

On Eagles' Wings

A SERIES OF GIFT PLANNING NEWSLETTERS FOR ALUMNI AND FRIENDS OF FLORIDA GULF COAST UNIVERSITY

Provide More for Your Family

Gift Planning with Retirement Plan Assets

Much of your accumulated wealth is probably in some form of retirement plan — an employer's pension or profit-sharing plan, a Keogh plan if you are self-employed, or perhaps a salary deferral plan such as a 401(k) or 403(b) plan. In all likelihood you also have one or more traditional IRAs. All offer tremendous opportunities for growth because the amounts in such plans generally are not subject to income taxation until the funds are withdrawn.

But the tax picture is by no means as rosy as it initially appears. The downside comes when you or your heirs take distributions from your retirement account, and taxes have to be paid on retirement wealth. It may surprise you and your heirs to see how your thrift and wise investment decisions can wind up providing less than what you were counting on.

In this issue of *On Eagles' Wings*, we look at the "hidden taxes" that can severely deplete your retirement accumulation and how smart gift planning can help minimize your total tax burden and, at the same time, enable you to do more to support Florida Gulf Coast University. Whether you are already retired or eagerly looking forward to its arrival, I encourage you to share these ideas with your financial advisors or give me a call at (239) 590-1077. I'll be happy to help you explore your options that benefit you, your family, and FGCU.



Warmest regards,

A handwritten signature in black ink that reads "Pete".

Peter C. Lefferts, Ed.D.
Director of Planned Giving



Tax Reform and the Taxation of Your Retirement Assets

Retirement plan assets are potentially exposed to a harsh, multi-pronged tax system: federal income taxes, federal estate taxes, state income taxes and state death taxes. Some people who fail to plan carefully may see these combined taxes take as much as 60 percent of their retirement accumulation — hardly the reward they expected from years of hard work and sacrifice. Here's a brief overview showing how these taxes can affect your retirement savings and what you can do to stop the tax erosion of your retirement nest egg.

How Much Will Be Lost to Income Taxes?

Retirement plan distributions generally are taxable as ordinary income in the year received. Under the current federal income tax laws, the marginal tax rate on ordinary income can be as high as 35 percent.

If your state of domicile and/or locality levies an income tax, the distribution may also be subject to these taxes, which could add several more percentage points to the total income tax depletion.

Moreover, "premature" distributions may trigger a 10 percent penalty tax in addition to the regular income tax. A distribution is generally premature if taken before age 59-1/2, unless certain exceptions apply. A plan distribution following a participant's death is one of the exceptions, so the

10 percent tax is only a factor for lifetime distributions.

How Much Will Be Lost to Death Taxes?

If a retirement plan participant has assets remaining in the plan at death and bequeaths them to individual heirs (other than a surviving spouse), the remaining accumulation at death will be subject to federal estate taxation. The federal estate tax rate is 46 percent on taxable estates over \$2 million in 2006 (and subject to change by Congress).

State death taxes can deplete retirement accounts even more at a participant's death. Moreover, many experts think states will raise their death taxes in the coming years because of fiscal shortfalls and unfavorable changes in federal laws.

Why It Pays to Know about "Income in Respect of a Decedent"

From a tax point of view, some assets carry a heavier tax burden than others. Such is the case with those classified as "income in respect of a decedent." If this sounds complicated, stay with us as we explain income in respect of a decedent or "IRD." Planning with an eye on IRD can provide important tax relief.

When your life insurance benefits are paid to your beneficiary, or you leave securities or real estate to an



Terri and Doug St. Cerny with the Douglas R. St. Cerny Endowed Scholarship Fund recipient Julie Chronister (center).

heir, such property is potentially subject to the federal estate tax — but not to the federal income tax. This contrasts with the treatment of certain assets that the law calls IRD. These assets are "tax-cursed" because they are potentially subject to both the federal estate tax and the federal income tax.

For example, when a distribution is made from a tax-deferred retirement account, the government "makes up" tax-wise for letting you avoid federal income taxes on (1) contributions to the plan and (2) the investment earnings inside the plan while the account was building. If this distribution occurs after the plan participant's death, the federal estate tax may apply to the decedent's estate, as well as the income tax on the distribution. So, the heirs are left with the unpleasant possibility of double taxation — or even quadruple taxation when state taxes are considered.

Tax law allows an estate beneficiary who has received IRD (an asset

that is subject to federal income tax) to deduct the federal estate tax paid on the IRD against the income tax due. But this only partially alleviates the multiple taxation problem.

Even with partial tax relief, IRD items are not as attractive to the individual beneficiaries of an estate as other types of property which carry no income tax consequences. However, we can make an important qualification. If the recipient of the IRD item is an income-tax exempt charitable organization such as Florida Gulf Coast University, there is no income tax liability when the IRD item is received. In addition, the estate can deduct charitable bequests in computing federal and state death taxes.

The upshot is that it often makes sense to —

- fulfill family bequests with non-IRD assets that do not carry income tax burdens, and
- use IRD items, such as retirement plan assets and IRAs, to make charitable contributions to Florida Gulf Coast University.

Example: Bill, a widower and loyal supporter of FGCU, intends to make a generous bequest to us in his will. The bequest will be in the form of XYZ stock. He plans to leave the balance of his estate, including significant retirement plan accumulations, to his two adult children. Here is the likely tax impact (in 2006) of his current plan on his retirement plan assets:

Top federal estate tax bracket of his estate	46%
Top state death tax bracket of his estate	8%
Top federal income tax bracket of his heirs	35%
Top state income tax bracket of his heirs	4%
LESS: federal income tax deduction for federal estate tax paid on IRD	-30%
Effective rate of combined taxes	63%

*This will depend on how large the retirement plan assets are as a percentage of the estate. We have made an assumption here for illustration.

Under Bill's current strategy, only 37 percent of his retirement plan assets will be left to his children — hardly what Bill was hoping to achieve after all those years of hard work, thrift and smart investment choices.

As an alternate strategy, Bill can designate FGCU as a beneficiary or partial beneficiary of the retirement plan. The assets will not be subject to income taxes or death taxes to the extent they are used to satisfy the bequest to us. What's more, the XYZ stock, if left to the children, will receive a "stepped-up basis" to its fair market value at Bill's death, which may save capital gains taxes for the children should they later sell the stock. In brief, everyone comes out ahead!

Bill is like many of our alumni and friends who want to make a lasting expression of their commitment to FGCU. By funding his generous gift with retirement plan assets, he can realize his philanthropic dream at a far lower after-tax cost than might be possible otherwise, and still provide for his family.



Marilyn Workman (far left), Frances Leeper (third from left) and Virginia Booth (standing) with the American Association of University Women Endowed Scholarship Fund recipients Andrea Voss (second from left) and Erica Cotto (fourth from left).

Questions about Retirement Plan Assets

Do you have questions about retirement plan assets and how they are best utilized? For example:

- What kinds of retirement assets can I use to make a charitable gift?
- Why are retirement assets subject to income taxes for heirs?
- How do I donate retirement assets?

For answers to these and other frequently asked questions, just contact Pete Lefferts at (239) 590-1077, or return the enclosed card. It would be a pleasure to be of service.

How to Learn More about Planning with Retirement Assets

Since this is a relatively new area in financial, estate and gift planning, remember to consult your personal tax advisor before making any decisions. We've also prepared a booklet which answers many questions about the charitable use of retirement plan assets. It's called *Retirement Plan Assets — Leaving More to Your Family and Charity*. You can receive a complimentary copy simply by returning the enclosed card.

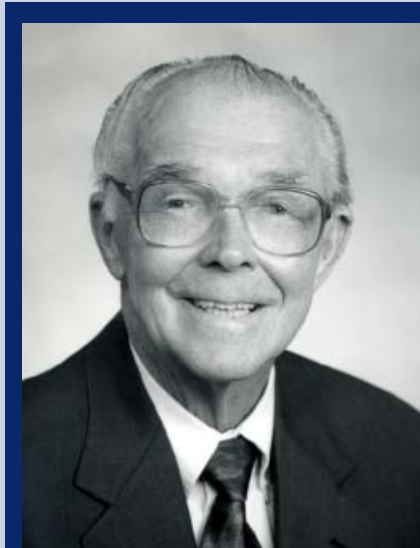
I hope you have enjoyed this issue of *On Eagles' Wings*. If you have been thinking about a major gift to Florida Gulf Coast University, I urge you to schedule a campus visit to meet our faculty, students, and staff.

Let Us Hear from You!

Please join me for a personal tour of campus and to learn more about our newest programs in music, engineering, forensics, and our move to NCAA Division I athletics. Simply complete and return the enclosed reply card or give me a call at (239) 590-1077.

Naming Opportunities

I encourage you to consider the many advantages of using retirement plan assets to accomplish your family and philanthropic goals.



Ft. Myers resident Bob Shrader has included retirement plan assets in his deferred gift to FGCU that will be added to the *Susan Price Shrader Memorial Scholarship Endowed Fund* that he created in 2005.

Endowed scholarships, professorships, and academic programs provide lasting and meaningful support for students. Call us today at (239) 590-1077 to see how you can support students, promote your favorite academic discipline at FGCU, and create a lasting legacy in honor of your family name.

Our Legal Name

Our official legal name is **Florida Gulf Coast University Foundation, Inc.** located in Fort Myers, Florida. It is important that this name be used in all wills, deeds, and any written documents that evidence a gift or bequest to the University.



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