Pathways

RETIREMENT PLANNING *FALL 2005*

IDEAS FOR FINANCIAL, ESTATE
AND PHILANTHROPIC PLANNING
FROM THE UNIVERSITY OF TEXAS
M. D. ANDERSON CANCER CENTER

Predictable Income — Smart Moves for a Stable Retirement

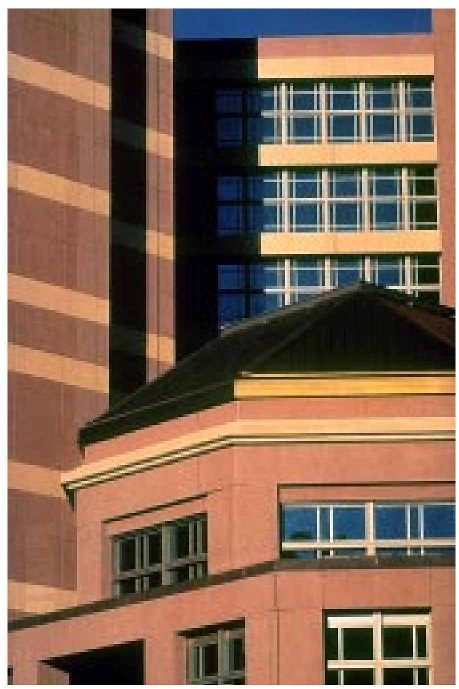
As the adage goes, the only constant in life is change. After experiencing market fluctuations and taking on financial risk in the past, many investors want to move into safer investments that will pay a regular income — something that stays the same.

Everyone should have an idea or expectation of what their income needs will be in retirement. One way to be sure to have regular income over a lifetime is to move into arrangements that pay an annual income. Life income gift plans are a particularly attractive way to coordinate charitable giving with financial planning. With a life income gift plan, you can make a tax-efficient gift to M. D. Anderson Cancer Center and receive an income for life or the life of a loved one.

Time of Arrival — New Perspectives on Retirement Planning

Retirement is a time of real financial change. All your life you have saved for retirement, and now it has arrived — so how do you shift from a lifetime of saving and investing for the long term into a plan to live off those savings? Can you create regular income payments that will meet your (and your spouse's) needs?

There are no simple answers to these questions. Everyone has different ideas and circumstances that guide their choices. Many people have discovered that smart charitable giving can be an integral part of retirement planning. Gift plans such as gift annuities, charitable remainder trusts and gifts of real estate with a retained life estate can reduce taxes, create high streams of income, and provide significant support for favorite charities. You may be glad to learn that careful planning for your retirement income needs can be wed to your charitable intentions. Charitable giving puts a shine on the golden years and, with some planning, more money in your pocket.



We hope you enjoy this newsletter which explores ways you can plan for your retirement and participate in our work. We also have a booklet, ***Timing It Right — Retirement Planning and Charitable Giving***, which further discusses how to effectively coordinate your retirement goals with your charitable intentions. To receive your free copy, simply return the enclosed card.

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Charitable Solutions to Supplement Retirement Planning

Consider a Charitable Gift Annuity for More Fixed Income

The charitable gift annuity is a popular tool to supplement retirement planning for donors who want to retain a high fixed income from the gift asset. Here's how it works: You contribute a sum of money or appreciated property to M. D. Anderson [minimum $10,000]. In return, you receive both an annual income for life and a charitable deduction for the gift portion of your transfer. The payout rate on a gift annuity depends on the age of the annuitant (person receiving the payout), the number of annuitants (usually the donor, or the donor and his/her spouse), and whether the income payments begin immediately or are deferred to a later date. The income tax deduction for the charitable portion of the transfer is available in the year you set up the gift annuity (any charitable deduction that exceeds the annual limit can be carried over up to five tax years). Also, for a period of time, gift annuity payments receive favorable tax treatment (until the annuitant reaches life expectancy).

The charitable gift annuity provides the security of knowing that you (or another named beneficiary) will receive an income for life — one that is unchanged by up or down interest rates or shifts in the financial markets.

Example: *Roger (age 70) and his wife Clara (age 65) purchased a $10,000 CD several years ago, just before the interest rates began to fall, and the CD matures this year. Roger and Clara would like to find a similarly safe, but effective, income stream. After talking with a friend, Roger decided on a charitable gift annuity. Roger uses the $10,000 to fund a charitable gift annuity for two persons. He may take a charitable deduction on his income taxes of about $3,170.* If Roger and Clara are in the 35% income tax bracket, a $3,170 deduction will save them over $1,100 in taxes. Every year, for as long as either is alive, Roger or Clara will receive a payment of $570 to supplement their other retirement income — that is a payout rate of 5.7% on their $10,000. It is a sum of money they can count on, and they have the satisfaction of knowing they have made a gift that will make a difference in our programs.*

* Based on the AFR of 5.2% and an annual payment of $570.

Another Smart Fixed Income Option to Explore

Donors who want to make a larger impact with their giving yet retain a high fixed income may want to consider a charitable remainder annuity trust, known as a CRAT. Funding a CRAT requires a larger gift than a charitable gift annuity; however, the CRAT is more flexible. You can select the trust payout rate, and you can name one or more charitable institutions as a beneficiary of the trust. A CRAT is a very tax-efficient way to convert a low-yield or non-income producing asset into a high income stream for life.

Example: *Catherine purchased 100 shares of IT Corp. stock in 1995 for $10,000. The stock performed very well and is now worth $110,000. The stock paid a 2% dividend in 2003 and 2004. However, at age 80, Catherine would prefer a more regular income at a higher rate of return. One option is to sell the stock outright, which results in a cost of broker sales commissions of 1% and a*

hefty 15% tax on the capital gains, a total cost of $16,100. If Catherine were then to find a safe, sensible and steady investment that paid a set 5% return, she would realize about $4,700 each year as income from her new investment.

*Catherine has another option: she can create a CRAT and transfer the stock into the trust. In this case, capital gains tax is avoided on the transfer to the trust, and the entire $110,000 could be invested in income producing assets. She could choose an annual payout of 7% — $7,700 per year. In addition, Catherine would receive an income tax charitable deduction for the value of her gift to M. D. Anderson — $61,860 for the current tax year. This deduction would save about $20,400 if Catherine pays income taxes in the 33% tax bracket.**

Both Catherine and M.D. Anderson Cancer Center patients benefit from the charitable remainder trust — clearly a win/win situation.

* Based on the AFR of 5.0% and an annual payment of $7,700.

A Systematic Plan to Increase Your Retirement Income

A simple inflation-hedge plan is to "ladder" charitable gift annuities by establishing several gift annuities over a period of years. For each successive age (until age 91), the fixed payout rate on a charitable gift annuity improves. Remember, the payout rate is permanent and based on age and established when the gift annuity is created. For instance, Sylvia purchases a $10,000 gift annuity when she is 65. The annuity pays an annual return of 6.0% or $600 per year. When she turns 70, Sylvia purchases another $10,000 gift annuity with a fixed rate of annual return of 6.5%, or $650 per year. Five years later, Sylvia (now age 75) purchases another $10,000 gift annuity that pays an annual return of 7.1% or $710 per year. Sylvia has made life income gifts that have kept up with the kind of income that she will need later in her retirement years. It should be noted that charitable gift annuity rates are subject to change, but the basic concept remains constant — that your fixed rate of return increases as you age.

Keeping Track in Your Retirement Years — *A Plan to Help Fight Inflation*

One drawback to placing your money in investments that pay a fixed annual rate is that inflation may reduce the value of that income stream (remember that we Americans are living longer lives). There are financial tools that hedge against inflation, including certain life income gifts to charitable organizations. For instance, a charitable remainder unitrust (otherwise known as a CRUT) is much like a charitable remainder annuity trust except that instead of a fixed annual payment, the payment is based upon a percentage of all the assets in the trust as revalued each year. If the trust assets grow in value each year, the trust income as a percentage of the growing trust assets will increase.

Example: *John decides to create a charitable remainder unitrust with stock holdings worth $200,000. John chooses an annual payout rate of 5% of the net trust assets. In the first year, John receives a payment of $10,000. In the second year, the trust assets have increased in value to $215,000, so John receives a payment of $10,750.*

The Change from Saver to Spender — *An Income Tax Deduction Might Help*

Many of us have made retirement planning a part of our everyday lives. Putting money aside is the responsible way to be sure that you will have enough to live comfortably in the years ahead. Retirement is a big adjustment; many retirees find it hard to accept that they are spending rather than saving. And when there is an unexpected expense (home repairs or an illness), you may need to spend part of your retirement savings. If you are forced to sell stocks or other capital assets, you can face capital gains taxes on the profit from those assets. Another event that can have the same effect is mandatory distributions from retirement accounts such as an IRA or 401(k). The IRS generally requires that money be distributed annually from these accounts beginning after age 70½. Taxpayers have to be aware of the taxes owed on the distribution of income from the accounts.

One solution to take the bite out of capital gains taxes or the taxes on distributions from a retirement account is to make a gift to M. D. Anderson Cancer Center. The charitable deduction for the value of the gift can offset the tax on income from the sale of appreciated property or mandatory distribution from a retirement account. There are many ways to make a gift that will earn a charitable deduction. Our new booklet, ***Timing It Right — Retirement Planning and Charitable Giving***, discusses how you can make impact gifts without compromising your current lifestyle.

A CODA, BUT NOT A CLOSING

Life can be unpredictable — you can never be certain about whether stock prices will be up or interest rates down, and who knows what life holds? But planning your retirement can help to set a course through rough waters and toward smooth sailing. Life income gifts can play an important role in your retirement planning. The combination of an income stream, a charitable deduction, and favorable tax treatment can be a winning formula. Life income gift plans also give you the chance to do so much for M. D. Anderson patients — more than you might have thought possible. To learn more about the possibilities, including gifts of real estate with a retained life estate, ask for the booklet, ***Timing it Right — Retirement Planning and Charitable Giving***. We look forward to hearing from you.

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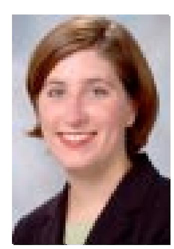
If you would like to discuss the benefits of any planned gift, or if you have questions about this issue of Pathways, *please contact:*



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