

“A taxing perspective – *Why Tax Law is Important to the Non-Profit*”

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Presenters:

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Mr. Lilly is a Portfolio Manager responsible for managing client portfolios, performing securities research, and setting investment policy. Mr. Lilly is also co-manager for the Bright Rock Large Cap Quality Fund. Prior to joining Rockland Trust, Mr. Lilly was a financial planner with the Vanguard Group, where he created and developed comprehensive financial plans for high net worth clients. Mr. Lilly holds a B.S. in Economics from the University of Massachusetts and an MBA from Arizona State University. He is a CFA charter holder and has also received his designation as a Certified Financial PlannerTM. Mr. Lilly belongs to the Boston Security Analysts Society, Financial Planning Association, and is a board member on the Planned Giving Council of Cape Cod.

Overview: *Investment Management Group*

- ❖ Investing assets for individuals, businesses and not-for-profit organizations since 1907.
- ❖ **\$1.7 Billion** in assets under management (AUM).
- ❖ Dedicated team of 53 professionals with over 350 years of combined experience.
- ❖ 4 Investment offices: Attleboro, Hanover, Osterville and Providence*, RI.
- ❖ One of the Greater Boston area's largest independent investment advisors.*

* Opening summer 2011

** Source: Boston Business Journal

Overview: “As an Advisor, our first priority to our clients is asset longevity”

The Good News:

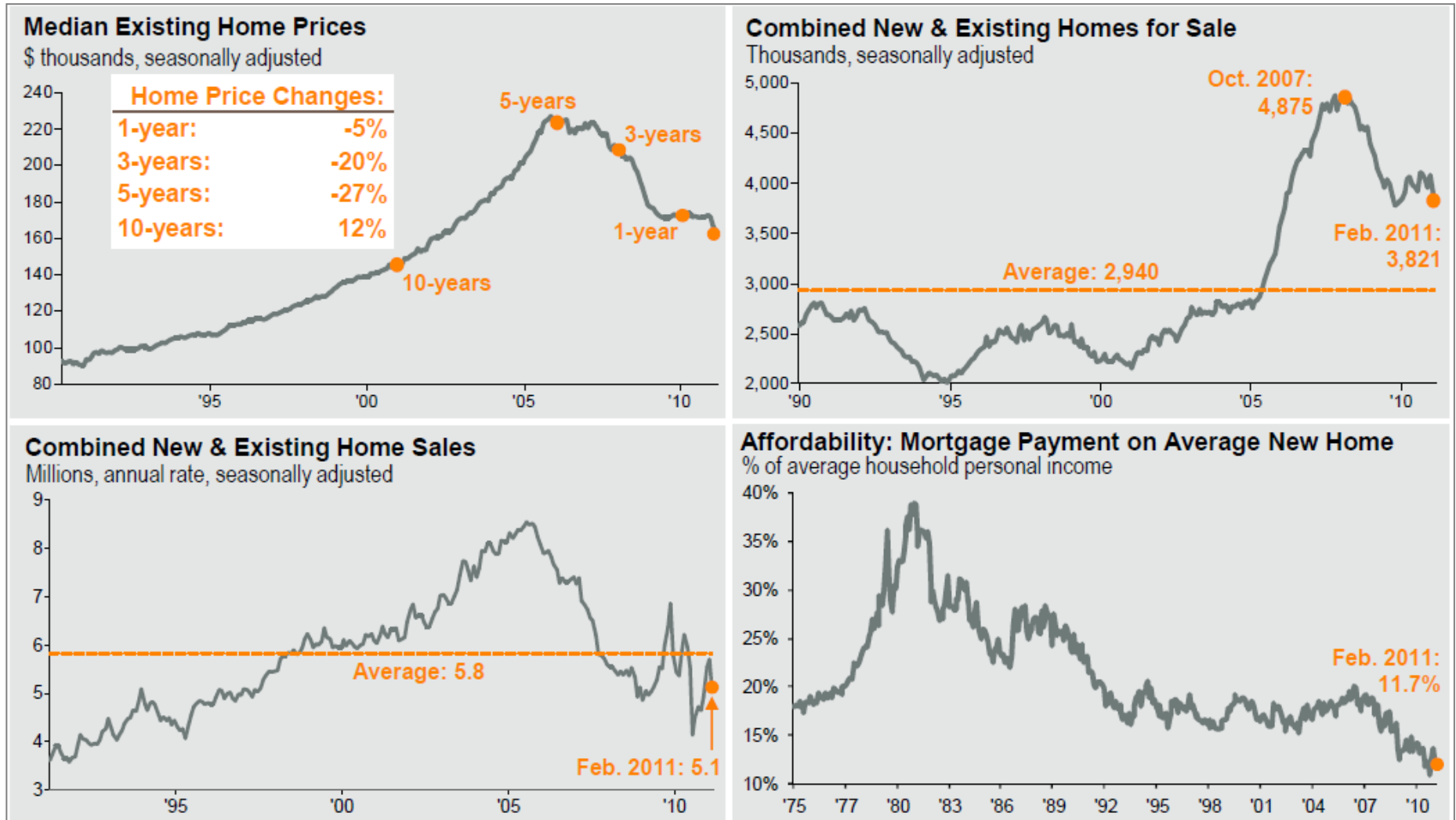
- *The vast majority of our clients are charitably inclined .*
- *We encourage regular and immediate gifting.*
- *Scale is important – Larger gifts have a greater impact.*
- *We encourage: Philanthropic Policy Statement
Commit, Define, Educate, Maximize –
IRR – What’s your Internal Rate of Return?*

The Not So Good News:

- *Clients are less confident because of.....”The Big 4”.*
- *Clients have a clear bias towards “Family First”.*
- *From a planning perspective.....current tax law is not as supportive.*
- *Clients today are much more sophisticated donors. Bad news for some, great news longer term.*

“The Big 4”: Real Estate

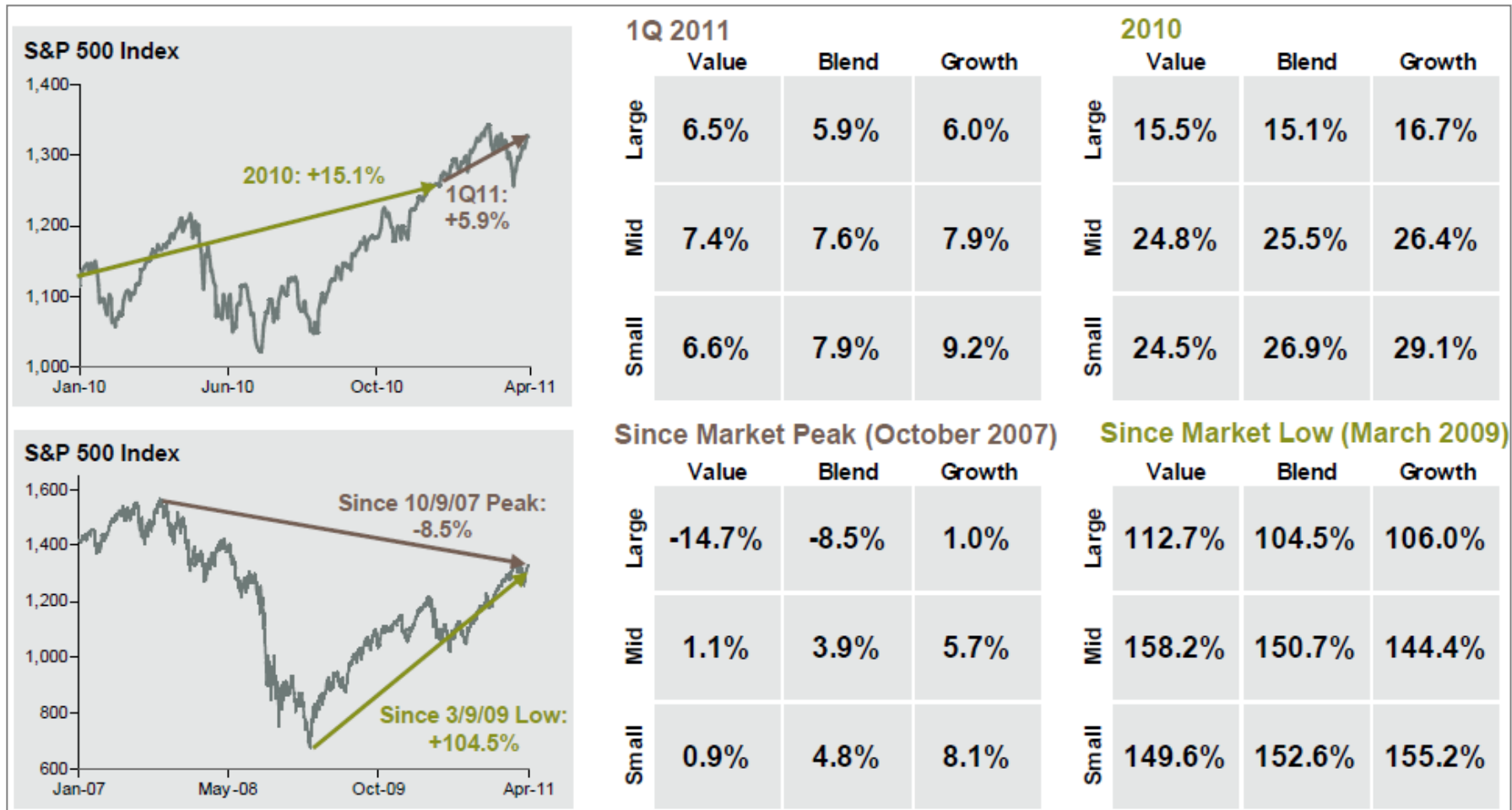
5 year returns have been close to -30%



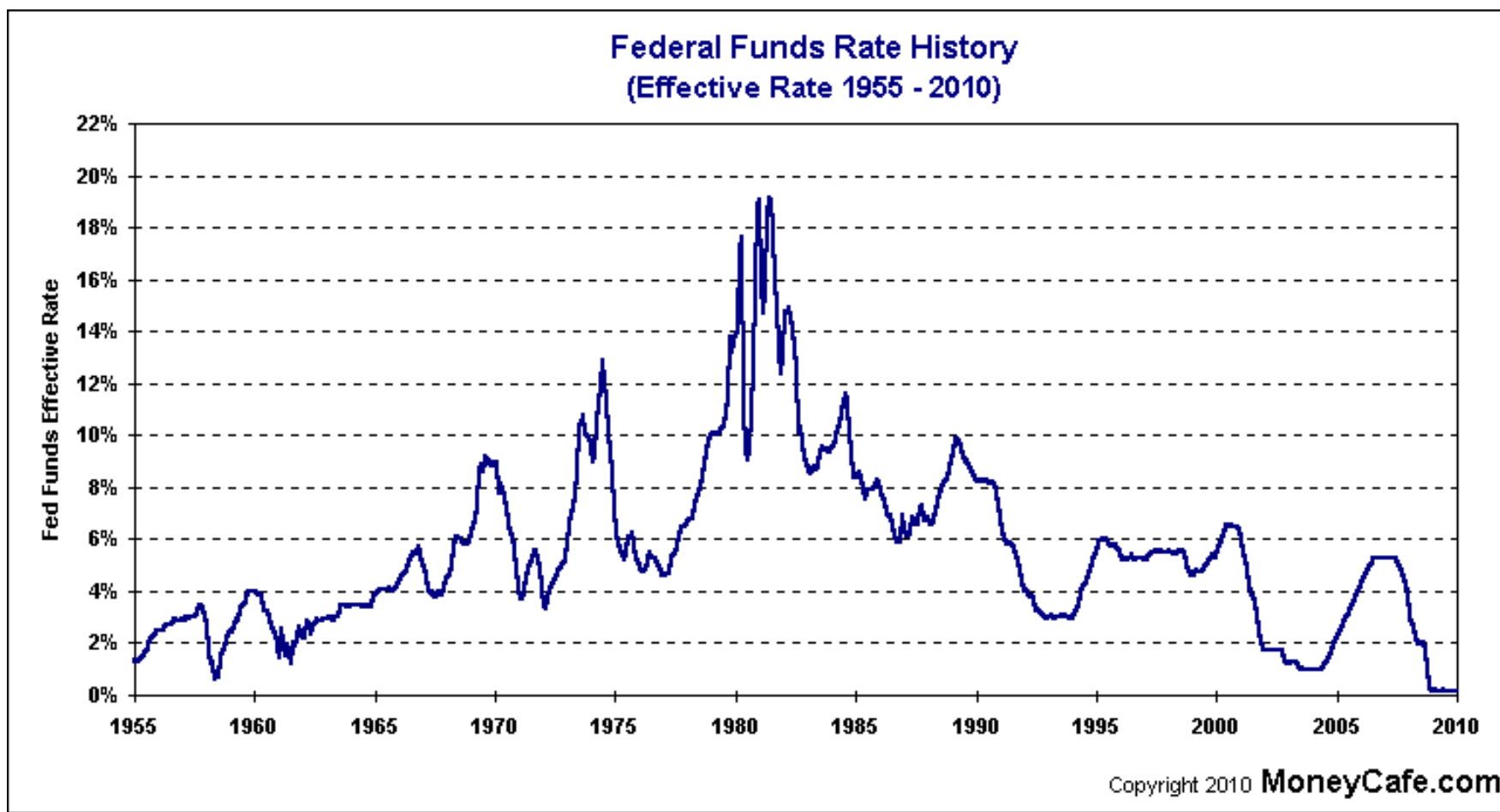
Source: (Top left) National Association of Realtors, FactSet, J.P. Morgan Asset Management. (Top right) Census Bureau, National Association of Realtors, J.P. Morgan Asset Management. (Bottom left) Census Bureau, National Association of Realtors, J.P. Morgan Asset Management. (Bottom right) Census Bureau, FRB, BEA, J.P. Morgan Asset Management.

“The Big 4”: Stock Market

Although equity markets have rebounded, investor psychology has not.



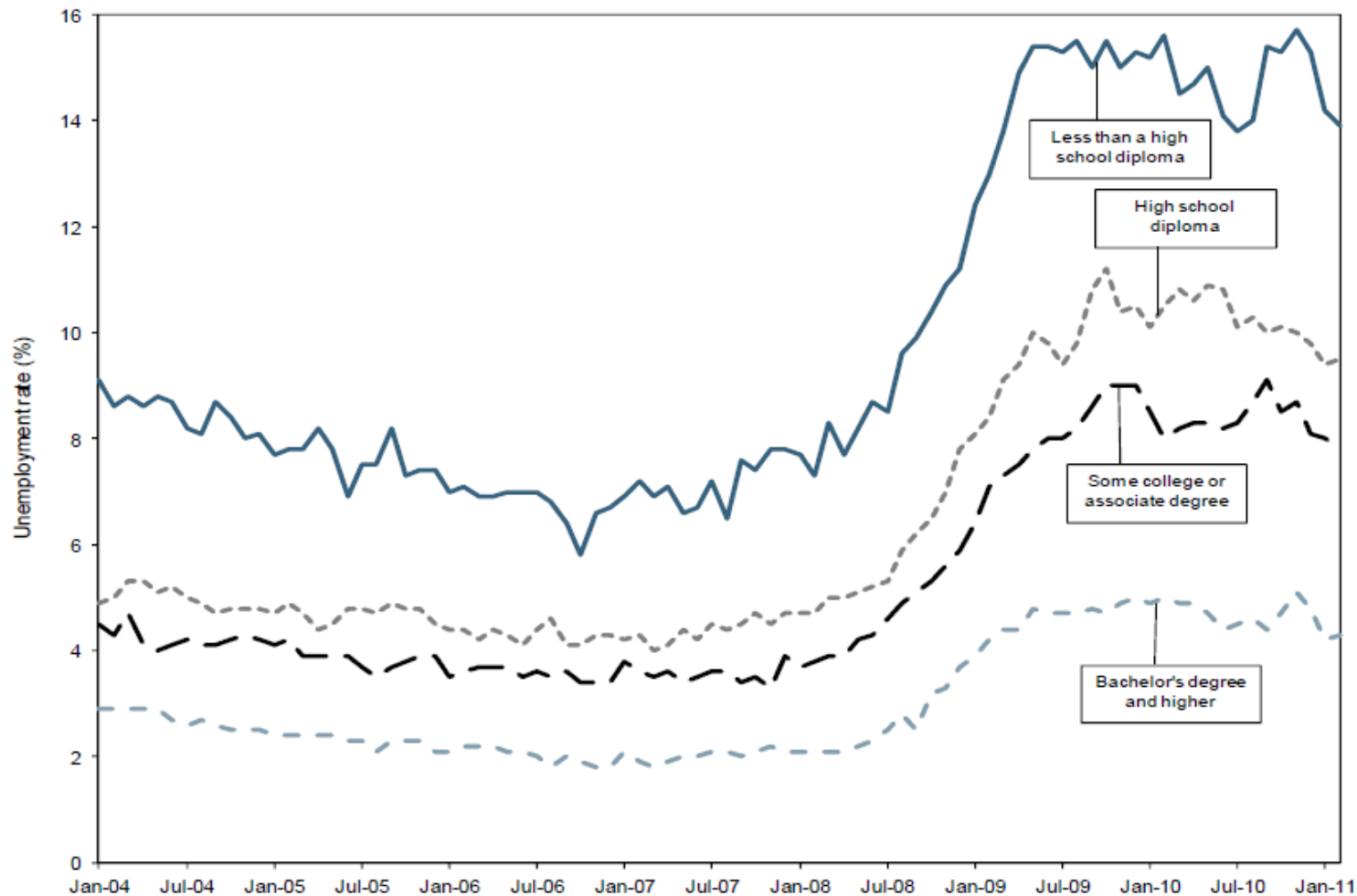
“The Big 4”: Income *Yield has disappeared*



Cycles are guaranteed..... *The timing, duration, peaks and troughs are not!*

“The Big 4”: Unemployment

Clients may be retired, but they worry about their kids:



Source: GSAM, BLS

Current Tax Law:

“Financial advisers are warned to prepare for loss of tax breaks”

InvestmentNews Retirement Income Summit.

Inventory of losses – An asset that gets more valuable in 2013 (in our opinion).

Low capital gains rates (for the short-term) – Stimulating family gifting and sales. Charitable gifting of low basis stock is less compelling. Basically, current rates pull sales into the present and push charitable gifting into the future.

Low dividend tax rates – Combined with lower yields and lower marginal tax brackets means lower impact with charitable gifting.

Favorable gift and estate law - \$5M exemption thru 2012.

Favorable Roth conversion rules - The Roth conversion is a great legacy planning tool. Much more compelling than the IRA gifting strategy.

Planner’s spending hierarchy - Favors taxable assets first. Client psychology supports this as well.

The Impact of “The Big 4”:

Example I:

Client Summary-

- *Sold their house and semi-retired in 2007.*
- *Investments of approximately \$1,200,000 .*
- *One spouse is more than 15 years younger.*
- *Supplementing income with portfolio withdrawals + big tickets items.*

Current Situation-

- *2007 – 2010 : Spending rate ranged between 8 – 15% (including charitable contributions). Way To High!*
- *A gifting program of low basis stock was suspended in 2009 after substantial realized losses.*
- *2011 Market value is over \$1M; Withdrawals expected to moderate; Reinstated charitable spending program...until his daughter called with the news she was laid off –*

Family First:

Example II.

Client Summary-

- *Retired.*
- *\$10M + net worth.*
- *Married, both in their 80s and not in the best health.*
- *Substantial means and charitably inclined.*
- *Regular charitable spending program with substantial assets transferring at death.*

Current Situation –

- *Son is a real estate developer.*
- *Stuck with some large spec houses at the top of the market with substantial mortgages.*
- *The clients “lent” over \$2M to cover debt service in the last three years.*
- *Equalization issues with the second child.....She has not received any \$\$\$!*
- *Charitable giving has been reduced by >50%; Terms of the Trust have been modified.*

Current Tax Law:

Example III

Client Summary-

- *Retired with strong retirement cash flow.*
- *\$2M +Net Worth.*
- *Never married, no kids, no family.*
- *Lives well below her means – drives a 20 year old car.*
- *IRAs, low basis stock, commercial and residential R.E.*
- *Everything is going to charity.....eventually.*

Current Situation-

- *She never has enough income, even though it just accumulates.*
- *Commercial R.E. was funneled into a CRUT; income fluctuates based on rents.*
- *A good inventory of loses, but future tax rate uncertainty creates a overhang.*
- *IRAs are off limits, even though the beneficiary is a charity (actually several).*

Current Tax Law:

Example IV

Client Summary -

- *Mid 50s, working, artist and a teacher.*
- *\$5M + net worth.*
- *No kids, some nieces and nephews.*
- *Live well below their means .*
- *Mostly low basis stock.*

Current Situation –

- *They had no idea how much they were worth, or what that meant!*
- *Implementing Philanthropy Policy Statement.*
- *They have toured several organizations.*
- *Looking to contribute Time, Money and Influence.*
- *Gifting low basis stock will begin shortly, but accelerate post 2013 and continue to grow.*