



Planning in Today's Volatile Market

Planning for the future is always a challenge. But it becomes even more so in the face of major tax law changes and stock market volatility.

As many stocks have taken a beating over the past two years, more and more people are rediscovering the value of diversification. Others are exploring unique approaches such as smart gift planning techniques which facilitate rebalancing their portfolio in a tax-efficient way while supporting their major charitable causes.

As we move deeper into the year, perhaps your thoughts, like many of our friends, turn increasingly to year-end planning to take advantage of every tax-saving opportunity before time runs out. Do you accelerate or defer income? Expenses? Certain deductions? You are probably familiar with these time-tested strategies.

But what about charitable giving? Are there any new opportunities available this year to help you achieve your overall objectives?

That's what we want to explore in this issue of *Financial Advisor*. We think you will find it thought-provoking and invite your comments. You may want to send for our new 2002 *Taxpayer's Home Companion* which contains the latest tax rates, important tax rules and popular year-end giving strategies. You can get a free copy by simply using the enclosed card. Many of our friends have found it to be an effective tool to use personally or to share with their financial advisors.

Good luck with your planning. Call us if we can help you take advantage of a tax-wise, year-end gift.

Important Questions You May Want To Ask about Your Year-End Planning

- How can I reduce a top-heavy stock position through tax-efficient giving?
- What kinds of appreciated property might I want to consider this year?
- Are there gift plans that can help me diversify my portfolio in a tax-efficient way?
- Can planned giving help me restore lost income from my 401(k) retirement plan?
- Is there a charitable way to improve my fixed income?

Five Good Tips for Year-end Planning 2002

1 Reduce a Stock-Heavy Position with Stock Gifts

Gifts of stock, always popular at year-end, may seem less attractive after the market slide of the past two years. Keep in mind, however, that if you are like many people you may have stocks with years of built-in appreciation. And, gifts of these stocks are still more tax-efficient than a cash gift of equivalent value. Such gifts also enable you to reduce a stock-heavy position while doing more to help with our important work.

Example: *Dr. Charles has acquired a modest position in XYZ stock over the past twenty years. His adjusted cost basis after a couple of splits is \$20 a share. While the stock has traded as high as \$60 a share, it has drifted*

down to \$50 a share during the past two years. His broker thinks the stock has little upside potential and has advised him that he might want to lighten up on it.

Dr. Charles, who had been thinking about giving us a cash gift of \$10,000 this year, decides instead to give us 200 shares of XYZ stock. In his 38.6% tax bracket, a cash gift would cost him \$6,140. The tax savings from the \$10,000 income tax charitable deduction is a hefty \$3,860. But it is even better with the stock gift because, in addition to the charitable deduction, he avoids the capital gains tax on all of the stock's appreciation. Do the math and you will find that Dr. Charles' gift will cost only \$4,940. In brief, he makes a \$10,000 gift to charity at a net cost of \$4,940 while also reducing his position in XYZ stock.

What if you want to lighten up your position on a stock that has depreciated in value? Then you may want to reverse your strategy: Sell the stock first and then make the gift from the proceeds. That way you can declare a deductible loss plus receive a charitable deduction for the gift of proceeds. Your tax advisor can help you fine-tune your strategy.

2 Consider Giving Other Appreciated Assets

If your publicly traded stocks have not done so well, you may have other assets that have appreciated considerably. Closely held stock, since it may have virtually a zero tax basis, may enable you to make a highly

meaningful impact gift with tremendous tax savings. While the planning is more involved than a gift of publicly traded stock, the financial and tax rewards can be well worth the effort. We can help you with the planning.

Real estate may be another attractive gift option. Low interest rates have pushed up values and people have rediscovered the value of diversification. If you feel, as some people do, that real estate may be peaking, you may want to consider exiting certain properties. There are gift plans that allow you to do so in a hassle-free, tax-efficient way. In select cases you may even be able to convert a property into an income stream.

Do you have individual bonds or bond funds that have appreciated significantly over the past few years? What about collectibles such as an art, stamp or coin collection?

Properties such as these that have been held for more than one year and that have appreciated greatly can be even more tax advantageous than gifts of long-term appreciated stock. For example, the long-term gain on collectibles, if sold, is taxed at 28%. Gain on a sale of depreciable (investment) real estate can be taxed as high as 25% rather than the 20% top rate on stock gains.

We will be happy to help you find the gift asset with the most tax-saving potential and, just as importantly, work with you to make certain your gift is used for your exact intended purpose.



3 Use Life Income Plans To Diversify Your Portfolio

Life income gift plans have become attractive to donors who want to make an impact gift but need to retain the income from the gifted asset. A good example would be the charitable remainder trust in which the donor uses a low-yield, highly appreciated stock to fund the trust. The charitable trust can sell the stock without paying a capital gains tax, reinvest the undiluted proceeds to generate a good fixed income for the donor with the donor receiving a substantial income tax charitable deduction for our remainder interest (what's left of the proceeds after the income benefits end). With careful planning, a donor can use the trust

to help diversify a portfolio which has become over-weighted with stocks.

Example: *Sally and her husband started aggressively investing in stocks during the early '90s. Their goal at the time was to have a 70%/30% mix of stocks and fixed income investments. Now that they are entering retirement, they would like to move to a more conservative 50%/50% mix. They could sell some of the stock, but they don't like the idea of paying a capital gains tax. What's more, they don't like the idea of selling their stocks when values are somewhat depressed.*

Their solution is to give some of their more highly appreciated stock to fund a charitable remainder trust, thereby avoiding the immediate capital gains tax they would incur on a sale of the stock. They arrange the trust to pay out a nice income stream (it can be fixed or variable) for the rest of their lives. The income tax charitable deduction they receive for our remainder interest will help offset most, if not all, of the loss they would have incurred had they sold the stock. Careful planning will enable them to diversify their portfolio in a tax-efficient way, increase their income and help further the University of Miami's mission in a meaningful way. They like the idea of being able to help themselves while helping others.

4 Restore Lost Income from a 401(k) with a Life Income Plan

The opportunity to participate in 401(k)s — often with matching company funds — became part of the investment mania of the '90s. But as many people have learned the hard way, you don't want to have all your eggs in one basket. Just as important as diversification is the need to be assured of a fixed income stream for a secure retirement.

One possible solution for individuals who are philanthropically minded is a charitable trust arrangement that will provide you with a fixed income for life. If you fund the trust with low-yield, highly appreciated property (as noted above), you can unlock your gain without immediate taxation and the trustee can invest the untaxed proceeds to generate the high income stream. But that's

not all. The income tax charitable deduction to which you are entitled for our remainder interest can act to shelter some of your income for up to six years.

Of course, not every form of appreciated property is appropriate for funding a charitable trust. And then, too, such a trust is not appropriate for everyone. Certainly, a strong charitable motive should be part of every planned gift so that both the charity and the individual donor benefit from the gift arrangement. But given the flexibility of charitable trusts, careful planning may make it possible for you to help restore lost income from a 401(k) or supplement other retirement plans such as an IRA.

5 Consider Energizing Your Fixed Income with a Gift Annuity

With stocks in the doldrums, fixed income investments have become increasingly attractive. A major problem now — in this low-interest rate environment — is finding a fixed investment with a decent return. Money market funds are below 2%, CDs are not much better unless you are willing to tie up your money for a long period of time. And bonds, particularly corporate bonds, have their risks should interest rates move higher, as they eventually will.

Again, there is a viable option for individuals who may be interested in furthering our good work. It is called a charitable gift annuity. Since it may enable some individuals to significantly increase their income (perhaps as much as 30% to 50% tax

free), it has become quite popular with many of our donors. Some have even made repeat gifts.

In brief, here's how the gift annuity works. In exchange for a gift of cash or property (usually appreciated securities), the University of Miami agrees to pay you and/or another a fixed annuity over your lifetime(s). As the table shows, the higher the age of the annuitant at the time of the agreement, the higher the guaranteed rate. In addition, the donor receives an immediate income tax charitable deduction for our deferred interest. But we do not receive our portion until after the income benefits end.

<i>Age</i>	<i>Payout Rate</i>
65	6.7%
70	7.2
75	7.9
80	8.9
85	10.4
90	12.0

The gift annuity, of course, is not for everyone. But it is a mutually beneficial arrangement under which some donors may actually double or triple their rate of return while having the satisfaction of knowing their gift will ultimately further our good work. Gift annuities can also be arranged for working professionals who need tax relief now but their payments deferred until a later time, say, when they begin their retirement years.

It's easy to implement a gift annuity — so easy, in fact, that you may be able to do it over the phone. Certainly, it's worth exploring at year's end, particularly if you have CDs that are coming due. Another idea might be to cash out U.S. savings bonds that have stopped earning interest to fund your gift annuity. Why not contact us to find out how you might benefit? You can do so without any obligation whatsoever.

Should You Make Estate Planning Part of Your Annual Review?

As you do your tax and gift planning at year's end, you may want to check with your financial advisors to see if your estate plan is still up to date. Keep in mind, the 2001 Tax Relief Act was very far-reaching in scope and involved key areas of planning such as income taxes, estate taxes and retirement plans. Many of the provisions are either phased in or phased out over the next few years. So for these years it's very important to monitor your plan. Indeed, it may make sense to review your estate plan annually as a part of your year-end planning.

If this idea appeals to you, you may want to send for our bonus booklet, *Estate Planning — Why It's Still Important*. For a free copy, simply check the appropriate box on the enclosed card. We wish you the best of luck with your year-end planning. Please don't hesitate to contact us if we can help you plan a gift that is both personally and financially rewarding.



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