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ABSTRACT

This document provides an explanation of various ways individuals, groups, and corporations can financially support Rockingham Community College through planned giving, previously known as "deferred giving." Planned giving, which is defined as a deliberate, well-thought-out act of contributing an asset or assets to a charitable organization, has been an untapped resource for community colleges. Four basic categories of planned gifts are mentioned: outright gifts of appreciated assets which result in tax consequences in their giving (stocks, real estate); gifts which retain an income or benefit for the donor (trusts); gifts which pass assets to heirs (trusts); and gifts left to the college through a will or bequest. Bequests are discussed, including their various forms: specific bequests, residuary bequests, and contingent bequests. Life income plans are also detailed, followed by possible gains in income tax deductions. Other types of donations that are explained are charitable gift annuities, charitable remainder trusts, charitable lead trusts, life insurance, pooled life income funds, and retained real estate. Each section describes the process for setting up the planned gift, and provides profiles of potential donors who would most likely contribute and benefit from these forms of giving. (JJL)

A PLANNED GIVING PRIMER FOR ROCKINGHAM COMMUNITY COLLEGE FOUNDATION BOARD MEMBERS

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A PLANNED GIVING PRIMER FOR ROCKINGHAM COMMUNITY COLLEGE FOUNDATION BOARD MEMBERS

The students of Rockingham Community College are a demographically diverse group: The eager recent high school graduate bursting upon the campus; the laid-off worker, turning to us for the retraining he/she will need to build a new life; the 75-year-old man who clutches that hard-won high school diploma; and "average" student – the 27-year-old in financial need who is trying to balance responsibilities at home, work, and school.

For over 35 years, Rockingham Community College (RCC) has served as the county's "community college" – providing lifelong learning opportunities to students of all ages and backgrounds. Even as state and federal assistance levels off, the college's services continue to grow, aided by partnerships with business and industry, individual and corporate contributions, training contracts and innovative alliances. In addition, hundreds of other individuals, organizations, educational institutions and partners believe in our mission and find creative ways to help RCC serve our students and community.

As RCC looks to the year 2000 and beyond, we see a future that will test our ability to provide these services. A growing number of our friends and supporters have found a way to help us prepare for those challenges to come by making a planned gift to the Rockingham Community College Foundation, Inc. (Foundation). Planned giving is an untapped resource that community colleges throughout the country are now discovering. Thoughtful planned giving will help us continue to build an endowment that makes a real difference and continues RCC's role as a leader among community colleges well into the 21st century.

Planned giving is a deliberate, well-thought-out act of contributing an asset or assets to a charitable organization. Previously known as "deferred giving," the broader definition developed with the increased use of during-life trusts and giving mechanisms. Planned gifts generally require the services of a financial professional to consider, transmit, and/or report. The financial professionals may include one or more of the following: CPA, attorney, trust officer, certified financial planner, insurance agent, real estate agent, and/or a development professional. The size of a planned gift is usually much larger than a current gift because it is given from accumulated assets rather than being a percentage of a monthly or yearly income.

Many different types of assets may be used to make planned gifts. These include: cash; corporate stocks; corporate or government bonds; real estate; tangible personal property; and life insurance policies.

Planned giving has strong appeal to people who: have highly appreciated assets; are over 50 years of age; are in the 38% tax bracket; have a personal estate in excess of $250,000; and have a charitable motivation towards a institution.

Individuals who incorporate planned giving in a sound financial and estate plan do so with clear objectives. Some of these objectives are: providing for personal wishes and objectives; increasing spendable income now; assuring financial security during retirement; effectively passing property to family members and charities; minimizing income, gift, estate, and inheritance taxes; reducing probate and transfer costs; providing liquidity to pay estate and inheritance taxes, administrative expenses and debts; and preventing erosion by inflation.

Traditionally, community college fundraising programs typically emphasize (1) annual or current giving, (2) special events, and (3) capital campaigns as a three-legged strategy of support generation. Baccalaureate and graduate institutions, on the other hand, add the fourth leg, planned and deferred giving, to create a solid charitable giving table on which to support present and future college needs.

There are four basic categories of planned gifts: outright gifts of appreciated assets which result in tax consequences in their giving (stocks, real estate); gifts which retain an income or benefit for the donor (trusts); gifts which pass assets to heirs (trusts); and gifts left to the college through a will or bequest. With the exception of wills/bequests, the other categories also are referred to as life income plans.

Wills/Bequests

A bequest is a gift or a percentage or specified portion of the donor's estate as stated in the will. The easiest deferred gift to secure is the bequest, since it involves no change in the donor's immediate financial position. Bequests provide one of the greatest potential sources of lifetime deferred gifts. The bequest can take several forms:

Specific Bequest: Identifies a dollar amount, expressed percentage of an estate, or particular assets to pass to the Foundation.

Residuary Bequest: Designates that all or a portion of an estate will pass to the Foundation after all other beneficiaries have been recognized and settlement costs are paid.

Contingent Bequest: Designates that all or a portion of an estate will pass to the Foundation only if named beneficiaries do not survive the donor.

Almost any asset can be left to RCC through a will or by amendment. Advance knowledge by the Foundation of the intended gift affords the opportunity to discuss the gift with the donor and to reshape, change or decline the gift if it is inappropriate to the college.

When an asset has been left through a will or amendment, it is wholly deductible from the adjusted gross estate. This can place the remaining, taxable portion of the estate in a lower tax bracket.

Advantages to donor include: removes assets from taxable estate; places taxable estate in a lower tax bracket; and the estate is put in order according to donor's desires.

One disadvantage to the donor is that there are no tax benefits during donor's lifetime.

Life Income Plans

The most popular among planned gifts are the various life income plans. Life income plans benefit both the donor and the college *during the donor's lifetime.* In a typical life income plan the donor transfers cash, securities, or other marketable assets in return for a life income for self, spouse, and/or others – with the remaining principal passing to the charity at the death of the last surviving beneficiary (or in some cases, after a term of years).

The donor gains a current income tax deduction for the present value of the projected remainder interest. If appreciated assets are used to fund the life income plan, the donor generally avoids capital gains tax on the transfer. A benefit of a life income plan is that it provides life income for one or more person.

Potential Donors:

A donor who might like to make a major gift, but doesn't feel sufficiently well off to give up the income derived from some assets.

A donor, typically male, who has managed family assets and is concerned about the expense and burden of such management for his surviving spouse.

A widow, who might like to be relieved of the expense and burden of managing such assets.

A childless widow or widower who at death might like to provide a life income for a brother or sister, with the principal then passing to the college.

Of most benefit to an older donor – since the present value of the projected remainder interest, and also the tax deduction, diminishes for longer life expectancies.

Always of interest to a high-income donor. Also, for a donor who experiences an exceptional year.

The contributor avoids capital gains tax on appreciated assets.

Potential Donors:

A donor who tends to be a long-term holder of stocks and bonds.

A donor who holds stock in a company about to be acquired by another company. In many cases, such a holder will realize a forced recognition of gain.

Owners of closely held family corporations.

A donor who holds real estate.

Avoiding capital gains tax on the transfer of appreciated assets used to fund a life income plan warrants special emphasis. Many donors who hold high appreciation/low yield stocks, bonds or real estate would like to reinvest them for higher yield. But the capital gains tax would so reduce the proceeds from the sale than even when these assets were reinvested at higher yield, their current income would be little improved. By reinvesting such "locked-in" assets through a charitable life income plan, a donor can avoid capital gains tax; often double or triple his/her yield from those assets; and receive a current income tax deduction as well.

The following are the basic life income plans:

Charitable Gift Annuity

A charitable gift annuity is a contract between the donor and the Foundation that guarantees the donor (and/or another beneficiary) regular, partially tax-free fixed income payments for life in exchange for the irrevocable donation of an asset.

Income payments are guaranteed and are determined by the value of the gift and the donor's age.

Potential Donors:

Attractive to an older donor who likes the idea of a guaranteed payment amount.

For a donor approaching retirement, a tax-wise way to reinvest appreciated stocks in order to shift a portfolio balance toward a greater proportion of fixed-income investments.

An option for a donor with modest assets.

Deferred Charitable Gift Annuity

In this version of the Charitable Gift Annuity, a donor can have the payment deferred until a later date, such as his/her retirement. A donor makes the contribution now, securing a current income tax charitable deduction, and the Foundation agrees to pay the donors at any date he/she selects. This is especially advantageous if the donor's tax bracket is higher now than it will be later. For many people, tax reform curtailed the tax benefits of IRAs, 401(k) plans, and other retirement plans. The Deferred Charitable Gift Annuity is a good way to make up the loss of future income a donor may have.

Potential Donors:

An attractive retirement alternative for a donor 25 to 55 years old whose income is too high to permit a deduction for IRA contributions.

Charitable Remainder Trusts

A Charitable Remainder Trust is an agreement between the donor and the Foundation that places a portion of the donor's assets in trust for a term of years or life. The assets most commonly donated to a charitable remainder trust are appreciated securities, real estate (either income producing or liquidated), cash, and the cash surrender value of life insurance. During the trust the donor receives regular income payments. When the term has ended, the assets pass to the Foundation. A charitable remainder trust can be established during the donor's life or in their will.

The type of remainder trust is distinguished by the form of payment chosen by the donor. This is either a fixed annual dollar amount or a fixed percentage of the trust asset value, as determined annually.

Charitable Remainder Annuity Trust

This is a trust that the donor creates to pay him/herself a known annual income that is determined at the outset, based on the donor's personal needs and circumstances. After the donor's lifetime, the principal of the trust goes to the Foundation.

To establish an annuity trust, the donor irrevocably transfers cash or securities (or both) to an annuity trust that is professionally managed by the Foundation. The trust then pays the donor an income for life. At the start, the donor decides on the fixed dollar amount to be received each year. In the year in which the annuity trust is funded, the donor gets a sizable income tax charitable deduction. This is based upon the value of the Foundation to receive the remainder of the trust assets after the donor's lifetime.

Potential Donors:

Same as for gift annuities, plus:

A donor with appreciated tax-exempt bonds can donate them to fund the trust. If these assets are retained by the trust and are earning sufficient income to meet the payout requirement, the income paid to the beneficiaries will be tax exempt.

A high-income donor who might like tax-exempt income can fund the trust with cash, which can then be used to purchase tax-exempt bonds for the trust. Income to the beneficiaries is tax-exempt.

A parents of a college-bound student(s). The parents can establish the trust for a term of years, with the college student as beneficiary. By restricting the term of the trust, the parent can receive a substantial "downfront" income tax deduction. And payments will be taxed at the child's low rate, if at all.

Charitable Remainder Unitrust

To create a unitrust, the donor irrevocably transfers cash, securities, or real estate to a unitrust managed by the RCC Foundation. The trust then pays the donor an income for life, determined by a fixed percentage selected by the donor at the start. The trust has the potential to keep up with inflation.

The unitrust is more flexible than the annuity trust in two ways. First, unlike the annuity trust, a unitrust can be augmented by future contributions. Secondly, the unitrust can be restricted to paying out the lesser of either the contracted payout percentage or the actual regular income earned by the trust, with a provision that any excess regular income earned in a given year-above and beyond the contracted payout can also be paid out to make up for prior-year payout deficiencies. This is called a "net income plus make-up" unitrust.

Potential Donors:

The "net income plus make-up" unitrust is uniquely suited for receiving gifts of real estate meant to fund a life income. This version of the unitrust protects the Foundation against having to sell at a loss in order to meet payout requirements.

The "net income plus make-up" unitrust can also be promoted as a retirement build-up plan for middle-aged, high-income donors. Trust assets can be invested in low-yield, maximum-growth assets in the early years. Little income is paid out during that time, when the donor has a high income anyway and is being taxed at maximum rates. Meanwhile, payout deficiencies are accumulated during those years, and the assets in the trust are appreciating at a substantial rate.

At the donor's retirement, the appreciated trust assets are converted to high-yield investments. The donor then receives not only the contracted percentage of a much greater asset market value, but also the excess income earned – until all prior-year deficiencies are made up. Because it is a unitrust, the donor has the option to contribute additional funds to the trust during its build-up years.

Charitable Lead Trusts

A charitable lead trust is an agreement between the donor, the Foundation, and a trustee (the Foundation can also serve as the trustee), that places a portion of the donor's assets in trust for a number of ten years. During the trust term, the Foundation receives regular income payments; when the term ends, the assets pass to the donor's designated beneficiaries. The method of payment, length of the trust term, type of management, and ultimate beneficiaries are all designated by the donor when the trust is established. These cannot be changed. This trust can be established during the donor's life or be included in his/her will.

There are two types of lead trusts:

Charitable Lead Annuity Trusts (CLATs)

Under this plan, the trust pays the Foundation a fixed dollar amount annually for the term of the trust. The donor determines the amount at the outset. The trust can last for the number of years the donor specifies or for the life of one or more individuals named by the donor.

Charitable Lead Unitrusts (CLUTs)

In this variation the trust pays the Foundation an amount each year determined by multiplying the fair market value of the trust assets by a specific percentage, which is established at the start. The amount is computed each year, using the current valuation of the assets.

The attraction lead trusts offer a donor is the long-term protection it provides for his/her assets. A trust can be constructed that will substantially reduce or eliminate the estate tax that will eventually be due on the transfer of those assets to the donor's heirs. In addition, any appreciation to the value of the principal that accrues after the trust has been established passes to the donor's beneficiaries free of additional gift and estate taxes. Donors often prefer CLATs because CLATs pay fixed amounts to nonprofits every year; any growth in a trust's assets is added to the principal, which is given to the beneficiaries, usually members of the donor's family, when the trust ends.

Potential Donors:

A donor who has a substantial estate and anticipates high federal gift and estate taxes. The trust property can be passed down to the donor's children, grandchildren, and others either entirely free of or at greatly decreased gift and estate taxes. There are other combinations of trust payments and terms that completely bypass both gift and estate taxes.

Life Insurance

Life insurance with accumulated cash value is an excellent asset for charitable donation. As an outright gift, a whole life insurance policy may be donated in one of two ways:

Life Insurance (existing policy)

The irrevocable gift of a fully paid policy naming the Foundation as owner and beneficiary provides the donor with a charitable deduction equal to the policy's replacement value or the total amount of premiums paid, whichever is less.

Life Insurance (new policy)

The irrevocable donation of a new policy naming the Foundation as owner and beneficiary. The policy, purchased on the life of the donor or an insurable relative, has a limited premium payment period. The Foundation may purchase the policy directly, or the donor may purchase it and assign it to the Foundation. Premium payments are contributed to the Foundation and are therefore tax deductible.

The policy appreciates in value as funds accumulate within it, and the Foundation may borrow the money if necessary. Once the premium is paid, the Foundation begins receiving annual earnings from the policy. At the death of the insured, the Foundation receives the full amount of the death benefit without waiting for the estate to be probated.

Potential Donors:

A donor with existing policies, aged approximately 55 to 65, whose children has completed college and who has paid off the home mortgage. He/she no longer needs the insurance, and with his/her income at an all-time high and exemptions at an all-time low, needs the tax deduction.

New policies enable a younger, less affluent donor and one with limited discretionary income to make a significant endowment gift. This also includes a recent college graduate, a young couple, a professional with children in college and a single person with moderate incomes.

Pooled Life Income Fund

The pooled life income fund is a trust, similar to a balanced "growth and income" mutual fund. The fund combines the assets of many people to maximize their investment power. The most common assets donated to a pooled income fund are: cash; appreciated securities; and the cash surrender value of life insurance. Most foundations require a minimum initial gift of $1,000 to $5,000, with smaller additions then permitted. Unlike assets invested in a mutual fund, those placed in the Foundation Pooled Income Fund are irrevocable and ultimately become the property of the Foundation.

The donor's gift purchases units within the fund at the going rate (current unit market value). The fund income is distributed proportionally among the beneficiaries, according to the number of units they hold. Payments are taxed fully as ordinary income, but have the potential to increase with inflation.

Potential Donors:

An option for a donor with only moderate assets.

A pre-retirement donor who is concerned about the erosion of the purchasing power of his/her payments due to inflation.

Retained Life Estate

A gift of real estate with the provision for its continued use, technically called a gift of "remainder interest," is a charitable gift arrangement attractive to a donor if his/her major asset is a residence. In deeding the property to the Foundation, the donor continues to live in the home, retains the right to rent it or make improvements, pay taxes and insurance, and maintains the residence. At death, the Foundation receives the entire property outright.

By deeding a home to the Foundation, the donor can obtain a sizable income tax deduction in the year of the gift. The amount depends on the value of the property and the donor's age. The same charitable deduction is available for a farm, vacation home, condominium, or stock in a cooperative housing corporation, if the property is used by the donor as a personal residence.

Potential Donors:

A donor who might want to do something for RCC and the Foundation, but has few assets to work with other than the home.

Foundation board members play an essential role in building successful community college planned giving programs. Research suggests that those community college foundations with prosperous planned giving endowment and trust accounts have board members who actively engage in the fundraising process. While there are many roles that foundation board members can play in planned giving, the following are most often mentioned:

- Being an "Ambassador" to the community for the college. They have a general knowledge of the college. They have a more specific knowledge of fundable needs.

- Being a "Friend-Raiser" for the college. They bring friends and colleagues to campus events. They talk about the college in a multitude of settings.

- Being an "Example" by personally investing in the college. They add a simple codicil to a will or establish a trust or gift annuity.

- Having a "Conversational" knowledge of planned giving. They understand the basic theory of planned gifts. They recognize situations in which a potential donor should explore one of the options.

- Being a "Matchmaker" for the college. They know whom to suggest for the potential donor to consult. They recognize opportunity, and have a good sense of timing.

Cultivating a planned giving program offers a formidable challenge to community college development administrators and foundation directors. As a result, many community colleges have shied away from this effort. Other community colleges and their foundations, such as RCC, have already benefited from planned giving as a result of voluntary actions of community donors rather than by a comprehensive initiative. Planned giving represents an untapped resource that must be marketed more aggressively.

Moving the RCC Foundation's planned giving program to the next level represents a tremendous and exciting opportunity. To be successful, it will require a concerted effort by the college, each member of the Foundation's board of directors, and the community's financial professionals. The reward, however - a powerful asset and endowment portfolio - will benefit future generations of students and the citizens of Rockingham County.

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