

THE HOPKINS PLANNER

A NEWSLETTER ON FINANCIAL, ESTATE, AND GIFT PLANNING

From the Gift Planning Staff

For nearly a decade, charitably minded Americans have been waiting for Congress to enact legislation that allows tax-free rollover of IRA assets to charity. While both House and Senate leaders in Congress professed support for the proposal and the nation's charities clamored for its enactment, political squabbling about other issues thwarted its passage time and time again.

Finally, last summer we were treated to good news: Congress enacted legislation as part of the Pension Protection Act of 2006, which offers certain charitably inclined individuals a golden opportunity to make transfers of up to \$100,000 from their IRAs directly to charity and not include the distributions in their gross income. Many individuals will now find making a lifetime transfer of IRA assets to charity to be a greatly improved and simplified proposition.

If any of the ideas and planning opportunities presented in this issue of *The Hopkins Planner* are of interest to you or may be applicable to your situation, please call or write. It'll be a pleasure to assist you in any way that we can.

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Help Johns Hopkins and Your Family—with Gifts of Retirement Funds

IIRAs, 401(k)s, 403(b)s, and other qualified retirement plans are among the best ways to save for a comfortable retirement. Contributions are sheltered from taxation in the year they are made, and the accumulated funds grow tax-free.



Your reunion gifts to Hopkins help ensure the benefits of a Hopkins education for future generations.

However, this arrangement merely defers income taxes until distribution, at which time Uncle Sam wants his share. When funds are withdrawn, income tax will be paid by the recipient—by you while receiving distributions or by your beneficiaries after your death. If your total estate exceeds the estate-tax exemption amount, all your assets, including your retirement assets, may be subject to estate tax.



Combined, income and estate taxes could confiscate more than 60% of what you intend for beneficiaries. In fact, retirement-plan assets are likely to be the most heavily taxed assets that you can leave to heirs. Considering the potential tax bite, leaving retirement funds to heirs is like locking a favorite sweater in a closet with a couple of hungry moths: Not much will be left by the time your kids inherit it.

The Tax-Free IRA Rollover Is Here at Last

After a decade of near misses, the nation's charitably minded individuals finally scored a significant win when Congress passed and the president signed the Pension Protection Act of 2006 (PPA 2006) into law. While the act implements important pension-reform measures, it also creates a new and exciting gift-planning opportunity that could unleash billions of dollars in new charitable gifts from IRAs without having the amount of a gift included in the donor's gross income. To qualify for this favorable treatment:

- The donor must be 70½ years of age or older;
- The transfers must go directly from the IRA to the qualified charities;
- The gifts cannot exceed \$100,000 per taxpayer per year; and
- The gifts must be outright.*

This opportunity is available for only 2006 and 2007, and no charitable income-tax deduction is allowed.

**Transfers to supporting organizations, donor advised funds, and charitable remainder trusts and for charitable gift annuities do not qualify.*

The Way It Was

Until now, withdrawals from an IRA were treated as taxable income and a corresponding charitable deduction was allowed subject to the percentage limitation on deductibility (50% of adjusted gross income). Ostensibly, the net result had zero tax implication—a “wash” for all practical purposes.

For a number of reasons, however, not everyone was able to utilize fully the allowable charitable deduction. The new law eliminates many of these impediments with respect to direct charitable transfers of up to \$100,000.

So...Who Benefits from the Pension Protection Act of 2006?

- Individuals who are required to take minimum withdrawals
- Individuals whose major assets reside in their IRAs
- Individuals who usually give up to 50% of their adjusted gross income
- Individuals who do not itemize
- Individuals who live in states where a charitable deduction is not available for state tax purposes
- Individuals who are subject to the pesky 2% rule, which requires that itemized deductions be reduced by 2% of adjusted gross income in excess of \$150,500 for this year

As you can see, PPA 2006 has made lifetime transfers of IRA assets a more viable option, but what about the rest of your retirement-plan assets? It is likely that these remaining funds make up a large portion of your estate.

Personalized Illustrations: Visit Our Gift Planning Web Site

We invite you to visit our Web site, www.jhu.plannedgifts.org, designed as an educational service for alumni and friends. You may also be interested in receiving a personalized illustration of the benefits of making a particular gift. We are happy to respond to your request quickly and confidentially. To request a personalized calculation, simply click on “Request a Calculation” and complete the form. We will be pleased to assist you, with no obligation on your part.



Ideal Year-End Giving Opportunities

You still have time to make strategic decisions to defer income to 2007 and maximize deductions for 2006. The earlier that you assess your situation and take action, the more effective you will be

A planned gift to Johns Hopkins can provide multiple benefits.

at realizing your financial, charitable, and personal goals.

Perhaps you would like to make a significant charitable gift but you need the income that a major asset

wish to convert a low-yielding, highly appreciated asset into a source of annual cash flow.

A carefully planned charitable gift to Johns Hopkins can preserve the entire principal value of the gifted asset for reinvestment, produce significantly higher annual income to you, and generate a significant income-tax deduction.

Example: Some years ago Joan and Hal, both aged 72, bought some acreage for \$50,000. Today the property is worth \$500,000.

They would like to turn the land, currently generating a modest rent, into a source of greater income. They are dismayed to discover that a sale at fair-market value would produce capital gain of \$450,000 and generate capital-gain tax of \$67,500 (\$450,000 x 15% tax). That would leave them just \$432,500 to invest. At 6%, that would generate \$25,950 in income each year.



A proud grandpa enjoys sharing his Hopkins' heritage with his grandson.



Our Blue Jay mascot enjoys a photo opportunity with President and Mrs. Brody.

After meeting with their advisors and a member of our staff, they are pleased to discover that they can transfer ownership of the land to a 6% flip unitrust with Johns

Certain gifts, when made by year-end, can help you and Johns Hopkins.

Hopkins and avoid having to recognize any of the paper gain. Joan and Hal will be entitled to an immediate charitable deduction of \$196,345, which in their 35% bracket saves them nearly \$69,000 in income tax.

The trustee sells the land to a developer 18 months later for \$530,000, and being tax-exempt, the trust will not pay capital-gain tax on the sale. The sale of the land causes the flip trust to become a straight unitrust, and the next year the unitrust will distribute \$31,800 (6% of \$530,000) to Joan and Hal. Thereafter, their annual payout will equal 6% of the annual value of the unitrust. At the death of the surviving spouse, the remaining assets in the unitrust will be distributed to Johns Hopkins.

Timing Is Everything!

Certain gifts, when made by year-end, can help you *and* Johns Hopkins. The staff in the Office of Gift Planning is available each day to discuss your personal concerns and create the kind of plan that fits your goals and objectives.

Please return the enclosed reply card to receive a free copy of our new booklet: *Year-End Giving 2006: Building on the Basics*.

You should consult your attorney about the applicability to your own situation of the legal principles contained herein.

Gratitude and Hope Spark Large Bequest to Research Fund

Jim O'Neal retired as president and CEO of Frito-Lay International in 2001. Instead of practicing his golf swing, he found himself battling a life-threatening disease: prostate cancer.

After exhaustive research about his medical options, O'Neal came to the Brady Urological Institute under the care of Dr. Patrick C. Walsh—a choice that he says saved his life. Five years later, O'Neal's cancer is cured, and in hopes of helping researchers eradicate the disease, he and his wife, Nancy, have made a \$5 million bequest intention to The Patrick C. Walsh Prostate Cancer Research Fund.

Jim O'Neal recently talked with The Hopkins Planner and shared his story of recovery, gratitude, and hope.

Everyone remembers where they were on 9/11. I sat in a recliner at Baltimore's Harbor Court Hotel, recuperating from a radical prostatectomy, when I tuned into CNN and watched a national tragedy play out on television.

As we prepared for our return to Dallas, Nancy and I grappled with elation over my successful operation and horror over the national trauma that challenged both individual citizens and our entire country in unprecedented ways.

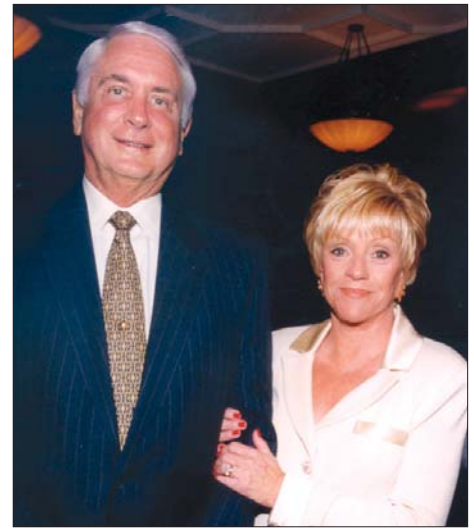
Now, five years later, Nancy and I are counting our blessings. My prostate cancer has been cured, and there have been no more direct attacks on our country. How could we possibly express our sincere gratitude for this rather remarkable situation?

For us, it was easy. Johns Hopkins saved my life. We could hardly put a price on our appreciation, but we knew we could help the scientists and physicians dedicated to stamping out this insidious disease by promising part of our estate to the research fund named for Dr. Walsh.

We revised our estate plan in a creative way that will ensure our future financial needs are met while concurrently providing critical support to existing research efforts. Ultimately, the residual of our combined estate will flow to Johns Hopkins—supporting the work that, hopefully, will lead to earlier detection of prostate cancer and, one day, a cure.

As we were on Sept. 11, 2001, Nancy and I today are full of thanks and hope, this time for the opportunity to leverage our personal good fortune through the exceptional work of Johns Hopkins.

—Jim and Nancy O'Neal



Jim and Nancy O'Neal

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