



## RETAINED LIFE ESTATES

A Gift that Simplifies Estate Administration and  
Carries with it a Current Tax Deduction

### WHAT IS A RETAINED LIFE ESTATE?

A retained life estate is when a person transfers the future ownership of property, most commonly a home, to another person or an organization but retains the right to enjoy the property for the remainder of their lifetime. This is most common with real property such as a home or agricultural property. Additionally, there is most often an arrangement between the donor and the charity regarding costs of maintenance of the property for the remainder of the donor's lifetime.

### WHAT ARE THE BENEFITS OF A RETAINED LIFE ESTATE?

A gift of property while reserving its use for the remainder of a person's lifetime has a number of benefits. First and likely foremost is the ability to make a strong future impact at UW with a gift that does not cost anything to you right now. This is not unlike many other planned gifts; however, a retained life state gift simplifies the administration of a person's estate for their loved ones and also provides the donor with an immediate charitable deduction which can mean substantial tax savings now.

### HOW DOES A RETAINED LIFE ESTATE SIMPLIFY ESTATE ADMINISTRATION?

A retained life estate is essentially the byproduct of making a gift of property. Just like with all transfers of property, the transferor has the ability to retain an interest in that property. In many states, for example, a seller of real estate can retain the ownership interest in the minerals under the surface of the land. The retention of a life estate is not significantly different except it is a donor of property that retains the right to use and enjoy the property for the remainder of their lifetime. Since the ownership interest in the property transfers to the charity it is no longer part of the donor's estate and there is no administration required upon that person's passing.

## HOW CAN A PERSON CLAIM A CHARITABLE DEDUCTION?

When a person donates property and retains the right to use and enjoy that property for the remainder of their lifetime, they have still given something of value away. That value of what the charity is receiving is calculated based upon the age of the person at the time they made the gift and the value of the gift. For example, a gift of a home valued at \$200,000 carries with it a charitable deduction of \$127,028 (based on spring 2018 interest rates).

## IS A RETAINED LIFE ESTATE THE ONLY WAY TO MAKE THIS KIND OF GIFT?

In many states, it is possible to transfer real property to another person or an organization upon a person's passing through what is known as a transfer on death deed. This functions similarly but that the transfer does not take place until after a person's passing. There are benefits and drawbacks to this method. The benefits are that a person can change their mind and sell the property during their lifetime whereas a drawback is that there is no charitable deduction associated with making the gift.

## CAN THE GIFT BE DESIGNATED FOR A SPECIFIC PURPOSE?

Just like every other gift, a donor can designate the college, department, or unit that will benefit and also the purpose for how it can be used. Gifts of \$25,000 or more can be used to create a named and designated endowment fund that will produce an annual payout to benefit the university for generations to come. When a gift is endowed—or made permanent—the principle gift amount is invested along with other endowed funds according to the UW Foundation's investment strategy. These types of gifts have an annual distribution that is transferred from the UW Foundation to the University of Wyoming for the benefit of the department or college of your choice to be used in a manner that you decide. The annual distribution is approximately 4%. Therefore, an endowment of \$25,000 yields an annual payout of approximately \$1,000. The lifetime investment strategy of an endowment is to maintain the time-value of the original distribution amount to keep pace with inflation. Thus, the impact of a gift will stay the same, if not grow, in perpetuity.



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