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GULF COAST COMMUNITY FOUNDATION

What Is Planned Giving?

Many people are generous to the charities they choose to support. They may make regular gifts on an annual basis - or if the nonprofit is lucky - on a more frequent basis. Donors often make these gifts from their discretionary annual income – which is also used to pay the mortgage, the car payment and the college tuition bill. Often, after subtracting the "must pay" bills, charitable donations are made from what's left. Planned giving, however, is a way for generous individuals to make larger gifts to the causes they support than would be possible from their regular income.

By definition, "planned giving" is any major gift given, either during the donor's lifetime or after death, as part of the donor's overall financial and/or estate planning. Planned giving can include bequests, gifts of appreciated stock, real estate, artwork, life insurance and a retirement plan.

There are 3 types of planned gifts:

1. Gifts that use appreciated assets (such as stock) and provide a tax benefit to the donor
2. Gifts that provide income to the donor
3. Gifts payable upon the donor's death

From a donor's perspective, planned giving is attractive for many reasons. It provides donors a vehicle for making larger donations that they may have been unable to make based solely on current assets. Depending on how a planned gift is set up, it may also a) provide donors with a stream of income for life, b) earn higher investment yield, or c) reduce capital gains or estate taxes. Planned gifts can appeal to people for different reasons. It's important to understand a donor's motivation for making a planned gift. It is also just as important for donors to consult their financial advisor, as individual circumstances and benefits can vary greatly.

Most Common Types of Planned Giving

Charitable Bequests:

Donor names a charity in their will.

How does it work? Donors name their favorite charity in their will and designate a gift to be made from their estate after their death. An "estate" is any property, money or personal belongings owned by the donor at the time of death. Most people create a will to manage the proceeds of their estate when they die, regardless of the size of the estate. Even an individual with a small estate can arrange to leave a charitable bequest to a favorite cause, which can sometimes create tax savings for the heirs.

Donors can leave a bequest to a charity in several different ways. They can set aside a specific dollar amount, designate a specified percentage of the estate, or leave any remaining assets after the family has been provided for. Some people use a bequest to give a charity something they own, such as a car, home, art, or jewelry. Others may leave a life insurance policy or other financial investments such as stocks, bonds, or CDs.

Donors are able to amend this bequest during their lifetime, giving them the ability to change their mind about making this gift, simply by changing their will.

Beneficiary Designation:

Donor names a charity as the beneficiary of their insurance or retirement assets.

How does it work? Donors may designate a charity as the beneficiary of their life insurance policy or retirement plan. The designated charity will receive the specified assets upon the donor's death and, depending on the circumstance, may provide a tax benefit to the individual's heirs. As with bequests, donors enjoy the flexibility to change their mind during their lifetime about making this gift.

Gift Annuities:

Donor interest payments on the donation are guaranteed for the rest of the donor's life.

How does it work? Donors contribute funds or assets to a nonprofit organization and that nonprofit, in turn, makes fixed payments to the donor for the rest of his/her life. At the time of the donor's death, the remaining balance of the annuity goes to the charity for the purpose chosen by the donor when the gift was established. Unlike the charitable trusts described below, gift annuities operate under a contract between the donor and the charity. They are not trusts but backed by the assets of the organization receiving the gift.

Charitable Trusts:

A financial vehicle providing guaranteed income for a set period to an individual or organization

How does it work? Charitable Trusts are a category of planned gifts with a variety of benefits to donors and charities. The common factor is that they are legally established as trusts, which are financial tools to hold and administer funds for the benefit of a person or organization. Here are some of the most common Charitable Trust vehicles:

- Charitable Remainder Unitrust: This trust pays income to the donor for life or a set term of years, as a fixed percentage of the unitrust's value, which can fluctuate. Upon the donor's death, the remaining balance of the trust goes to the charity.
- Charitable Remainder Annuity Trust: This trust pays income to the donor at a fixed-dollar amount for life or a set term of years, which does not fluctuate. Upon the donor's death, the remaining balance of the trust goes to the charity.
- Charitable Lead Trust: This trust pays income to the charity for the life of the donor or a set period of years. When the trust terminates, the remaining balance is returned to the donor or his/her heirs.

Gifts Of Appreciated Assets:

A gift that offers a tax advantage to the donor

How does it work? A donor may make a gift of stock that has appreciated in value directly to the charity and avoid paying capital gains taxes. For example, the donor may gift some stock she paid $1000 for, which is now worth $25,000. Rather than paying capital gains taxes on the $24,000 of profit, she is able to make a $25,000 gift to the charity - which only cost her $1000 -and pay no additional taxes.

All these options present great opportunities to engage donors in deeper ways and help them realize their charitable goals with estate planning. It cannot be emphasized enough that none of these is a "one-size-fits-all" solution, and donors should work through these options with their own financial advisors. Still, it's great to know that there are choices out there which can provide great benefit to both donors and the causes they love.