



LUTHER SEMINARY
LUTHER SEMINARY FOUNDATION

CHARITABLE GIVING OPTIONS

Office of Planned Giving
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Table of Contents

Introduction: Getting Your Thoughts Together	1
Charitable Bequests	2
• Wills and Revocable Trusts	
Giving the Tree and Keeping the Fruit: Income-Returning Gift Options	3
• Charitable Gift Annuities	
○ Immediate Payment Charitable Gift Annuities	4
○ Deferred Payment Charitable Gift Annuities	5
○ Commuted Payment Charitable Gift Annuities	6
○ Flexible Payment Charitable Gift Annuities	7
• Charitable Remainder Trusts	8
○ Charitable Remainder Annuity Trusts	
○ Charitable Remainder Unitrusts	9
○ FLIP Charitable Remainder Unitrusts	
○ The Retained Life Estate	8
Giving the Fruit and Keeping the Tree: Principal-Returning Gift Options	9
• The Charitable Lead Trust	
Other Options: Beneficiary Designations	11
• Retirement Accounts	
• Bank and Stock Accounts	12
• Life Insurance	13
○ New Policies	
○ Paid-Up Policies	
○ Wealth Replacement	
• Caution: U.S. Savings Bonds	14
Appendix	15
• Limitations on Deductibility of Charitable Contributions	
• Qualified Appraisals	
• 2006 Federal Income Tax Rates	
Chart: Planned Giving Options	

Introduction:

Getting Your Thoughts Together

Q: Do you wish you could do more to support the mission of the seminary?

Most people find it necessary to balance their generosity with current and future needs (medical, long-term care, and retirement costs). Gifts made through your will or living trust do not irrevocably commit assets that may be needed for future personal or medical needs.

By including Luther Seminary in your will or revocable trust (often called a “living” trust), you can address both concerns. Your future gift will only be made (a) if you do not consume all of your assets during your lifetime and (b) upon your death, all legal debts and obligations are paid.

Q: Would you like to be assured that at least a minimum gift will be made to Luther Seminary following your death?

Many also fear that everything they have worked for will be taken from them if they go into a nursing home. In such cases, donors often establish irrevocable planned gifts, such as a charitable gift annuities or charitable remainder trusts. If all other assets are consumed, at least these gifts are locked-in and will support the programs they care deeply about.

Q: Are you unsure of where or how to get started?

For many people, getting started is the biggest hurdle they will face. The staff at Luther Seminary is able and ready to help you get started. How? They will guide you through the 4-Ps: People, Property, Plans, and Planners. Once you have worked through these four key elements, you will be ready to meet with your planning team.

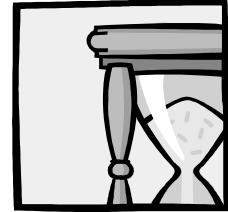
Q: Is there a proper way to refer to Luther Seminary and the Luther Seminary Foundation?

Luther Seminary and the Luther Seminary Foundation are tax-exempt entities under IRC Section 501(c)(3). They should be referred to as follows:

Official Name:	Luther Seminary	Luther Seminary Foundation
Principal Office:	2481 Como Ave. St. Paul, MN 55108	2481 Como Ave. St. Paul, MN 55108
IRS ID Number:	41-1425961	41-1746301

Charitable Bequests:

Wills and Revocable Trusts



Will and Revocable (Living) Trust distributions provide more gifts to Luther Seminary than any other form of deferred gift. When you include a bequest for the seminary in your will or living trust, you still have full access to all assets during your lifetime. Given the rising cost of health care and long-term personal care, this is an important consideration for most people.

Example:

Barbara would like to include a provision for Luther Seminary in her will, and would like to know what options exist.

Solution:

1. Unrestricted General Bequest
 - a. Specified Dollar Amount: I give, devise, and bequeath to Luther Seminary, 2481 Como Avenue West, St. Paul, Minnesota, 55108, the sum of ten thousand dollars (\$10,000.00) for its general purposes.
 - b. Specified Percentage: I give, devise, and bequeath to Luther Seminary, 2481 Como Avenue West, St. Paul, Minnesota 55108, an amount equal to ten percent (10%) of my “net estate,” as finally determined for federal estate tax purposes, for its general purposes.

“Net estate” shall mean my gross estate as finally determined for federal estate tax purposes, reduced by my deductible debts and deductible expenses of administering my estate, including nonprobate assets.
2. Unrestricted Specific Bequest: I give, devise, and bequeath the following described property to Luther Seminary, 2481 Como Avenue West, St. Paul, Minnesota, 55108: my art collection, including all paintings and sculptures, whether originals or copies, for its general purposes.
3. Unrestricted Residuary Bequest: I give, devise, and bequeath to Luther Seminary, 2481 Como Avenue West, St. Paul, Minnesota, 55108, the residue of my estate, after satisfaction of all specific bequests and the payment of all of my proper debts, taxes, costs related to my last illness, funeral and interment, and the expenses of administering my probate and all nonprobate assets passing by reason of my death, for its general purposes.

DISCLAIMER: The above illustrations are not intended as legal advice and are not intended to be relied upon. They are offered for illustration purposes only. For legal advice, you are encouraged to consult an attorney.

Giving the Tree and Keeping the Fruit: Income-Returning Gift Options



Q: Would you like to support Luther Seminary, but feel you need the income currently being generated by assets you would use to make the gift?

Many individuals have found it possible to make a gift and increase their annual income by making an income-returning gift to Luther Seminary.

Q: How is this possible?

Donors contribute assets (the tree) but retain the income (the fruit) produced by the asset. This is a “win/win” gift arrangement.

Immediate Payment Charitable Gift Annuities are time-tested contracts between donors and Luther Seminary. In exchange for a gift of cash or other assets, the seminary promises to pay an annuity amount (at least annually) to the donor (or other named beneficiary) for his/her lifetime or for a predetermined number of years. Although regulated in many states, charitable gift annuities are relatively simple and secure. Typically, charitable gift annuities provide a fixed, secure income stream to an individual or couple for as long as they live.

Moreover, a charitable deduction is generated at the time the gift is made. The deduction amount varies, depending upon the age(s) of the donor(s) and the applicable federal rate (also known as the discount rate) in effect at the time the gift is made. The deduction may typically range from 35% to 50% of the gift amount. Annuity rates depend upon the age of the donor, not whether or not the charitable deduction or discount rate is high or low.

A portion of each annuity payment is tax-free for a number of years (the life expectancy of the donor). The tax-free income results in a higher taxable equivalent yield. The agreement is funded with appreciated assets such as stock, capital gain is partially avoided and taxed over the donor’s life expectancy. To the extent capital gain income is recognized, the tax-free portion of the income decreases.

Upon the death of the last income recipient, the contract terminates and the residue is used, as the donor wishes, to support Luther Seminary’s mission.

Example:

Fred, age 72, is retired and would like to increase his annual income but is looking for a secure, fixed return. He supports the seminary with annual gifts, but would like to establish an endowed scholarship for qualified Luther Seminary students following his death.

Solution:

Fred contributes \$50,000 (proceeds from a matured CD) to Luther Seminary through its charitable gift annuity program. In return he receives a fixed annual payment of \$3,450 (6.9%). The annuity amount will be paid quarterly for as long as he lives. Nearly 37% of his gift amount is deductible as a charitable contribution. If he is unable to fully use the charitable deduction in the year the gift is made, he may roll the unused portion forward for up to five more tax years. Almost two-thirds of his annual payment will be tax-free for 14.5 years (his life expectancy). Upon Fred's death, the remaining annuity value will be transferred to his named endowed scholarship account that will provide scholarship support to deserving Luther Seminary students (as stated in the annuity agreement).

IRS discount rate of 4.2% used for calculations

Deferred Payment Charitable Gift Annuities are very similar to immediate payment charitable gift annuities, except that with deferred annuities, payment of the annuity amount is usually *deferred to a specific future date* stated in the agreement – quite often when current income is projected to be lower (such as in retirement). Payments must be deferred a minimum of one year from the date of gift. Deferred payment charitable gift annuities are often used as retirement supplements, but may also be used to help with college expenses. (See commuted annuities, next page.)

A charitable deduction is generated at the time the gift is made. Because of the deferral, the deduction is typically larger than with an immediate payment gift annuity. The deductible amount will vary depending upon the age of the donor, length of the deferral period, and the applicable federal rate (also known as the discount rate) in effect at the time the gift is made.

Usually, a portion of each annuity payment is tax-free for a number of years (the life expectancy of the donor). This results in a higher taxable equivalent yield. If the agreement is funded with appreciated assets such as stock, a portion of the capital gain is not taxed. Taxable capital gain is normally taxed over the donor's life expectancy. To the extent capital gain income is recognized, the percentage of tax-free income decreases.

Example:

Ann, age 55, would like to provide additional retirement income when she reaches 70 years of age. She also would like to make a gift in support of Luther Seminary and, because she is at the peak of her career, would benefit from a current year charitable deduction.

Solution:

Ann contributes \$10,000 (from a money market account) to Luther Seminary through its charitable gift annuity program. She elects to defer receipt of her first payment until she turns 70. In return, she will receive a fixed annual payment of \$1,440 (14.4%) fifteen years from now. This amount will be paid quarterly for as long as he lives. Nearly 40% of her gift amount is deductible as a current year charitable contribution. If she is unable to fully use the charitable deduction in the year the gift is made, she may roll the unused

portion forward for up to five more tax years. Nearly 27% of her annual payment will be tax-free for 15.9 years. Upon Ann's death, the remaining annuity value will be used for the general support of Luther Seminary (as stated in her annuity agreement).

IRS discount rate of 4.2% used for calculations

Commuted Payment Charitable Gift Annuities are sometimes called a "College Annuity Plan" because they are frequently used to help a young person finance part or all of an education. The donor names a young person as the annuitant, determines the starting date, the frequency and amount of each payment, and the number of years that payments will be made. At the end of the payment period, the contract terminates and the residue is used to support Luther Seminary. Donors will need to discuss gift tax consequences with their advisors.

Example:

Mary and Martin would like to make a gift that would provide them with additional income to help fund their 13-year old daughter's college education, and eventually fund an endowed scholarship at Luther Seminary.

Solution:

Mary and Martin contribute \$50,000 to Luther Seminary in exchange for a commuted payment charitable gift annuity. They defer receipt of the first payment for four years – when their daughter is about to enter college. The contract provides that their daughter will receive \$10,000 annually (semi-annual payments of \$5,000) for five years. Payments will be taxed to their daughter and a portion of each payment will be tax-free income. Mary and Martin receive a charitable income tax deduction of \$11,742 in the year the gift is made.

IRS discount rate of 4.0% used for calculations

Flexible Payment Charitable Gift Annuities are simple contracts in which the seminary agrees to pay the annuitant a fixed sum each year for life, with payments beginning at least one year after the gift date. Unlike deferred payment charitable gift annuities, the annuitant does not have to select a date of first payment at the time the contract is signed. Rather, the donor may select from a range of payment dates set forth in the contract. The longer the donor defers receipt of the first payment, the greater the payment will eventually be. As with other charitable gift annuities, part of each payment will be tax-free for the donor's life expectancy.

Example:

Dan and Mary, ages 73 and 72, wish to support the seminary's capital campaign but are reluctant to part with assets outright. They do not need additional income at this time, but may need the income at some future date.

Solution:

Dan and Mary contribute \$50,000 to Luther Seminary to fund a flexible payment charitable gift annuity. Beginning one year from the date of gift, they may begin receiving annuity payments of \$3,250 annually. If they defer receipt of payments another year, they payment increases \$200 and the percentage of tax-free income also increases. Their income tax deduction is based upon a one year deferral. The annuity becomes fully taxable once the donors outlive their joint life expectancy.

IRS discount rate of 4.2% used for calculations

Charitable Remainder Trusts may be established as *annuity trusts, unitrusts, or FLIP unitrusts*. Unlike charitable gift annuities, charitable remainder trusts are separate legal entities. At Luther Seminary, trusts naming the LS Foundation as trustee are individually invested and managed. Unlike charitable gift annuities, trust payments are not backed by a pool of dollars or other seminary or foundation assets. A minimum gift amount of \$100,000 is suggested. The term of the trust may be (a) for the life of the donor, (b) for the lives of the donor and another named individual, (c) for a term of years not exceeding twenty years, or (d) for a combination of lives and years. The required minimum payment percentage is 5% and payments must be made at least annually. Upon the death of the last income beneficiary, the trust terminates and the principal is distributed to the Luther Seminary Foundation and used for the purposes set forth in the trust agreement. The donor receives a charitable deduction for the value of the future gift at the time the trust is funded. If appreciated assets are used to fund the trust, capital gains taxes are either avoided or deferred many years.

Charitable Remainder Annuity Trusts distribute a fixed dollar amount to the income beneficiary (usually the donor) at least annually. The payment must be equal to at least 5% of the fair market value for the assets transferred to the trust on the date of gift. The trust payment amount is established at the time the trust is created and never varies.

Example:

Robert and Betty, ages 67 and 65, are now fully retired and would like to (1) increase retirement income, (2) make a significant deferred gift to benefit Luther Seminary, and (3) use the charitable deduction to save income taxes.

Solution:

They transfer stock valued at \$100,000, (basis of \$80,000) to a charitable remainder annuity trust having a negotiated 5.0% payout percentage. Payments will be made quarterly. Luther Seminary Foundation is named as trustee. The trust sells the stock and the proceeds are re-invested. The reinvested assets earn 6% annually (2% ordinary income and 4% growth). The charitable tax deduction Robert and Betty can claim in the year of the gift is \$31,103. They receive \$5,000 annually for as long as either of them lives. Initially, payments are received 60% as ordinary income, and 40% as capital gain. Over time, a percentage of the payment may become tax-free income. (Also, if the trust had been funded with tax-exempt bonds, the income returned to Robert and Betty would

have retained its tax-exempt character.) Upon their deaths, the foundation uses the principal remaining in the trust for the purposes specified in the trust agreement.

Charitable Remainder Unitrusts are similar to annuity trusts, except that the amount paid out to the income recipient(s) varies over the years. Payments must be at least 5% of the trust's fair market value as re-determined annually. Unitrusts provide three payment options: (1) a **fixed percentage** – regardless of actual net income; (2) **net income** – pays the net income, after trust expenses, up to the percentage stated in the trust agreement; (3) **net income, plus makeup amounts** – pays net income, plus income shortfalls from prior years, to the extent of current year net income.

Example:

Fred and Nancy, ages 60 and 62, will be retiring within the next three years. They would like to increase their retirement income by selling some low-yield, appreciated stock, but they do not want to pay significant capital gains tax at the time of sale. They would like to make a significant gift to benefit Luther Seminary, and would benefit from a current year charitable deduction. If possible, they would like to have their income-returning gift to the seminary keep pace with inflation.

Solution:

Fred and Nancy gift appreciated stock valued at \$100,000, having a cost basis of \$50,000, to a charitable remainder unitrust. Upon its sale they defer capital gains tax on the \$50,000 gain. They receive a charitable deduction of \$29,884, which helps reduce taxable income in the year of the gift. They agree to a 5% payout percentage with payments named quarterly. The Luther Seminary Foundation is named as trustee. The gifted stock currently pays dividends of 3%. The Luther Seminary Foundation sells the stock and reinvests the proceeds. The reinvested proceeds earn 6%. After 5% is paid to Nancy and Fred, the remaining 1% is added to trust principal. Since the trust is re-valued annually, future payments (5% of the assets' value, determined annually) will vary as the value of the trust's assets rises and falls. If the trust continues to earn more than it pays out, their income stream and principal should increase, resulting in a larger eventual gift to the Luther Seminary Foundation. The proceeds will be used as designated in the trust.

Flip Charitable Remainder Unitrusts have a special feature that makes them attractive to donors contributing hard-to-value assets or assets producing little current income. The payout is usually defined to be the lesser of a stated percentage *or* actual net income until the assets are sold or until a specified triggering date. After the sale of the assets or other triggering event or date, the payout method flips to a fixed percentage payment method.

Example:

Assume Fred and Nancy contribute a lake cabin valued at \$100,000, instead of the appreciated stock used in the earlier example. They decide on a flip unitrust, rather than a regular unitrust. The triggering event is the date of sale of the lake cabin.

Solution:

The lake cabin is transferred to the flip trust and is immediately advertised for sale. The charitable deduction remains the same as that in the previous example: \$29,884. Until sold, Fred and Nancy will receive the lesser of the 5% payout, or net income. Unless the property is rented out, the trust produces no income while the property is held for sale. Once sold, the net proceeds are reinvested and the payout method flips to the 5% fixed percentage payout rate stated in the trust agreement. The trust's value is re-determined annually and their payments vary accordingly: Fred and Nancy then receive 5% of the re-determined value each year.

IRS discount rate of 4.2% used for all trust calculations

Charitable Remainder Trusts may be established during lifetime (inter vivos) or through provisions in a will or living trust (testamentary). Charitable remainder trusts are primarily used to provide additional income to the donor and/or other beneficiaries. Frequently, they are also established to provide a secure source of income for a spendthrift child during his or her lifetime or until he/she reaches a pre-determined age.

The Retained Life Estate is a charitable giving option whereby a donor transfers the remainder interest in a personal residence or farm to Luther Seminary but retains the right to use the property during his/her lifetime. The right to use the property includes the right to occupy or rent the property. The donor must keep the property insured and pay all taxes and assessments as they come due. The term "personal residence" includes a donor's principal residence, a second home, or vacation home and is not limited to the donor's homestead. Upon the donor's death, the life estate is extinguished and title is solely in the seminary's name.

A gift of this type generates an income tax deduction for the present value of the seminary's future interest. The donor needs to secure a qualified appraisal to establish the property value. The donor may, at a later date, gift the reserved life estate, thereby generating another charitable deduction. If this is done, the seminary now has complete ownership and is responsible for the property; the seminary may also sell the property.

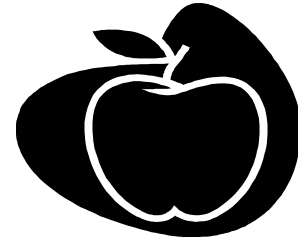
Example:

Mary, age 75, would like to be sure that her home is not consumed by unexpected medical expenses and eventually becomes the property of Luther Seminary. However, she would like to continue to live in the home as long as she is able.

Solution:

Mary deeds the remainder interest in her home to the seminary, but reserves a life estate for herself. She receives a current year charitable deduction which offsets taxable income. She continues to pay the real estate taxes (as homestead property), to insure the property, and to live there. If she later moves to a nursing home, she will be entitled to rent the property and collect the rent. Upon her death, the life estate is extinguished and the seminary has complete title.

Giving the Fruit and Keeping the Tree: Principal-Returning Gift Options



For a variety of reasons, it may make sense for some donors to give the “fruits” of their assets, but not the assets. *Charitable lead trusts* are most frequently used to accomplish such a goal. Although there are several varieties of charitable lead trusts, the most common form is used to transfer a business (at a discounted value) to the next generation. With proper planning, such gifts yield “win/win” results for donors, family members, and Luther Seminary.

Without proper planning, property passing from parents to children may be subject to income, gift and estate taxes. Children may then receive less than half of the property’s value and the property may need to be sold to pay the taxes. In addition, transferring property to grandchildren may subject the gift to an additional tax – the generation-skipping tax. Moreover, transferring assets to others during lifetime may result in large future taxation as well because the gift recipients are also given the donor’s tax basis, thereby creating a capital gains problem for the new owner.

Charitable Lead Trusts offer ways of transferring property at a discount from one generation to the next. In a lead trust, property is irrevocably transferred to a trust which pays an income stream to the seminary either for a period of years, for the donor’s lifetime, or for another person’s lifetime. The donor’s children are normally named as beneficiaries at the end of the trust term. A gift tax return is prepared at the time the trust is created. Because the children have to wait for the expiration of the income stream, the value of the assets ultimately transferred to them is discounted. The larger the payment stream and the longer the payment term, the greater the discount. At the end of the trust’s term, the corpus (principal and asset appreciation) is distributed to the trust’s remainder beneficiaries – normally the donor’s children.

If the donor is considered to be the owner of the lead trust, the trust is referred to as a *grantor* lead trust, and (i) the donor receives an income tax deduction when the trust is created, and (ii) income earned in the trust and paid to the charity is taxed to the donor annually. If the donor is *not* considered to be the owner, the trust is referred to as a *non-grantor* trust, and (i) the donor receives no income tax deduction, and (ii) the income earned in the trust is not taxed to the donor. Any income earned in the trust, but not taxed to the donor, will be taxed to the trust.

Three factors affect the size of the charitable contribution resulting from the creation of a charitable lead trust: duration of the trust, the amount paid to the charity, and the federal discount rate in effect at the time the trust is established. The longer the trust term and the larger the amount paid to charity, the larger the charitable deduction. Also, the lower the federal discount rate, the larger the deduction.

Trust payments to the charity must either be for a fixed dollar amount – a charitable lead annuity trust, or for a fixed percentage of the trust assets revalued annually – a charitable lead unitrust.

Example:

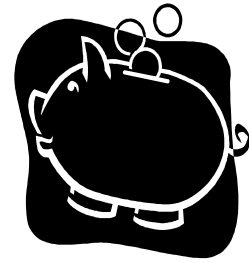
Mary, age 55, wishes to transfer growth stock to her two children and to make a large multi-year gift to Luther Seminary. She transfers growth stock valued at \$1,000,000 to a non-grantor charitable lead annuity trust. The trust will pay 7% (\$70,000) to the seminary annually for 7 years. After that time the trust will terminate and the principal will be distributed equally to her two children. The stock is currently generating 3% dividends and 5% growth annually.

Solution:

Mary must report a taxable gift to her children of \$582,940. The difference (\$1,000,000 less \$582,940) is a gift tax charitable deduction. The trust pays \$70,000 annually for 7 years to Luther Seminary, for a total gift of \$490,000 over the entire period. When the trust terminates, the principal, having grown to \$1,089,228, is distributed to her two children. Mary effectively has transferred \$1,089,228 to her children while subjecting only \$582,940 to gift tax.

4.2% discount rate used for calculations

Other Options: Beneficiary Designations



Naming Luther Seminary as a beneficiary of a bank account, life insurance contract, stock account, etc, are easy but effective ways of making a deferred charitable gift. Since the donor normally retains the right to remove the seminary as a beneficiary, no current year charitable deduction is generated. Since beneficiary designations are legally binding and will remove assets from probate, donors should consult with the institution managing the assets, as well as their personal advisors, to make sure that the beneficiary form is properly executed and will be honored by the managing institution.

Retirement Accounts often make up a significant percentage of the estate people leave behind. Many people overlook the possibility of naming Luther Seminary as a beneficiary of retirement accounts, such as individual retirement accounts (IRAs), 401(k) plans, 403(b) plans, profit-sharing KEOGH plans, and simplified employee pension plans (SEPs).

One reason that retirement accounts are often overlooked as charitable gift options is that they are often seen as quick and easy methods of transferring wealth to their loved ones. However, from a tax perspective, retirement account assets are often not the best assets to leave to your family. If children or your estate are named as beneficiaries of retirement plan assets, these assets will be subject to both income and estate taxes. It is not uncommon for the combined income and estate tax burden to be 50% or more, greatly reducing the value of the intended gift to loved ones. As an alternative, retirement account assets transferred to Luther Seminary at your death will not be subject to income tax or taxed in your estate – thereby maximizing your stewardship.

Therefore, if you have incorporated gifts to family and charities in your estate plans, you may wish to consider making your charitable gifts with retirement account funds and giving appreciated stock, real estate, or other assets to children.

The tax act of 2001 has made several changes in this area. As always, you should consult your tax preparer and estate planning professional for the most up-to-date information.

Example 1:

David recently passed away leaving an estate of \$1 million. Under his will, Luther Seminary is to receive \$100,000. His wife, Mary, is to receive the balance of his estate, including a \$100,000 IRA account. Since Mary is named as the beneficiary of the IRA, the retirement account is not subject to the terms of the will, but is includable for estate tax computation purposes. Mary is in the 31% federal income tax bracket.

Without Further Planning:

Because Mary is a surviving spouse and the seminary is a qualified charity, David's estate is not subject to estate tax. However, Mary must claim the \$100,000 retirement account as income as she receives it. Consequently, \$31,000 of the fund will be lost to federal income tax as Mary receives the proceeds. Thus, only \$69,000 (after-tax) is available to Mary from the IRA. (Even less is available to Mary after state income taxes are factored in.)

With Further Planning:

Before his death, David named Luther Seminary as the beneficiary of the \$100,000 retirement account, and Mary as sole heir under his estate. Now, none of the IRA is subject to income taxes.

Example 2:

Sally recently passed away leaving an estate of \$5 million. Under her will, Luther Seminary is to receive \$1 million. Her daughter, Sarah, is to receive the balance of her estate, including a \$1 million IRA retirement account. Since Sarah is named as the beneficiary, the retirement account is not subject to the terms of the will.

Without Further Planning:

The \$1 million gift to the seminary reduces the taxable estate to \$4 million. The estate tax on this amount is \$1,840,800. Sarah receives \$2,159,200 (\$4,000,000 - \$1,840,800). Since this amount includes the \$1 million IRA, Sarah must pay income tax on this amount as well. This reduces Sarah's inheritance even more. After estate and income taxes, more than 53% of her inheritance has been lost to taxes.

With Further Planning:

By making Luther Seminary the beneficiary of the \$1 million IRA account and taking the seminary out of the will, there would be no reduction due to income taxes. With proper additional planning, the estate tax could have been significantly reduced as well.

Bank and Stock Accounts may name Luther Seminary as beneficiary. Since the donor retains ultimate control, no current year income tax deduction is generated. However, upon the donor's death, the bank or brokerage firm will transfer the account into the seminary's name or, upon request, close the account and issue a check to the seminary. If the donor wishes to designate how the future gift will be used, he or she should contact the seminary in advance.

Example:

Harlan, age 90, would like to include the seminary in his estate plans, but he doesn't have a will and really doesn't need one. Could he gift a bank account?

Solution:

Harlan asks his bank to add Luther Seminary to one of his bank certificates of deposit. Each time the certificate comes due, he adds the seminary's name to the new certificate. Harlan contacted the seminary and entered into an agreement assuring that the funds would be used for current year scholarships upon receipt. Upon his death, the bank issues a check to the seminary for the certificate's accrued value.

Life Insurance offers most people access to an instant estate. With proper planning, life insurance may be used to leverage smaller current gifts into a larger gift at death. Life insurance may be used in several ways to make a significant charitable gift.

New Policies may be purchased naming the seminary as owner, beneficiary, or owner and beneficiary. If the seminary is named as the owner and beneficiary, policy premium payments may be deductible as charitable contributions for income tax purposes. Upon the donor's death, the seminary receives the death benefit. For couples with an uninsurable spouse, a survivor policy may be a good option to consider. This type of policy pays only upon the second death; as a result, premium charges are usually somewhat less.

Paid-Up Policies may be contributed to the seminary. This frequently occurs when the donor's children are grown and the donor has other assets to provide for future needs. Once the seminary is named as owner and beneficiary, the donor receives a charitable contribution which roughly approximates the policy's cash value. Upon transfer, the seminary may surrender the policy or hold the policy until the donor's death.

Example:

John, age 45, contributes \$1,000 annually to Luther Seminary but would like to leverage his gift to make a larger, more significant contribution to the seminary in the future.

Solution:

John purchases a policy having a death benefit and annual premium that fits his charitable objectives and financial circumstances. John makes an annual, unrestricted gift to the seminary in an amount at least equal to the premium amount. The seminary pays the premium directly to the insurance company and sends a gift acknowledgement to John for his gift. Because John itemizes his deductions for income tax purposes, the charitable contribution saves him tax dollars annually. Since the insurance policy is not a term policy, John qualifies for membership in Luther Seminary's Heritage Society.

Wealth Replacement Life Insurance is used to replace the value of assets given to a charity such as Luther Seminary. By purchasing a life insurance policy and naming family members or other loved ones as beneficiaries, donors are able to "replace" the value of assets given as charitable gifts. Donors typically use the income tax savings generated by the gift (and sometimes the income from an income-returning gift) to purchase the life insurance policy. The new policy makes the donor's heirs and loved ones whole again. Typically, the new policy (often a survivor or second-to-die

policy) is purchased by and placed in an irrevocable life insurance trust (ILIT). If annual premiums are due, funds are transferred to the trust and the trust makes the premium payments. If the donor prefers, a policy may be purchased with a single premium payment

Example:

Bill and Mary, ages 67 and 65, are recently retired and would like to make an income-returning gift to Luther Seminary. However, they feel that their children should receive the assets they would use to make the gift.

Solution:

Bill and Mary contribute property to Luther Seminary through a charitable remainder trust and receive an income stream for their lives at an agreed upon percentage. They receive a current year charitable contribution for the present value of the remainder interest given to the seminary. Using the tax savings resulting from the gift and some of the income from the trust, they contribute dollars to an irrevocable wealth replacement life insurance trust. The trust purchases a single premium survivor life insurance policy equal in value to the assets used to fund the charitable trust. Following the second death, the insurance proceeds pass estate tax free to their children, and the seminary receives the principal remaining in the charitable trust.

Caution: U.S. Savings Bonds may not be contributed to a charity during a person's lifetime. The only way to use the bonds to make a charitable gift during lifetime is to cash them in and contribute the proceeds. With proper planning, they may be bequeathed to charity.

For assistance and additional information on any of the gift options outlined above, please contact:

M

Michael Johnson, Philanthropic Adviser
Luther Seminary
2481 Como Avenue
St. Paul, MN 55108

651-641-3524 (direct)
888-358-8437 (toll-free)
651-641-3531 (fax)

www.luthersem.edu/gifts/plannedgiving

Information and examples contained herein are not intended as financial, legal or tax advice and should not be relied upon as such. You are urged to consult with your tax preparer, attorney and other planning professionals about your specific case.

Appendix:

Limitations on Deductibility of Charitable Contributions

General Rule: For gifts of cash made to Luther Seminary, donors may deduct an amount equal to 50% of their adjusted gross income (AGI). If the entire contribution cannot be used in the year of the gift, a five-year carryover is allowed.

Limitations on General Rule: For gifts of long-term capital gain property (held longer than one year) such as stocks, bonds and other capital assets such as real estate, donors may deduct the fair market value of such property, but limited to 30% of their AGI. A five-year carryover is allowed.

Donors may elect to deduct only their cost (excluding any appreciation). In this case, their deduction is limited to 50% of their AGI. A five-year carryover is allowed.

For gifts of tangible personal property not related to the seminary's purpose, such as jewelry, donors may deduct only the cost of the asset. The deduction is limited to 50% of their AGI.

For gifts of short-term capital gain property (held less than one year), such as stocks, bonds and other capital assets, donors may deduct the cost of the assets. The deduction is limited to 50% of their AGI.

Qualified Appraisals

In order to substantiate certain charitable contributions, a qualified appraisal (meeting certain specific requirements) is required for non-cash gifts valued at \$5,000 or more, and for gifts of closely-held stock valued at \$10,000 or more (see IRS Form 8283 and Instructions). An appraisal is NOT required for gifts of publicly traded securities.

2006 Federal Income Tax Rates

For single individuals: 15% bracket begins at \$7,550 (taxable income); 25% at \$30,650; 28% at \$74,200; 33% at \$154,800; and 35% at \$336,550.

For joint returns: 15% bracket begins at \$15,100 (taxable income); 25% at \$61,300; 28% at \$123,700; 33% at \$188,450; and 35% at \$336,550.

LUTHER SEMINARY PLANNED GIVING OPTIONS

	CHARITABLE GIFT ANNUITY	CHARITABLE DEFERRED PAYMENT GIFT ANNUITY	CHARITABLE REMAINDER TRUST	CHARITABLE LEAD TRUST	CHARITABLE LIFE INSURANCE	CHARITABLE BEQUESTS AND P.O.D. ACCOUNTS
Life-Income Payment To Donor(s)	Yes (fixed)	Yes (fixed)	Yes (fixed or variable)	No	No	No
Income Tax Deduction	Yes	Yes	Yes	Sometimes*	Usually	No
Benefits To Donor(s) (in addition to Heritage Society Membership)	<ul style="list-style-type: none"> - Some tax exempt income - Capital gains tax avoidance on gift portion - No legal or administrative fees - Estate tax savings possible 	<ul style="list-style-type: none"> - Larger payments beginning on date donor selects - Some tax exempt income - Favorable capital gains tax treatment - No legal or administrative fees - Estate tax savings possible 	<ul style="list-style-type: none"> - Capital gains tax avoidance or deferral - Estate tax savings possible. - Tax-free income possible 	<ul style="list-style-type: none"> - Principal often passed to next generation at reduced cost, reduced gift/estate taxes 	<ul style="list-style-type: none"> - Estate tax savings - Larger gift for smaller contributions - Income tax deductions for premiums paid on policy - Income tax deduction for value of donated policy 	<ul style="list-style-type: none"> - Estate tax savings - Does not reduce current income or use assets needed for health care
Benefits To Luther Seminary	<ul style="list-style-type: none"> - Future Gift - Initial value may grow 	<ul style="list-style-type: none"> - Future Gift - Initial value may grow 	<ul style="list-style-type: none"> - Future Gift - Initial value may grow 	<ul style="list-style-type: none"> - Income during trust period 	<ul style="list-style-type: none"> - Larger future gift - LS may borrow from cash value, if it is owner 	<ul style="list-style-type: none"> - Future gift
Age Preference	60+	50+	50+	40+	30+	30+
Preferred Assets	Cash and appreciated stocks and bonds	Cash and appreciated stocks and bonds	Cash and appreciated stocks and bonds, including tax-exempt bonds, real estate	Cash, rapidly appreciating stock and other assets	Existing or new policy (not term insurance)	Retirement accounts; other real and personal property

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**Depends upon how trust is structured.*