depends on the income they produce to supplement her retirement income.

Doris's Story: I wanted to make a meaningful gift to the Western Illinois University Foundation, but I needed all the income my assets were producing. In fact, additional income would be nice. Since at my age a sure, reliable income is more important to me than the possibility of a big gain on my investments, I had a significant portion of my assets invested in CDs. As you know, returns on CDs are safe but fairly modest. When some came due recently, imagine how thrilled I was to learn that I could make a gift to WIU in return for a charitable gift annuity and actually increase my annual cash flow. I was able to get only about 4% on my CDs, but based on the \$50,000 I contributed for my gift annuity, I am getting payments equal to 7.0% of that amount, or \$3,500. Better still, almost \$2,600 of that is tax-free for the balance of my life expectancy. That makes my payments worth even more. This gift also allowed me to take a tax deduction of about \$24,500. Since I am in the 25% tax bracket, this will save me more than \$6,125 in taxes this year.

Analysis: By “replacing” some of her investments in CDs with a charitable gift annuity, Doris increases her return substantially. And because she planned to use cash to fund her gift annuity, a maximum amount of the annual income is treated as a tax-free return of principal, further increasing the after-tax value of her gift annuity income payments.

Next Steps:

Are you wondering what your next best step is? Maybe you'd like more information, or maybe you'd like to speak to us directly. Here are a few options:

1

Visit us online at www.wiu.giftplans.org to learn more about how you can help us build our endowment.

2

Return the reply card to receive a free copy of our new booklet, *Guaranteed Income for Life: The Charitable Gift Annuity*.

3

Call us at (309) 298-1861 to find out about how a gift to WIU will further our mission and provide income to you for life.

4

E-mail Brad Bainter at BL-Bainter@wiu.edu. We're happy to answer any questions you might have or send you more information.

The information contained herein is offered for general informational and educational purposes. The figures cited in the examples and illustrations are accurate at the time of writing and are based on federal law as well as IRS discount rates that change monthly. State law may affect the results illustrated. You should seek the advice of an attorney for applicability to your own situation.

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Visit us at www.wiu.giftplans.org for more creative ideas for giving.

