

# Revocable Gifts

## *A Comfortable Commitment*



A revocable gift is a gift that can be changed or reversed. It is the setting aside of an asset or fund for a charitable gift to be made later—but, if circumstances require, that asset or that fund is available for personal use. A revocable gift is still a positive gift—an intention that if things go as planned, a worthy organization will eventually receive the gift. It is a comfortable commitment—not so much an “*if I am able*” gift, but a “*when I am able*” gift.

Revocable gifts share some important characteristics that make them extremely appealing to today’s donor: They are easy to

make and require no up-front funding. They give you the flexibility to adapt to changes and retain use of your assets during your lifetime. They also give you the opportunity to make an impact with your giving—which otherwise might not be feasible in today’s economy—and to leave behind a lasting legacy.

An important but often overlooked advantage: After making such a commitment, you always have the opportunity to take your commitment a step further through a permanent arrangement such as a life income plan or outright gift. Such gifts, in addition to

offering tax and financial benefits, let you see your gift put into action during your lifetime.

There are several ways to make revocable gifts. The choices highlighted in this booklet include planning a charitable bequest, changing a beneficiary designation, and using a living revocable trust.

## Consider a Charitable Bequest

A charitable bequest is simply a formal way of making a gift to charity under your will. There are different types of charitable bequests with varying degrees of flexibility. You have the opportunity to choose the type to best achieve your objectives.

**Specific Bequest.** This is perhaps the most common type of charitable bequest. It refers to a bequest of a specific dollar amount or a specific asset such as a coin collection or a vacation home.

**Percentage Bequest.** Under this kind of bequest, beneficiaries receive a fixed percentage of an estate rather than a specific asset or specific amount of money. A percentage bequest offers more flexibility in that beneficiaries receive the same intended proportion regardless of fluctuations in the value of the estate. This ensures that neither heirs nor charity will receive a disproportionate share if the value of assets in the estate changes over time.

*Example:* Mr. Taylor would like to make a gift in his will to us in memory of his late wife. He first considered leaving a specific dollar bequest, but was concerned that if the stock market experienced a sharp downward turn, he might end up shortchanging his only daughter for whom he also wants to provide. In his revised will, he directs that 75 percent of his estate (after taxes, debts and costs are paid) go to his daughter and 25 percent to us. Whether the market goes up or down, his daughter and our organization receive a bequest in the proper proportion. In the meantime, Mr. Taylor has access to his investment portfolio.

**Residual Bequest.** This popular bequest option ensures that your family receives top priority among your beneficiaries. The residue is what remains after payment of administration costs, taxes and expenses, and all other bequests have been satisfied. In other words, with a residual bequest, you provide for your heirs first, then leave to charity whatever is left in your estate. This is a meaningful and safe way to make a charitable gift, since what remains of your estate after protecting your family can be used to establish a lasting legacy for charity.

**Contingent Bequest.** This is a “maybe” gift, a bequest that actually becomes one only under certain circumstances. For instance, your will may direct that your entire estate is to go to your spouse. But, in the event that your spouse cannot accept or wants to decline your bequest, your will has named our organization to receive that gift as the contingent beneficiary.



## WHAT IS A CODICIL?

You do not have to write a new will to plan a charitable bequest to us. A will can be legally amended with a document called a codicil. A codicil, like a will, requires close attention and the help of an attorney in its drafting and proper execution.

## Use Beneficiary Designations

A beneficiary designation is a written statement of who should receive the proceeds of a savings account, life insurance policy, or retirement account at the death of the holder. Usually, one or more beneficiary designates are listed at the inception of the policy or account. They may include primary and secondary (or contingent) beneficiaries.

*Example:* Christine Eagleton, a widow, maintained a separate savings account to provide assistance to her daughter, Rachel, who had struggled with deciding on a career. Eventually, Rachel became a successful commercial banker. Christine had named Rachel the beneficiary of this particular savings account. But, since Rachel no longer needs assistance, Christine amended her account and named our organization as the beneficiary. If Christine leaves the money in the account, the proceeds will eventually go into an endowed fund that will provide continued support for her favorite program long after she has died. Mrs. Eagleton is comfortable with the commitment knowing she has the flexibility to access the account should the need arise. (*Note:* Be sure to check the law in your state and consult an attorney when planning your estate.)

In choosing a beneficiary, it's important to consider the needs of each person and how these needs may change over time. It's prudent to name a secondary (or contingent) beneficiary in the event that the first or primary beneficiary is not alive to receive the proceeds of an account. It's easy to make or amend beneficiary

designations with the custodian of your account. It's also easy, in many instances, to convert a revocable gift into an irrevocable one should you wish to enhance your tax benefits.

*Example:* Years ago, Tim Roberts purchased a \$50,000 life insurance policy to help provide for his daughter's education in the event of his premature death. The daughter graduated long ago. Tim amended the no-longer-needed policy to name us as its beneficiary. Recently, after learning about our capital campaign, he decided to accelerate the gift and to donate the policy to us outright. He is pleased to know that he can take a substantial income tax charitable deduction and receive recognition for his gift, along with the satisfaction of seeing his gift have an immediate impact.

## PLANNING TIP

Some donors who have made a comfortable commitment through a charitable bequest later decide they want to have the satisfaction of seeing their gift put to immediate use. We are prepared to discuss with you the possibility of converting your planned bequest into an outright gift. By making your gift now instead of later, you will be entitled to an income tax charitable deduction which is unavailable for a revocable gift. If you convert a bequest to a life income plan such as a charitable gift annuity or charitable remainder trust, you can generate an income stream in addition to creating the income tax benefits.

## Special Planning Opportunity

Retirement accounts have recently become a favored asset to leave to charity because the assets likely have never been taxed for income tax purposes. Thus, if you leave these assets to your children or other heirs, they will incur an income tax liability in addition to any estate taxes that may have already been paid by your executor. If, on the other hand, you leave the assets to a qualified charity such as ours, you can avoid this double taxation.

If you have considered including a gift to charity in your estate plans, it may be wise to leave retirement account assets to charity and use other assets such as long-term appreciated property to make bequests to family members. There's a hidden advantage to this strategy: You not only avoid the double taxation problem but your heirs who receive the other assets are generally entitled to a stepped-up basis to the property's fair market value at death. This could reduce their capital gains tax liability should they decide to sell the property later on.

## Making the Most of a Forgotten IRA

In the 1980s, George (now age 72) started an IRA because his employer did not offer retirement benefits. Only a few years passed before George began participating in a company-sponsored retirement plan and stopped making IRA contributions. The "forgotten" IRA is now worth more than \$20,000. George's daughter is named as the IRA beneficiary.

In planning his will, George decided to leave most of his estate to his daughter, plus a \$20,000 cash bequest to our organization. While this is a generous gift, George should reconsider the arrangement. The reason: His daughter could realize more through her bequest if our organization is taken out of the will and simply named as the IRA beneficiary instead.

Here's why. If George's daughter accesses his IRA funds, she will be subject to income taxes on the money each time she takes a distribution from the IRA. (Remember, the money has been in a tax-free account.)

However, if George names us as the IRA beneficiary, we receive the full \$20,000 (charitable organizations are exempt from the income tax). Leaving the IRA assets to charity also qualifies for an estate tax charitable deduction. George can use his will to leave other, less tax-hindered assets to his daughter.

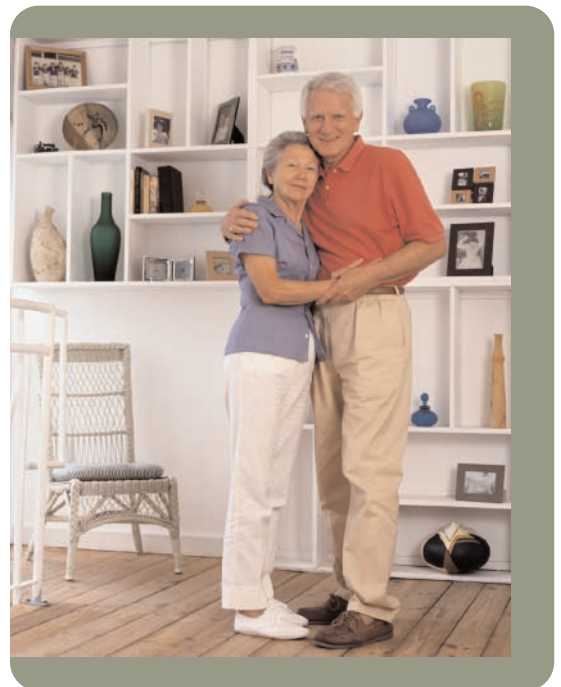
One more option is for George to use the IRA to make a gift in 2011. He could take advantage of the IRA Charitable Rollover

opportunity in order to satisfy his required minimum distribution without incurring federal income tax on that amount.

## Explore a Living Revocable Trust

As the name implies, a living revocable trust is a trust that you create during your lifetime that may be amended or revoked. As an alternative or supplement to a will, such trusts can be used to avoid or reduce probate costs and pass estate assets directly to all named beneficiaries, thus avoiding costly and frustrating delays. Unlike a will, a living revocable trust ensures privacy, since it is not a public record. It also offers you a comfortable and private way to make a charitable gift.

A living revocable trust gives you the flexibility to manage income and meet expenses for yourself and others during your lifetime. After the lifetime benefits end, the remaining assets in the trust can be distributed to family members, friends and charitable organizations.



What is unique about the living revocable trust is that you can change its terms throughout your lifetime. For example, you can reserve the right to add or remove property, change the beneficiaries of the trust, even cancel the entire trust arrangement should you wish. The flexibility of the living revocable trust also makes it highly suitable for the donors who want to make a major commitment now, but not be locked into a situation that affords no easy exit if circumstances change.

The living revocable trust is obviously not for everyone. It requires careful thought, attention to detail, and the ongoing counsel of financial advisors. Still, it has many benefits that are well worth exploring. We would be happy to discuss how this unique planning tool can have a charitable aspect.

## Your Thoughtfulness Opens Doors

Revocable gifts offer flexibility. The donor opens the door to the possibility of a meaningful charitable gift, and the door remains open should circumstances call for reassessing the gift. Even after setting up a revocable gift, you have the option to consider more immediate gift arrangements, including gifts that can create an income for you. These life income gift options include the gift annuity and the charitable remainder trust.

In any event, whether you are exploring a revocable gift or thinking about another planned gift arrangement, we appreciate the time and effort you spend considering a gift to us. Feel free to contact our office to find out which gift may best serve you.