

# FINANCIAL GUIDE

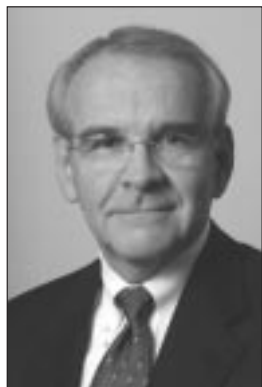
For Friends of  
**PURDUE**  
UNIVERSITY

Fall 2004

## The Campaign for PURDUE

### Dear Friends,

You have worked hard all year to reach personal, family, and charitable objectives. The decisions you make in the final weeks of 2004 can have a significant impact on how productive your efforts will prove to be.



We are providing some information we hope you will find useful as the new year approaches. Of course, the exact moves that are right for you depend on your personal circumstances, but we have highlighted some of the more important issues that will affect your year-end planning.

We have also presented some examples of creative charitable planning that can help you achieve your goals and benefit Purdue University as well. These ideas just scratch the surface of options available to you. If we can be helpful to you in any way as you make your year-end plans, we hope you will feel free to call on us.

Sincerely,

Gordon D. Chavers  
General Counsel

## TENDING YOUR FINANCIAL GARDEN

### Year-end moves to bring in the harvest

Autumn is the time of year when growers eagerly anticipate the harvest—the time of year they literally get to see the fruits of their labors. The tax year dictates its own *growing* season and creates its own fall *harvest* time—a time to take steps to reduce your taxes for 2004 and better position yourself for the next cycles in 2005 and beyond.

In this issue of the *Financial Guide*, we highlight several key moves you can still make before year-

**Thoughtfully constructed charitable plans can be the perennials in your financial garden.**

end. Some of the most important decisions are those that will bring perpetual bloom to the causes and values

you hold dear. Accordingly, we will give special attention to thoughtfully constructed charitable plans that can be the perennials in your financial garden and can significantly enhance personal objectives as well.

## I n s i d e

### Tools to Increase Your Yield

- The Charitable Deduction
- The Charitable Trust
- The Charitable Gift Annuity
- Retained Life Estate

Please return the enclosed card for a copy of our complimentary booklet, **Year-End Tax Planning: Top Ten Questions & Answers.**

**The cost of the harvest** Like the residue in the fields that escapes the reaper's labors, the federal income-tax system extracts its own tariff from the product of your year's efforts. Our tax system lays claim to a progressively higher percentage as your income goes up.

For the first time in several years, the tax rates to which income is subject have not changed, starting at 10% and going up to 35%. The range of income those rates apply to has gone up slightly, however, reflecting a higher cost of living in 2004.

**Special incentives** Just as growers receive special incentives for growing certain crops, federal tax law encourages taxpayers to use their resources to produce certain kinds of income. On the favored list: long-term capital gain and corporate dividends. **Reward:** Both are generally taxed at a maximum rate of just 15%—5% for those in the 10% and 15% regular tax brackets.

- **Bonus:** In addition to getting lower tax rates, you can also control when you have to report capital gain simply by controlling the timing of a sale.

- **Weeding out the losers.** On the other hand, if you sell stocks that have gone down since you bought them, you can use that loss to offset other gain, or up to \$3,000 of ordinary income if your total loss exceeds your gain. **Caution:** If you buy stocks back within 30 days, you will not be able to recognize the loss.

## The Charitable Deduction: A Powerful Planning Tool

Wisely and creatively used, charitable deductions can turn on the sunshine or sprinkle a refreshing

Tax Bracket	Tax Savings	Net Cost
10%	\$100	\$900
15%	\$150	\$850
25%	\$250	\$750
28%	\$280	\$720
33%	\$330	\$670
35%	\$350	\$650

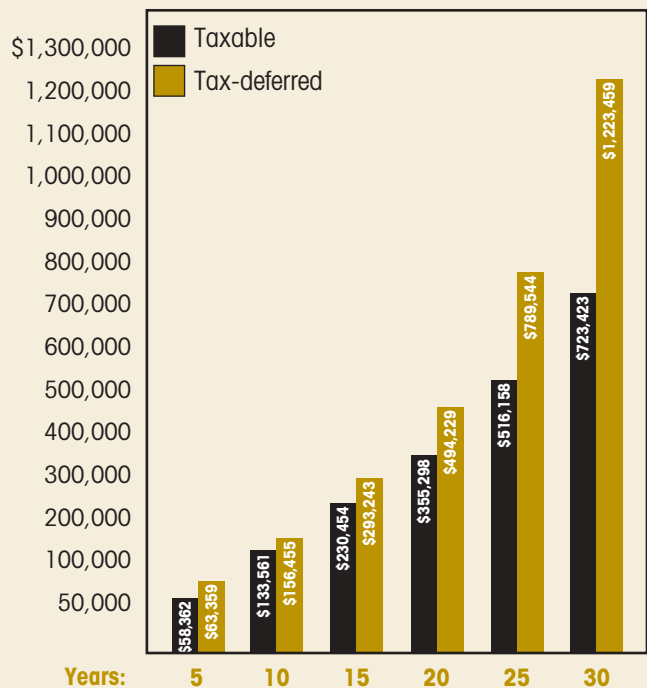
shower on your financial garden—and you control the timing. When you choose to

support charitable causes such as Purdue University, the government shares the cost in the form of tax savings. The above chart shows the net cost of giving for persons who itemize.

**Pruning for greater yields** One of the major objectives of year-end planning is to keep as much income as possible from being subject to income tax. Judicious use of tax deductions can prune your taxable income, leaving you with more after-tax cash. Deductible expenditures include:

- **Taxes.** State and local income taxes, real estate taxes, and some personal property taxes can reduce your taxable income.
- **Mortgage interest.** Interest paid on a residence is typically deductible, whereas consumer interest—such as car loans and credit card interest—is not.
- **Medical expenses.** You can deduct unreimbursed medical expenses that exceed 7.5% of your adjusted gross income.
- **Retirement-plan contributions.** The amount you put into retirement plans such as an IRA, Keogh, 401(k), or 403(b) plan reduces your taxable income (subject to certain limits). Because the amount in a plan also grows on a tax-deferred basis, it grows much more quickly than a taxable account. (See chart.)

## How Does Your Garden Grow?



**GROWTH OF \$10,000 ANNUAL CONTRIBUTIONS TO TAXABLE AND TAX-DEFERRED ACCOUNTS**  
(Assumes 8% return, 35% tax bracket)

**If you give long-term appreciated stock, you do not have to recognize any of your paper gain.**

**Increasing the yield** Choosing the right asset to give can make the results even better. For instance, if you give highly appreciated long-term stock, you can take a deduction for the full fair-market value but you do not have to recognize any of your paper gain.

**We welcome the opportunity to discuss the benefits of gifts of other types of appreciated investments as well. Please return the enclosed reply card if we can help you with your planning.**

Let's compare a gift of \$50,000 worth of stock purchased years ago for \$10,000 with a gift of \$50,000 cash for a person in the 35% bracket:

	Stock	Cash
Deduction	\$50,000	\$50,000
Tax savings	\$17,500	\$17,500
Long-term capital gain	\$40,000	- 0 -
Capital-gain tax avoided	\$6,000	- 0 -
Total tax savings	\$23,500	\$17,500
Net cost of gift	\$26,500	\$32,500

If you have significant charitable goals, you may benefit from a plan that lets you increase your retirement security and make generous provisions for Purdue at the same time.

### Sharing the bounty

There are also various ways to enjoy the satisfaction of a current gift and the benefit of an immediate tax deduction—yet continue to receive lifetime income. One of the most popular ways of doing this is through a contribution to our charitable gift annuity program.

In exchange for your contribution, we guarantee to make annual payments for life to you or the one or two persons you

## Hybrid Strategies to Address Personal and Charitable Goals

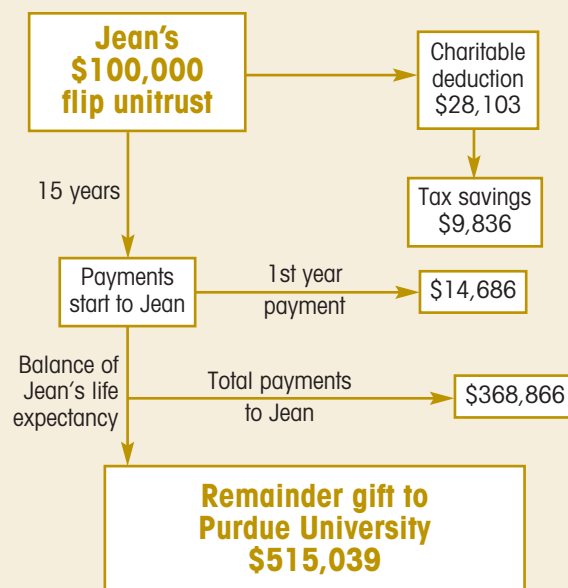
Growers are constantly developing new hybrid plants that provide advantages that the component parts cannot offer. Wise taxpayers also know that it is possible to combine personal and charitable objectives to achieve more jointly than is possible by pursuing them separately.

**Stocking the storehouse** Retirement security is a high priority for most Americans. While there are tax-advantaged ways to put aside money for retirement, many people would like to do more—and generate tax benefits at the same time.

**Charitable gift:** Jean T, aged 50, is a successful professional who has exhausted all traditional tax-advantaged retirement-savings options open to her. She would like to do something significant for Purdue and augment her retirement income as well.

Planning to retire at the age of 65, Jean decides to contribute \$100,000 to a special kind of charitable trust (a "flip" unitrust) designed to produce income for her at the time of her retirement for the rest of her life. When payments start, she will receive 5% of the trust's annual value and, at her death, the funds remaining in the trust will pass to Purdue University.

If the trust averages an 8% total return and Jean lives her normal life expectancy, she can expect the following results:



## \$25,000 Gift Annuity

	Age	Rate	Annual Payment	Tax-Free Portion	Effective Rate	Deduction
<b>One Life</b>	60	5.7%	\$1,425	\$742	7.3%	\$7,111
	70	6.5%	\$1,625	\$978	8.6%	\$9,443
	80	8.0%	\$2,000	\$1,382	11.0%	\$12,007
	90	11.3%	\$2,825	\$2,209	16.1%	\$14,179
<b>Two Lives</b>	60-60	5.4%	\$1,350	\$683	6.9%	\$4,791
	70-70	5.9%	\$1,475	\$864	7.8%	\$7,295
	80-80	6.9%	\$1,725	\$1,166	9.4%	\$10,195
	90-90	9.3%	\$2,325	\$1,767	13.1%	\$12,626

This chart shows our current rates for gift annuities at sample ages, the effective return, and the amount of the contribution that is deductible, based on an assumed \$25,000 cash contribution and a 35% federal income-tax bracket.

designate. Both your charitable deduction and the amount of the payments depend on the number and age(s) of the beneficiary(ies). (See representative gift chart above.)

In today's low-interest-rate environment, many of our friends find the return on a gift annuity to be an attractive alternative to CDs and other income-producing investments.

**A significant portion of the payment from a gift annuity may be tax-free.**

**Retained Life Estate** A personal residence, a farm, or a vacation home is often the subject of a gift. Like gifts of long-term, appreciated securities, gifts of real estate can be very attractive because of the double tax benefit—an immediate charitable deduction and the avoidance of capital-gain tax.

However, family considerations do not always permit the making of an outright gift of a personal residence or farm. Instead, you may want to

consider a gift of a remainder interest in

**Give your home and continue to live in it.**

such property. You will retain the right to possess and enjoy the property for as long as you (and your spouse) live, and you'll obtain a current income-tax deduction for the value of the remainder interest directed to the charity.

**Charitable gift:** George K, 75, contributes \$100,000 cash for a charitable gift annuity that will pay him 7.1% each year for life. In his 35% federal tax bracket, the gift produces these results for George:

Annual income	\$7,100
Tax-free amount	\$4,601
Deduction	\$42,967
Tax savings	\$15,038

Check with us for details on how a gift annuity can fit into your plans.

## For More Information

We have discussed just a few of the strategies you may find useful as you conduct your own year-end planning process. To better equip you for the task, we would like to send you a copy of our booklet, *Year-End Tax Planning: Top Ten Questions & Answers*, with more ideas for your consideration. To receive your complimentary copy, simply return the enclosed reply card.

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

Purdue's planned giving program continues to rank nationally, according to the 2003 National Association of College and University Business Officers (NACUBO) Endowment Study. Purdue's life-income fund assets rank second among peer institutions, second in the Big Ten, and eleventh nationally. The investment performance set forth below of most of the charitable remainder unitrusts managed by the Purdue Research Foundation contributes to these rankings. Generally, as these unitrusts increase in value, the income distributed to the life-income beneficiaries also increases.

<b>Date</b>	<b>Current Yield</b>	<b>Capital Appreciation</b>	<b>Total Return</b>
12/31/83	5.54%	2.55%	8.09%
12/31/84	5.96%	2.39%	8.35%
12/31/85	5.38%	20.47%	25.86%
12/31/86	5.17%	7.95%	13.12%
12/31/87	5.36%	0.88%	6.23%
12/31/88	5.49%	4.69%	10.18%
12/31/89	4.86%	20.04%	24.91%
12/31/90	5.07%	1.01%	6.07%
12/31/91	4.70%	14.59%	19.29%
12/31/92	4.62%	0.93%	5.55%
12/31/93	3.89%	5.10%	8.99%
12/31/94	4.21%	-2.49%	1.73%
12/31/95	3.87%	18.96%	22.84%
12/31/96	3.89%	9.41%	13.30%
12/31/97	3.18%	20.82%	24.00%
12/31/98	2.71%	19.92%	22.62%
12/31/99	2.96%	10.96%	13.91%
12/31/00	3.29%	-3.17%	0.12%
12/31/01	3.30%	-1.15%	2.15%
12/31/02	3.21%	-10.98%	-7.77%
12/31/03	2.65%	14.87%	17.51%

**Average Current Yield 4.25%**

**Average Capital Appreciation 7.51%**

**Average Total Return 11.76%**

Past performance may not be duplicated in the future.



## R.B. Stewart Society

The following alumni and friends have joined the more than 500 members of the R.B. Stewart Society, since October of 2003.

Max D. and Mergie W. Adams  
William J. and R. Jean Beard  
John A. and Nancy Bratt  
Walter Conway and Meredith M. Tennent  
Rita and John Dagys  
Catherine Boyd Frailing  
Kenneth L. and Connie Gleason  
Col. Eugene and Erika Griffith  
Judith L. Hack  
Edward A. and Jean A. Hartman  
Robert D. Helms  
Jerrie M. Kofmehl  
Beverly A. Lang  
Thomas W. Lester  
N. Jane S. and James A. Link  
Barbara and John D. MacDougall  
Robin J. and William E. McCormack II  
Howard E. and Erma G. McVicker  
George M. Miller  
Henry T. Murphy, Jr.  
Linda and Wayne Nierman  
Merrill G. and Peggy L. Peter  
Jo-Ann Price  
Alan H. Rebar and Susan A. McLaughlin  
Stephen E. Reynolds  
Glenn and Elsie Rossman  
James F. and Pamela K. Schweitzer  
Carol L. Sittler  
Herbert W. Smith  
Donald R. and Gay M. Sorensen  
Roger C. Stewart  
Philo C. and Mara H. Wasburn  
Carlyle E. and Dorothea E. Whistler  
Stephen and Harriet Zelencik

Purdue founded the R.B. Stewart Society to recognize special benefactors who make commitments to the future of the University through their estate plans. The Society is named after Robert Bruce Stewart for his commitment to higher education, his efforts on behalf of the University, and his expression of faith in the future of Purdue through his own gifts.

The R.B. Stewart Society honors individuals who embody the spirit of Purdue's master builder. R.B. never lost sight of the fact that financial matters were a means to an end rather than the end itself. His dedication and generosity are reflected by today's benefactors who provide for the future of Purdue through their planned gifts.

Members of the R.B. Stewart Society have expressed their support for the future of Purdue University by notifying us of the inclusion of Purdue in their financial and estate plans.

**PURDUE**  
UNIVERSITY

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