Planning Matters

A Newsletter About Securing the Future for You, Your Family and for Hospice Foundation

INSIDE

Capitalize On Uncertain Markets and Low Interest Rates with Strategic Charitable Planning

- The Hospice Foundation's Gift Annuity Program
- Create a Charitable Remainder Trust with the Hospice Foundation
- Send for our booklets, ***Ways to Give*** and ***Charitable Solutions to Investment Dilemmas.***

Dear Friends,

I'm pleased to present the latest issue of *Planning Matters.*

Our newsletters are designed to provide information about financial and estate planning, as well as thoughtful charitable gift arrangements. Each issue features a different topic and includes a reply card that you can return to request further information. In this issue we feature charitable gift annuities and charitable remainder trusts, both ways to receive life-income payments and provide meaningful support for the Hospice Foundation.

To assist in your planning, we would like you to have copies of our free booklets, ***Ways to Give*** and ***Charitable Solutions to Investment Dilemmas.*** To request your copies, simply return the enclosed card or call our office.

I invite you to contact us if we can provide examples or options for your particular situation. Please remember that we are available to assist in your planning and that we would welcome the opportunity to be of help.

I look forward to the opportunity to serve you.

Sincerely,

Jim Bennett

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Capitalize On Uncertain Markets and Low Interest Rates *with Strategic Charitable Planning*

Recently the stock market has been like a roller coaster–after a long slow climb to its peak, it plunged rapidly, leaving many investors wide-eyed and breathless. Now, as the market twists and turns, investors are holding on for dear life.

While the market bounces up and down, though, interest rates continue to be settled in at historically low levels. This double-barreled blast of gyrating stock prices and low interest rates has left many investors pondering some crucial questions:

- *How can I lock in any gain I may have realized in my securities?*
- *How can I get a reasonable return on my assets?*

For our friends with important charitable goals, the best answers may be found not at their local banks or brokers' offices–but right here at the Hospice Foundation. We offer a number of giving options that allow you to address important financial objectives. Among the most effective options that can protect your gain and generate an attractive yield are our charitable gift annuities and charitable remainder trusts.

Either option will generate a source of income for life. You may fund your gift with either cash or appreciated securities–the choice depends on your specific goals. In addition, your gift qualifies for a substantial charitable income-tax deduction.

The Hospice Foundation's Gift Annuity Program

A charitable gift annuity is a wonderful way to make a gift and generate valuable benefits for yourself or other beneficiaries you choose. In exchange for your contribution for a charitable gift annuity, we will make payments for life to one or two beneficiaries based on the value of your gift.

> Returns on gift annuities are based on the age(s) of the beneficiary(ies) at the time the gift annuity is established.

Returns on gift annuities are quite generous and are based on the age(s) of the beneficiary(ies) at the time the gift annuity is established. Typically, returns on gift annuities outpace the returns on traditional fixed-income investments. Our rates for one-life annuities go as high as 11.5% for beneficiaries aged 90 and above.

Unhappy with current market yields? Consider a gift annuity

Since fixed-income investments such as certificates of deposit and money market funds aren't what they used to be, many people have begun looking for higher-yielding alternatives. Many of the Hospice Foundation's friends who want to support our work have found our gift annuity program can greatly increase their annual spendable cash.

Example: *Bill, 75, has a $50,000 CD coming due later this month. Bill has watched the rate drop on his CDs each time he has renewed them over the last several years. Now that he is facing a renewal rate of about 5%, Bill would like to find a way to increase his yield consistent with his overall planning goals.*

Bill is a longtime supporter of the Hospice Foundation and someday wants to make a significant gift for a special project of interest to him. After conferring with our staff and his advisors, Bill decides to contribute $50,000 for a gift annuity that will pay him $3,650–or 7.3%–each year for the rest of his life.

Bill is pleased that he is able to both fulfill his charitable goal and receive annual payments more than 45% higher than the $2,500 he would have gotten from the CD. But the difference is even greater for two reasons:

- **A significant portion of Bill's annual payment is tax-free.** Of the $3,650 he receives each year, $2,424 is treated as a tax-free return of his "investment" in the annuity for the balance of his life expectancy. In his 35% income-tax bracket, Bill would have to get a fully taxable return of $4,955 each year to end up with as much spendable income as he gets from the gift annuity. ***Note:*** If Bill lives longer than his life expectancy, the entire annuity payment becomes taxable.

- **Bill's gift generates a substantial tax deduction.** Bill's $50,000 gift annuity contribution produces a charitable deduction of $19,950. This saves Bill $6,983 in his 35% tax bracket *($19,950 x 35%)*, thereby reducing his out-of-pocket cost for the gift annuity to $43,017 *($50,000 - $6,983)*. Measured against this cost, Bill would have to get a fully taxable return of more than 11.5% *($4,955 ÷ $43,017)* to generate the same spendable income as the gift annuity.

Sample Gift Annuity Rates

One Life		***Two Lives***	
Age	*Rate*	*Ages*	*Rate*
55	5.8%	55-55	5.1%
60	6.0%	60-60	5.6%
65	6.3%	65-65	5.8%
70	6.7%	70-70	6.1%
75	7.3%	75-75	6.5%
80	8.3%	80-80	7.1%

Lock in your gain by using appreciated stock to fund your gift annuity

If you choose to use appreciated stock to establish your gift annuity, you effectively lock in your gain in the stock. ***Reason:*** Your annuity payment–*like your charitable deduction*–is based on the full fair-market value of the stock, regardless of what you paid for it.

Better yet, this strategy reduces any long-term capital-gain tax you would have faced had you sold the stock. In addition, you get to spread recognition of the gain over your life expectancy if you are a beneficiary. In effect, any gain you must recognize each year reduces the amount of tax-free income.

Example: *Betty, 72, owns stock in XYZ, Inc., that has quadrupled since she bought it ten years ago and is now worth $100,000. The value of the stock has bounced around in a fairly wide price range recently, and Betty is nervous about the company's future prospects. She is reluctant, though, to sell and incur a taxable gain of $75,000, which would result in a tax of $15,000.*

Your annuity payment is based on the full fair-market value of the stock used to fund the gift.

Betty decides to use the stock to fund a gift annuity. Her annual annuity payments are based on the stock's full fair-market value, amounting to $6,900 (6.9% of $100,000) *each year for life. Instead of recognizing and paying tax immediately on her $75,000 paper gain, Betty will have to recognize capital gain of only $3,286 each year for the balance of her 14.5-year life expectancy–a total of about $47,618. She will still receive $1,095 of her payment tax-free each year for that period.*

Charitable planning pointer: *Because her deduction is based on the stock's full $100,000 value, Betty gets a charitable deduction of $36,150. In her 38.6% tax bracket, the gift saves her $13,954.*

Our gift annuity program is flexible and affordable

Whether a gift of cash or appreciated securities is better for you depends on your particular circumstances. We would be pleased to work with you and your advisors to select the right funding method for your gift annuity.

You may establish a gift annuity at the Hospice Foundation for an initial minimum of $5,000. ***Note:*** Since the return on a gift annuity is determined by your age at the time you establish it, later annuities will likely have a higher yield.

Create a Charitable Remainder Unitrust with the Hospice Foundation

With a charitable remainder unitrust, your payments come out of–and are secured by–the trust assets. The trust is set up either for the life or lives of the named beneficiary or beneficiaries *or* for a specified term that doesn't exceed twenty years. The charitable remainder unitrust provides for annual payments to the designated beneficiary(ies) of a specified percentage–at least 5% of the value of the trust as it is valued each year. Since the value may vary from year to year, the payments may vary. At the death of the last beneficiary, the trust principal is distributed to the Hospice Foundation.

At the death of the last beneficiary, the trust principal is distributed to the named charitable organization.

The trustee you select is responsible for administering the trust and making the required payments. If you wish, you may name us as trustee if the Hospice Foundation is the charitable remainder beneficiary.

Use cash and increase your yield

At the time you create a charitable remainder unitrust, you determine the annual payout rate. By law, this must be at least 5%.

As with gift annuities, you can fund a trust with cash or appreciated securities. If you use cash, it is likely that you will achieve a better yield with a charitable remainder trust than with traditional fixed-income investments.

Use appreciated securities and lock in your gain

If you use appreciated securities, you get the added benefits of being able to lock in gain and, in many cases, significantly increase the return on your assets. Plus, you do not have to recognize any of the paper gain in your investment.

Depending on your situation, you may be able to parlay several of these benefits into one gift plan.

Example: *Tom and Susan, both 68, would like more spendable cash now that they are retired. They are considering liquidating some growth stock that pays no dividends and reinvesting the proceeds for additional income. They bought the stock several years ago for $50,000, and it is now worth $200,000.*

Even though they have reservations about the future performance of the stock, Tom and Susan hesitate to sell and incur a tax of $30,000 on their $150,000 gain. They would have only $170,000 to reinvest that, invested at 5%, would yield $8,500 per year.

After conferring with their advisors and a member of our staff, Tom and Susan decide to use their stock to create a charitable remainder unitrust that will pay them 6% of the trust's annual value each year as long as either of them lives. They do not have to recognize any of their $150,000 paper gain in the stock on the initial transfer to the trust, and they get a charitable income-tax deduction of $65,654. This saves them nearly $22,979 in their 35% federal income-tax bracket.

Results: Tom and Susan create a $12,000 cash flow the first year. This amount will grow over time if the trust assets appreciate in value. The stock previously had been generating no spendable income. This is $3,500 more than they would have received by selling the stock, paying tax on the gain, and investing the net proceeds at current market interest rates. After Tom's and Susan's deaths, the remainder of the trust assets will pass to the Hospice Foundation to accomplish their gift. If they live their normal life expectancies and the trust is able to maintain a 10% total annual return, more than $470,000 will be available for the gift.

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

The Possibilities Are Limitless

Your options for creative gift planning are nearly unlimited. Your plan depends on your personal and charitable goals and the kinds of assets you have available to fund your gift. Please feel free to call on us if we can be helpful as you consider your own giving plans.

To assist you in that process, we would like you to have complimentary copies of our booklets, ***Ways to Give*** and ***Charitable Solutions to Investment Dilemmas***. To receive your copies, return the enclosed postage-paid card or call us.

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