Charitable Planning for Baby Boomers

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Baby Boomer Facts

• Born between 1946 and 1964
• 26% of total US population (now 2\textsuperscript{nd} largest demographic group after the Millennials (1982-2000))
• 77 million members
• 10,000 retiring and taking Social Security and/or Medicare \textit{every day} starting in 2011 through 2030
• By 2030, 19% of the US population will be 65+
• Most boomers don’t think “old age” starts until age 72 (and gerontologists say “elderly” starts at 75)
• Most boomers feel 9 years younger than their actual chronological age
• Life expectancy at age 65 – 20.4 years for women; 17.8 years for men
• In 2013 more than half of those born in 1946 (age 67) had fully retired, up from 2011 and significantly up from 2008.
In 2013

Boomers owned 54% of mutual fund assets; 1/3 of the boomers had paid off the mortgage on their primary home; 1/2 of the boomers had reduced credit card debt.

BUT in 2011, 54% of boomers surveyed reported that the value of their savings and investments that exceeded their primary home and defined benefit plans (traditional pensions) was less than $25,000.
Boomer Financial Challenges

• Sandwich generation - many boomers had children later, so in their retirement years they may have children in college or young adult “boomerang” children PLUS elderly parents with both groups wanting/need financial support from the boomers.

• Boomer have less trust in “institutions” than their parents and more likely to make restricted gifts vs. unrestricted gifts.
Charitable Giving

2014 Blackbaud study reported that the boomers are giving 43% of all charitable gifts each year, even though they are only 26% of the US population.

Boomers are now at the age when thinking about their legacy, what they have accomplished so far, and how they want to be remembered is more common.
Boomers and Endowments

Thinking about their legacy and giving to endowments that support their favorite organizations, causes, and community is a perfect fit for those who:

- Want to perpetuate their annual gift;
- Want their name, or a family name, or a business name to be associated in perpetuity with an organization;
- Want to secure the financial future for an organization.
Charitable Giving Opportunities that Fit Boomers

Lifetime outright gifts that reduce federal, state, and local income taxes, and avoid capital gains and net investment income taxes.

Gifts to charity of appreciated assets - Stock and Bonds

If owned longer than one year, then valued at fair market value on the day of contribution. No capital gain tax or net investment income tax owed regardless of how long the donor owned the gifted asset because a gift and not a sale or exchange.
Gifts of Appreciated Assets:
The donor can give more real value at lower out-of-pocket costs.

Donor owns stock purchased in 2011 for $250. Worth $750 when contributed.

Donor avoids capital gains tax on $500 ($100) plus net investment income tax if at 39.6% income tax bracket. (3.8% or $19 on $500 of gain).
Charitable deduction of $750 saves income tax:

at 39.6% tax bracket = $750 x 39.6% = $297 saved
+$100 capital gain avoided = $397 total savings,

So only costs $353.00 to give $750 to charity.
Charitable Life Income Plans

Charitable life income plans to make a future charitable gift to your endowment while providing supplemental income for self, self and spouse, parents, siblings, committed partners, employees, trust for special needs individuals. Removes income from the donor’s taxable income; recipient is the taxpayer. More income retained by the group and partial income tax deduction. continue support to spouses, parents, children or to supplement their own retirement income. Makes a future gift to one or more charities.

Charitable gift annuities
Charitable remainder trusts
Charitable Gift Annuities

● Contract between the donor and a public charity that provide a fixed income for life to one or two persons named by the donor ("annuitants").

● Part of the amount given is a charitable gift and qualifies for the charitable income tax deduction.

● Part of the annuity received each year is tax-free income for the rest of the annuitant’s average life expectancy when funded. After that all the annuity is taxable income.
• If funded with appreciated stock owned for longer than one year, then part of the income is taxed as long-term capital gain income (15% or 20% tax rate) for the rest of the annuitant’s average life expectancy when funded. After that all of the annuity is taxable income.

• When the last annuitant dies, what is left is used as provided in the charitable gift annuity contract.
For beneficiary/ies 70 years of age or older:
Immediate payment charitable gift annuities; payout rates for a one life CGA created at:

<table>
<thead>
<tr>
<th>Age</th>
<th>Payout Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age 70</td>
<td>5.1%</td>
</tr>
<tr>
<td>Age 75</td>
<td>5.8%</td>
</tr>
<tr>
<td>Age 80</td>
<td>6.8%</td>
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<tr>
<td>Age 85</td>
<td>7.8%</td>
</tr>
<tr>
<td>Age 90 and over</td>
<td>9.0%</td>
</tr>
</tbody>
</table>
For beneficiary/ies younger than age 70:
Flexible, deferred payment CGAs for self and/or others with a range of dates among which the annuitant can elect for payments to begin.

Example One: Single life CGA for 60 year old (4.4% rate for immediate payment CGA) with payment election starting at age 65 through age 75: 5.4% rate if age 65 elected up to 9.2% rate if age 75 elected.
Charitable Remainder Trusts

- Trust under IRC § 664
  - Created by donor
  - Accepted by trustee
  - Fixed (CRAT) or variable (CRUT) income (5% or 6% but can be more)
  - Income to individual for life or ≤ 20 years
  - Value of assets distributed to your endowment fund at end of the trust.
Gift of property

Donor

Charitable Remainder Trust

Income tax deduction, reduced gains tax & income stream

Remainder to
CRT: Benefits for Donor

1. Income for Life or Term of Years
   To self and/or others

2. Reduced Capital Gain Tax Liability
   • No capital gains taxes due when appreciated assets given
   • No capital gains taxes due when Trustee sells assets and reinvests the sale proceeds

3. Charitable Deduction
   Charitable value is projected amount to charity at end of trust.

4. Trust investments determine tax treatment of distributions – can be ordinary, capital gain, tax-free interest, or return of corpus– but usually all ordinary income are 100% taxable.
Charitable Remainder Trusts for Boomers

1. Can be created and funded to avoid tax on sale of appreciated but non-income producing real estate, with increased lifetime income after the assets are sold by the Trustee, partial charitable income tax deduction.
Example 1: Unimproved Real Property

- Michelle, age 64
- Funding 5% FLIP CRUT with unimproved property valued at $250,000 ($100,000 basis)
- Triggering event is sale of property in 2016
- Year after sale, donor receives $7,500 that year
  - Income may vary over time
  - Charitable Deduction of $65,245 at 2.2% FMR
  - Lifetime benefit of $165,000 before tax
  - Projected benefit to charity $186,000
Rental Property

2. CRUT to continue income from residential real property without landlord hassles; avoidance of long-term capital gain tax; fair market value must be reduced if accelerated depreciation used; partial income tax charitable deduction based on fair market value or reduced value.
Example #2: Residential Rental Property

- Miguel, age 77
- Funding Charitable Remainder Annuity Trust (CRAT) with residential rental property valued at $500,000 (cost basis $0 due to depreciation)
- CRAT with 5% payout rate
  - $25,000 annually
  - Charitable Deduction of $284,685 at 2.2% FMR
  - Lifetime benefit of $275,000 before tax
  - Projected benefit to charity $574,000
3. CRUT funded with undivided percentage of ownership in primary personal residence that represents appreciation not sheltered by the exemption amount ($250,000 for single taxpayer, $500,000 for married taxpayers); long-term capital gains tax on excess profit avoided; when property is sold, donor(s) receive retained share of the sale proceeds subject to long-term capital gains tax, plus lifetime income from the CRUT; partial income tax deduction may offset realized capital gain from retained share of sale proceeds.
4. CRUT with additional annual contributions if desired; build-up stream of future retirement income for self, self/spouse, self/partner; partial income tax deduction on each contribution.

5. CRUT funded with appreciated stock prior to retirement or during retirement to reduce equity exposure and increase fixed income; partial income tax deduction.
Example #4: Building a Charitable Source of Retirement Income

• Don and Simone, age 53 and 55
• Funding Charitable Remainder Unitrust (CRUT)
• Initial contribution of $50,000 cash, then additional gifts of $10,000 for next 15 years
• Build-Up CRUT with 5% payout rate
  – $2,500 in first year, then varying after that
  – Charitable Deduction of $55,755 at 2.2% FMR
  – Lifetime benefit of $336,214 before tax
  – Projected benefit to charity $267,243
Income for Survivors

Lifetime income for spouse and other loved ones after the death of the donor with a future gift to endowment:

1. Charitable gift annuities for survivors;
2. Lifetime CRUT with testamentary addition for survivor beneficiary; partial income tax and estate charitable deduction;
3. New CRAT or CRUT created and funded from the donor’s estate for the spouse and/or other survivors.
4. QTIP trust (special marital trust) for surviving spouse with all or a portion of the balance at second spouse’s death to one or more charities. Marital gift at first death; charitable gift at second death. Principal can be spent if needed for surviving spouse’s benefit unlike CRT.

5. Testamentary CRUT or CRAT funded with all or part of balance in a retirement plan to provide income to survivors, usually for a term of years not to exceed 20 years. Assures the donor that the survivors will receive annual distributions, not a lump-sum after the owner’s death.
Gifts After Death

1) Beneficiary designations from balances in retirement plans (boomers have more assets in retirement plans than in personal savings and investments), bank and brokerage accounts, life insurance policies.

2) Bequest provisions in wills and trusts.
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