

Giftwise

Financial and Charitable Strategies for Alumni and Friends of Williams College

In Turbulent Times, You Can Count on Williams

The financial maelstrom of recent weeks has left people shaken, waiting for the proverbial next shoe to drop. Williams is navigating these rough waters carefully, working diligently to maintain our long-term strategic focus in an environment of reduced investment earnings and belt-tightening.

Williams is an enduring institution that has weathered economic storms before. In financially unsettled times, the College continues to offer its alumni and friends opportunities for mutually supportive financial partnerships. For example, Williams will serve as trustee of donors' charitable remainder trusts.

Consider that in times past, one could set up a family trust at a local bank, knowing it would be managed carefully and well.

- Who is now trustee for such assets?
- Are the assets well-managed?
- Are fees eating away at the principal?
- Does the trustee know the needs of the trust beneficiaries?

Williams offers an alternative for individuals interested in leaving a meaningful charitable legacy: the Williams Charitable Remainder Unitrust. A CRUT pays out at least 5 per-

cent annually to the donor (or another beneficiary) for life or a term of years. Eventually the trust principal goes to Williams to support its educational mission.

Williams presently manages \$20 million worth of such trusts on behalf of over 90 beneficiaries. Williams never forgets who created a trust, who depends on income from that trust, or what the donor's long-term charitable intent is.

How much will a Williams CRUT pay out to me each year?

Most Williams trusts have payout rates in the 5-6 percent range.

Will the payments be the same from year to year?

No. Your payout rate remains fixed, but the cash amount of your payments fluctuates depending on how the trust assets perform. Williams offers index fund investment options for CRUT assets and now also offers the option of investing alongside the College's endowment (*see sidebar*).

Are the payments taxable?

Yes. Taxation will vary depending on the investment strategy and the type of asset you donate to the trust.

CRUTs Can Now Invest Alongside Williams' Endowment

Investing CRUT assets alongside the endowment can be a powerful way to maximize the benefit Williams will ultimately derive from your gift. In the rollout phase of this new option, the College is limiting endowment investing to new CRUTs valued at \$500,000 or more.

The Williams endowment's annualized average return over the ten fiscal years that ended June 30, 2008 was 12 percent.* That time period included the negative performance years of the high tech bust and the first two quarters of volatile 2008.

The Williams endowment is not magic—it is subject to market forces. However, large, well-managed nonprofit endowments have tended to outperform most market indices over time. It is important to recognize that the Williams endowment is invested based on the College's time horizon of perpetuity, and not according to the needs of any individual CRUT beneficiary.

*Past performance in no way guarantees or predicts future results

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The Office of Gift Planning is grateful for the support and advice it receives from its 67 volunteers, led by John W. Buoymaster '74, National Gift Planning Chairman.



Join The Ephraim Williams Society

The Ephraim Williams Society recognizes alumni, parents, and friends who have demonstrated their commitment to Williams' future by establishing planned gifts or including Williams as a charitable recipient of their bequests. Everyone is welcome to join, at any time. We encourage you to call the Office of Gift Planning if you would like information or assistance as you prepare your own estate plans.

People are Flipping (for this Trust)!

When Tom Synnott '58 retired from his position as chief economist of U.S. Trust Corporation, he sharpened his personal pencil and sat down to create a financial strategy for a long retirement. He knew that one of his biggest money management challenges over time would be keeping pace with inflation.

Tom created a Charitable Remainder Unitrust with Williams. A CRUT returns income to the donor (and spouse) for life, with the remainder going to Williams. There are many tax advantages, such as avoidance of capital gains tax on the transfer of appreciated assets, and a charitable income tax deduction for the gift of the remainder interest. Tom points out that for long-term investors the fact that there is no tax on portfolio changes within the trust may be even more important.

Tom's CRUT is not plain vanilla. He chose a special version known as a Flip CRUT, which Tom's economic research has demonstrated is a tried-

and-true way to combat inflation-caused principal erosion.

A Flip CRUT is invested initially for growth of principal. The beneficiary receives any ordinary income that

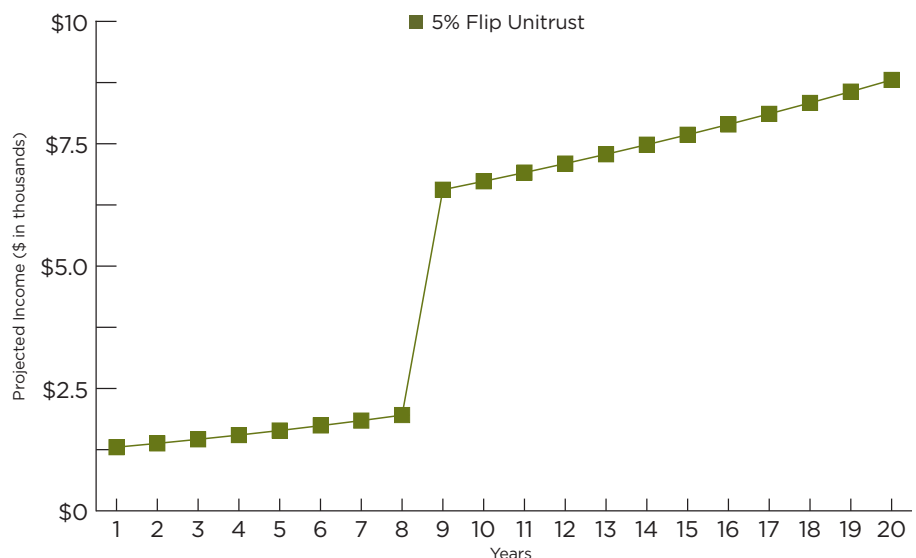


the trust generates. With careful management, the Flip CRUT's income stream would start relatively low and could then grow with the principal.

At a specific future date, the CRUT "flips" and begins to make regular payouts at a flat rate of at least 5 percent.

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62-YEAR-OLD GIFTING \$100,000



TO THE EDITOR

I just read Giftwise [Spring 2008 issue] and saw the mention of the gift of property to Amherst, worth \$1.5 million in 1968 and \$58 million today—what looks like a huge gift.

As you probably know yourself, but I can't help pointing out, this is not necessarily a big deal—and in fact, Amherst probably would have been better off getting the property in 1968 and selling it immediately for the \$1.5 million in cash.

The actual compound growth rate for the property over 40 years was 9.57 percent. The S&P 500 grew at compound 6.93 percent over roughly the same 40-year period. But that is the nominal S&P 500, not the index with dividends reinvested. In any case, over the past 10 years the College endowment's annual compound rate of return has outperformed the S&P 500 on a regular basis.

Now I don't have the info. for the performance of the S&P index with dividends reinvested over that same period. But I do have it for the end of 1987 to the end of 2007. And it is instructive. At the end of 1987, the index was at 261.33. At the end of 2007, it was at 1385.59. But with dividends reinvested, the index would have been 2190.13—more than 50 percent higher. If we could make this calculation based on reinvesting dividends from 1968 on, rather than 1987 on, my guess is that the \$1.5 million would have turned into a lot more than \$58 million!

This also ignores the possibility that, if it so chose, the College could have put some of the cash dividends to use each year (in which case the principal would not have grown as much). Current cash can be useful.

By the way, none of this adjusts for inflation. Once you take inflation into account, the answer is obvious.

Take the money and run!

WALLY BERNHEIMER '61

Flipping *continued from page 2*

By this time the trust will likely hold more principal than when it began, so the payouts will be concomitantly higher. In addition, once the trust flips, the beneficiary's payouts can come from income or principal. In order to distribute more tax-favored long-term capital gain, the trustee will still manage the assets to generate as little ordinary income as possible. Over time the distributions should keep pace with inflation.

Tom reminds us that “although there are important tax savings with the use of a CRUT, the real motivation has to be to make a larger gift than would otherwise be possible to a favored charitable organization—like Williams!”

Another Chance... To make a tax-free gift from your IRA to Williams!

On October 3 Congress passed the Emergency Economic Stabilization Act of 2008, which extends certain portions of the Pension Protection Act of 2006. During calendar years 2008 and 2009, individuals age 70½ and older may make distributions of up to \$100,000 (per year) from their IRA accounts directly to non-profit organizations without having to include those distributions in their income for federal tax purposes. This is a tremendous opportunity to distribute excess assets from IRA accounts tax-free! Contact Williams' Office of Gift Planning for more information.

Climb far.
THE WILLIAMS CAMPAIGN

Turbulent Times *continued from page 1*

Do I get a tax deduction when I fund a CRUT?

Yes. However, the charitable deduction will be for less than the full value of the donation due to the split-interest nature of the arrangement (i.e. you and Williams are both receiving benefits).

Is there a minimum funding amount for a CRUT?

Traditional (index fund portfolio) CRUTs may be funded in any amount of \$100,000 or more. Endowment-invested CRUTs must be funded with \$500,000 or more.

Does Williams charge a fee to manage a CRUT?

The College does not presently charge management fees for CRUTS.

How do I learn more about Williams CRUTs?

Feel free to explore Williams' gift planning web site: www.williams.edu/alumni/go/giftplanning or contact the gift planning office in Williamstown (gift.planning@williams.edu or (413) 597-3538).

Ephraim Williams Society Now Sixteen Hundred Strong

On June 6th President Morton Owen Schapiro (pictured at right) and President Emeritus John W. Chandler delivered humorous and touching remarks to 200 Ephraim Williams Society members and friends gathered for breakfast at Paresky Center during Reunion Weekend.

“This remarkable place that we all love so much was founded by a bequest,” said President Schapiro. “The continued generosity of alumni, spouses, parents, and friends keeps Williams at the top of its game, and a force for positive change in the world. We thank you, from the bottom of our hearts, for elevating Williams to the status of ‘family



member’ by including the College in your long-term plans.”

The Ephraim Williams Society—founded in 2004 with John Chandler as honorary chairman—recognizes all

individuals who have included Williams in their estate plans or have funded life-income gift arrangements.

There are nearly 1,600 members of the society, making it one of the largest among Williams’ peer colleges. Members self-identify, letting the College know that Williams is in their will or is a beneficiary of a living trust, retirement account, or life insurance policy. No further details are required.

For more information about including Williams in your estate plan, or to become a member of The Ephraim Williams Society, please contact the Office of Gift Planning: (toll free) 877.374.7526 or gift.planning@williams.edu.

Williams

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