

CHARITABLE GIFT  
AND FINANCIAL  
PLANNING IDEAS  
FROM THE  
UNIVERSITY  
OF WISCONSIN  
FOUNDATION

Fall 2010

W I S C O N S I N

# Dividends



The secret benefits of the  
gift annuity

The agreement is usually no more than two pages. The arrangement is simple and straightforward, and you can complete it through the mail. You've read about it in *The Wall Street Journal*, *The New York Times* and *AARP: The Magazine*; and we've featured it in recent issues of *Wisconsin Dividends*. We are talking, of course, about the charitable gift annuity; and you, undoubtedly, are already familiar with the essentials:

- You transfer assets (usually cash or publicly traded securities) to a charity.
- One or two beneficiaries receive income for life, the amount depending on the beneficiaries' ages at the time you establish the annuity.
- A portion of each income payment is usually tax-free.
- You receive a charitable deduction that can reduce your current taxes.
- There are potential gift- and estate-tax savings.
- You make a valuable charitable gift of whatever remains after the payment obligation is satisfied.

What you may not realize is that a gift annuity has multiple uses and that you may fund it with a variety of assets. Read on to learn many little-known uses, applications and funding ideas.

## Have you heard? A gift annuity can ...

The typical gift annuity agreement is established with income beginning immediately, either by a single donor who also is the beneficiary or by a couple who

are joint-and-survivor beneficiaries. Surprisingly, there are many other applications, as demonstrated by the following examples.

### Support an elderly parent with additional income

Roger's mother's modest pension and Social Security are insufficient for her living expenses, and Roger has been making up the difference with a monthly stipend of \$650. In his 35 percent tax bracket, he must earn \$1,000 to pay the \$650 subsidy.

To provide for his mother in a more tax-efficient manner and to support the University of Wisconsin-Madison, with which both he and his mother are affiliated, he decides to contribute stock worth \$100,000 for a gift annuity, naming his mother as beneficiary. She receives \$675 per month, and her after-tax income is the same as the amount Roger had been giving her.

Moreover, this arrangement is emotionally satisfying to her because it is associated with the UW-Madison, which she wants to support.

Because he is not a beneficiary, Roger pays taxes on some of the gain in the stock but still realizes net tax savings generated by the charitable

deduction. He also makes a taxable gift to his mother but pays no gift tax because of his lifetime exemption.

### Support other people you care about

You also may establish a gift annuity to provide assistance for a sibling or for a non-family member such as a friend or for retirement income to an employee such as a longtime domestic worker or gardener.

### Supplement your future retirement income

Joan, 50, would like to supplement her expected retirement income, so she contributes stock valued at \$50,000 for a deferred gift annuity with payments to begin when she turns 65. She receives a current charitable deduction of \$14,754 and can count on payments of \$5,250 per year when she turns 65. She also plans to establish additional gift annuities in upcoming years.

*Little-known application:* If Joan isn't sure when she will retire and hesitates to pre-select a beginning date for her payments, she might set up her agreement to allow them to start within a range of years instead, understanding that the longer she waits, the larger her payments will be.

## Income from a \$100,000 gift annuity

One Life			Two Lives		
Age	Rate	Income	Ages	Rate	Income
60	5.2%	\$5,200	60-60	4.9%	\$4,900
70	5.8%	\$5,800	70-70	5.4%	\$5,400
80	7.2%	\$7,200	80-80	6.3%	\$6,300
90	9.5%	\$9,500	90-90	8.3%	\$8,300

### Provide income for yourself “just in case”

Louise has more than enough income for now and is considering making a \$100,000 outright gift to the UW Foundation. She worries that her circumstances could change in the future. To make sure she has enough money “just in case,” she arranges with the UW Foundation a deferred gift annuity with a flexible beginning-payout date and elects to begin receiving income only if she needs it.

*Little-known applications:* Louise might arrange to start receiving her payments now and then contribute them back to the UW Foundation until she needs them; or if she determines that her other income will always be sufficient, she could assign to us her future right to payments and get another charitable deduction.

## Turn these assets into income

Very possibly you own something that may be appreciating in value but is not generating current income for you. From an income standpoint, this is an “idle asset.”

You may be able to put an idle asset to work by contributing it

to the UW Foundation for a gift annuity and receiving income for the rest of your life. While you obviously would not want to part with an asset that has sentimental value or is needed for your family’s financial protection, you may be better served by converting certain assets to a stream of income that can both enhance the quality of your retirement years and benefit the UW Foundation. Here are a few examples.

### A paid-up life insurance policy

John, 74, no longer needs his paid-up policy with a face value of \$100,000. The cash value is \$40,000, and the adjusted cost basis is \$22,000. He decides to transfer ownership of the policy to the UW Foundation for a gift annuity that pays him \$2,520 annually for life. A portion of his payments will be tax-free for the duration of his life expectancy, and he will receive a charitable deduction of \$16,992. *Note:* Had John surrendered the policy for cash, the gain (\$18,000) would have been taxed as ordinary income.

### A deferred variable annuity

Margaret, 79, paid \$50,000 to an insurance company for a deferred

variable annuity that now has a cash value of \$80,000. She could surrender the contract and pay taxes on her \$30,000 gain, or she could have the company pay her an annuity for life.

### *Little-known application:*

Because she would like to make a gift and could also use some extra money right now, she surrenders the contract and then contributes the proceeds for a gift annuity with the UW Foundation.

Margaret will receive \$5,600 per year for life and will pay no taxes on more than 73 percent of her payments during her life expectancy. Although the gain in the variable annuity is taxable to her, it will be more than offset by a charitable deduction of \$39,205; and she will realize some tax savings.

### Series EE savings bonds

Robert and Linda, 76 and 75, respectively, made purchases of Series EE savings bonds totaling \$40,000. Their value has grown to \$66,000. Now they would like more income and want to make a gift to the UW Foundation. To accomplish both objectives, they surrender the bonds and contribute the proceeds for a gift annuity. *Results:* Their annual gift annuity income payments will be \$3,828; more than 69 percent of the income will be tax-free for the duration of their life expectancy; and they receive a charitable deduction of \$23,431, which more than offsets the tax on the gain. *Note:* Had they used the proceeds for an investment, there would have been no deduction offsetting the gain and they would have paid several thousand dollars in taxes.

## IRA assets

Meanwhile, what course of action is available to you if you are planning to take a distribution from your IRA and want to make a gift but need income?

One possibility is to take your distribution and then contribute a portion of it for a gift annuity.

Suppose you are 71 years old and you request a \$40,000 IRA distribution this year. With 20 percent of it withheld for income tax, the net amount you receive is \$32,000, which you contribute for a gift annuity that will pay you \$1,888 each year for life.

Your charitable deduction reduces the tax you would otherwise owe on the distribution, and the \$8,000 withheld should cover the tax. **Result:** This procedure preserves more income-producing assets for you while providing for a charitable gift.

If you had not established the gift annuity, you probably would have paid several thousand dollars of additional tax on the distribution.

**Little-known application:** You could name the UW Foundation as beneficiary of all or a portion of assets remaining in your IRA at the end of your life, with the agreement that the amount we receive will fund an annuity for a survivor—for example, a nephew. Thereby, you provide fixed payments to him and eliminate investment risk. Had your nephew instead received payments from your IRA, the payments would escalate with age and could be exhausted with longevity and/or poor investment performance. **Pointer:** A charitable gift annuity with the UW Foundation ensures level payments for life, along with your charitable gift.

## Next steps:

Are you wondering what your next best step is? Maybe you'd like more information, or maybe you'd like to speak with us directly. Here are a few options:

- 1 Visit us online** at [www.uwfoundation.wisc.edu](http://www.uwfoundation.wisc.edu) to learn more about how you can benefit the UW-Madison.
- 2 Return the reply card** to receive a free copy of our new booklet, *The Charitable Gift Annuity: 12 Ways It May Benefit You*.
- 3 Call us at** 608-263-4545 to find out about how a gift to the UW Foundation will further the University's mission and provide income to you for life.
- 4 E-mail us** at [uwf@uwfoundation.wisc.edu](mailto:uwf@uwfoundation.wisc.edu). We're happy to answer any questions you might have or send you more information.

**On our cover:** Grainger Hall, home to the Wisconsin School of Business, can be seen behind the brilliant fall foliage on the University of Wisconsin-Madison campus. At right is Barnard Residence Hall. (Credit: Jeff Miller, UW-Madison University Communications)

Many of you asked about the cover photo for the spring 2010 edition of *Wisconsin Dividends*. That was the theater wing of the Memorial Union, as seen from the Lake Mendota side. The photo on page 7 was of the E.B. Fred residence.



## Is opportunity knocking for you?

You may find our booklet *The Charitable Gift Annuity: 12 Ways It May Benefit You* helpful as you consider your plans. Please return the attached card to receive a complimentary copy, or feel free to contact the Office of Gift Planning at 608-263-4545 to request a copy of the booklet or to discuss your situation with a member of our staff.

# Alumna puts gift annuity to work

*Marian Lorenz credits her UW-Madison education for a satisfying career in food service.*

**M**arian Lorenz ('44 BS HEC) had a couple of good reasons to establish a charitable gift annuity with the University of Wisconsin Foundation.

One was that the income she receives beats investment devices such as certificates of deposit. The other was that she could benefit the School of Human Ecology at the UW-Madison, which gave her the tools for a successful professional life.

"Certificates of deposit aren't paying anything much at all right now," she said from her home in Mesa, Arizona. "I thought, 'Why wait?' This way, I get a good source of income, and the University and the students benefit. So I called up (Senior Director, gift planning) Bonnie Bruce, and she helped me make it happen."

In her time on campus, Lorenz acquired a core of values that has never left her.

"I was at the University during World War II," she said. "I learned skills that served me through a lifetime working in foods and nutrition, and we all learned great lessons about patriotism and service."

Lorenz was born in Maiden Rock, Wisconsin, and after high school she



*Marian Lorenz '44 BS HEC*

attended what was then the Stout Institute (and is now the UW-Stout, still renowned for its food service and management curriculum). She had her sights set on the state's flagship institution, thanks in large part to seeing the impact of the Wisconsin Idea—the notion that the knowledge and expertise generated on campus should serve the people all across the state and beyond.

"I always wanted to attend the University in Madison," she said. "My mother benefited so much from the whole Extension program, where they would share the expertise from the University with people

all around the state. After seeing what she gained from that teaching, my goal was to enroll some day at Madison. And I did!"

While her studies kept her busy, Lorenz was a member of the Phi Omega Pi sorority, which was active through the '40s and whose members were later accepted into Delta Zeta. She also was a member of the Phi Upsilon Omicron honor society for top students in family and consumer sciences.

"I remember during the war, we used to go to the USO dances at the Union on Sunday afternoons," she

*(continued on page 6)*

# Alumna puts gift annuity to work

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said. “We would bring cookies and visit with the servicemen.”

After graduation, Lorenz started her career with a year’s internship at Cook County Hospital in Chicago. She then became the dietitian at Atterbury Military Hospital in Indianapolis, where she met her first husband. He was a patient who had returned from service in Italy.

“I was in charge of special diets, food for diabetic patients, things like that,” she said. Once she got married, “that was the end of my military career.”

Moving to California, she became the registered dietitian at Long Beach Memorial Hospital. Eventually she rose to be the food service supervisor for the Long Beach Unified School District, overseeing a central facility that supplied student meals to 75 schools.

“At the time, I was just working,” she said. “Now that I look back at it, I think, ‘How did I do all that?’”

Thanks to the UW-Madison and the school where she learned her profession, Lorenz lived a life of service. She’s happy to do her part to help future students. In addition to her charitable gift annuity, she also has made a bequest to benefit the School of Human Ecology.

“The UW-Madison is keeping pace with what’s happening in the world and charting new avenues of discovery,” she said. “It’s hard for any of us to imagine what is going to happen in the future. One thing I do know, the University and its students will be a big part of it.”



*Visit our Web site at*

## [www.uwfoundation.wisc.edu](http://www.uwfoundation.wisc.edu)

### *Stay in touch with us!*

The University of Wisconsin-Madison wants to stay in touch with you. As primary manager of the University’s alumni and friends database, the UW Foundation continually seeks up-to-date contact information. You can update your information online by visiting [www.uwfoundation.wisc.edu/survey](http://www.uwfoundation.wisc.edu/survey). Please use the identification number located above your name on the *Wisconsin Dividends* mailing label to log in to the Web site. You will help us to maintain accurate information that is shared selectively with the Wisconsin Alumni Association and any other campus departments and programs with which you may be involved as an alumnus, volunteer, faculty member or donor. Thank you!



We would like to send you a complimentary copy of our booklet

## The Charitable Gift Annuity: 12 Ways It May Benefit You.

To receive your copy, simply return the attached card or call:

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Dividends



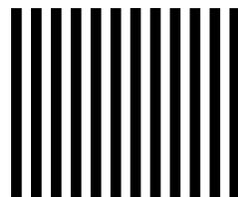
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great university and  
the evolution of an  
extraordinary one.*

University of Wisconsin Foundation Vision Statement

Please send me a copy of "The Charitable Gift Annuity:  
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**Dear Friends,**

My name is Marian Lorenz. This issue of *Wisconsin Dividends* contains a story about why establishing a charitable gift annuity with the University of Wisconsin Foundation was a good decision for me.

My education at the UW-Madison gave me the foundation for a fulfilling career. Now I can benefit the School of Human Ecology, which did so much for me, and receive income at the same time.

Such a decision could work for you, too, as well as for the University. The professionals at the UW Foundation can help you see what will be the best vehicle for your financial situation and your station in life.

*On Wisconsin!*

Sincerely,

Marian Lorenz