

TAX AND GIFT
STRATEGIES FOR
ESTATE PLANNING
FROM THE
UNIVERSITY
OF WISCONSIN
FOUNDATION

FALL 2007

W I S C O N S I N
Legacy

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Your simple gift can
benefit generations

Carnegie. Ford. Rockefeller.

Do you have a hard time imagining your name among those of some of the most famous philanthropists in history? While few have the resources of a Bill Gates or a Warren Buffett, you can put in place a gift that will have a lasting impact on the University of Wisconsin.

“What about the current demands on my resources and concerns about future needs like health care or retirement income?” you may ask. While those considerations are important, you can

set the wheels in motion for a modest or substantial gift without jeopardizing your financial situation.

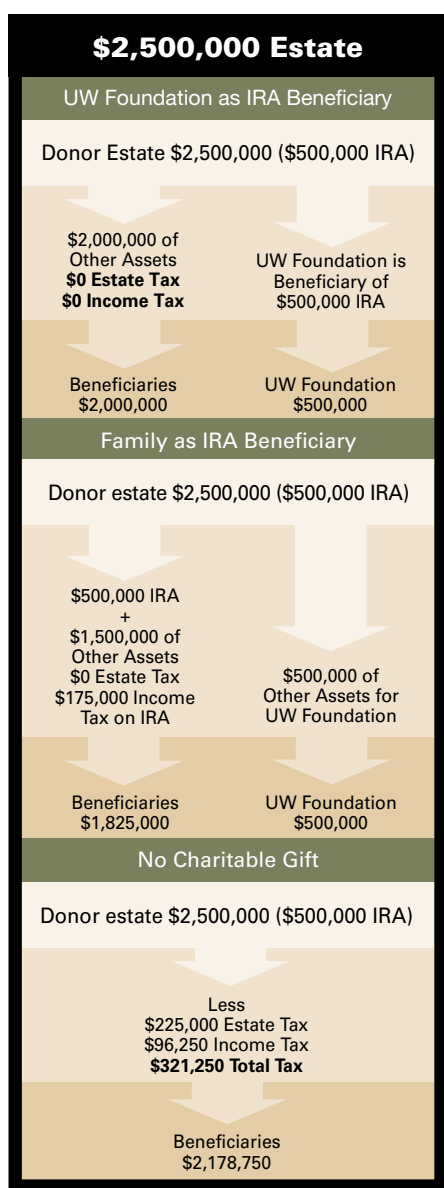
While you should always seek the guidance of good counsel, there are no-fuss arrangements that are easy to set up, do not require extensive legal or accounting fees and can be changed if the need arises. You may be surprised by how easily you can make a gift to the University of Wisconsin Foundation and leave an enduring legacy.

naming the Foundation as either beneficiary or owner of a policy?

Benefits: Proceeds paid to the UW Foundation are not subject to estate tax. In addition, when you assign ownership of a policy to the Foundation, you receive an income tax deduction for the value of the policy and for any premiums you subsequently pay.

Retirement Plan Assets

While funds in qualified retirement plans grow on a tax-deferred basis, when they are *distributed* they are subject to income tax. This tax is paid by the recipient—by you while you are receiving payments, or by your beneficiaries following your death.



A Gift of Life Insurance or a Retirement Plan Asset

Beneficiary Designation Forms Make Giving Easy

Life insurance policies and tax-deferred retirement plan assets are two of the simplest assets to use for a gift.

Just contact the administrator of your retirement plan or your insurance carrier and request a new beneficiary designation form. You may direct that we receive all or a portion of the asset simply by adding the UW Foundation to the form and signing your name. If you change your mind about the gift, simply request a new beneficiary designation form. It's that easy!

Life Insurance

Why would you consider making a charitable gift of life insurance by

Life insurance policies and tax-deferred retirement plan assets are two of the simplest assets to use for a gift.

The combination of income and estate taxes could be more than 60 percent of your retirement accumulations, depending on applicable tax rates. That's a hefty tax bite out of your estate!

By contrast, retirement plan funds that you leave to the UW Foundation will qualify for an estate tax deduction and avoid any income tax because we are tax-exempt. Any leftover funds after you are gone will be paid to the Foundation in a lump sum, totally tax-free.

Good News from Washington and the UW Foundation

If you are 70½ years of age or older, the Pension Protection Act of 2006 presents a unique opportunity until the end of 2007 for you to make a tax-free transfer (up to \$100,000) from your IRA to charity. Please call our office at 608-263-4545 to learn more about how this new legislation might benefit you.

More benefits: With such a gift you can make a significant charitable gift at relatively little cost to your heirs, spare your heirs a tax burden *and* know that more of your money is helping the University's mission.

The chart at left illustrates how someone with an estate consisting of \$2.5 million that includes an IRA valued at \$500,000 can make a gift of an IRA to the UW Foundation at a cost of only \$178,750 versus making no gift.

Bypass Probate with a TOD Plan

Just as you can name any person or entity as a beneficiary of a life insurance policy or retirement plan asset, you may designate individuals or charities as beneficiaries of your brokerage account. This relatively new planning option is known as a transfer-on-death (TOD) arrangement.

A TOD plan allows you to pass securities directly to others upon your death, bypassing probate. This method of registering securities also avoids any action by the executor or administrator of your estate to ensure that your securities transfer to the individuals or organizations you wish to benefit.

State law governs the registration of securities in the names of their owners, and most states have adopted TOD legislation. Please ask your broker or financial advisor about your state's applicable laws.

The Totten Trust: Transfer Assets Without Trust Expense

In most states a Totten trust can be set up with a form available from a bank, and it works like this: You place money in a bank account with instructions that upon your death whatever is in the bank account will pass to a named beneficiary. Any account value qualifies—there is no minimum requirement.

Because the Totten trust beneficiary has no immediate rights in your account, it is much safer than converting the account to joint tenancy. (A joint owner would have immediate access to the account funds, and the account would be vulnerable to the joint owner's creditors.) A Totten trust can be amended or revoked at any time. Unlike assets transferred under a will, assets in a Totten trust do not pass through probate court.

To make a gift to the UW-Madison through a Totten trust, simply name the UW Foundation as the beneficiary of your bank account.

Retain Control and Receive Income for Life: The Living Trust

Although many people view the will as the "final" say on their lives and estates, the revocable living trust provides for quicker and easier asset transfers and is gaining in popularity. (See *Example 1*)

Example 1

Upon the death of her husband, Jane Brown, 65, wants some help with financial-management responsibilities. She also wants to plan a major gift to the UW Foundation but is uncertain about her financial situation and does not want to make an irrevocable commitment.

After consulting with her advisors and a member of our staff, Jane decides to create a living trust that will pay her the trust income and principal as needed each year for her life. At her death, the remaining principal will pass to her named heirs, including the UW Foundation if Jane has not revoked or modified the trust.

Benefits: Establishing the trust has several positive results for Jane:

- She acquires sound professional management by placing the assets in the hands of an experienced trustee.
- She receives all of the income and as much of the principal as she needs.
- Avoiding probate delay and costs, she also retains privacy regarding the extent, nature and value of her assets as well as beneficiaries.
- She provides a significant gift to the UW-Madison, unless unforeseen circumstances arise.
- She retains the right to modify or revoke the trust if necessary.

Since her gift can be revoked or the trust principal extended, Jane does not take a current income tax deduction, but the amount passing to the UW Foundation at her death will not be subject to federal estate tax.

Endow Your Annual Gift: Leave a Permanent Legacy

We are fortunate to have many generous friends who support the University with annual gifts. With creative planning, you can ensure that your annual gift will continue perpetually.

An endowed fund can both ensure the continuation of your current giving levels and provide for increases to account for inflation. *Here's how:* If an endowed fund can earn 4 percent more than it distributes, it—and its annual

distribution—will continue to grow at the rate shown in the chart below. (See Example 2)

Growth of Endowed Fund		
Years	Approximate Value	Distribution
1	\$ 100,000	\$ 5,000
18	\$ 200,000	\$ 10,000
28	\$ 300,000	\$ 15,000
41	\$ 500,000	\$ 25,000
59	\$1,000,000	\$ 50,000
100	\$5,000,000	\$250,000

This hypothetical fund earns 4 percent more than it distributes.

Example 2

David B faithfully contributes \$5,000 to the UW Foundation each year. He has decided that he doesn't want his annual support to stop when he dies, so he has named the Foundation as the beneficiary of a \$100,000 life insurance policy to fund an endowment. Each year the endowed fund will distribute to the University an amount equal to David's typical annual fund support.

Dear Friends,

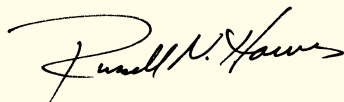
Thank you!

You are receiving this issue of *Legacy* from the University of Wisconsin Foundation because our records indicate that you have, in some way, remembered the University in your future planning. That tells me that you also have planned for your family, friends and perhaps for other important organizations and institutions that have affected your life.

We appreciate your generosity in assisting us and applaud you for taking the time to plan for the future benefit of all those around you.

I hope that, in this issue, you find an idea or two that may be of interest to you. Thank you for remembering the University. On Wisconsin!

Sincerely,



Russ Howes

Vice President, Planned Giving and Legal Affairs



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The University of Wisconsin Foundation, an independent, nonprofit, tax-exempt corporation founded in 1945, raises, invests and distributes gifts on behalf of the University of Wisconsin.

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

 UNIVERSITY OF WISCONSIN
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Philanthropy makes the difference

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