C L E M S O N   U N I V E R S I T Y

HORIZONS

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A Financial and Gift Planning Newsletter from the Office of Gift & Estate Planning

THIS ISSUE

CHANGES FOR IRAs AND QUALIFIED RETIREMENT PLANS

New rules affect distributions from IRAs and qualified retirement plans

Your choice of beneficiaries would have no effect on distributions

Beneficiaries would have new options for receiving benefits

The minimum amount you must draw from your account would probably be reduced

New rules make it easier to make charitable gifts of IRAs and qualified retirement funds

The funds from such gifts qualify for estate-tax deduction and avoid income tax because charity is tax-exempt

Send for free booklet, ***Distributions from IRAs and Qualified Retirement Plans***

The Ties That Bind: the Davis Family and Clemson

In the summer of 1951, newly arrived Clemson College student Wayne R. Davis was paid $5 a night to "guard" a tent containing a display of agricultural manufacturers' equipment on Bowman Field by sleeping there. "To get paid $5 a night for sleeping…I thought this college was going to be wonderful," Wayne says.

Actually, Clemson *was* a wonderful experience for Wayne, Class of 1955. He has designated the university as the beneficiary of an IRA account, and he and his wife have signed a pledge to create the **Wayne R. and Betty B. Davis Family Unrestricted Endowment for Excellence in the School of Education.**

"I feel I owe a great deal to Clemson," Wayne says. "The good education I got there set up a base for all the good things I've been able to do in my life and opened up my world considerably. I was very fortunate in that regard, and our daughters got good educations there too."

The Pickens County native is the son of an electrician, who helped build buildings near the "quad" at Clemson. "As a youngster, I used to play with the attractive pens they gave out at the dedication of those buildings," Wayne says.

When his father died at age 42 of a heart attack in Augusta, he had accumulated $750 in war bonds for his son, then 11, to attend Clemson. Wayne's mother "carefully guarded" those over the years, and they paid for all of his time at Clemson except the last semester of his senior year.

Wayne R. and Betty B. Davis, in front of the Guardroom bell. Wayne's class, the last military one, raised the money to restore the bell used to signal the activities of cadets during Clemson's first 60 years.

Wayne is very thankful for the foresight of his father, who never had the chance to go beyond the tenth grade in school. "I was allowed to get the education he was not able to," he says.

Wayne's class was the last group of Clemson students to be considered "military;" he wore a uniform all four years. He started as an engineering student, but decided to change majors after an experience running levels around the old textile building. The students started their calculations on top of a fire hydrant, and if their numbers were correct ended there as well. Wayne had no such luck: "By the time I got around the building, that fire hydrant had grown to second-story size," he jokes.

Changes for IRAs and Qualified Retirement Plans

When a new law is heralded as tax simplification, we know that it probably will be tax "complexification." The cumulative effect is that the Tax Code and Regulations are exceedingly difficult to comprehend.

Finally, at least in one area, there are **new proposed Regulations** that would genuinely simplify matters. These Regulations affect distributions from IRAs, annuity contracts, 403(b) plans, and qualified retirement plans. Assuming, as expected, that they are adopted, they will apply to calendar years beginning on or after January 1, 2002. **For IRA distributions in calendar year 2001, you can either rely on the new rules or follow the existing ones. As to distributions from qualified plans, the plan must be amended before you can use the new rules.**

Before completing any pending plans for naming beneficiaries of your retirement funds and starting withdrawals, you should become familiar with the new rules. Not only do they simplify existing rules, but they will also make it easier for you to adapt to changing family circumstances.

This issue of *Horizons* will first highlight major changes and their possible benefits to you, next discuss the taxes that continue to apply to IRAs and other retirement funds, and then show some ways you can use retirement funds to meet both family and charitable objectives.

How the New Rules Could Benefit You

■ You would no longer have to make a choice—sometimes a difficult choice—among three methods for calculating the minimum required distributions from your IRA or qualified retirement plan.

While the *new rules* would not change the deadline for starting the distributions (April 1 following the year you attain 70½), they would provide a single, quite favorable computation method.

■ Your **choice of beneficiaries** under the *new rules* would have no effect on the minimum distributions from your IRA or other qualified retirement plan. Whether you name a 30-year-old, an 80-year-old, or a charity as beneficiary, the amount you are required to withdraw each year is the same.

Under existing rules, naming an older individual or a charity as beneficiary could force you to take more out of your account than you want by accelerating the withdrawal schedule, thereby leaving little, if anything, at the end of your life.

■ Under the *new rules,* after starting withdrawals and until you die, you could **substitute** or **add beneficiaries** without affecting the minimum withdrawal schedule.

Under existing rules, adding a beneficiary with a life expectancy shorter than that of previously named beneficiaries would increase minimum withdrawals. Thus, if you decided to add an older relative or a charity as a beneficiary, you could cause distributions to accelerate and thereby run a greater risk of exhausting the account.

■ Your beneficiaries would have **attractive new options** for receiving benefits. Depending on their circumstances following your death, some of them might elect to disclaim (give up) their interests, some might choose to be cashed out, and others might prefer to receive payments for life. Each beneficiary can choose how to receive benefits as late as December 31 of the calendar year following the year of your death.

This flexibility is not possible *under existing rules.*

■ The **minimum amount** you must withdraw from your account would probably be reduced. That is because the withdrawal period under the *new rules* would be the joint life expectancy of you and a beneficiary who is presumed to be ten years younger than you. The only exception to this new uniform withdrawal schedule is if your spouse is more than ten years younger. Then you can use your **actual** joint life expectancy.

Taking less out of your account leaves more to continue growing on a tax-deferred basis, which allows you to accumulate more for heirs or for your own future needs.

Under existing rules, the withdrawal period is generally based on the actual ages of you and your oldest beneficiary.

New Rules Don't Eliminate Double Taxation of Funds

Distributions from IRAs and qualified retirement plans will continue to be subject to income tax. The tax is paid by the recipient—by you while you are receiving payments, by your beneficiaries following your death.

In addition to income taxes, the assets of IRAs and qualified retirement plans may be subject to estate tax. The fair-market value of these assets will be included in your estate and, along with all other estate assets, will be taxed if your total estate exceeds the amount that can be exempted. In the event your spouse is your only beneficiary, your retirement funds will qualify for the estate-tax marital deduction and, consequently, will not be taxed on your estate-tax return. However, any funds remaining in the account at your spouse's death will be includible in his or her estate and may be subject to estate tax at that point. ***Note:*** Your beneficiaries are entitled to an income-tax deduction for the amount of the **net** federal estate tax paid on the funds they receive.

Even so, the combination of income and estate taxes could total more than 70 percent of your accumulations, depending on applicable tax rates. Although possible income- and estate-tax reductions would provide some relief, IRAs and qualified retirement funds are likely to continue to be the most heavily taxed assets that you can leave to heirs.

Using IRAs and Qualified Retirement Funds for Charitable Gifts

Under the *new rules,* it makes more sense than ever to use IRAs and other retirement funds for your end-of-life charitable gifts. As before, you will likely save more taxes when you give these assets than you would if you gave securities, real estate, or cash investments. But now there is the **added benefit of simplicity.**

Consider first the continuing tax benefits. The funds from the IRA or qualified retirement plan that you leave to charity qualify for an estate-tax deduction and avoid income taxes because the charity is tax-exempt. Thus, you can make a significant charitable gift at relatively little cost to your heirs.

Consider next the process. Under the *new rules,* all you have to do is name the charity as beneficiary of a portion of your IRA or qualified retirement funds. Following your death, that portion of leftover funds will be paid to the charity in a lump sum, totally tax-free. The balance can be paid to beneficiaries according to whatever schedule you and they elect, and the charitable gift will not affect that distribution schedule. If family circumstances change, you can alter the percentages by completing a beneficiary designation form. This does not necessitate a change in your will.

Examples of Charitable Gifts

These examples demonstrate why you should consider using your IRA or qualified retirement fund for your intended charitable gifts.

Example: *Susan, a widow, rolled her late husband's IRA into her own. She would like to leave Clemson a* ***bequest*** *of approximately $400,000 and the balance of her estate to her two children. Her total estate is approximately $1,600,000 and consists of the $400,000 in her IRA, appreciated securities worth $600,000, cash investments of $200,000, and a home and personal property worth $400,000. What asset should she use for her charitable gift?*

Option 1—Give $400,000 from her general estate assets to charity and the IRA to her children.

Estate-tax savings	$173,000*
Income-tax savings	- 0 -
Total tax savings	$173,000
Net cost of gift	$227,000

Option 2—Give the IRA to charity and other assets to her children.

Estate-tax savings	$173,000
Estimated income-tax savings	90,936
Total tax savings	$263,936
Net cost of gift	$136,064

**No allowance is made for administrative expenses that would reduce the estate tax.*

What About Lifetime Gifts?

Legislation is now pending before Congress that would permit a tax-free rollover of IRA funds for either an outright charitable gift or a life-income gift such as a charitable remainder trust or a gift annuity. To qualify for the tax-free rollover, an individual would have to be over 59½ years of age.

If the pending bill becomes law, you could transfer a certain amount from your IRA directly to Clemson for a ***gift annuity*** that would pay you, or you and your spouse, a guaranteed amount each year for life. You could also transfer IRA funds tax-free to a ***charitable remainder trust*** that would pay life income to you or to you and your spouse. Finally, if you don't need all of the income, simply transfer some IRA funds as an ***outright gift.***

Existing rules do not permit such a tax-free rollover from your IRA. For the time being, you must first take a fully taxable distribution and then contribute the proceeds either outright or for a life-income plan. In many instances tax will be owed because the charitable deduction won't entirely offset the taxable distribution. Consequently, not many people make lifetime gifts from their IRAs at the present time. That would definitely change if the pending legislation is enacted.

Davis...*continued from page one*

He received his degree in secondary education, but after graduation taught only one year. “I had 42 eighth graders in a basement the year Sputnik went up,” he says. “I learned much more than the students learned.”

After Clemson, Wayne received a master of divinity degree from Southeastern Baptist Theological Seminary and spent 13 years as a minister. He later worked as a director of county welfare in North Carolina, and earned a master’s degree in social work from the University of North Carolina at Chapel Hill.

He spent the next 22 years with United Way in Charlotte, Columbia, Atlanta (as regional vice-president), and Tampa, where he was the local chief executive officer and president before retiring in 1994.

While the family moved around, his wife taught eighth grade English for 28 years.

Their daughters are all Clemson graduates—Julia, Class of 1978; Donna, Class of 1981; and Laurie, Class of 1984. “I told them they could attend college anywhere in the country, but I’d borrowed the money for them to go to Clemson,” Wayne says. “For some reason they all took me up on it.”

All three girls married Clemson graduates, and Wayne and Betty have six grandchildren. Today, the couple lives in Oconee County, and “our principal occupation is attending every Clemson football, basketball, and baseball game we can get to,” Wayne says.

He chose an IRA account to make his gift to Clemson because “it made good sense from an estate-planning point of view, and it helps me recognize a field I’ve benefited from,” he says. “Betty and I hope to build on our gift.

“I think all of us who have been beneficiaries of the educational experience at Clemson need to step up to the plate and give back. We’re glad to join all of those in the Clemson family who felt it was important to give back.”

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continued from page three

General rule: Upon death, it is better to make charitable gifts with IRAs and qualified retirement funds and give cash, securities, and real estate to heirs.

Example: *John creates a* ***charitable remainder unitrust*** *and names it as beneficiary of 50 percent of his IRA. The trust will pay to his wife, Mary, 6 percent of trust assets, as revalued annually, for the duration of her life. Then the trust will terminate, and the remainder will be distributed to Clemson. Following John’s death, approximately $500,000 from his IRA is paid to the trust and Mary receives about $30,000 the first full year of the trust, an amount that will increase over the years if the trust assets grow in value. When the IRA funds are distributed to the trust, they are subject neither to estate tax nor to income tax, so the entire amount is available for reinvestment. Mary is taxed on the distributions from the trust.*

For More Information

For a more detailed explanation of the proposed new rules regarding distributions from IRAs and qualified retirement plans and a discussion of family and charitable options with these funds, please call our office or return the enclosed card for a complimentary copy of our new booklet, ***Distributions from IRAs and Qualified Retirement Plans.***

THE CLEMSON LEGACY SOCIETY

The Clemson Legacy Society honors individuals who have chosen to include Clemson University in their estate plans—or in any revocable planned gift arrangement. Through the Society we pay tribute to Thomas Greene Clemson, who bequeathed his farm of 814 acres and his fortune of $80,000 in cash and securities to establish what is now Clemson University, and recognize many Clemson benefactors who share in his insight to shape the future of the University. If you have made provisions to include Clemson in your estate plan but have not yet informed us of your decision and wish to be included in ***The Clemson Legacy Society,*** please return the enclosed card or call us at the telephone number below. Please be assured that your plan will be kept confidential if that is your wish.

For additional information concerning the practical aspects of making a gift to Clemson University or the Clemson University Foundation, please contact:

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