

Ideas

on financial, estate, and charitable planning
from Southwestern Medical Foundation
and UT Southwestern

Dear Friends,

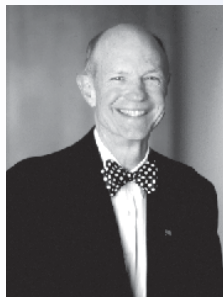
Are you preparing to withdraw your 2007 minimum required distribution from your IRA?

If you said yes and would also like to support Southwestern Medical Foundation, then you'll want to know that you may realize extra benefits by making a gift of your IRA withdrawals to us— thanks to new legislation in late 2006.

Under the new law such gifts will count toward your required minimum distributions for 2007 and be excluded from your gross income: a **tax-free rollover**. To qualify for benefits under this legislation:

- You must be 70½ or older at the time of the gift
- Transfers must go directly from your IRA to the Foundation
- Your total IRA gift(s) cannot exceed \$100,000 in 2007
- Gift(s) must be outright

Please contact me at (214) 351-6143 to find out how you can benefit from such a gift or for more information about other plans to benefit Southwestern Medical Foundation.



Sincerely,

W. Plack Carr, Jr.

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President and CEO

Charitable Options with Mutual Funds

If you own mutual funds, you are in good company! At the end of 2005, more than 91 million Americans held accounts in more than 7,900 mutual funds.

Pros and Cons

There are solid reasons for the popularity of mutual funds as a major investment vehicle. Mutual funds offer broad diversification at affordable cost, provide professional portfolio management, and can be bought and sold readily, with generally low transaction costs.

Mutual funds do have drawbacks. ■ The costs range widely, and with some funds, sales charges and management fees can compound your loss. ■ You have no control over how or when they realize and distribute the capital gain. ■ Identifying those with appropriate objectives and attractive performance records is a challenging task.

How Do They Perform?

While some funds will perform better or worse than others over a given period and while some years will be better or worse than others, over the long haul mutual funds as a group tend to reflect the performance of the assets they are invested in. Most recent returns for stock funds are now solidly positive—and the prospects for the future seem to be improving. But double-digit increases also mean capital gain, and for investors who wish to sell their shares, capital-gain tax can consume 15% of their earned gain.

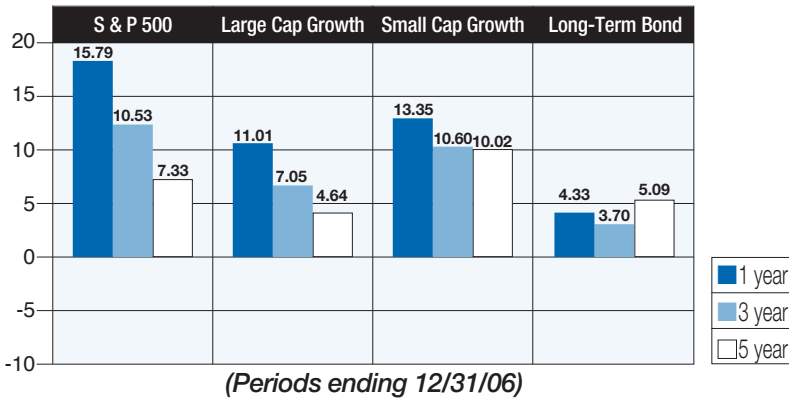
If this is your situation, you may find that this is the ideal moment to make the charitable gift you have wanted to make but thought you could not afford. Not only will you receive a tax deduction, you will also avoid losing up to 15% of your gain.

The Advantages of Life-Income Gifts

Life-income gifts allow you to arrange now for a future gift (and receive a current charitable income-tax deduction) but continue to receive income for life at a rate that may well be higher than you are currently receiving from the asset you plan to contribute.

Spring 2007

Average Annual Returns



This table and graph compare the average annual return of mutual equity and bond funds with the Standard & Poor's 500 Index over five-, three-, and one-year periods ending in December of 2006.

What's more, when you contribute appreciated property (mutual fund shares or other securities), you *reduce or completely avoid tax on the capital gain.*

The **charitable gift annuity** is a contractual arrangement with the Foundation under which, in exchange for your contribution, you receive fixed, guaranteed payments for life for yourself and, if you wish, your spouse or other beneficiary, at a rate based on your age(s). When the sole or surviving annuitant dies, the remaining principal passes to us.

Example: Mary Davis, 72, owns shares of XYZ Equity Fund that have a fair-market value of \$25,000 and a cost basis of \$10,000. Her long-term capital gain is \$15,000.

If Mary sells the shares, tax on the gain will consume \$2,250 ($\$15,000 \times 15\%$), and she will have \$22,750 ($\$25,000 - \$2,250$) left to invest. If she invests it in a money market fund at 5%, she will receive annual income of \$1,250. In her 28% income-tax bracket, she will have \$900 left after taxes.

Instead, Mary decides to contribute the \$25,000 worth of shares to the Foundation for a charitable gift annuity. For the rest of her life she will receive fixed payments of \$1,675 per year ($6.7\% \times \$25,000$). Part of her income will be taxed as ordinary income, part as capital gain, and for the next 14 years \$377 per year will be tax-free. Her annual after-tax income will be \$1,384.

What's more, in the year of the gift Mary receives a charitable tax deduction of \$11,311, which may be reported over a period of up to six years and can result in tax savings of \$3,167 ($\$11,311 \times 28\%$).

Note: Mary's contribution is irrevocable (the principal cannot be returned), so she should have other resources available for unforeseen needs.

Under the **charitable remainder unitrust** arrangement, you transfer property (cash, securities, and/or real estate) to a trust. You (and/or other beneficiaries) receive payments from the trust for life or a term of years, calculated as a specified percentage of the trust principal as revalued annually. If the trust earns more than it pays out to the beneficiaries, the trust principal will grow and the payout will increase proportionately. When the trust terminates, the remaining principal passes to Southwestern Medical Foundation.

Transferring Shares to the Foundation

If you use mutual fund shares to fund one of the charitable gifts described above, be sure to transfer the *actual shares* to the Foundation to avoid tax on the capital gain! Transferring mutual fund shares to the Foundation usually requires that you write a "letter of intent" to the fund's transfer agent, authorizing the transfer. We will also write a letter of intent, confirming the expected donation and applying for a new account to which the shares will be transferred. If you are making a life-income gift, you will need to advise us of the cost basis of the property you are contributing.

We Are Here to Help

A representative of Southwestern Medical Foundation will be pleased to assist you with such a gift. You can also simply return the enclosed card or phone our office to request your copy of our free booklet, **Planning Options with Mutual Funds.**

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