

# PLANNED GIVING

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## Planning to fulfill your dreams

Charitable planning is an exciting opportunity to become part of a "win, win" situation. In this scenario, the charity, the donor, and the donor's family "win". However, lifetime gifts require planning if the donor, the donor's family, and the charity are to receive the maximum possible benefits. The Baby Fold is committed to the concepts of charitable giving and employs full-time professionals to assist in the process of planning lifetime gifts.

A Baby Fold representative can provide additional information on planned giving options, including custom charitable planning analyses to fit your specific charitable planning goals. The Baby Fold recognizes the importance of meeting the individual needs and objectives of the donor's plans. It is truly the heart of the giver that makes a gift dear and precious.

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## WILL OR TRUST BEQUEST

Making a charitable bequest, giving assets to a charity through a will or trust is the simplest way to make a planned gift. The donor states in his or her will or trust the percentage or amount of assets that are to pass to a designated charity. There is no limit on the amount of the charitable gift that can be made by bequest or on the amount that can be deducted for estate tax purposes.

Listed below are four popular ways of making such a bequest:

### 1. Residue

Residue refers to whatever is left after other bequests have been granted. To leave such a bequest, simply state, "The residue of my estate, including real and personal property, I give, devise, and bequeath to The Baby Fold of Normal, Illinois."

### 2. Percentage

To leave a percentage of your estate to The Baby Fold, state "I give, devise, and bequeath to The Baby Fold of Normal, Illinois, \_\_\_\_\_% of my estate."

### 3. Dollar Amount

To leave a specific dollar amount, state, "I give, devise, and bequeath to The Baby Fold of Normal, Illinois, \$\_\_\_\_\_."

### 4. Specific Property

To leave a particular piece of property, state "I give, devise, and bequeath to The Baby Fold of Normal, Illinois, (DESCRIPTION OF PROPERTY), located at (EXACT LOCATION)."

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## CHARITABLE GIFT ANNUITIES

A charitable gift annuity is a private agreement between a charity and a person who donates property to the charity. In establishing a gift annuity, the donor makes a gift directly to charity. Gifts of cash or publicly traded stocks are suitable. The agreement (contract) is made between the donor and the charity and

obligates the charity to pay the donor and his or her spouse a fixed amount every year for life. Once the payment is established it never changes.

The dollar amount of the fixed payment is determined by calculations based on the age of the donor. The older the donor is, the higher the pay-out percentage can be. The income payments on a charitable gift annuity may begin immediately or may be deferred to a future date. Part of each annuity payment may be tax-free. The donor will also receive an immediate charitable income tax deduction and defer capital gains tax.

**Example:** *Mrs. Jordan has decided to make a number of gifts through her will and other long-range plans. She would actually like to make those gifts now, but has decided that she cannot do so because she may need income from her assets for future living expenses.*

*After learning about charitable gift annuities, however, she decides to make a gift of \$10,000. At her age, she will receive annual payments of \$900, or 9% of the amount transferred for as long as she lives, no matter what the earnings from the amount used to fund the annuity.*

*Here is a summary of this gift plan and its benefits:*

- *Mrs. Jordan transfers \$10,000 for a gift annuity agreement.*
- *She will receive \$900 each year for as long as she lives. For the first 9 years of her payments, she will pay federal income tax on less than one-half of the payment she receives. After that time, she will pay tax on the remaining amount of the payment as well.*
- *She is allowed to deduct about \$4,600 as a charitable gift for the year the gift is completed. The exact deductible amount may vary. Check with your advisor at the time you make your gift.*
- *The amount used to fund Mrs. Jordan's annuity is removed from her estate, saving what could be substantial estate taxes that might otherwise be due.*
- *Mrs. Jordan enjoys the knowledge that the gift portion of her annuity will be used for the charitable purposes she desires.*

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## CHARITABLE REMAINDER UNITRUST (CRUT)

A charitable remainder unitrust offers many benefits and maximum flexibility to the donor. The donor irrevocably transfers assets to the unitrust. The unitrust pays the donor (or other individuals) income for life or a term of years (up to a term of twenty years). When the unitrust ends, the assets are distributed to the charity chosen by the donor. The best asset to transfer to a unitrust is a long-term (held at least one year) appreciated capital asset because the donor will avoid capital gains tax on the property.

The unitrust will pay a fixed percentage of the fair market value of the trust assets to the donor each year for the rest of his or her life. The payout percentage never changes and is set at not less than five percent. The dollar amount paid to the donor may change depending upon the performance of the trust investment because the trust is revalued each year. Therefore, any growth in the trust will increase the income paid and serve as a hedge against inflation. Although the income paid to the donor is usually taxable, the growth inside the unitrust is tax-free.

Creating a unitrust may increase the donor's annual income and provide the donor with an immediate charitable income tax deduction. The donor will also have the satisfaction of knowing that his or her favorite charity will receive a substantial future gift. The assets in the unitrust are not subject to probate, not accessible by creditors, and not included in the donor's taxable estate.

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## CHARITABLE REMAINDER ANNUITY TRUST (CRAT)

The charitable remainder annuity trust functions much like the charitable remainder unitrust. The primary difference is that the annuity trust pays a fixed dollar amount to the donor every year, based on the value of the trust assets at the date of the gift. The dollar amount the donor receives is the same each year. Like the unitrust, the annuity trust generates a charitable income tax deduction, bypasses capital gains tax, and produces an income stream for life or a term of years.

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## REMAINDER INTEREST IN PERSONAL RESIDENCE OR FARM (LIFE ESTATE RESERVED)

A gift of a remainder interest in a home or farm allows a donor to make a lifetime gift of property to charity and retain the right to use the property for life. At the death of the donor, the property passes to the charity. This type of gift is ideal for the donor who wants to give his or her home to charity but also wants to live there for the rest of his or her life. For example, a couple decides to make a gift to charity of the remainder interest in their home. In return for the gift, the donors receive a charitable income tax deduction based on their ages and the value of the property. The donors will be able to use and enjoy their home for the rest of their lives. At the death of the second person, the house will pass to the charity and there will be an estate tax deduction.

**Example:** *Mary Rogers, 78, is a widow with three children who live in other areas of the country and are doing quite well financially. She is planning to leave the bulk of her estate to her children and is also considering making a charitable gift as part of her estate plan.*

*She decides to make a gift of her home now. However, she retains the full rights and duties of ownership and benefits from her home for the rest of her lifetime.*

*Because she has made an eventual gift of her home, she is entitled to a tax deduction for almost two-thirds of its value. If the home were worth \$100,000, for example, she would be allowed a tax deduction of about \$60,000 in the year she made the gift, while retaining the right to enjoy the property for life. If she later decided to make a gift of her remaining rights in the home, she would receive additional tax benefits at that time. In any event, the value of her home will also be removed from her estate for tax purposes.*

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## WEALTH REPLACEMENT

Individuals who want to fulfill all of their financial, estate and charitable planning goals use the concept of wealth replacement. Individuals often want to make a gift to charity and also want to make sure that their children receive a substantial inheritance. Therefore, many donors choose to replace their gifts with the benefits of life insurance.

If life insurance is owned by an adult child or placed in an irrevocable life insurance trust, it will be kept out of the donor's taxable estate. The result is that the donors are able to make a gift to charity without reducing the amount their children will inherit. They also reduce the taxable portion of their estate.

One additional way to give life insurance

Name a charitable recipient as beneficiary of a policy you own in one of the following ways:

- As primary beneficiary to receive part or all of the policy proceeds. The other beneficiaries may or may not be charitable.

- As secondary beneficiary to receive part or all of the proceeds in case the primary beneficiary has predeceased you.
  - As final beneficiary to receive part or all of the proceeds if all other beneficiaries have predeceased you.
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## **CHARITABLE LEAD TRUST**

A charitable lead trust gives a property's current income interest to a charity and leaves the trust principal at the end of the trust term to family or whomever the donor selects. Through a lead trust, the donor is able to benefit the charity immediately, transfer assets to family members with tax-free appreciation, and depending upon the terms of the trust, receive income, gift or estate tax savings.

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## **ESTATE PLANNING SERVICES**

The staff of the Development and Public Relations Department are available to assist you in creating an estate plan that can be accomplished in seven easy-to-follow steps:

- Determine the priorities of your estate plan
- Consider the problems, which need to be avoided
- Discover the various tools and techniques to solve these problems
- Complete a Confidential Estate Questionnaire
- Have the legal documents prepared by an experienced estate planning attorney

These services are available through seminars in your local church or by individual appointments.

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**For more information about planned giving, please contact:**

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