Flash! News from the Pomona Plan

A Financial Guide for Friends and Alumni of Pomona College (800) 761-9899

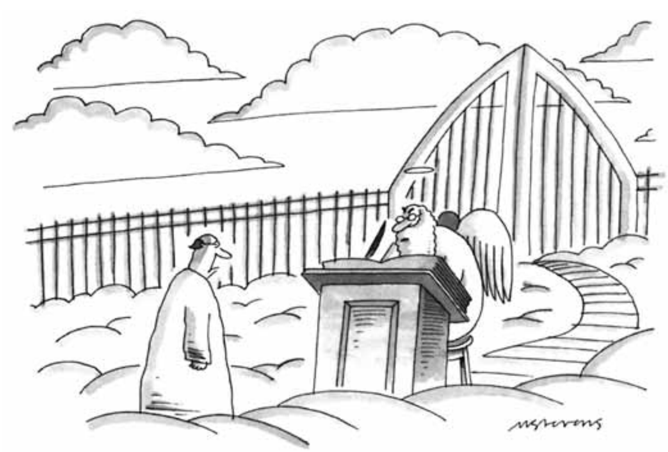
Fall 2011

Have a Trust But Don't Need the Income?

Make a Gift of the Income Interest and Receive a Deduction

Scenario: Paula G, 80, has been a loyal friend and supporter of Pomona for many years and has made regular gifts to support our operational budget as well as larger gifts for special projects. Ten years ago she created a charitable remainder unitrust that is now currently worth $200,000. The trust will pay her $12,000 this year.

At this stage of her life Paula finds she has more than adequate income and would like to find a way to do something significant for the College that would also reduce her current and future taxable income.



"You had more money than God. That's a big no-no."

Q: After speaking with her advisors, which option does Paula choose?

A. She gives Pomona some undeveloped real estate she owns.

B. She creates another charitable remainder unitrust.

C. She relinquishes her income interest in her unitrust.

D. She funds her gifts with bonds.

Paula gives up her income interest in the charitable remainder unitrust and takes a federal income tax deduction for the present value of the payments she would have received over the balance of her life expectancy. Based on her current age, the deductible value of her right to receive 6% of the annual value of the trust is approximately $73,500.

This saves Paula almost $26,000 in federal income tax for 2011. In addition, because she will not receive payments in the future her tax in future years will be reduced. ***Answer:*** C

Inside:

Avoiding Capital Gains Tax

Scenario: Gene W, 70, retired recently. An active investor, Gene has been quite pleased with the growth he has been able to achieve with his portfolio and would now like to convert some of his holdings to higher-yielding investments, especially since he has some concerns about the future direction of the stock market. However, he does not find the current yield on income-producing investments to be attractive and is reluctant to sell stock which would generate taxable capital gain. Gene would also like to find a way to make a meaningful gift to Pomona.

Q: How might Gene best achieve his goals?

A. He can transfer stock to Pomona in exchange for a charitable gift annuity.

B. He can take a chance on a junk bond fund and give Pomona part of the increased yield.

C. He can enter into a reverse mortgage agreement on his house.

D. He can sell his stock and wait for higher interest rates.

Gene can acquire a charitable gift annuity from Pomona, and he would receive a guaranteed amount each year for the rest of his life (based on the value of the stock he transfers). For instance, if Gene transferred $100,000 worth of stock to the College, we would agree to pay him $7,770 each year for life based on his age of 70.

Gene would be able to take a sizable charitable tax deduction this year. Better still, he would have to recognize and pay tax on only a portion of the gain he would have realized had he sold the stock, and he could spread the recognition of that reduced amount of gain over the period of his life expectancy. ***Answer:*** A

A Secure and Fulfilling Retirement

Scenario: Carol, 50, is a generous supporter of Pomona. In addition to her charitable objectives, one of her primary financial goals is to be able to enjoy a secure and fulfilling retirement when the time comes. She has availed herself of all traditional tax-advantaged retirement savings options open to her and wants to do more. She is looking for ways to combine her charitable and retirement savings goals.

Q: Which of the following addresses both of Carol's goals simultaneously?

A. She can downsize her home.

B. She can make charitable gifts that create a source of future cash flow.

C. She can buy bonds that mature in 15 years.

D. She can open a new savings account.

Carol can take advantage of a variety of creative opportunities that allow her to make charitable gifts to benefit Pomona and retain the right to receive annual payments based on the value of those gifts. There are even some plans that would let her defer part or all of the payments until retirement, when it is most needed. ***Answer:*** B

Example: Carol decides to contribute $25,000 each year for the next 15 years to a special trust that will pay her 6% of its annual value each year for life. At her death, the remaining trust assets will pass to Pomona.

Because Carol really does not need additional cash flow now, she includes provisions in the trust that she will receive payments only from the trust's income, rather than appreciation, for the first 15 years. If the trust is invested primarily for growth instead of income, then little or nothing will be paid out in those first 15 years and the trust will grow much more quickly. This means Carol will receive larger payments at retirement.

Through contributions you can receive charitable deductions and *reduce income tax.*

For instance, if the trust appreciates at an average rate of 7% per year, then Carol will begin receiving payments of almost $38,000 when she turns 65. Over her life expectancy she will collect about $784,000. During the years she is making contributions to the trust, she is entitled to charitable deductions of approximately $108,000, saving her almost $38,000 in federal income tax. At Carol's death, the remaining trust assets, more than $758,000, will pass to Pomona.

Where Should You Park Your Money in This Economy?

The stock market goes up and down, up and down, like a five-year-old bouncing on a bed. The nation's credit rating is downgraded. The economy seems unable to shake off a lingering head cold called "recession."

It is enough to make an investor head for the exits. At the very least, you are likely looking for the safest place to park your cash where it can still work for you with limited risk. Experts have a few suggestions for those who are afraid of investing in stocks.

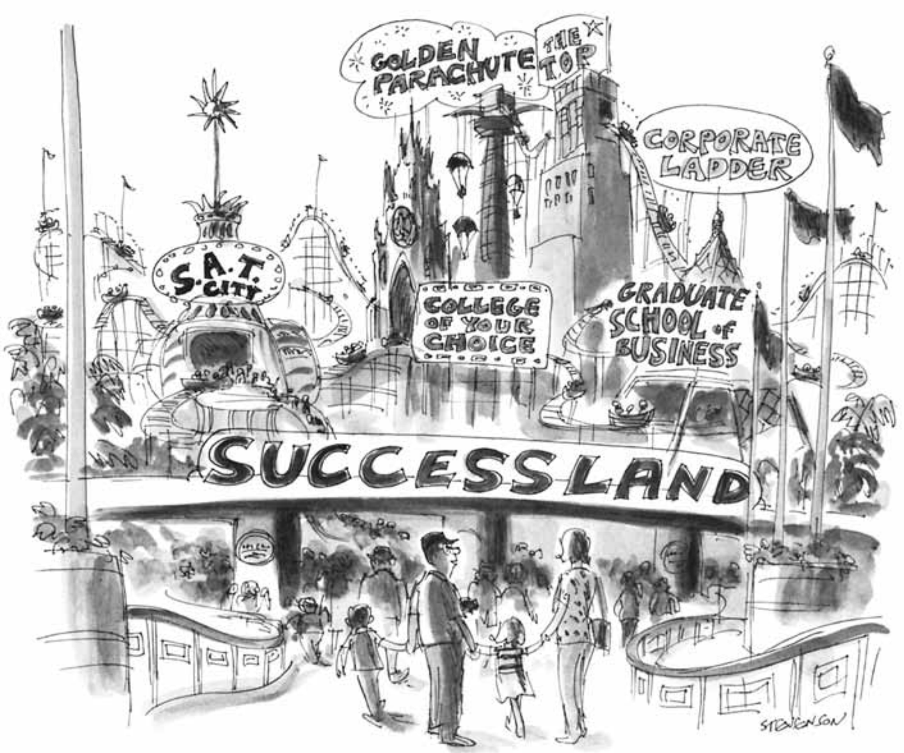
An insured credit union or bank savings account or money-market account is "pretty much a no-brainer today," according to money.cnn.com/2011/08/11/pf/expert/investing_stocks.moneymag/index.htm. Accounts return better yields than money-market mutual funds by roughly a full percentage point or more. In addition, if you qualify you could have up to $250,000 in deposit insurance offered through the National Credit Union Association. The same is true of an FDIC-insured bank account.

Do not try to earn money by going to a bond fund. Those could lose value if interest rates rise. Likewise, while some of the "safe havens" such as gold, Swiss francs and dividend-paying stocks are attractive, their prices fluctuate just like stocks.

Certificates of Deposit (CDs): As www.smartmoney.com/invest/strategies/where-to-park-your-cash-1312827328265/ points out, many banks have eliminated the least popular features of CDs, namely, steep early-withdrawal penalties and locked-in interest rates. Even so, you may have to invest long-term to get the best result: The average yield on a one-year CD is just 0.44% compared to 1.61% on a five-year CD, and some of the most liquid CDs limit the timing and frequency of withdrawals.

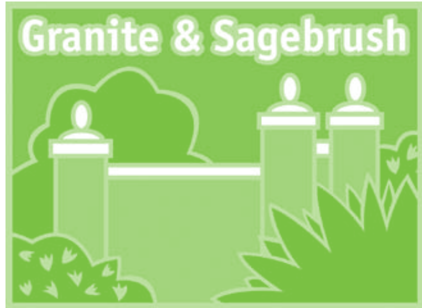
Mutual funds offer flexibility and ease; they rarely require a minimum balance or impose monthly fees. Some of the highest yields (1% to 1.15%) can be found at online banks, including Ally Bank and Discover Bank. But unlike the yields on CDs, which are guaranteed, rates on money-market accounts can drop whenever the bank chooses to adjust them. Today's attractive yield might not look so good tomorrow.

Consider a charitable gift annuity with Pomona. No matter what happens to the economy or interest rates, the rate of return for your gift annuity is fixed for life. (It is typically higher than the rate for CDs.) You and a loved one will receive income for as long as you live, and you will also earn a charitable income tax deduction. A gift annuity provides certainty in uncertain times and the reassuring satisfaction that you are helping Pomona. Instead of parking your money, you are putting it to work for you *and* Pomona.



"It's more relevant than some of the other theme parks we've been to."

From its founding in 1887, Pomona College has benefited greatly from bequests made by its generous alumni and friends. Traditionally, bequests have provided a sound fiscal foundation for the excellence of the College.



Granite and Sagebrush, the Bequest Society of Pomona College, was established to recognize those individuals and families who will make gifts to the College through their estates. The name of this honorary society is taken from the book of the same title written in 1944 by Professor Frank Brackett, an astronomer and one of the founding faculty of the College. In this history of the College, Professor Brackett noted, "Here are the foundations of granite amid the wilds of sagebrush, *Granite and Sagebrush*."

This past year we embarked on the public phase of *Campaign Pomona: Daring Minds*, our ambitious effort to secure $250 million in support for the College's strategic vision to:

- Enhance teaching and learning with a focus on creativity and active engagement;
- Improve critical facilities that support living and learning; and
- Increase affordability through support for scholarships.

We invite you to join in a partnership with us in achieving these aspirations and helping to prepare our remarkable students to make a difference in the world. Alumni and friends who join *Granite and Sagebrush* during this effort will also be honored in the campaign honor roll.

FROM THE DIRECTOR:

When Is Selling Property for Less Than Its Value a Bargain? —Problem Solved!

Stephanie and Alexander Krasi '67 met as students at Pomona, marrying soon after graduation. Following an active life of business and travel, they are beginning their retirement years with a nice nest egg, a home and a vacation house near the beach. They do not want to give up their weekend beach getaways but are ready to give up their primary residence. They need just over $300,000 in cash to fund the entry fee for the retirement community they have selected and have started to think about making a significant gift to their alma mater's capital campaign, *Daring Minds*.

In the *Flash!* newsletter the couple reads about bargain sales of a home, and they realize that they can meet their financial and philanthropic goals while also avoiding the expense and trouble of selling in a difficult real estate market. Intrigued, they call the office of Trusts and Estates. They learn that a bargain sale is just that, the sale of the home to the College for a below-market price. Because their home is worth $675,000, they would sell the home to Pomona for $300,000 and donate the balance of $375,000 to create a scholarship in honor of their favorite Classics professor, the late Harry Carroll.

Once the home is purchased from them, a qualified appraisal of the home is completed to establish the charitable deduction for the gift. The College's own real estate office then places the home on the market and expertly sells it with the net proceeds of the sale being transferred to the new Harry Carroll Scholarship. The Krasis move into their retirement home, they fund the new Carroll Scholarship, and they avoid the burden of the property sale. *Problem solved!*

Looking for creative ways to merge your financial and philanthropic goals? Let us show you how a bargain sale might just be the deal of a lifetime.

Robin Trozpek
Director

Trusts and Estates
550 N. College Avenue
Claremont, CA 91711
(800) 761-9899
(909) 621-8143
(909) 621-8654 fax
pomonaplan@pomona.edu