Attractive Planned Gifts when Interest Rates are Low

In the current environment of historically low interest rates, several Yale planned gift opportunities provide even greater income and tax advantages than they do at a time when the economy is growing more rapidly.

Three of these options – the retained life estate, the charitable gift annuity, and the charitable lead trust – may allow alumni and friends to make meaningful gifts to Yale at substantially lower costs to themselves and their families than when interest rates are higher.

Donate Your Home, Continue to Live in it, Receive Tax Benefits: *Retained Life Estate*

Current economic conditions make it a particularly favorable time to consider the benefits of a creative gift plan known as a retained life estate (also called a remainder interest in residence). This gift plan actually enables you to "live in your gift."

HOW DOES A RETAINED LIFE ESTATE WORK?

As the creator of a retained life estate, you irrevocably deed your residence or vacation home to Yale, but retain the right to live in it for the rest of your life with no disruption of your living arrangements or your cash flow. You continue to be responsible for taxes and maintenance while you live in the property. At the conclusion of your retained life estate, the University will use the proceeds from the sale of your home for the purposes that you have chosen.

When you make the gift, you receive an income tax charitable deduction for a portion of the appraised value of the property. With the IRS discount rate at a historic low, your deduction is for a very significant percentage of the value of your property. Yale will credit your gift for the full appraised value of your home. Giving a remainder interest in real estate during your lifetime can simplify the estate settlement process; it may also reduce estate taxes by removing the property from your taxable estate. And, you have the immediate satisfaction of making a meaningful gift that benefits you now and Yale later.

CONSIDER THESE EXAMPLES

A member of Yale College Class of 1962 and his wife had already included a bequest of their home to Yale in their wills. Subsequently, they decide to take advantage of the retained life estate which allows them to deed their property to Yale now, while they retain the right to live in their home for their lifetimes. Although this gift does not change their circumstances or deprive them of any current resources, it does generate a substantial charitable income tax deduction equal to approximately 65% of the home's appraised value. They are able to use the deduction to lower their taxes. Confident about Yale's ability to manage the eventual sale of their property, they designate their gift to one day endow a scholarship in their names.

Other examples of retained life estates include "The Samuel and Liselotte Herman Fund for the Social and Behavioral Sciences" established at the Yale School of Public Health in 2010 by the remainder interest in the Hermans' residence outside Wash-ington, D.C.

Raymond Plank '44, founder of the Apache Corporation and numerous philanthropic ventures, has given Yale a remainder interest in his Santa Fe, New Mexico, home.

Raymond Plank's Santa Fe, New Mexico, home

Give... and Receive Lifetime Payments from Yale: *Charitable Gift Annuity*

The charitable gift annuity, one of the most popular life income gifts, provides you with secure, predictable payments, as well as income and capital gains tax savings.

For a minimum gift of $10,000, you may establish a charitable gift annuity with Yale. You contribute cash or marketable securities in exchange for Yale's agreement to pay you and, if you wish, your spouse or other annuitant, a fixed income for life. The amount paid is based on the age of the beneficiaries when payments begin.

In addition to lifetime payments, a Yale charitable gift annuity provides other benefits, including a charitable income tax deduction, partially tax-free payments, reduced capital gains tax when a gift annuity is funded with appreciated property, and most importantly, the satisfaction that comes from ensuring your own future and at the same time, helping to ensure Yale's future as well.

CONSIDER THIS EXAMPLE

Carl, age 72, has chosen to make a gift of $50,000 in exchange for a charitable gift annuity which pays him an annuity rate of 5%, or $2,500 annually. Of his fixed payment of $2,500, nearly 80% or $1,958 is tax free for many years. The tax-free portion of $1,958 makes the $2,500 annuity equivalent to $3,464 of taxable income, as he is currently in the 33% tax bracket. When you also consider his charitable contri-bution deduction of $22,066, his payments are actually equivalent to an 8% effective rate.

You may also choose to fund a gift annuity now, but defer the start of payments. The longer the deferral period, the higher the future payments you can expect to receive. A deferred gift annuity offers a way to supplement retirement income with fixed payments. You receive a charitable deduction in the year you make your gift, and your payments include a large percentage of tax-free income, particularly when you fund your annuity with cash. If you are not certain when you would like payments to begin, you may select a window of possible start dates and decide at a later time.

CONSIDER THIS EXAMPLE

Suzanne, age 60, decides to make a $25,000 gift in exchange for a charitable gift annuity and elects to defer receipt of payments for 10 years. She secures a rate of 6%, or $1,500 annually for her lifetime, and is entitled to a federal income tax charitable deduction of $11,482 this year. When her fixed payments begin at age 70, $850 of the $1,500 she receives will be tax-free for many years. When she takes into account her income tax savings and tax-free payments, her effective rate is 9%.

Preserve Family Wealth While Supporting Yale: *Charitable Lead Trust*

The extremely low discount rate (1.4% in September 2016) makes this an ideal time to consider the personal and philanthropic advantages of the charitable lead trust—a planned gift that allows you to generate an income stream to Yale now while you preserve assets for your family for the long term.

Yale Peabody Museum of Natural History

A donor who funded a lead trust recently noted, "The current very low interest rates enable me to pass assets to my children with less tax. And, I am able to make gifts for the next ten years to impact medical research at Yale. If you can forego current income, the lead trust is an excellent income and estate tax planning strategy."

A charitable lead trust, generally established with $500,000 or more, lets you keep assets in your family, and provides income to Yale for a period of years. You can create this separately invested irrevocable trust by transferring cash, marketable securities, or income producing property to a trustee of your choice. The trustee manages the property and makes annual payments to Yale for a specified number of years, in support of programs at Yale you designate. When the trust's term ends, the trust assets revert to you or pass to your heirs. Depending on the terms of the trust, any asset growth that has occurred within the trust will be distributed to the trust's beneficiaries with reduced or no estate or gift tax liability.

CONSIDER THIS EXAMPLE

Yale friends Stephen and his wife, Emily, are updating their estate plans. They have the dual goals of leaving a substantial part of their estate to their children, and providing ongoing annual support for the Yale Peabody Museum of Natural History. They establish a $1 million charitable lead annuity trust that pays 5% to Yale, $50,000 annually for 20 years. The trust also gives the couple an $850,000 gift tax deduction. Any increase in the value of the trust assets will pass to their children in 20 years nearly free of gift tax and at significant estate tax savings.