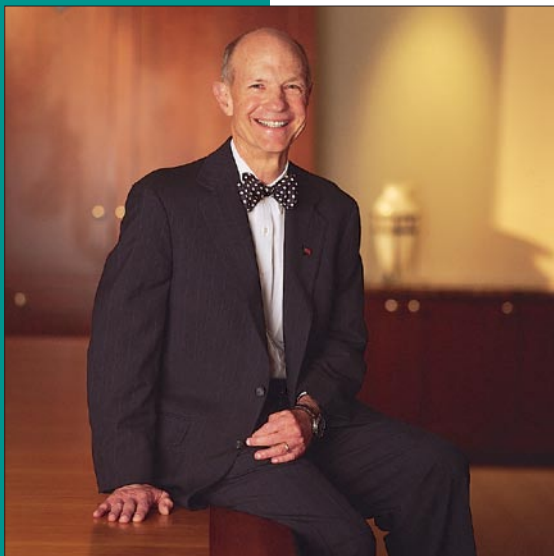


# PLANNING MATTERS

A PUBLICATION OF SOUTHWESTERN MEDICAL FOUNDATION AND UT SOUTHWESTERN  
SPRING 2007

## From the President: A Special Opportunity



W. Plack Carr, Jr.

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We Are Here to Help

**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

Consider these planning pointers:

- A direct transfer of IRA funds to the Foundation may offer relief from the application of the alternative minimum tax (AMT) and will not cause reduction in itemized deductions or personal exemptions that higher-income taxpayers face. (This is a special opportunity available only in 2007.)
- Consider giving us appreciated securities that you own outside of your IRA instead, and use your *minimum required distribution* to replace those securities in your portfolio—thereby establishing a new and higher cost basis. Or diversify your portfolio by purchasing other securities.

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.  
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.

Investing in mutual funds is so widespread today that we forget it hasn't always been so. Mutual funds began in 1924, and by 1940 they held a relatively small \$500 million in total assets. But by 1985, total assets had grown a thousandfold to \$500 billion and by the end of 2005 had increased to more than \$8.9 trillion.

## The Pros

There are solid reasons for the rapid development and continued popularity of mutual funds as a major investment vehicle.

- Mutual funds offer broad diversification at affordable cost—a real plus for the individual investor with limited dollars to spread around. While a varied portfolio is essential to control risk and achieve relatively stable performance, the costs of purchasing a variety of small “odd lots” of stocks can be prohibitive and still not achieve the diversity readily provided by a mutual fund.

- Mutual funds make available to the average investor the strength of professional portfolio management with clearly stated objectives. While professionals do not always succeed and amateurs do not always fail, most of us feel more comfortable knowing that our investments are overseen by people who know more and spend more time in research than we do.

- Mutual funds offer the virtue of liquidity: they can be bought and sold readily, and the transaction costs are generally low. Shifting investments (from stocks to bonds, for example) may cost nothing at all in fees if you stay within the same no-load family of funds. Moreover, purchase or sale of mutual fund shares will have no effect on the price of the shares, unlike individual stocks.

- Mutual funds offer such conveniences as automatic reinvestment of dividends and capital-gain distributions, telephone transfers from one fund to another within the same fund family, and plans for additional purchases or withdrawals at regular intervals.

## The Cons

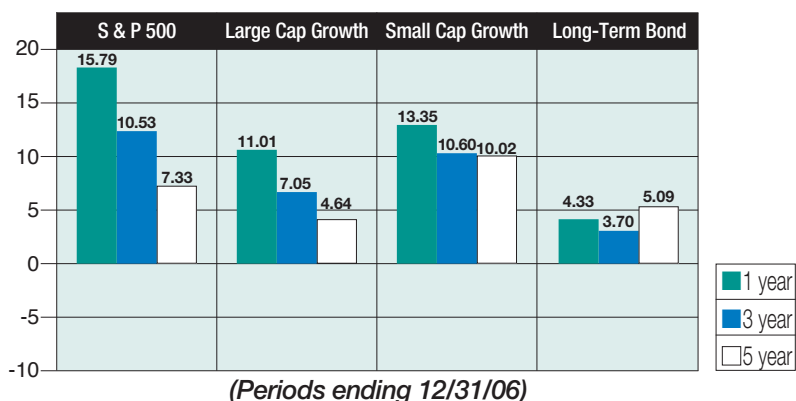
On the negative side, mutual funds also have drawbacks. ■ The costs range widely, and with some funds, sales charges and management fees can cut deeply into your gain and seriously compound your loss. ■ With a mutual fund, you have no control over how or when it realizes and distributes its capital gain, which means that you will be taxed on such gain according to its timetable rather than your own. ■ With thousands of mutual funds from which to choose, identifying those with appropriate objectives and attractive performance records is a challenging task—made even more daunting since the funds leading the pack one year may well be also-rans the next. ■ Once you select a mutual fund, you turn the selection of particular securities over to its managers. If you'd rather do that selecting yourself—or rely on a trusted personal advisor—you won't be comfortable with a mutual fund.

## 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.

The table below 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.

### Average Annual Returns



## No Need for the Income? Consider an Outright Gift

If you don't need the continuing income, you may wish to consider an **outright gift** of mutual fund shares. It will maximize your charitable gift and provide an income-tax deduction for the full fair-market value of the shares—while avoiding all tax on the long-term capital gain. For example, a donor in the 33% tax bracket who gives \$20,000 worth of shares with a cost basis of \$10,000 can save \$6,600 in income taxes ( $\$20,000 \times 33\%$ ) and avoid capital-gain tax of \$1,500 ( $\$10,000 \times 15\%$ ). Thus, the net “cost” of a \$20,000 gift is only \$11,900!

The good news is that the most recent returns for stock funds are now solidly positive—and the prospects for the future seem to be improving each quarter. 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

Two popular planned-giving vehicles offered by Southwestern Medical Foundation are the charitable gift annuity and the charitable remainder unitrust. Both are *life-income gifts*—that is, they 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.

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 ( $\$25,000 - \$10,000$ ).*

*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 Southwestern Medical 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:** As a condition of the tax benefits she receives, Mary's contribution is irrevocable (the principal cannot be returned), so she should have other resources available for unforeseen needs.

Another popular gift arrangement is the **charitable remainder unitrust**. Under this 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

*Continued on page 6*



## HERITAGE SOCIETY

**F**OUNDED in 1995, the Heritage Society honors individuals who make long-term charitable commitments to Southwestern Medical Foundation for the benefit of UT Southwestern or one of its affiliates through planned gifts. In essence, it gives the Foundation an opportunity to show its appreciation to those who are *Endowing the Future of Medicine*.

Anonymous (9)  
Mr. and Mrs. James R. Alexander  
George A. Atnip  
Marilyn Augur\*  
Paul M. Bass\*  
W. Robert Beavers, M.D.  
Drs. Paul R. and Rebecca B. Bergstresser  
Michael H. Bertino, M.D.\*  
Josephine L. Biddle#  
Jules Bohnn, M.D.\*  
Beth Ann Borden  
Nancy L. Branch  
Carol A. Brown, M.D.\*  
Cherie Brown  
Antonio J. Campdera\*  
W. Plack Carr, Jr.\*  
Dr. and Mrs. Anthony C. Chang  
Emogene B. Clardy  
Mr. and Mrs. Robert R. Click  
Frank Crawford, M.D.  
Dorothy R. Cullum\*  
Edwin R. Daniels\*  
Doris Russell Dealey\*#  
Johann Deisenhofer, Ph.D.  
Anne and Brian Dethrow  
Grant A. Dove#  
Mack M. Elliott  
Gene and Charlotte Emery  
Pamela and Roy Gene Evans\*  
Richard Ferguson  
Robert G. Freeman M.D.  
Gretchen and Gerald Fronterhouse  
Dr. and Mrs. Norman F. Gant  
David Ginn, MD.\*  
Mr. and Mrs. F. B. Pete Goldman\*  
Mr. and Mrs. Joe M. Graham  
L. Ruth Guy, Ph.D.#  
Nancy and Jeremy Halbreich  
Sydney and Wallace Hall\*  
Nancy B. Hamon\*  
John P. Harbin  
Dr. and Mrs. Thomas W. Harris\*  
Mr. and Mrs. Donald R. Hibbert\*  
Lyda Hill  
James M. Hoak  
Edmund M. Hoffman\*#  
Mr. and Mrs. S. Roger Horchow  
Dr. J. B. Howell#  
Keith and Cherie Hughes  
Robert and Myra Hull  
Mrs. Morris I. Jaffe\*  
Berneice C. Johnson#  
Judith K. Johnson\*  
Rollin W. and Mary Ella King  
Christine Kumpuris\*#  
Mrs. A. J. Kutner, Jr.  
Wright L. Lassiter, Jr.\*  
Will and Liza Lee  
Nelson L. Mauldin  
Mr. and Mrs. C. Thomas May, Jr.  
James M.# and Rosalee McConnell  
Kay Moran McCord-Watson  
Peter A. McCullough, M.D., M.P.H.\*  
Carmen Crews McCracken McMillan  
Ferd. C. and Carole W. Meyer  
William R. and Anne E. Montgomery  
Robert H. Munger#  
Louis Nardizzi, M.D., Ph.D.\*  
Gerard Noteboom, M.D.  
Rhea T. O'Connor\*#  
Thomas F. O'Toole  
Thomas J. Parr, M.D. and Joannie Parr  
Selma L. and I. Benjamin Parrill  
Patricia M. Patterson\*  
Billy Joe Pendley  
Shirley Pollock\*  
Doris E. Porter, P.T.  
Mrs. Ashley Priddy  
Muriel Rabiner  
W. Paul Radman, D.D.S.  
Nancy Carol Reddick\*  
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Frank Ribelin  
Dr. and Mrs. Leonard Riggs, Jr.  
Mr. and Mrs. John Carl Rutledge  
Stephen Raymond Salomon  
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F. Michael Schultz, M.D.\*  
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Sarah M. and Charles E. Seay\*  
William D. Seybold, M.D.\*#  
Doyle L. Sharp, M.D.\*  
Tom and Dorothy Shockley  
Mr. and Mrs. George A. Shutt\*  
John S. Smale, M.D.  
Dr. and Mrs. Neal C. Small  
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Charles C. Sprague, M.D.\*#  
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Mr. and Mrs. Dennis White  
Evelyn Whitman-Dunn\*  
Mr. & Mrs. Lawrence E. Whitman\*#  
Florence L. and Frederic F. Wiedemann  
Dr. and Mrs. Kern Wildenthal  
Karol Lynn Wilson  
Terry M. Wilson\*  
Mr. and Mrs.# Ivor P. Wold

\* = Charter Member of the Heritage Society  
# = Deceased

On March 28, Southwestern Medical Foundation held its annual Professional Advisors Breakfast Seminar. More than 160 estate and financial planning professionals were in attendance to hear Stacy Eastland, managing director of Goldman Sachs & Co. in Houston, discuss family limited partnerships. Attorneys, CPAs, and Certified Financial Planners received continuing education credit through their respective accrediting organizations.



Seminar attendees  
Clark Willingham,  
Glenn Turner, and  
John Ridings Lee



Seminar attendees  
Jim Harrell and  
Robert Felty



Seminar presenter  
Stacy Eastland  
and Southwestern  
Medical Foundation  
President W. Plack  
Carr, Jr.

Southwestern  
Medical Foundation  
was honored to  
have such a large  
number of people in  
attendance to hear  
Stacy Eastland



Continued from page 3

remaining principal passes to us. Unitrusts offer many variations, but here is one example.

**Example:** Tom and Barbara Wilson, aged 68 and 66, own mutual fund shares with a fair-market value of \$150,000 and a cost basis of \$60,000. If they were to sell the shares, they would pay \$13,500 in tax on the capital gain (\$90,000 x 15%) and have only \$136,500 to reinvest.

By contributing the shares to fund a charitable remainder unitrust, the Wilsons avoid all tax on the gain when the trustee sells the shares and reinvests the proceeds. They select a payout rate of 6%, so their payout in the first year is \$9,000. If the trust has an average net yield of 8%, its principal—and the payments to the Wilsons—will increase 2% each year, providing them with a hedge against inflation. This growth also increases the charitable remainder that will pass to the Foundation when the trust terminates.

At the time of their contribution, the Wilsons receive a charitable income-tax deduction of \$47,600 that, in their 33% bracket, can result in tax savings of \$15,708 over the reporting period.

As with Mary Davis's charitable gift annuity, the Wilsons' contribution to the unitrust is irrevocable.

## Transferring Shares to Southwestern Medical Foundation

If you use mutual fund shares to fund one of the charitable gifts described earlier, be sure to transfer the *actual shares* to the Foundation. If you redeem them first and contribute the cash proceeds, you cannot avoid tax on the capital gain! Normally, such a transfer requires that you write a "letter of intent" to your fund's transfer agent, authorizing the transfer. Southwestern Medical Foundation will also provide a letter of intent, confirming the expected donation and applying for a new account to which the shares will be transferred. The process may take some time, but our representative will be pleased to assist you.

Unless you are making an outright gift, you will need to advise us as to the cost basis of the property you are contributing. Calculating the cost basis of mutual fund shares can be tricky, especially if shares were purchased at various prices through reinvestment of dividends. The IRS allows you to do this by either averaging or totaling the purchase costs of the specific shares contributed. If you use the latter method, you will probably want to contribute the shares with the lowest basis (highest gain), to maximize the tax benefits of your donation. If you use the averaging method, the average cost per share will also apply to any shares you retain. You should consult your tax advisor to determine which method is better in your situation. In some cases, the mutual fund company or brokerage can provide the data needed; otherwise, you will need to rely on your own records.

The information in *Planning Matters* should not be construed as legal advice, tax advice, or as a substitute for advice based on particular factual situations. You should consult your attorney prior to finalizing any of the planning techniques discussed.

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### We Are Here to Help

Our discussion of making a gift of mutual fund shares to us has been necessarily brief. If you would like more information about gift planning with mutual funds, don't hesitate to

call. To help with your planning, we would like you to have a complimentary copy of our booklet, *Planning Options with Mutual Funds*.

To request your copy, simply return the enclosed card or call Randy Daugherty, Planned Giving Director, Southwestern Medical Foundation.

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