FALL 2022

FINANCIAL GUIDE

GIFTING OUTSIDE THE BOX

"WHEN MAKING CHARITABLE DONATIONS, it is important to consider the income-tax implications of the gift and to utilize the most tax-efficient strategies possible," Gary Dernlan (CEM'81) says, relating why he and his wife, Susan ("Susie," LA'82), recently gifted a rental home from their extensive portfolio of properties.

GARY AND SUSAN DERNLAN

Gary and Susie could have established a charitable trust or annuity with the transfer of the home. This would have paid them a return for either their lifetime or a term of years, but they were not looking for additional income. They were, however, seeking a way to make a significant gift at a lesser cost to themselves.

"By choosing to donate one of our highly appreciated rental houses instead of cash, we were able to write off the complete appraised value of the property on our income taxes and also completely avoid capital gains taxes," Gary says. "The net result is that we were able to make a larger donation to Purdue."

The Dernlans sought to place a spotlight on the construction engineering and management (CEM) program as well as support an existing CEM fellowship endowment. When they donated the rental home, which had appreciated in value, to Purdue, the University sold the property with the proceeds being used to promote and elevate the CEM program. The Dernlans received a charitable tax deduction for the home's appraised value even though their cost basis was much less.

"Susie and I have greatly benefited from our education at Purdue, and we feel it is important to give back so future generations have the same educational opportunities we had," Gary says.

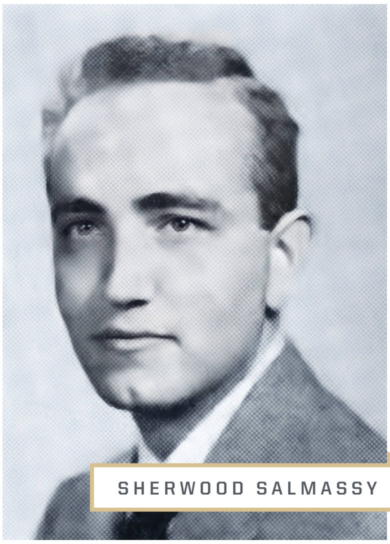
The couple's out-of-the-box gifting approach includes a deferred gift with a twist that is less common: life insurance. They have chosen to name Purdue as both the beneficiary and owner of a couple of policies. Gary and Susie make a gift to Purdue in the amount of the premiums due, and Purdue pays the premiums. Structuring the gift this way enables them to receive a charitable tax deduction for the amount of the premium. As the beneficiary, Purdue—or CEM more specifically—will eventually receive the policy proceeds for their unrestricted use.

Purdue is grateful for the Dernlans' commitment to the University and the CEM program.

CEM HIGHLIGHTS

- Engineering program with additional focus in construction operations management
- 120 average student enrollment
- 100% job placement and a $70,000 starting salary
- Small class sizes with a high-energy learning environment

A SERIAL ANNUITANT


SHERWOOD SALMASSY

"Purdue was a family heritage as his father, Alley (ME'1924), and two brothers, Omar (ME'49, MS ME'51) and Oscar (ECE'58), were all graduates," Marjorie Salmassy says regarding her decision to give back to Purdue on behalf of her late husband, Sherwood (MSE'54).

Sherwood felt strongly about supporting his alma mater, and Marjorie discovered a way to accomplish his goal while receiving a benefit for herself during her lifetime. She inherited Sherwood's IRA and must take a distribution from that account each year in the form of a required minimum distribution (RMD). Marjorie uses a portion of that RMD, which she must claim as income under current law, and establishes a charitable gift annuity (CGA).

A CGA is a contract between a donor and a charity in which the donor transfers an asset in exchange for a fixed payment based on their age for the rest of their life. The donor receives a tax deduction in the amount of the anticipated residual to the charity. Additionally, these payments are partially tax free because they are considered to be a return of principal.

Marjorie is strategic in her gift planning, establishing a new CGA each year, and basically stacks them. Because the rate she receives is based on her age, and she is a year older each time she establishes a new CGA, she has a collection of annuities with a slightly higher payout rate than the last.

"Establishing the CGAs has given me the security of having a reliable income source as well as a charitable deduction each year," Marjorie says.

She has generously designated the residual of these CGAs to be applied toward a lecture series in Sherwood's name in the College of Engineering's School of Materials Engineering. Marjorie will bequeath the remainder in his retirement account upon her passing.

We are so appreciative that Marjorie has chosen to honor Sherwood's legacy at Purdue.

TAX PLANNING FOR RETIREMENT

The old adage that "nothing is certain in this life but death and taxes" is familiar to most of us. But what those taxes will look like is something we all must consider at some point, especially as we plan for retirement.

Planning how you will spoil your grandkids or decide which exotic locales to visit is the fun part. Making sure you can cover those expenses requires careful planning, and understanding how the nest egg you have so carefully worked to build might be taxed is of utmost importance.

Let's examine different types of income and how each might be taxed.

// SOCIAL SECURITY

Up to 85% is taxed as ordinary income if your provisional income is greater than $25,000 (individual) /$32,000 (couples).

// PRE-TAX IRAS AND 401K PLANS

Required minimum distributions (RMDs) are taxed as ordinary income provided you are age 72 or above. Roth IRAs are an exception if you meet age and holding requirements.

// PENSION BENEFITS

Like IRAs and 401ks, these benefits are taxed at your ordinary income rate assuming no after-tax contributions.

// STOCKS, BONDS, AND MUTUAL FUNDS

The sale of appreciated investments triggers capital gains tax at a rate dependent on your taxable income level. Qualified dividends follow the same rule, and those individuals with an income above $200,000 (single) /$250,000 (couples) are hit with an additional 3.8% surtax.

// ANNUITIES

The portion that represents the return of principal is tax free while any earnings are taxed as ordinary income. If the annuity is funded with pre-tax dollars, then 100% of the payment is subject to ordinary income rates.

// HOME SALES

If the property is considered a primary residence and has been occupied for two of the five years prior to sale, sellers can exclude up to $250,000 (single)/$500,000 (couples) of the gain. Excess gains above these thresholds are taxed as long-term capital gains.

// LIFE INSURANCE PROCEEDS

Good news—these are generally tax free to the beneficiary.

LEGISLATION WATCH

SECURE ACT 2.0

The SECURE (Setting Every Community Up for Retirement Enhancement) Act of 2019 was designed to help Americans save more for retirement. The House passed Securing a Strong Retirement Act of 2022 (H.R. 2954)—also known as SECURE Act 2.0—in March.

The bill focuses on incentivizing Americans to save for retirement with such line items as incrementally increasing the starting age for required minimum distributions (RMDs) to age 73 in 2023, 74 in 2030, and age 75 in 2033. There are charitable giving components of particular interest, however.

Many of our Purdue friends choose to give via their RMD by way of a qualified charitable distribution (QCD) once they reach the eligible age of 70.5. Giving this way enables the donor to keep the RMD out of their taxable income and, in some cases, keeps their overall tax bill lower. These gifts are capped at $100,000 per year, but the proposed legislation would adjust this limit for inflation and increase the amount a donor is able to annually give from their RMD.

We are often asked if these QCDs can be used to establish what we call lifetime income gifts, a charitable giving method that enables the donor to transfer an asset and receive a payment for either their lifetime or a term of years, with the residual balance at their passing going to support Purdue.

Up until now, the answer has been "no." SECURE Act 2.0 proposes allowing donors to make a onetime QCD of up to $50,000 to establish either a charitable remainder unitrust (CRT) or a charitable gift annuity (CGA) like donor Marjorie Salmassy does each year. We hope to report that this option is officially and legally available in an upcoming issue.

CURRENT CHARITABLE GIFT ANNUITY (CGA) RATES

AGE	1-LIFE RATE	2-LIFE RATE
60	4.5%	4.0%
65	4.8%	4.3%
70	5.3%	4.8%
75	6.0%	5.2%
80	7.0%	5.9%
85	8.1%	6.9%
90	9.1%	8.6%

Actual rates may vary based on the monthly midterm rate used.

NAMING OPPORTUNITY

In 1958, construction was completed on Purdue's Memorial Center, a building that encompassed the existing University Library, the footprint of recently demolished Fowler Hall, and new classroom and activity space. Purdue honorarily named the center for University Treasurer R.B. Stewart, making it the Stewart Center we know today.

An overdue remodel currently underway will create a modernized Stewart Center. The building will serve as the home of Purdue's student services, including admissions and financial aid. Designated spaces for student organizations will also be renovated to create an open and lively atmosphere.

Named spaces, starting at $25,000, are available for Boilermakers looking to ensure prospective students and their families have an incredible experience from the moment they step on campus. Contact us today at **plangift@purdueforlife.org** to learn how you can support the Stewart Center's transformation.

WHY DO WE ASK?

The informational pieces you receive from us often ask you to let us know if you have included Purdue in your legacy plans. Please allow us a moment to share with you why we are so curious.

We recognize that estate-plan details are private and the subject matter is sensitive. Please know that when we follow up, we will do so with the utmost respect and will always have your privacy in mind.

Further conversations surrounding your plans are important for several reasons. Planned gifts play a critical role in sustaining Purdue, and we want to thank you for your foresight and generosity now.

We want to ensure a clear understanding on our end and yours concerning your intent. When you share what is most meaningful to you, we check to be sure that we can carry out your wishes. Perhaps you are undecided on what you want your gift to accomplish. We will strive to present you with options that you may not have considered or even thought possible.

Finally, sharing the details of your gift helps us to plan ahead. We inventory planned gifts to best understand where we may have funding gaps in the future that can be addressed now.

As always, we thank you for considering including Purdue in your legacy plans!

HAGLE HALL

Third Street's Student Success Corridor has a new building. Hagle Hall, a beautiful state-of-the-art facility, provides dedicated space for the 136-year-old Bands & Orchestras program, which had operated in Elliott Hall since that facility's completion in 1940. Named spaces in Hagle Hall are still available; contact us at **plangift@purdueforlife.org** for details.

PLANNED GIVING

PURDUE FOR LIFE FOUNDATION

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Planned Giving facilitates philanthropic giving across the Purdue University system, which includes the West Lafayette, Indiana, campus; Purdue Northwest; and Purdue University Fort Wayne.

Please note: The Purdue for Life Foundation is a tax-exempt public charity and does not provide tax, legal, or financial advice. Any document or information shared by our staff is intended to be educational and informational. Purdue strongly encourages all of our benefactors to seek counsel from their own legal and financial advisors. Please know that any information or documents shared by the development staff cannot be used to avoid tax-related penalties.

The Purdue for Life Foundation is an independent organization that acts for the benefit of Purdue University // CPCA1022 // EA/EOU