



# The Privilege of Shaping Tomorrow

A GIFT-PLANNING NEWSLETTER FOR FRIENDS AND  
ALUMNI OF THE UNIVERSITY OF ROCHESTER

Spring 2007 • Issue 25

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Art Gallery • Dentistry at  
the University of Rochester •  
Eastman School of Music •  
Wilmot Cancer Center

*Philanthropy has  
always been a  
part of our success,  
and philanthropy  
always will be.*

## Your Retirement Plan Is Secure— But What Happens to It Later?

Tax-favored retirement plans greatly enhance retirement security. And with questions looming about the future of Social Security, these accounts—which represent the fastest growing segment of family wealth—are more important than ever. But the way the distributed funds are taxed can severely diminish what you and your heirs may actually receive.

### Income Tax: Deferred but Not Eliminated

Because the contributions to your qualified retirement plan are sheltered from taxation in the year they are made and grow tax-free during all the years they remain within the plan, distributions are fully taxable. This tax is paid by the recipient—by you while you are receiving payments, by your beneficiaries following your death.

*continued inside*

## A Wonderful Way to Make a Difference



*Louise Milstein Spivack*

“Living with cancer, I know firsthand how truly important are the care, the staff, and all that goes into making the James P. Wilmot Cancer Center an excellent resource. I am proud to be a volunteer there.

When the Center's \$42.5 million expansion campaign was announced, I knew that I wanted to help, but I wasn't quite sure how my desire could be translated to reality. Then I read an article in a Cancer Center publication about the tax advantages of making a gift from retirement funds as part of an estate plan. I spoke with the appropriate people and my desire has been accomplished. I am so pleased to be able to do my part.

I am delighted to be feeling well once again, and I look forward to celebrating the opening of the new Wilmot Cancer Center. I do plan to be there!”

## 70<sup>1/2</sup> or Older? Good News from Washington and the University of Rochester

### *A Tax-Wise Way to Make Your Annual Fund and Reunion Gifts*

If you are in this age group, the Pension Protection Act of 2006 presents a unique opportunity until the end of 2007 for you to make tax-free transfers (up to \$100,000 total) directly from your IRA to charity. A gift from your IRA may be tax-wise in several ways, such as by:

- Counting toward your minimum required annual distribution (MRD)
- Avoiding state income tax in states that do not allow itemized charitable deductions
- Reducing future taxable income by decreasing the size of future MRDs
- Preserving tax breaks that are lost or reduced by higher taxable income
- Minimizing the amount of IRA proceeds subject to income tax at your death

Please call our office at 1-800-635-4672 or (585) 273-5904 to learn more about how this legislation might benefit you.

*Please note that withdrawals from Roth IRAs are not subject to income tax either during life or to beneficiaries after the owner's death. They are, however, included in the owner's gross estate for federal estate tax purposes.*

*continued from front*

## Federal Estate Tax: Is Your Estate Vulnerable?

Prepare for a crushing blow. The top estate-tax rate for 2007 is 45%, and this is applied to estates above \$2,000,000.

In addition to estate tax, any noncharitable beneficiaries of your retirement account will also have to pay income tax on the net distribution (the distribution amount less any federal estate tax attributed to it). This means your beneficiaries could lose over 64% of the retirement account to the government.

Due to the 2001 tax act, fewer estates will be affected by the federal estate tax for the rest of this decade. The tax is scheduled for repeal in 2010, but it will reappear in 2011 unless action is taken by Congress. If the estate tax does come back, it will return with pre-2001 tax act provisions: a \$1,000,000 exemption and a top tax rate of 55%.

Regardless of the size of your estate, the nontax reasons for estate planning (e.g., directing your assets to your intended beneficiaries, timing the distribution of those assets, etc.) remain as compelling as ever.

## Charitable Gifts of Retirement-Plan Assets: Double-Barrel Savings

If you are planning to benefit the University of Rochester at death, consider designating us as beneficiary of some or all of your retirement-plan assets. You will likely save more taxes when giving these assets compared to gifts of securities, real estate, or cash investments. Here's why:

- Your testamentary gift to the University of Rochester of your retirement-plan benefits avoids income *and* estate taxes because the University is tax-exempt.
- To make this gift, simply contact the administrator of your retirement plan and request a beneficiary designation form. You designate the University as the beneficiary of part or all of your retirement-plan assets. It's that easy!

With a few strokes of a pen, you are assured that the assets will be paid directly to the University of Rochester and will not be subject to estate tax or income tax. You have the satisfaction of making a significant charitable gift at relatively little cost to your heirs and knowing that your money is furthering our mission.

## Planning for Income Needs of Survivors

If you want a family member to receive income from retirement funds before they pass to the University, consider a *charitable remainder trust* (CRT). Because a CRT is tax-exempt, it will not have to pay income taxes on receipt of the retirement-plan proceeds and can make payments to designated beneficiaries for life or for a specified term of years not to exceed twenty. At the end of the trust term, trust assets pass to the University.

## Minimum Distribution Requirements: Lifetime Gifts to Charity or Family

As their retirement-plan accounts continue to grow, many people find themselves in a curious position: the very fund they have counted on for retirement security now is creating significant income tax challenges due to minimum distribution requirements. What's more, if they find themselves taking distributions they really don't need, that simply exacerbates a potential income tax problem that may erode what they leave for family and other noncharitable beneficiaries.

While income tax may be unavoidable, many of our friends have found a creative way to use retirement-plan distributions to reduce estate taxes: they give them away.

One option you might consider is to make a lifetime charitable gift to the University of Rochester. You will receive a charitable income-tax deduction which will help offset the income tax on your minimum required distribution.

## Once a Scholarship Recipient, Now a Scholarship Donor



*Sharon and Lee Garelick*

**Sharon Alter Garelick and E. Lee Garelick** are members of the College Class of 1956. The Garelicks took advantage of the opportunity to make a gift of \$50,000 from their IRA in 2006. They instructed their fund manager to make a direct distribution to the University of Rochester and funded the Sharon and E. Lee Garelick Endowed Scholarship.

In Sharon's senior year at the University, funds were tight and she was given a \$200 scholarship that enabled her to complete her degree. The Garelicks were married soon after graduation, and over the years they recalled how important that \$200 scholarship was to them. As they were starting their life together, and as their family and their business grew, they always remembered the University and gave back in appreciation.

"We wanted to do something special in honor of our 50th reunion, and the opportunity to give a gift from our IRA was perfect for us. There were no adverse tax consequences, and it was really very simple to complete.

"We know that if we had planned to pass the assets in our IRA to our children that estate taxes could substantially reduce the amount our kids would receive and they would have to pay income tax on the distribution. We realized that funds in our IRA were a better asset to give to the University, and the Pension Protection Act of 2006 came along at the right time. We look forward to learning about students who will receive our scholarship and wish them all the best in their studies and future lives."

You might also consider making a lifetime gift to a family member or close friend. Current law allows every taxpayer the ability to give up to \$12,000 per recipient per year free of federal gift tax. Married couples can agree to split gifts for tax purposes and that amount increases to \$24,000. A well-planned giving strategy can remove significant assets from a taxable estate.

**Example:** Tom and Betty J, both aged 80, have significant estates—including sizable accumulations in IRAs—and anticipate being subject to federal estate

tax. Although they have ample cash flow from other sources, between them they will have to take required distributions of \$120,000 this year. In their combined 40% state and federal income-tax bracket, they will net \$72,000 from these distributions.

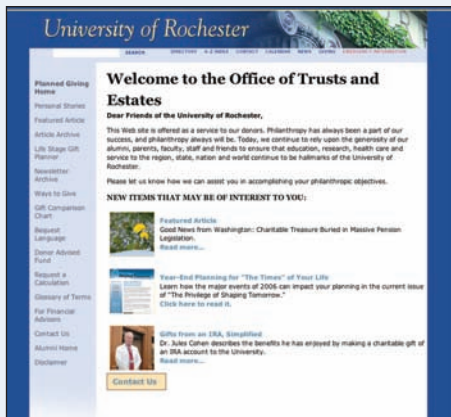
Tom and Betty decide to divide these net proceeds among their three children, with each child getting \$24,000, and agree to split the gifts for tax purposes. Since the gifts fall within the allowable annual exclusion, none is subject to gift tax.

Tom and Betty give the children \$72,000 for ten years. Assuming they could have generated a 5% after-tax yield by investing that amount each year, this strategy removes over \$950,000 from their estates. While there is no way to know what future estate-tax rates will be, this plan would preserve over \$425,000 for the children based on the current rate of 45%.

## We Are Here to Help

Decisions about retirement security are among the most important to be made. We urge you to consult with your advisors as you chart your own course.

You may find our booklet, *Charitable Tax Planning with Retirement Funds*, helpful as you consider your charitable plans. To get your complimentary copy, which includes strategies on how to use your qualified retirement-plan benefits to fund lifetime gifts, just return the enclosed card or visit our Web site. If you prefer, you can call us or simply stop by our office.



We invite you to visit our Web site [www.rochester.plannedgifts.org](http://www.rochester.plannedgifts.org) to learn more about charitable opportunities that can benefit you *and* the University or to request your free copy of *Charitable Tax Planning with Retirement Funds*.

### Office of Trusts & Estates

(585) 273-5904/1-800-635-4672 • [kreckel@alumni.rochester.edu](mailto:kreckel@alumni.rochester.edu) • [www.rochester.plannedgifts.org](http://www.rochester.plannedgifts.org)

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



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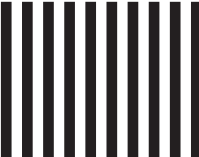


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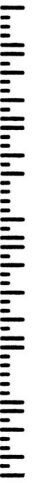
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# CONFIDENTIAL

## We'd like to hear from you.

We invite you to call us, return this reply card, or visit our Web site ([www.rochester.plannedgifts.org](http://www.rochester.plannedgifts.org)) to request a complimentary copy of our booklet, ***Charitable Tax Planning with Retirement Funds***. We would be happy to meet with you or your advisor about a gift to the University of Rochester.

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Please send me a free copy of the booklet,  
***Charitable Tax Planning with Retirement Funds***.

I am pleased to inform you that I

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