

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

SPRING 2007

W I S C O N S I N

# Dividends



MICHAEL FORSTER ROTHBART/UW COMMUNICATIONS

Giving and receiving:

*Picking the right life income plan*

# Make a gift and receive income for life in return? It's a concept that seems almost too good to be true—yet federal tax law sanctions several different ways you can do just that.

The benefits are numerous:

- A life income gift can generate a substantial income tax deduction.
- You may turn an asset that produces little or no income into a source of significant income.
- You may be able to avoid some or all of the tax on any paper gain on appreciated assets that you use to fund a life income gift.

**Each type of life income gift has particular features designed to accommodate individual situations and objectives.**

Some life income gifts can produce variable income that might serve as a hedge against inflation. Others can offer you the assurance of steady, fixed income. You might delay receiving payments until some later time in life when you will need income more. It may even be possible to set up payments that

vary according to your needs at any particular time.

The chances are that you may not need or want all of these options. And indeed, no one type of life income gift can deliver them all. With many choices, how do you go about choosing the life income gift that is right for you? Perhaps taking a look at what the following hypothetical friends of UW-Madison have done will help you decide on the best course of action.

## Increase your income with a charitable gift annuity

**Profile: Doris T is 79 years old and a widow. Most of her investment assets are cash or fixed-income investments, and she depends on the income they produce to supplement her retirement income.**

**Doris's Story:** I wanted to make a meaningful gift to UW-Madison, but I felt I needed all the income my assets were producing. In fact, a little additional income would be nice.

At my age, a sure, reliable income is more important to me than the possibility of a big gain on investments. As such, I have a significant portion of my assets invested in CDs. As you know, returns on CDs are safe but fairly modest.

When some came due recently, imagine how thrilled I was to learn that I could make a gift to the UW Foundation in return for a *charitable gift annuity* and actually increase my annual cash flow. I was able to get only about 5 percent on my CDs, but based on the \$50,000 I contributed for my gift annuity, I am getting payments equal to 7.8 percent of that amount, or \$3,900. Better still, more than \$2,500 of that is tax-free for the balance of my life expectancy. That makes my payments worth even more.

The gift also allowed me to take an income tax deduction of more than \$24,800. Since I am in the 25 percent federal income tax bracket, this saved me more than \$6,200 in taxes.

**Analysis:** By “replacing” some of her investments in CDs with a charitable gift annuity, Doris was able to increase her return substantially. And because she planned to use cash to fund her gift annuity, a maximum amount of the annual payment is treated as a tax-free return of principal, further increasing the after-tax value of her gift annuity payments.

## Receive a free and confidential personalized illustration

We invite you to visit our Web site [www.uwfoundation.plannedgifts.org](http://www.uwfoundation.plannedgifts.org) designed as an educational service to UW-Madison alumni and friends.

You may be interested in receiving a personalized illustration of the benefits of making a particular gift. We are happy to respond to your request quickly and confidentially. To request a personalized calculation, simply click on “Request a Calculation” and submit this secure transmission.





## Avoid capital gains tax: Create income that can grow

**Profile:** Ted and Mary N, both aged 67, have recently retired. They have a number of stock investments that have appreciated but pay no dividends. Now that they are retired, they would like to increase their annual cash flow.

**Ted and Mary's Story:** We own some stock that is worth five times the \$50,000 we paid for it. When we retired, we talked about selling it and reinvesting the proceeds to produce income since it pays no dividends. We were discouraged to find out that \$30,000 of our \$250,000 selling price would go to pay capital gains tax.

We have always wanted to make a significant gift to UW-Madison, so we decided to talk with UW Foundation planned giving representatives to see if they had any ideas that could help us. When we found out that we could avoid the capital gains tax on the initial transfer of the stock to a **charitable remainder unitrust**, it sounded really good to us.

Since the unitrust is tax-exempt, it can sell the stock and not owe any tax. This means the entire \$250,000 value of the stock will stay at work for us, producing another source of cash flow.

The unitrust also sounded good to us because our income will grow if the value of the trust increases. At 67, we plan to live a long time. We decided on a 6 percent unitrust payment. The first year the trust will pay us \$15,000; but if the trust is able to obtain an average total return of 8 percent, our distribution will be almost \$20,000 fifteen years from now. We also get to deduct \$79,245, which is saving us more than \$26,000 in taxes.

**Analysis:** One of the most attractive features of the charitable remainder unitrust is that the payment is based on the value of the trust as it changes from year to year. If the value goes up, so do your payments. This is especially important to relatively young donors like Ted and Mary. As they discovered, choosing a relatively low unitrust percentage enables the trust to grow faster, thereby increasing the size of payments in later years.

## A plan that will make you flip: Supplementing future retirement income

**Profile:** Carol J, aged 55, doesn't need any additional income now but would like to find a tax-advantaged way to create more retirement income.

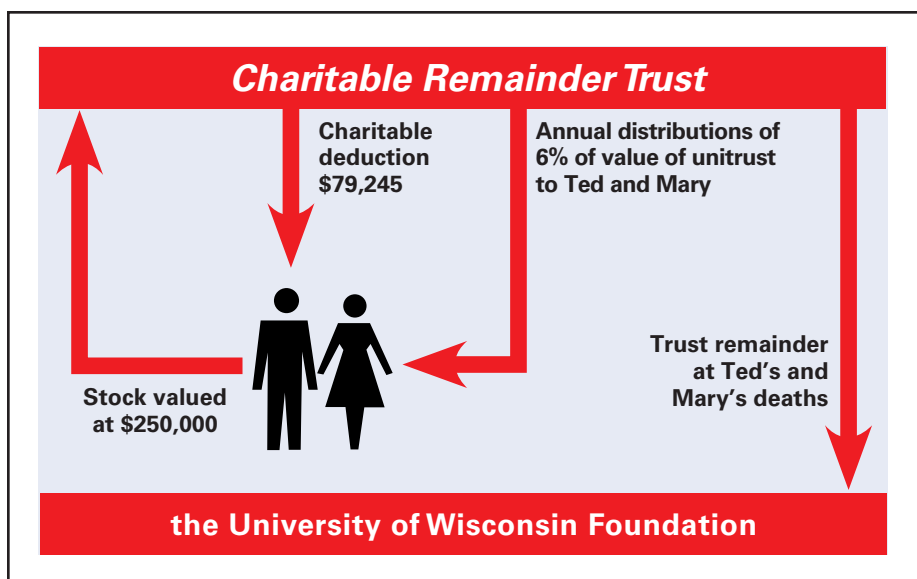
**Carol's Story:** My profession has allowed me to earn a comfortable living. I make tax-deductible contributions to my retirement plan, but I worry that may not be enough.

I wanted to do something that would eventually benefit UW-Madison and help secure my retirement. I was surprised to learn that I could make contributions that would build up and grow until I retire at 65 and then start making payments to me.

I plan to make an initial contribution of \$100,000 and then contribute \$20,000 each year to a special kind of **charitable remainder unitrust** that will make payments to me only if it has income—basically meaning interest or dividends—until I retire at 65. Then, the unitrust will convert, or “flip” as the people at the UW Foundation explained, to a unitrust that will pay me 5 percent of its value each year, regardless of the amount of income the trust earns.

We plan to invest my contributions primarily in stocks that pay minimal dividends, so any distributions from the trust will be very small. Even better, these are the kinds of investments that have the best chance to grow, which will mean more income at retirement.

If the trust averages an 8 percent return, it will grow to nearly \$450,000 by the time I retire. This means my



# Joule in July—Gift supports summer physics research

*It was August 24, 1970, and a young researcher named Pete Jolivette was working late in his Sterling Hall lab in the center of the University of Wisconsin-Madison campus. Forty-five minutes after he left for the night, a bomb exploded that heavily damaged the physics department and its experiments. It was a night neither Pete nor his wife Cheryle will ever forget.*

Cheryle didn't hear him come in that night. "The next morning our phone rang and a friend told me what happened and asked if Pete was all right. I had to run upstairs to see if he was there. Thank goodness he was okay," she said.

The bombing had a tremendous impact on the couple, both of whom were physics majors. Much of Pete's data was damaged in the explosion



*Pete and Cheryle Jolivette*

and would eventually delay the research he was doing for his PhD. "I had left a magnetic tape with my research on the computer," he said. "When I went back, there was a 2x4 in the computer."

Despite their personal involvement with the horror of the Sterling Hall bombing, they have both remained loyal supporters of the University over the years in many ways. Both went on to have successful careers and now in retirement, they have decided to establish a charitable gift annuity that will ultimately create the Peter and Cheryle Jolivette Undergraduate Scholarship. Upon their deaths, the annuity will offer undergraduate scholarships to help students majoring in physics do summer research.

"I've always worked with undergraduates in research," said Pete. "We both had undergraduate research jobs while attending the University."

"The University was a wonderful experience and was important in our lives," Cheryle said. "We believe it's important to remember the University."

Pete and Cheryle transferred appreciated stock to the University of Wisconsin Foundation and created a gift annuity that will make periodic income payments to them while giving them a tax deduction now.

Pete grew up in Madison and always knew that there was no other university for him but UW-Madison.

*(continued on page 6)*

income that first year will be almost \$22,500 and will continue to grow as I get older. Along the way, I will be able to take nearly \$106,300 in deductions, saving me about \$37,200 in taxes. If I live my normal life expectancy, UW-Madison will eventually receive about \$788,500.

**Analysis:** Carol is dealing with a dilemma faced by many successful professionals who find they have made maximum allowable deductible contributions to traditional retirement plans—but still want to make additional tax-favored contributions that will produce income at retirement.

A “flip” unitrust may be the answer for many. **Alternative:** Another plan that works well is a **deferred charitable gift annuity**. A deferred gift annuity also delays the starting of payments until a point in the future. The longer into the future you defer the payment, the larger the payment will be and the larger the income tax deduction for that gift will be. However, unlike a unitrust, deferred gift annuity payments are fixed and will not change after they begin.

## A major deduction and a tax-free return

**Profile:** Bill R, aged 75, is quite comfortable. He has a number of investments, including a portfolio of tax-free bonds.

**Bill's Story:** I was quite attracted to the prospect of receiving a significant income tax deduction, sharing my success with UW-Madison, and maintaining my current lifestyle. However, I did not want to increase my taxable income in the process.

After talking with the staff at the UW Foundation, I decided to put \$200,000 worth of my tax-exempt

bonds into a **charitable remainder annuity trust**. Since the bonds were paying 5 percent, I decided to reserve a 5 percent interest for myself in the annuity trust. Because of the way the annuity trust works, the tax-exempt interest from the bonds is passed on to me and retains its tax-exempt character.

This plan maintained my previous income level without increasing my taxable income. In addition, I was able to take a deduction of more than \$124,000 and save about \$43,500 in taxes in my 35 percent tax bracket.

**Analysis:** Much like a charitable gift annuity, a charitable remainder annuity trust is a way to create a source of fixed income. *There is one unique feature of charitable remainder trusts:* their distributions retain the same character in the hands of the beneficiaries as they had in the hands of the trust, which means that it is possible to receive tax-free distributions, depending on the mix of assets in the trust. **Note:** A charitable remainder trust is required to distribute any taxable income and capital gain it might have before distributing tax-free income and tax-free return of principal.



Photo credit: Jeff Miller

## We can help you choose

We understand that picking the right life income plan for yourself can be a challenging task. Please feel free to call us if we can answer any questions or if you would like us to meet with you to discuss your situation.

In addition, to help you with your planning, we would like you to have copies of our latest booklets, *The Charitable Gift Annuity: Guaranteed Payments for Life* and *Charitable Remainder Trusts: Gift Plans of Choice*. Simply return the attached reply card or contact the Foundation. Our contact information is listed on page seven.



## Joule in July

*continued from page 5*

His parents, an uncle and four aunts are UW-Madison graduates. He received a scholarship his freshman year. He loved the campus and only went home during the summer of his freshman year. By his sophomore year, he was working with Hugh Richards, a nuclear physics professor.

Cheryle met Pete at the University while she was an undergraduate working in the physics lab. "I was taking a computer class and had problems working on a program. I had some errors in the program (an infinite Do loop). The grad students sent me over to work with a programmer, Pete, and he asked me out. The rest is history." The couple has been married for 40 years.

Cheryle started the Physics Club at the University. At the urging of Professor H.H. Barschall, in whose lab she worked, Cheryle received her bachelor's degree in 1968 and her master's degree in 1970.

Pete completed his bachelor of science degree in 1963 and his PhD in experimental nuclear physics in 1970, both at UW-Madison. He earned his master's degree at Purdue University in 1965.



Jeff Miller

*Grainger Hall courtyard during spring.*

Pete is retired after 26 years as a physics professor at Hope College in Holland, Michigan. His research emphasis is in nuclear physics, and he has authored or co-authored several articles. Through the years he has received numerous outside grants in support of his research. Prior to joining the Hope faculty, Pete held research and teaching positions at the University of Notre Dame. He joined the Hope faculty in 1976 as an assistant professor of physics and was promoted to associate professor in 1983 and to full professor in 1990. He is past chair of the department of physics.

Pete was elected a Fellow in the American Physical Society (APS) in 2000. The annual APS fellowship program recognizes APS members for significant contributions to the field of physics through either research, application of their discipline

or teaching or for service to the APS. Pete was recognized for his leadership in developing undergraduate research in nuclear physics.

Because he appreciated the outstanding education he received as a graduate student, Pete always encouraged undergraduate students from Hope University to go to UW-Madison for their graduate degrees. Cheryle is also retired as an adjunct assistant professor of physics at Hope College. She worked part-time while raising the couple's two children.

Over the years their family migrated to Oregon. Pete and Cheryle were the last to follow but are now Oregon residents. When they're not traveling, Cheryle enjoys quilting, and Pete enjoys collecting ancient coins. And, of course, they can be found every year at the brat picnic in Oregon, hosted by the Wisconsin Alumni Association.



Photo credit: Jeff Miller

We would like to send you complimentary copies of our booklets,  
**Charitable Remainder Trusts: Gift Plans of Choice**  
and  
**The Charitable Gift Annuity: Guaranteed Payments for Life.**

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

**Russ Howes**  
Vice President, planned giving and legal affairs  
608-263-0371  
russ.howes@uwfoundation.wisc.edu

**Bonnie Bruce**  
Senior Director, planned giving  
608-263-2135  
bonnie.bruce@uwfoundation.wisc.edu

**Scott McKinney**  
Senior Director, planned giving  
608-262-6241  
scott.mckinney@uwfoundation.wisc.edu

**Beth Wells**  
Director, planned giving  
608-263-9337  
beth.wells@uwfoundation.wisc.edu

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

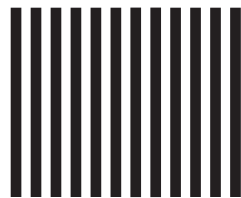
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*The University of Wisconsin Foundation engages those who care about the University, provides opportunities to enhance its teaching, research and outreach programs and guarantees ethical stewardship of the gifts received.*

## Dear Friends,

Sometimes you can give *and* receive.

That's how a life income gift with the University of Wisconsin Foundation works. You make a gift to the UW Foundation and you receive payments for life, in addition to generous tax benefits. It's a win-win situation for you and UW-Madison.

This issue of *Wisconsin Dividends* examines various types of life income gifts, such as charitable gift annuities and charitable remainder trusts. I hope you will find this information interesting. If you would like more details or would like to explore how such a gift might work in your situation, please call our office.

It is important to us that any gift you make to the UW Foundation fulfills your wishes and complements your goals and objectives. All discussions are confidential and involve no obligation on your part.

I look forward to the opportunity to serve you.

Sincerely,



Russ Howes  
Vice President  
Planned Giving and Legal Affairs



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