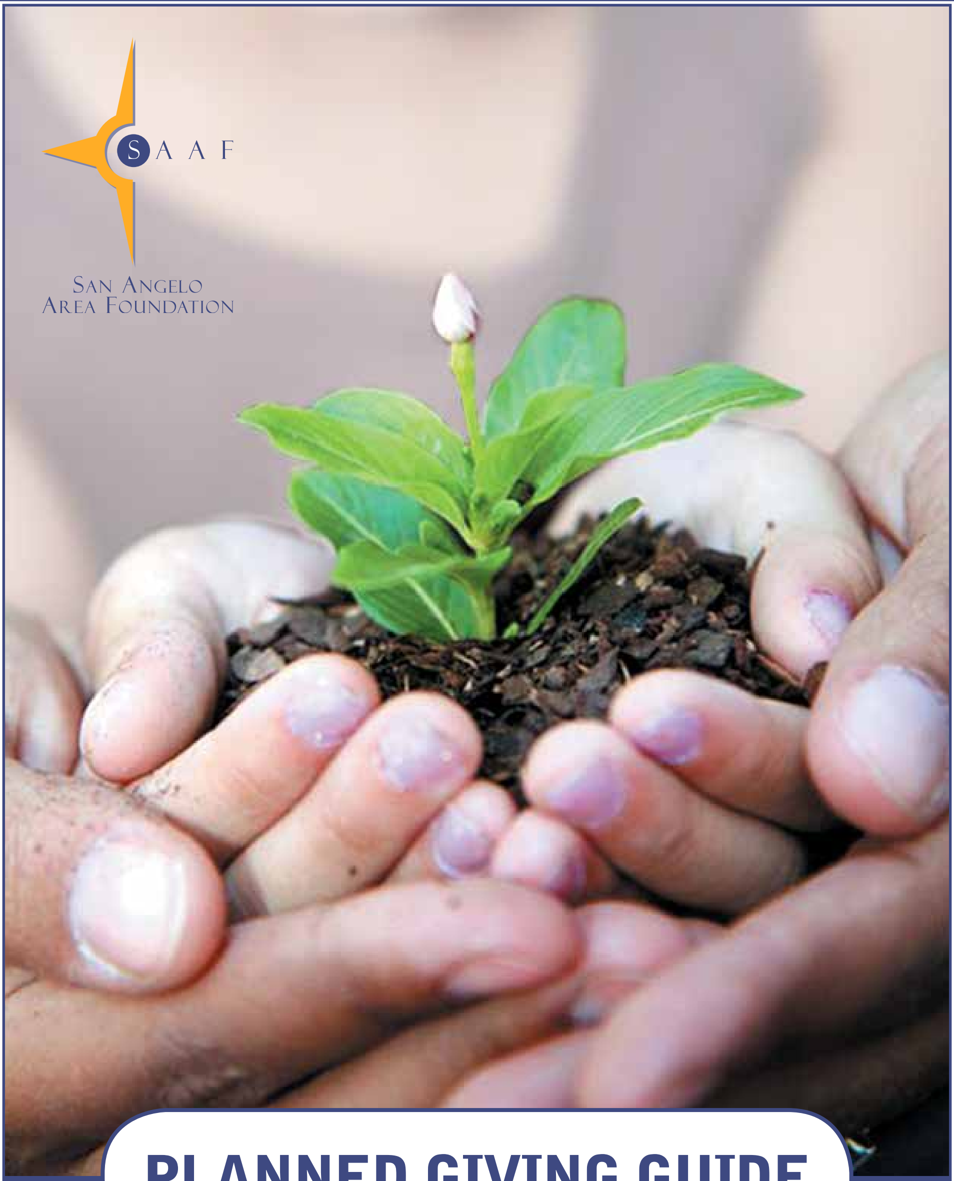

PLANNED GIVING GUIDE

San Angelo Area Foundation

This booklet illustrates the variety of estate planning vehicles widely used and invites you to consider them. In most cases, these plans will help you:

1) Conserve a larger portion of your estate for your family and other loved ones.
2) Reduce federal estate tax and, often, lower income and capital gains taxes.
3) Covert low-yielding assets into life income plans that pay higher returns.

Estate plans that include not-for-profit institutions, such as the San Angelo Area Foundation, provide another significant and lasting benefit:

Charitable estate plans leave a permanent legacy
which symbolizes a donor's concern
for mankind and for the organizations
that serve and strengthen our society. In addition,
they create powerful and inspiring examples
for younger generations to emulate.

Note: Information and calculations of possible tax deductions and returns are examples and based on real, yet hypothetical presumptions. Actual results will vary based on many factors including current federal mid-term discount rates, age of a donor and federal tax laws. Always consult your attorney, accountant or professional financial advisor.

Guidelines & Directory
San Angelo Area Foundation

As you consider estate planning options, please remember:

The San Angelo Area Foundation's staff and directors are pleased to visit with you, whether or not you make a commitment to include the Foundation in your plan.

We consider it a privilege and a responsibility to help donors develop personalized, "custom-fit" plans that honor the charities they consider important. A plan that assists several worthwhile organizations at once can be easily accomplished.

- The Board of Directors will honor you without asking you to disclose the details of your plan. While many of our patrons want us to know about the eventual gift the Foundation will receive, you are not obligated in any way to reveal the kind of gift or the amount. You will be asked to sign a simple letter of intent to confirm your decision and to let us know if your plan changes.

- On the other hand, we stand ready to help you in any way, including sharing ideas with your professional advisors and illustrating specific plans for you and your family with our planned giving software. We also welcome the opportunity to discuss specific needs/funding opportunities and levels of giving.

The United States government recognizes that our nation's well-being depends upon visionary and generous citizens. To sustain Americans' long tradition of philanthropy, the federal government rewards citizens who do careful charitable planning by permitting a variety of tax benefits.

You have the opportunity to choose how your estate can best illuminate your values. In most cases, you can share abundantly with your family and still create a powerful charitable statement.

Including San Angelo Area Foundation in Your Will

The easiest way to assist charities with an estate gift is to include a provision in your will. When your family has an up-to-date will you do not wish to change, a simple codicil can be signed, witnessed, and attached to an existing will. The San Angelo Area Foundation offers the following samples of language for wills and bequests with the understanding that prospective donors will consult their own professional advisors. We are pleased to assist you in constructing other language if the samples do not meet a specific gift intention.

Suggested Bequest & Codicil Forms

1. General Bequest

This is the simplest form of bequest whereby a person bequeaths a stated amount to the San Angelo Area Foundation without any conditions attached.

> I give and bequeath to the San Angelo Area Foundation, a Texas not-for-profit corporation located in San Angelo, Texas [_______% of my estate (or the sum of $____________ and /or the securities or other property described herein, namely, (________________)]. To be used for the general program of the San Angelo Area Foundation, as directed by the Board of Directors of the San Angelo Area Foundation.

2. Bequest creating an endowed fund

This form establishes an endowment gift, in which the principal is never spent.

> I give and bequeath to the San Angelo Area Foundation, a Texas not-for-profit corporation now located in San Angelo, Texas, [______% of my estate (or the sum of $____________ and/or the securities or other property described herein, namely, (_____________)]. This bequest shall establish an endowment to be named ______________ to be invested so that the total return of the investment may be used as directed by the Board of Directors of the San Angelo Area Foundation.

3. Designated Bequest

This provides a sum of money or percentage distribution for a designated endowment project or program of the organization.

> I give and bequeath to the San Angelo Area Foundation, a Texas not-for-profit corporation located in San Angelo, Texas [_____% of my estate (or the sum of $__________ (and/or the securities or other property described herein, namely (____________________)]. This bequest shall establish an endowment to be invested or reinvested at its discretion and the appreciation therefrom to be used for _______________________.(name of designated charity or cause)

4. Residuary Bequest

This is a provision in a will leaving the remainder of one's estate to the San Angelo Area Foundation after all other bequests are fulfilled.

> All the rest, residue and remainder of my estate, both real and personal, wherever situated, I give, devise and bequeath to the San Angelo Area Foundation, a Texas not-for-profit institution located in San Angelo, Texas, to be used for the general grant-making programs as directed by the Board of Directors of the San Angelo Area Foundation.

5. Residuary Bequest with Unified Tax Credit (A "tax-free will")

This is a provision in a will leaving everything which exceeds the federal unified tax credit to charitable causes.

> I give to the San Angelo Area Foundation, my entire estate except for the amount protected by the federal unified tax credit which amount shall be distributed to ______________ (List your heirs and their percentages or dollar amounts here.)

Do you have a retirement account or pension fund? Qualified pension funds and IRAs normally trigger estate and income tax when passed to heirs. They make excellent charitable bequest assets, eliminating both taxes. Call us for more information.

Suggested Wording for a Codicil to Your Will

The following language, if copied completely in your own handwriting (making it a holographic codicil), might be appropriate in certain circumstances. In any event, please review this with your own attorney.

Version One – Generic Bequest

This is a codicil to my will. In addition to other gifts made in my will, I do hereby give to the San Angelo Area Foundation, a Texas not-for-profit corporation located in San Angelo, Texas, (a specific percentage, a piece of property, or a dollar amount) to be used for its general grant-making programs.

Signed on this __________ day of ______________, 20____, in City, State.

Signature	Witness
Signature	Witness

Version Two – Residuary Bequest

This is a codicil to my will. In addition to other gifts made in my will, I do hereby give ________________ percent (________ %) of my residuary estate to the San Angelo Area Foundation, a Texas not-for-profit corporation located in San Angelo, Texas to be used for its general use and purposes. This gift is to be free of any burden to pay death taxes.

Signed on this __________ day of ______________, 20____, in City, State.

Signature	Witness
Signature	Witness

Income for Life:
Charitable Gift Annuities of the SAAF

As the most popular life income gift in America, charitable gift annuities are most helpful in these years when the economy has produced inconsistent results. Donors appreciate making a charitable gift and receiving guaranteed income for life at the same time.

You can establish a gift annuity by transferring cash or appreciated properties, such as stock, as an irrevocable gift to the San Angelo Area Foundation. The Foundation deposits these funds in a professionally managed account. Upon your death, the amount remaining in your gift annuity is distributed between the Discretionary Fund of the San Angelo Area Foundation and endowments to the charities of your choosing, established at the San Angelo Area Foundation.

The San Angelo Area Foundation distributes a guaranteed, fixed payment to you for as long as you live. The amount you receive each year is determined by your ages; the older a donor is, the higher payout he or she receives.

Donors:

- Earn a charitable deduction the year the gift is made, even though the charity may not receive the proceeds for many years (after the death of the annuitant[s]). Age determines the percentage of the gift which is considered as a charitable contribution. The older you are, the larger the deduction you earn.

- Receive guaranteed quarterly, semi-annual or annual payments, of which a large portion can be income tax-free.

- Enjoy the satisfaction of establishing legacy gifts for your favorite organizations and institutions.

- Appreciate the simplicity of the short, easy-to-understand agreement letter and the fact that establishing a gift annuity incurs no legal or other fees.

The San Angelo Area Foundation has an opportunity to establish guidelines with the donors about the gift's eventual use. In most cases, the proceeds from gift annuities support long-term endowment projects.

The American Council of Gift Annuities periodically revises rates. The San Angelo Area Foundation will be pleased to illustrate specific details of a gift annuity of any amount.

To request a customized illustration, please provide the following information:

1. Birth date(s) of donors (up to two lives)
2. Estimated value of the funding asset. If it is stock, the cost basis is also needed.
3. Payment preference (quarterly, semi-annual, or annual)
4. Income tax bracket

Example of Charitable Gift Annuities at the San Angelo Area Foundation

Annual rates of payouts and tax deductibility vary greatly with the age of the donor and the form in which a gift is made to establish the Charitable Gift Annuity. **The Foundation uses the recommended rates established by the American Council on Gift Annuities, and the rates are examples only. Each annuitant situation is uniquely calculated at the date of gift.**

JANE SMITH, AGE 80, has $100,000 in a basic savings account, currently earning .05 percent. She is interested in establishing an endowment to better her community and her favorite charity, and she is interested in generating more income for herself at the same time. She enters into a gift annuity arrangement with the Foundation. In the first year, she gets a charitable deduction of $50,205, which can be spread over five years' tax returns. Thereafter, she is guaranteed a payout at 6.8 percent, or $6,800 per year for life. For the first nine years of annuity payments, $5,297 of that amount would be tax free. Assuming Jane's top tax bracket is 33 percent, the net equivalent after tax rate of return of her annuity would be 11.8 percent.

JIM JONES, AGE 67, gives the Foundation $100,000 from a certificate of deposit that was earning less than 1 percent. Mr. Jones wishes to create an endowed scholarship fund at the Foundation from the remainder of the annuity to fund scholarships in honor of his alma mater. Mr. Jones will receive an immediate tax deduction of $37,894. Payments of $4,800 or 4.8 percent would begin next year and continue for the rest of his life. Each year for the next 18 years, $3,394 of the $4,800 from the annuity would be tax-free. If Jim had renewed his C.D. at 1 percent, he would have earned $1,000. Assuming a 33 percent tax bracket, he would have paid $333 in taxes on his earnings. With the annuity, he has increased his after-tax income by more than 5 fold while helping young people get a college education!

JAMES JOHNSON, AGE 58, and his wife **MARY JOHNSON, AGE 57,** both plan to retire in 10 years. They would like to contribute to an endowment for three different charities, but also want to help supplement their retirement income. They have $100,000 they would like to use in a deferred charitable gift annuity. By deferring payments for 10 years, they will receive $6,000 per year, or 6 percent per year for both of them. They will receive an immediate tax deduction for a portion of their gift of $28,746, which can be spread over a number of years, and a portion of their annuity payments will be tax free. After both James and Mary have passed away, the remainder of the annuity can be distributed to the endowment funds they selected to support the charities they choose–forever!

These are only examples, and the exact circumstances of a gift can make big differences. It is also important to remember that the preferred tax treatment afforded for each of these examples is based on the fact that they are irrevocable gifts to a nonprofit entity.

Charitable Remainder / Lead Trusts
San Angelo Area Foundation

What is a charitable trust?

A family establishes a charitable trust by making an irrevocable gift of certain assets (cash, stocks) which are managed and distributed according to a legal document. Planned gift donors typically use the trust management services, bank trust departments, their attorney, or their accountant to manage this type of trust.

Charitable Remainder Trusts

Charitable remainder trusts provide income to the donors for a term of years or life and then distribute the assets left when the trust expires to the remainder beneficiaries–that is, to the charity the family has selected.

Even though the charity will not ordinarily receive the remainder assets for many years, the donors receive a charitable deduction the year the trust begins because the gift is irrevocable. The amount of the charitable deduction is based principally upon the ages of the donors and the value of the income stream chosen. The older the donors are, the higher tax deduction they will receive. Donors who choose a smaller income payout percentage (such as 5%) receive a higher deduction than those who opt for a larger payout (such as 8%).

Saving Taxes: Income, Capital Gains and Estate

Donors with highly appreciated property can use charitable trusts to by-pass potential capital gains taxes. If the donors sold appreciated property outright, they would be responsible for paying capital gains taxes on the profit. However, when these same assets transfer to a charitable trust and the trustee sells them, the transaction triggers no capital gain taxes. Hence, more of the asset continues to work for the donors.

Consider this example: A couple in their 70's purchased a stock 20 years ago that has increased in value tenfold but which pays small dividends of 2% (about $2,000 per year). They would like to diversify this investment and increase its return without paying capital gains taxes on their profit.

Original value of stock:	$50,000
Fair market value of stock:	$100,000
Less capital gains tax:	$7,500
Value of asset after it is sold and taxed:	$92,000
Annual income if investment paying 5% can be found:	$4,625

If the family establishes a charitable remainder trust that pays 5% per year for life:

Fair market value of stock:	$100,000
Less **NO** capital gains taxes:	**0**
Trust's value:	$100,000
Annual income at 5%:	$5,000

In addition, the family will receive a charitable income tax deduction the year the trust begins. For a couple aged 70 who elect a life income of 5% in a charitable remainder annuity trust, the upfront income tax deduction will be approximately $53,492. This provides about $21,000 in actual cash savings (assuming a 39.6% bracket).

By using a charitable trust, the family has reduced its income tax, increased its annual income, diversified its investments, and made a magnificent charitable gift. In addition, the assets in this trust are no longer in their estate and will not be subject to estate tax.

Payment Options

The income stream can be a fixed amount (a charitable remainder annuity trust) or a percentage of the trust's annual face value (a charitable remainder unitrust). Some clients prefer the stability of a fixed payout, while others anticipate good market conditions and like the potential for increased income the charitable remainder unitrust provides. (As the corpus grows, the unitrust distribution increases.)

Trusts Answer Many Situations

You can establish trusts that:

Pay income to you and then distribute income to your children or grandchildren before providing for your favorite charities. Underwrite educational costs of children and/or grandchildren and then distribute to charity.

Create a retirement fund for the future by investing in assets that grow for a period of years without distributing income. Then, at the appointed year, the asset mix can be changed to provide maximum income to you.

Provide life income for a beloved or important non-family member, such as a caretaker, or disabled child.

Protect qualified retirement funds and IRAs from double taxation by using a provision in your will (a testamentary trust) to receive and distribute your pension funds. You can reduce or eliminate deferred income tax on your pension funds and reduce estate tax.

Charitable Lead Trusts

Like a charitable remainder trust, lead trusts benefit the donors and the charities of their choice. With a lead trust, the donors establish an irrevocable fund which distributes cash to their favorite charities for a term of years (normally 5-20 years). When the trust expires, the assets within the trust revert to the donors (or their selected beneficiaries). Donors especially like charitable lead trusts because they have the opportunity to observe how their gifts are being used (as opposed to the charity not receiving funds until the donors have died). Donors can establish a donor advised endowment fund at the San Angelo Area Foundation and advise the board of directors how to grant the earnings.

In addition, donors who wish to leave their heirs an asset expected to appreciate significantly can use a charitable lead trust to achieve very favorable tax treatment. The asset's original transfer tax is discounted because a charitable partner receives income from the fund for several years. (The longer the charity receives a distribution, and the higher payout percentage it receives, the higher discount the trust receives.)

Furthermore, the assets within the trust can grow without additional transfer tax implications because the tax valuation is determined only at the time the property is placed in a trust. Hence, a family with farmland near a projected interstate highway might establish a charitable lead trust with land and cash. Even if the land is five times more valuable by the time the trust dissolves, the donors or the donors' family owe no additional tax on the transfer.

> *For example, if you irrevocably transfer $1,500,000 to a lead annuity trust that pays 8% of its initial value each year to San Angelo Area Foundation for 15 years, your benefits will include:*
>
> 1) You will qualify for a federal gift tax deduction of approximately $1,500,000.
>
> 2) Your trust will provide $120,000 each year for 15 years to the San Angelo Area Foundation. This money will go to create an endowed donor advised fund, of which you and your heirs will have the ability to give advice on who and how much are given in grants.
>
> 3) In 15 years, the donor advised endowment fund should have over $2.5 million in assets and will have given over $1 million to the charities you or your heirs have recommended. These types of gifts can continue in perpetuity.
>
> 4) The beneficiaries of your trust (i.e. family members) will receive all of the trust's assets when the trust terminates in 15 years. Any asset growth that occurs within the trust will be distributed to your trust's beneficiaries free of gift or estate tax.

Flexible and Inflexible Provisions

The attorney who drafts your charitable trust will remind you that this is an irrevocable gift. Even if you face financial hardship, the assets of the trust no longer belong to you and cannot be reclaimed. However, you will always have the ability to change the charitable beneficiaries named in a trust document.

Charitable Giving Through Life Insurance San Angelo Area Foundation

Creating planned gifts with life insurance provides donors with a variety of methods to accomplish charitable goals while reducing income and estate taxes. The San Angelo Area Foundation's personnel are pleased to accompany you or consult with your own insurance professionals to recommend appropriate life insurance options.

Gift of an Existing or New Policy

Owners of current life insurance policies can contact their insurance providers and request forms to name the San Angelo Area Foundation as the policy's beneficiary. To establish an irrevocable gift, donors request change of ownership forms to name the Foundation as both the owner and the beneficiary. Donors can purchase a new policy to create a planned gift by the same process.

Donors ordinarily receive a charitable deduction equal to the lesser of the policy's surrender value or their basis in the policy (the total of premiums they have paid). If the policy is paid in full, the Foundation will keep the policy until it pays the death benefit. Another option, if it is the donor's preference, the Foundation can surrender the policy and create an outright gift with the proceeds.

Should the policy depend upon additional premiums, the donors are expected to pay these. All future payments the donors make to keep the policy in tact are eligible charitable deductions. Donors should consult their accounting and insurance professional to determine whether to pay the premiums directly to the insurance company to make charitable donations to the San Angelo Area Foundation and have the Foundation pay the premiums.

Wealth Replacement Trusts

An extremely popular tool for donors with large estates, an irrevocable life insurance trust (ILIT) uses three steps to complete tax-wise gifts for charities and fine inheritances for children and other heirs.

1) Donors create a living trust outside their estates and name their heirs as the trust beneficiaries.

2) Donors then make gifts to their favorite charities and use the income tax savings from these charitable donations to fund the trust with life insurance on their lives.

3) At the death of the donors, the insurance trust distributes the insurance proceeds income and estate tax-free to the designated heirs. (These policies are often second-to-die arrangements in which the heirs receive the insurance proceeds after the death of both parents.)

Donors often double the impact of their estates with wealth replacement trusts. They are able to make a significant charitable gift while they are still alive without diminishing the inheritance their loved ones will ultimately receive.

Charitable Trusts and Gift Annuities

In some instances, donors can convert life insurance policies to charitable gifts which pay them an annual income stream. Donors request change of ownership forms from their insurer to transfer their insurance into a charitable gift annuity or a charitable unitrust. This transfer will earn them a charitable deduction, based upon a percentage of the policy's surrender value and their ages.

After the policy has been transferred, the trustee can cash in the policy and reinvest the funds for liquidity and diversification. The donors receive an income (normally 5% to 8%) for life or a term of years. After their deaths, the proceeds remaining in their life income plan are distributed to the charities the donors have designated.

Key Employee Insurance/Viatical Settlements

As business owners prepare for retirement, they often re-evaluate their insurance needs. Entrepreneurs who have started their own companies may have "key man" insurance, which they purchased to help their business in the event of their untimely deaths or to finance potential buy/sell agreements. As they retire from their businesses, this extra insurance may no longer be needed.

Viatical gifts utilize the equity in an asset without requiring the death of the insured. In recent years, financial institutions across the nation have agreed to purchase this insurance for a percentage of its face value. This transaction is called a viatical settlement.

Viatical settlements relieve the policy owners of premium payments and give them the opportunity to enjoy making a grand charitable statement while they are still alive. The value of the policy is determined in part by the owner's general health and anticipated life expectancy. Viatical settlements may often pay 25-85% of the policy's death benefit.

A business owner can gift his/her "key man" insurance to the San Angelo Area Foundation, who will then shop competitively for a viatical buyer.

Other Estate Planning Options San Angelo Area Foundation

Qualified Pension Funds and Individual Retirement Accounts

While qualified tax-deferred retirement funds are an excellent way to build a retirement nest egg, these same funds are not efficient wealth transfer vehicles. In fact, many people are surprised to learn that tax-deferred retirement funds–including 401(K)'s, Keough plans, and individual retirement accounts–can trigger income, estate, and generation skipping taxes when these funds pass to the next generation. In some instances, taxes can erode as much as 65% of a retirement fund's corpus!

For people who have interest in leaving a charitable legacy, these same funds make excellent tools for creating planned gifts. In most cases, it is easy to change the beneficiary designation with the plan's administrator. (In Texas, the spouse must also sign a change to a non-spousal beneficiary.) If your spouse is named as the retirement fund's beneficiary, consider adding your charity as the contingent beneficiary after your spouse's death. In most instances, this will eliminate the estate and income taxes that would be triggered if the asset were passed to non-spousal heirs.

Another option is to use your retirement funds to establish a charitable remainder trust in your will (a testamentary provision). While such a vehicle may not completely eliminate estate taxes, it can provide income to another generation, reduce estate taxes and eliminate income taxes that would be due on a direct distribution of the retirement funds.

Partial Ownership in a Property

You can share a piece of property, such as a vacation home, with a charity by gifting a percentage interest in the property to the San Angelo Area Foundation or another organization. You will receive a charitable income tax deduction based upon the property's fair market value at the time the gift is made. When you sell the property or die, the charitable organization shares in the proceeds. You cannot, however, require the charity to sell its interest to any designated person.

Tangible Personal Property

If you own an art, stamp, or coin collection, you can leave this valuable asset to the charity of your choice. In most cases, the San Angelo Area Foundation will attempt a prompt and fair sale of the property and will convert the proceeds into a gift of your choice–such as a family-endowed scholarship or library collection. Please consult your accountant on tax issues regarding "institution-related" gifts.

TRANSFORMING TOMORROW

The mission of the San Angelo Area Foundation is to build a legacy of philanthropy by attracting and prudently managing endowment funds that match donor interests with community needs.

Remember, the San Angelo Area Foundation is a way to give, not a place to give.

SAAF

San Angelo Area Foundation

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