This booklet illustrates how having a thoughtful, well-planned will can help your family and the organizations you care about, through careful selection of bequests and use of strategies that will reduce taxes. Highlighted are such ideas as:

- Will planning options to meet your personal objectives;
- Bequests that provide philanthropic support and save taxes;
- How you can “share” a bequest between a family member and a worthwhile cause, and reduce death taxes, as well;
- What you should do with “tax-burdened” assets;
- Ways to make charitable bequests outside your will.

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THE IMPORTANCE OF A WILL

Will you work, save, accumulate property – and then let the state decide how your assets will be distributed when you die? Without a will, you are doing just that. And, you accomplish something else without a will – you probably increase the “death taxes” your estate may have to pay.

Even if you have a will, periodic review is important. Federal and state law changes may occur. A move to another state may require a change in the language in your will even though your objectives have not changed. A beneficiary’s circumstances may change – or, a beneficiary may die. Will drafting can be quite complex – it is not a do-it-yourself project. Your attorney can tell you whether your will needs updating.

TYPES OF BEQUESTS

To accomplish your objectives, you may use several different types of bequests in your will. The general bequest is perhaps most common. It directs that a set amount of money be paid to a particular beneficiary or beneficiaries. The general bequest is a primary charge against your estate and must be satisfied, even if property must be sold to obtain the cash.

The specific bequest directs that a particular property be awarded to a beneficiary. There is a danger in this type of bequest. Under a doctrine of law known as “ademption” a specific bequest can be satisfied only with the specific property. If you do not own the specific property when you die, the intended beneficiary receives nothing. Other assets of the estate cannot be substituted.

The residuary bequest directs that a beneficiary (or beneficiaries) receive everything remaining in your estate after payment of taxes, debts, settlement costs and general and specific bequests.

A bequest, whether general, specific or residuary, can be either contingent or absolute. If you simply bequeath $5,000 to an individual, the bequest is absolute. But even an absolute bequest will generally fail if the beneficiary dies before you. Therefore, it’s common to name a contingent beneficiary to take the bequest if the primary beneficiary dies before you.

The bequest made in your will can be immediate or deferred. Immediate bequests are, as the name implies, payable immediately after your death. Deferred bequests
are payable at some future time. For example, income from property can be awarded to one beneficiary (a spouse, for example) for life (an immediate bequest) with the property itself to pass to a second beneficiary (a child) upon the death of the first (a deferred bequest).

**Your Bequest to Our Future**

You can use any of these basic types of bequests to benefit our programs – a general bequest of a stated sum of money, a specific bequest of a described piece of property, a residuary bequest, an absolute or contingent bequest or an immediate or deferred bequest. Whatever the form, careful planning and skilled draftsmanship can be of great importance.

How do you want us to use your bequest? Your will can specify your objectives. There are splendid opportunities available to benefit an area of endeavor in which you are particularly interested or to memorialize a loved one. You’ll want to consider carefully exactly how you want the fruits of your lifetime of effort put to use. We’ll be happy to discuss the many opportunities available to make a personally satisfying bequest.

You’ll also want to carefully plan the financial aspects of your charitable bequest.

**Immediate Charitable Bequests**

Changes in federal estate tax laws mean that millions of Americans will no longer be affected by the federal estate tax. Further revisions in the estate tax laws are expected in the near future, and you should check with your advisers as to your own situation. If the federal estate tax is still a threat to your estate, keep in mind that everything you leave for our benefit is fully deductible for federal estate tax purposes. With careful planning, your bequest may even save income taxes for your estate.

**Example:** Miss Smith directs in her will that $100,000 in U.S. savings bonds be paid to us upon her death. Her cost in purchasing the bonds was $50,000. If her taxable estate totals $6,000,000, the bequest will save her estate as much as $35,000 in federal estate tax. Furthermore, her estate (or her heirs) will avoid income tax on the $50,000 buildup in interest on her savings bonds. Depending on her place of residence at death, she may even save...
state death taxes. Conclusion? The benefit we derive from her bequest is far greater than the cost of the gift to her survivors.

DEFERRED CHARITABLE BEQUESTS

By making a deferred bequest to assist our programs, you can maintain your family’s security and guarantee that we eventually will benefit. If you are single or widowed, a deferred bequest may actually increase the income available to your survivors after your death. The reason: Although we will not receive the property until some future time, your estate can immediately deduct, on its estate tax return, the full present value of our deferred interest in the trust. Income tax savings also may be available.

In setting up a deferred bequest there are different options, depending on your marital status.

SINGLE PERSONS, WIDOWS OR WIDOWERS

Option One – The Annuity Trust: You can direct that the noncharitable beneficiary (e.g., a friend or member of your family) be paid a specific annuity for his or her life. For example, you can bequeath $100,000 to a trust under which your daughter will be paid $5,000 a year for her life. She will be paid this stated sum without regard to the income of the trust or the investment experience of the trust. She has a fixed annuity which she can’t outlive unless the trust principal should be entirely consumed (which would normally occur only if there were substantial investment losses).

Option Two – The Unitrust: You can direct the trustee to determine the fair market value of the trust assets each year and to pay a specified percentage of this value to your noncharitable beneficiary. For example, you can bequeath $100,000 to a trust and direct that your sister receive annual payments equal to 6% of the value of the trust each year. In the first year, your sister will be paid $6,000 (6% of $100,000). And if the trust grows in value so that it is worth $160,000 in the fifth year, your sister will receive $9,600 in that year. Of course, if the value of the trust declines, the amount payable to your beneficiary will also decline.

MARRIED COUPLES

Married people have “Option One” and “Option Two” available to them, just like unmarried or widowed persons. They also have a third option: They can set up a so-called QTIP trust in their wills that pays all the trust income to the surviving spouse for life, with the trust principal coming to us at the survivor’s death. Any property placed in the trust will qualify for the 100% estate tax marital deduction at the death of the first spouse, and for the...
100% estate tax charitable deduction at the death of the surviving spouse. This arrangement is more flexible than the other trust plans we described.

The trust plans outlined in options one and two will produce favorable estate tax results identical to the “QTIP” trust for married persons. It’s important to note, however, that the “QTIP” trust can’t be used where, for example, a husband wants trust income paid to his wife and a second person. The husband in such a situation should establish an annuity trust or unitrust (option one or two). With proper planning, the husband’s estate tax credit and the charitable deduction can eliminate any estate tax on the property placed in the trust. It won’t qualify, however, for the marital deduction.

There may be other options open to you in planning your bequest to our future. Weighing all the options in light of your objectives and the needs of your family can permit you to provide maximum financial security for your family, gain the greatest satisfaction from your bequest to us and minimize your federal estate tax liability.

**Computing the Deduction for a Deferred Bequest**

The amount of the estate tax deduction allowable for a deferred bequest to charity under option one or two depends on three factors: (1) the annuity or percentage of value payments that will be distributed to your noncharitable beneficiary; (2) the length of time the bequest to us is deferred; and (3) interest rates and IRS tables in effect at the time of death.

Please feel free to ask for more precise information. We want to help you plan an economical and satisfying memorial gift. And the deferred bequest may be the perfect answer, for it may actually increase the estate available to produce income for your family’s financial security.

**Deferred Bequests Can Be Flexible**

Your bequest to our programs can be deferred for more than one life. Assume, for example, that you have two elderly sisters for whom you want to provide financial security after your death. Consider creating a trust under which an amount equal to 5% of the value of your estate will be payable to them until both have died, at which time the property
will pass to us. Because the present value of our deferred interest is immediately deductible, such a bequest can save many thousands of dollars in unnecessary estate tax.

**Temporary Bequests of Income**

Just as you can create a trust under which immediate benefits will be paid to your family for life and the property will pass to us at some future time, you can reverse this arrangement and direct that we receive specified benefits for a certain period of years after which the property is to be distributed to your family. The value of our right to benefits is immediately deductible for estate tax purposes.

We can provide you with specific figures showing the dramatic tax savings that can result from a bequest of immediate specified benefits for our future.

**Some Alternative Plans**

This booklet has listed three methods whereby you can benefit our important work at your death: an immediate and outright bequest, a deferred bequest or a bequest of a right to receive immediate benefits. There are other methods.

Perhaps you would prefer to name us as the beneficiary of an insurance policy on your life. The proceeds will completely escape the federal estate tax. Or you can give us a deferred interest in the proceeds of an insurance policy on your life. That way, your beneficiary will receive a guaranteed return on the proceeds for his or her life and the present value of our deferred interest will be deductible for federal estate tax purposes.

If you have established a revocable trust to handle your investments, consider naming us to receive all or part of the trust property at your death – or at some time thereafter. Such a plan can produce the same favorable tax consequences as a bequest.

Consider making a deferred gift during life. Though you reserve a right to receive a specified income during life – and income is also payable to a member of your family after your death – such a gift can give rise to an immediate income tax deduction as well as a later estate tax deduction.

**Techniques For Planning Bequests**

**Specific Charitable Bequests:** If you have made a bequest to us of specified property (e.g., stock in XYZ corporation),
you ought to remember the word “ademption.” Your objective of benefiting our programs will be frustrated if the exact stock described in your will is not part of your estate when you die.

Assume, for example, that your will leaves us 100 shares of AT&T stock. Assume further that you sell the AT&T stock and invest the proceeds in General Motors. At your death, because you do not own AT&T stock, nothing will pass to us. The same rule applies to specific bequests to individuals. So whenever you review your will, pay particular attention to specific bequests.

**Check State Laws:** In some states, limitations are placed on a person’s freedom to dispose of property as he or she sees fit. For example, it may be necessary to make certain minimum provisions for specified family members. Failure to comply with state requirements can create costly complications and unduly prolong the administration of your estate.

**Deferred Bequests Need Careful Planning:** The tax law provides exciting rewards to encourage your bequests to worthwhile causes. But at the same time, the laws lay down several very specific requirements for obtaining these rewards – particularly in the area of deferred bequests. To obtain a charitable deduction for the present value of a deferred bequest, you must establish an annuity trust or unitrust, or you must make the bequest to a pooled income fund maintained by a qualified institution, or leave funds for a charitable gift annuity. Another option is to leave a personal residence or farm to charity, reserving lifetime occupancy to a friend or family member.

You can save considerable income taxes if you choose to set up your deferred bequest as a lifetime trust, with income paid to you for life and survivor benefits to a spouse, friend or family member. We would benefit only when the trust ends – after the death of the last surviving income beneficiary. A $100,000 lifetime charitable remainder unitrust that pays 6% annual income for the lifetimes of two people age 75 would produce an income tax charitable deduction of about $43,000 in the year of the gift. Furthermore, the donor’s estate would enjoy the same tax advantages as if the trust had been established in a will.

Careful, skillful planning is absolutely necessary. Our experienced development staff is always ready to help you plan a deferred gift that is both personally satisfying and financially rewarding.

**Special Problems of Contingent Bequests:** If a bequest for our use is contingent upon an event after your death, there is a distinct possibility that the question of deductibility will arise.
The general rule is that no deduction is allowable unless the possibility that we will not receive the bequest – or that we will not lose a bequest we have received – is so remote as to be negligible.

Consider Tax Allocations: Generally, your bequest should be relieved of any obligation to pay death taxes. Otherwise, a vicious circle is created whereby the amount of tax depends on the amount of the charitable deduction and the charitable deduction depends on the amount of tax.12

In many states, the law is clear that bequests to charity – even in the form of residuary bequests – are free of any obligation to pay death taxes. In other states, a specific provision in your will is necessary to avoid this pitfall.

Choose Property for Bequests Carefully: In planning your will, you may find that a particular piece of property might serve as an ideal gift for our purposes. Or consider a bequest of “income in respect of a decedent.” This is any income due you at your death but not yet paid, such as deferred compensation, accounts receivable or savings bonds. Your other beneficiaries would have to pay tax if they received these amounts, but we would keep the full value as a tax-exempt organization.

Benefits of Leaving Bonds: Many people own U.S. savings bonds, tucked away, perhaps, in a desk drawer or safe deposit box. Savings bonds are valuable, but they may be subject to heavy federal income taxes and state and federal “death taxes” in a person’s estate. For example, heirs who receive $100,000 in savings bonds from your estate may have to pay income tax on $50,000 or more of built-up interest. Furthermore, the full $100,000 could be subject to federal estate tax of 35%, leaving them with only a fraction of the bonds’ value. You can erase all taxes on savings bonds at death by changing your will or revocable living trust to specifically leave bonds for our benefit. Savings bonds that we receive pass 100% free of estate taxes and, as a tax-exempt organization, we would owe absolutely no income taxes on the bonds. In other words, every dollar could be used for our programs, in contrast to the shrunken after-tax amount that would be available to other beneficiaries.
These tax benefits may allow you to do more for our future than you might have thought possible.

**Consider a Percentage Bequest:** Because the value of your estate may change substantially between the time you sign your will and the time of your death, it is sometimes desirable to leave a percentage of your estate – rather than specific property or a specific sum of money. So consider a percentage bequest. It may be the best method to carry out your objectives.

**Consider a Revocable Trust Plan:** In many states, attorneys recommend a revocable trust be used as a partial substitute for a will. The trust is set up during your life. You may make your life insurance and employee benefits payable to the trust. And you may want to place securities or other property in the trust. But the whole thing can be changed, or canceled, during your life. At your death, the trust becomes absolute and irrevocable.

With a carefully planned trust arrangement, your will can simply direct that all or part of your estate be paid over to the trustee. Depending on your particular circumstances, the revocable trust and pour-over will may offer important advantages over the usual will arrangement.

**Choose Your Executor Carefully:** It is important that you choose the proper person to administer your estate. Settling an estate is frequently a complex task. Consider naming your attorney, or the trust department of your bank, or an experienced friend or relative. Though the executor clause of your will may be the last item in a lengthy document, your selection of the proper executor can mean a great deal to the success of your entire estate plan.

**Review Your Will Periodically:** Your plans for the disposition of your estate – and for the financial security of your family – should be reviewed every year or two. It takes only a few minutes to stop at your attorney’s office.

### PROVIDING ASSISTANCE OUTSIDE YOUR WILL

It isn’t difficult to add a charitable bequest to your will. A simple codicil, drafted by your attorney, will get the job done. But there also are ways you can continue your support of our programs without changing your will. Here are some ideas:

**Beneficiary Designations** – As noted earlier, you can name us the beneficiary of your life insurance – just contact the company. A better idea may be to transfer actual ownership of the policy to us, or buy a new policy for our benefit. Your gift will entitle you to an income tax deduction, and future premium payments will be tax deductible.
People who own IRAs and other retirement accounts are often shocked to learn that up to 60% of their accounts can be lost to taxes at their deaths. A combination of “death taxes” and income taxes can virtually confiscate your savings, leaving little remaining for your heirs. You can leave your IRA to charity, however, and escape taxes 100%. It’s also possible to use your IRA to benefit both family members and our future, with excellent tax results.

Retirement death benefits can be transferred to a trust that would pay income for 10, 15 or 20 years to a beneficiary, with eventual benefit to our programs. The trust would greatly reduce any federal estate taxes and any income taxes – state or federal – would be minimized upon your death. Retirement account distribution rules allow donors to name charities or charitable trusts as death beneficiaries of part or all of their savings without fear of exhausting the account prematurely. Donors can name charity as beneficiary of part or all of their IRAs without increasing annual distributions during life. Charitable beneficiaries can “cash out” of the arrangement after the donor’s death, permitting the other beneficiaries to use their own life expectancies to calculate future distributions.

_Totten Trusts_ – In some localities, people with savings accounts in their own names can write below their names the words: “as trustee for ___________ (the death beneficiary).” You could write in our name, or the name of a relative or friend, and the contents of the savings account would pass to the named beneficiary at death. You can revoke this arrangement anytime during life. Ask your banker if this technique is permitted.

_P.O.D._ and _T.O.D._ Accounts – Most states permit P.O.D. (payable on death) accounts at banks, building and loan associations, savings banks and credit unions. Depositors may indicate that their deposits – checking, savings, share accounts, certificates of deposit, etc. – be “P.O.D.” to a particular person or charity. The P.O.D. designation can be revoked at anytime and in no way affects your control over the deposit. T.O.D. laws, which exist in all states, permit you to designate death beneficiaries for brokerage accounts.
NOTES FOR TAX ADVISERS

1. For example, in many states if a husband dies intestate and leaves a widow and children or descendants of children, his widow will receive only about one-third of his estate.

2. Twenty-two states impose death taxes; however, bequests to charities generally are not taxed.

3. Example: “I give and bequeath the sum of Five Thousand ($5,000) Dollars to my son, William.”

4. Example: “I give and bequeath all my common stock in the ABC Corporation to my daughter, Alice.”

5. Example: “I give, devise and bequeath all the rest, residue and remainder of my estate to my beloved wife, Mary, to be hers absolutely and in fee simple.”

6. Example: “I give and bequeath $5,000 to my son, William. In the event my said son does not survive me, I give and bequeath the said $5,000 to the wife of my said son, Mary, if she is living at the time of my death.”

7. I.R.C., §2055. There are no limitations on the estate tax deduction for charitable bequests.

8. A deferred interest in a life insurance policy can be created by naming a trust as beneficiary of the policy and creating the deferred interest in the trust agreement.

9. The value of property placed in a revocable trust will be subject to the estate tax at your death (I.R.C., §2038).

10. I.R.C., §2055(e)(2). There is an exception which permits a deduction for the present value of a deferred bequest of a personal residence or farm.

11. This example assumes quarterly trust payments and a 3% midterm rate.

12. See, for example, Est. of Freed, 6 T.C.M. 216; Harrison v. Northern Trust Co., 317 U.S. 476; Est. of Gillespie, 8 T.C. 875; Rogan v. Taylor, 136 F.2d 598 (CA-9); Y.M.C.A., et al v. Davis, 264 U.S. 47.


The materials contained in this booklet are intended to show only some of the ways you can benefit our future and minimize your federal tax liability – with examples of anticipated federal tax liability. Thus, you should not take any action without first consulting your attorney.