

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

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W I S C O N S I N

# Dividends



Converting your traditional IRA to a Roth?  
Charitable planning can help

Starting in 2010, any taxpayer who owns a traditional IRA may convert it to a Roth IRA, regardless of income. (The previous income limit was less than \$100,000.) The conversion will be treated as a taxable distribution, so you should weigh the benefits of future tax-free distributions against your current tax liability.

## Tax implications of converting your IRA to a Roth

Taxpayers who convert in 2010 will have the option of recognizing the income from a Roth IRA conversion either on their 2010 tax returns or to spread it equally over 2011 and 2012. This presents some intriguing planning opportunities.

### How this might apply to you:

Assume you convert \$250,000 from a traditional IRA account to a Roth IRA early in 2010 and invest it in a diversified stock portfolio.

### If your Roth investments increase:

Further assume that by the end of 2010 the Roth IRA has grown to \$270,000. Even though the value increased, you would recognize tax on only the original value—\$250,000—and you would have two options to pay it: Pay all the tax on the amount converted (\$250,000) in 2010, or spread the tax over 2011 and 2012.

### If your Roth investments decrease:

You would still pay tax on its original value. Fortunately, it is possible to undo—or recharacterize—the conversion.

### Here's how to do it:

- **Step 1.** You could move it back to your traditional IRA, provided you act within the prescribed time frame (by October 15 of the following year).
- **Step 2.** After a prescribed period, you then could convert it back to a Roth IRA at a lower value and lower tax cost.

*Planning pointer:* Consider opening more than one Roth IRA account to receive different asset classes. If one does well you can retain it as a Roth, but if another does poorly you can return it to its source account.

## Who should consider converting to a Roth IRA? A person who ...

- Can afford to pay the conversion tax and do so from sources other than the IRA. Otherwise, the whole purpose of the conversion is defeated.
- Does not expect to be in a lower tax bracket in retirement.
- Will probably not need to touch the Roth for living expenses until much later, if ever.

- Is younger, although this could work well for an older person in good health.
- Wishes to provide for beneficiary(ies) who will stretch benefits over life expectancy(ies).

## Offset additional taxes on Roth conversion with a gift to the UW Foundation

The conversion of your traditional IRA to a Roth IRA will likely propel you into the highest tax bracket of your lifetime. If you determine that a Roth IRA conversion is the right move for you, strategic charitable giving can offset some of the additional taxes you will incur. This is because charitable gifts are most beneficial from a tax-saving standpoint when you are in a high income tax bracket.

### Maximize your gifts in the year of the conversion

By accelerating your giving and making as many gifts as possible in the year you make the conversion, you will maximize your tax savings.

For example, if you wish to convert a traditional IRA valued

at \$50,000 and normally make charitable contributions of \$10,000 per year to support the UW-Madison through the UW Foundation, you could accelerate five years' worth of future gifts to equal the amount you are converting to a Roth IRA to offset the tax liability resulting from the conversion.

## A charitable way to maximize retirement income

Are you fully participating in all retirement plans open to you but want to save even more for retirement? You can do so by addressing your retirement and charitable planning goals together.

### How might this work for you? A method of giving that pays you income.

Let's say you are 50 years old and you decide on a plan to contribute \$25,000 for each of the next 15 years in exchange for deferred gift annuities that will begin making payments to you when you reach the age of 65.

Your first \$25,000 contribution will fund an annuity that will be deferred for 15 years. That annuity will eventually pay you \$2,475 (9.9 percent) each year and will generate a current tax deduction of about \$8,300 (February, 2010). Cumulatively over the next 15 years, you will make total contributions of \$375,000, resulting in annual retirement income of over \$26,000 a year (based on the current rates in effect) beginning when you turn

### IRA basics

The chart below illustrates the basic differences between the two types of individual retirement accounts.

Characteristics	Traditional IRA	Roth IRA
<b>Contributions are deductible</b>	✓	✗
<b>Withdrawals are tax-free</b>	✗	✓
<b>Withdrawals required after age 70½</b>	✓	✗
<b>Additional contributions allowed after 70½</b>	✗	✓
<b>Distributions are taxable to beneficiaries</b>	✓	✗

**Special Roth IRA benefits to note:**

- **No required withdrawals after age 70½.** Unlike traditional IRAs, Roth IRAs are not required to distribute a minimum amount each year after the account owner turns 70½. This is a tremendous benefit for those who don't need additional income for retirement.
- **Contributions are allowed after age 70½.** If you meet the income requirements, you can continue to make contributions to a Roth IRA after you turn 70½.
- **Roth IRA distributions are income tax-free to you and to your beneficiaries.**

65 years of age. During those 15 years, you would also be generating annual charitable deductions from your gifts. Although we can't give an exact number because there are time-sensitive interest rates involved in the calculations, the charitable deductions should be about \$93,000 over the 15-year time period.

## Generate income and reduce capital gains tax

One way to substantially reduce capital gains tax—and spread it

over your life expectancy—is to transfer appreciated securities to the UW Foundation in exchange for a gift annuity. We agree to pay you a specific sum based on the value of the securities and your age (and the age of any joint or successor annuitant), and you can take a generous charitable tax deduction in the year of the transfer.

If you don't need the income right now, you can create a **flexible charitable gift annuity** that can start within a predetermined range of dates. *Pointer:* Your income payments increase the longer you defer the income.



## How this might apply to you:

Assume you are 69 and would like to reduce the risk of another market downturn by converting low-yielding stock to a guaranteed source of income.

Further assume that you are reluctant to sell your stock and reinvest in higher-yielding securities because of the capital gains tax you would incur. Instead of selling \$100,000 worth of stock that you bought for \$25,000 several years ago, you transfer the stock to the UW Foundation in exchange for a flexible gift annuity that will provide income to you each year beginning in any year you choose, as soon as next year.

**If you opted to delay receiving any income, the amount you will receive goes up each year.**

You would receive a charitable deduction of more than \$39,000, which could offset some of the tax attributable to a Roth conversion. If you started taking payments next year, you would get \$5,900. You would recognize only a portion of the capital gain, and it would be spread over the rest of your life expectancy. Better yet, about \$950 of your annual income would be tax-free.

If you opted to delay receiving any income, the amount you will receive goes up each year. For instance, if you waited for five years, your annual gift annuity income would increase to \$7,400.

## 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, *Planning for a Secure Retirement: Charitable Options*.
- 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.



## Is opportunity knocking for you?

You may find our booklet, *Planning for a Secure Retirement: Charitable Options*, helpful as you consider your plans. Please return the enclosed 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.

# IRA transfer to assist students made sense

*Diane Crawford was glad to help students at the University of Wisconsin-Madison. The tax advantages and 50 percent match on her Great People Scholarship gift to benefit undergraduates in the College of Engineering helped make her decision easier.*

*“I’ve always believed that education is the way up,”* said Crawford, who now lives in San Diego, California, after spending 35 years in Green Bay, Wisconsin. *“It’s so sad that bright students can’t follow their dreams of going to college because they can’t afford to pay for it. I don’t want us to lose what may be our best minds for financial reasons.”*

After consulting with her financial advisor, she made her gift in a direct transfer from an individual retirement account (IRA) that belonged to her late husband, Don. Because she had to take a distribution from the account, the direct IRA transfer helped reduce her tax burden for 2009. It will benefit students for years to come.



Photo credit: Evenson Photography

*Diane Crawford*

“My son (Brian) went to the UW-Madison and earned his degree in mechanical engineering,” Crawford said. “My daughter (Amy) graduated from UW-Milwaukee. I felt like we owed Wisconsin something for the quality educations both of our children received in the state.”

Crawford decided to make her gift to UW-Madison instead of the institution she attended for nursing in part because of the Great People Scholarship match. The UW Foundation has set up a \$20 million fund to match gifts to support

students with financial need in specific schools and colleges at 50 cents to the dollar. Gifts for campus-wide student support are being matched dollar for dollar.

The Great People Scholarship match “definitely made a difference,” she said. “It meant that the gift could go that much further to help students. That put UW-Madison at the top of my list. It’s a glorious opportunity to not only help young people but also to make the money go further.”

*(continued on page 6)*

# IRA transfer to assist students made sense

*continued from page 5*

Crawford grew up in northern California, and she met Don Crawford in that state in 1961. After their marriage, they moved to Green Bay when he was transferred for his employment as a design engineer.

Don Crawford graduated from the University of Missouri with a degree in mechanical engineering. He spent 36 years in his career working for FMC Corporation, and he earned many patents for the firm. “Don contributed a lot to all of their product lines,” she said. His designs made a huge impact on the packaging machinery industry in the United States and abroad.

He was excited to work on more patentable ideas on his own after retirement. “He bought a big computer system and was ready to get to work,” she said. But Don, who had been exposed to asbestos during his working life, fell ill with mesothelioma and died shortly thereafter.

Diane Crawford eventually moved back to her native California, but Wisconsin has never been far away from her thoughts. “I get back to Green Bay pretty regularly,” she said. “I have a soft spot in my heart for Madison. I have visited many times through the years, and I have done a good deal of genealogical research there.”

For generations to come, the Donald C. Crawford Great People Scholarship will provide support to undergraduate students in the College of Engineering who would be unable to afford a college education without financial assistance.

“I am so happy to do this in Don’s name,” she said. “To help even one young person graduate from the University will be worth it.”

To learn more about the Great People Scholarship Campaign, visit [uwgreatpeople.org](http://uwgreatpeople.org).



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!