

# 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 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.

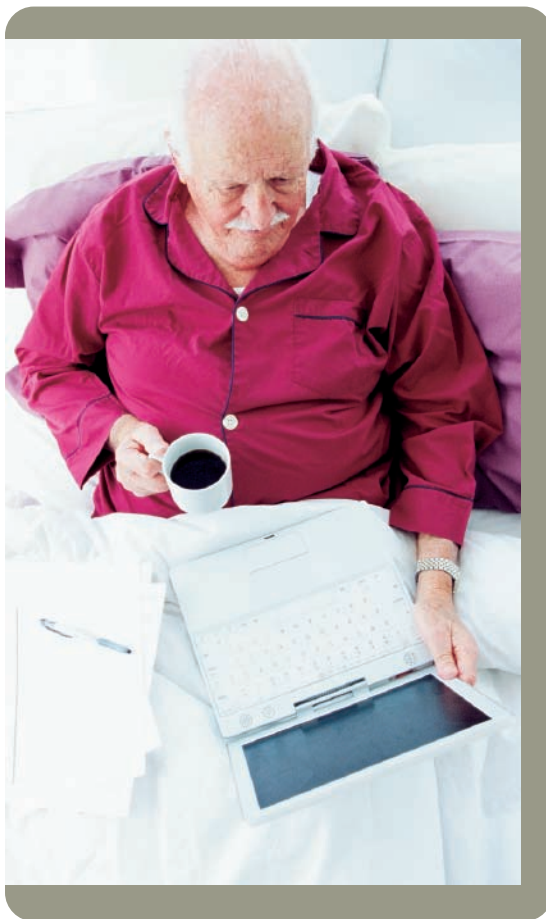
Revocable gifts share important characteristics that make them extremely appealing to today’s donor. They are easy to make and

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 benefit: 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, provide you with the opportunity to see your gift put into action during your lifetime.

There are several ways to make revocable gifts. These include comfortable commitments such as planning a charitable bequest, changing a beneficiary designation, or perhaps using a living revocable trust.



## Consider a Charitable Bequest

A charitable bequest is simply a formal way of making a gift to charity in 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 when asset values change over time.

*Example:* Mr. Taylor would like to make a gift in his will to our institution in honor of his deceased wife. He first thought about leaving a specific dollar bequest, but was concerned that if the stock market experienced another 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, the daughter and our organization receive the same intended proportion. In the meantime, Mr. Taylor has access to his portfolio.

Two other types of charitable bequests that can add to your flexibility in planning are the residual bequest and contingent bequest. Briefly, here's how they work.

**Residual Bequest.** This popular bequest option ensures that your family and other heirs receive 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 over from your estate. This is a meaningful and safe way to make a charitable gift since you do not have to worry about shortchanging your family. What remains of your estate 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, you may direct in your will that your entire estate is to go to your spouse, but if your spouse predeceases you, your estate is to go to your favorite charity. In the event that your primary beneficiary cannot accept or declines your bequest, your will directs that our organization will receive that gift as the contingent beneficiary.

You do not have to write a new will to plan a charitable bequest to our organization. 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 needed assistance, Christine amended her account and named our organization as the beneficiary. The proceeds will 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.

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 beneficiary designation into an irrevocable gift should you wish to enhance your tax benefits.

*Example:* Tim Roberts had taken out 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 and is now married to a prominent surgeon. Tim now wants to amend the no-longer-

needed policy and name us as its beneficiary. But, after learning about our capital campaign, he decides to accelerate the gift and to donate the policy to us outright. He is pleased to know that he will receive a substantial income tax charitable deduction, full credit for participating in our campaign and the satisfaction of seeing his gift have an immediate impact.

### PLANNING TIP

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

Many financial planners are now advising their clients who wish to include a charity in their estate planning to leave retirement account assets to charity and use other assets such as long-term appreciated property to make their bequests to family. There's a hidden advantage to this new strategy: You not only

avoid the double taxation problem but your heirs who receive the appreciated property are generally entitled to a stepped-up basis to the property's fair market value at death. This in turn may reduce their capital gains tax liability should they decide to sell the property later on.

Donors who would like to accelerate their gift can do so by giving the assets — or a portion of the assets — during their lifetime. They can make the gift outright or use the assets to fund a life income gift plan such as a charitable remainder trust. While the donor will include in gross income the amounts withdrawn from the retirement accounts, he or she will also be entitled to an income tax charitable deduction which may offset the amount includible. The donor has the benefit of seeing the gift put to use now and, in the case of the life income gift option, can retain a good income stream for the rest of his or her life.



## 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. She will receive these funds if George does not withdraw them during his life.

In planning his will, George decided to leave most of his estate to his daughter, plus a \$20,000 bequest to our organization. While this is a generous gift, George should reconsider the arrangement. The reason: His daughter will actually receive more property 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 the IRA funds, she will be subject to income taxes. The result is that each time the daughter takes a distribution from the IRA, she will need to pay income taxes on that money (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 gifts today and going forward. He could take money out of the IRA as a required minimum distribution and use all or part of the money to make charitable gifts that would create an income tax deduction. Of course, he could continue to list our organization as a beneficiary.

## Explore a Living Revocable Trust

As the name implies, a living revocable trust is a trust that you can create during your lifetime that may be amended or revoked. As an alternative or supplement to a will, it 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 provides you with a comfortable and private way to make a charitable gift.

A living revocable trust gives you the flexibility to provide for the income and expense needs for yourself and others during your lifetime. After the lifetime benefits end, the remaining assets in the trust are distributed to family members, friends and charitable organizations such as ours.

What is unique about the living revocable trust is that you can make changes throughout your lifetime. For example, you can reserve the right to add or remove property, change the terms 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 assist you in taking a closer look at this unique planning tool.

## Your Thoughtfulness Opens Doors

Revocable gifts offer the donor flexibility. The donor opens the door to the possibility of a meaningful charitable gift, and the door remains open should life circumstances call for reconsideration or restructuring of the gift.

With a revocable gift, you always have access to the funds. But, if you do not need the funds during your life, you are assured that the gift ultimately serves your charitable intent.

Even after setting up a revocable gift, you leave the door open to consider more immediate gift arrangements, including gifts that can create an income for you. These *life income gifts* 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.

