Building the Bridge From Theory to Practice

At our Fall Reunion, Dean Martha Minow spoke about the purposes, people, and places that make Harvard Law School unique. She focused, in part, on the ways in which HLS is building the bridge from theory to practice. We are grateful for the philanthropy and ongoing engagement of our alumni, and all the ways in which you help the Dean, our faculty, and our students achieve this goal.

HLS students bring energy, diversity, and experience to their law school journey. In fact, 76% of this year’s 1Ls had an amazing variety of work or study experiences between college and law school. The LL.M. class, representing 69 countries, is also extraordinary in the breadth of skills and work experiences its members bring to HLS: this year’s LL.M. class includes Supreme Court and Constitutional Court clerks, prosecutors, attorneys general, judges, and law teachers.

These extraordinary students are taught and mentored by a world-renowned faculty that continues to grow in number and breadth. Over the past year, HLS has appointed more than a dozen new professors, including several alumni with expertise in consumer law, criminal justice, cyberlaw, economics, finance, human rights, animal law, and Islamic law, among other areas. The Law School recently instituted a new role, Professor of Practice, to bring in law teachers with extensive expertise in the worlds of law practice, the judiciary, policy, and governance.

Changes in the 1L curriculum include smaller study sections, a required elective in international or comparative law, and a new Problem-Solving Workshop, designed to help prepare students for the practice of law by generating solutions to the kind of problems that occupy lawyers every day. Other innovations in teaching and learning include smaller classes, cutting-edge research, more opportunities for clinical work, interdisciplinary collaborations, and public service initiatives.

Our newest building, the Wasserstein Hall, Caspersen Student Center, Clinical Wing complex (WCC), was designed and built to accommodate smaller classes, innovative learning, and problem solving at HLS.

Clinical education is another key to building the bridge from theory to practice. Today, 76% of HLS students participate in clinics. They assist in counseling clients in actual cases under the supervision of HLS clinical faculty and instructors who are expert practitioners in their field. In the process, our students gain practical experience, and they also meet critical needs in the community.

The Law School’s 26 clinics are among the largest providers of legal services in the Boston area, and their work addresses many of society’s most pressing issues. For example, the Law School’s Emmett Environmental Law & Policy Clinic recently released a report on regional and municipal storm water management which analyzes options for addressing storm water pollution at regional and municipal levels.

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Sooner or Later: Balancing Planning Goals

Life is a combination of weights and measures, actions and consequences—a balancing act. That’s why we’re careful to think about the ramifications of important day-to-day decisions. Suppose you’re asked to take over a significant new case, project, or board position. You weigh how the added responsibility will impact ongoing commitments. You decide if you have the time needed to do what is required. You take into account necessary travel and how it will affect your personal life.

Charitable and estate planning have different yet similar challenges. Each is a balancing act that requires weighing estate and philanthropic choices against the backdrop of personal obligations and future aspirations. Personal planning, estate planning, and philanthropy go hand in hand. This issue of Making a Difference explores a number of planning options we think you will find helpful in meeting your personal, estate, and charitable planning goals. Please take a few moments to consider these ideas. If we can answer any questions or help you explore these ideas in greater detail, please contact us by phone, by email, or by returning the enclosed card. As always, we thank you for your generosity and continued support.

A Planning Perspective

Your gift planning preferences should always be shaped by your personal charitable goals. When you want to make a difference for Harvard Law School, charitable giving can be a gratifying and fulfilling part of your personal, tax, and estate planning. Your support will contribute to generations of students and advance the teaching, research, and practice of law.

You can be strategic and flexible in your gift planning—you can complete a gift now, qualify for a charitable deduction this year, and arrange future gifts that fit your long-term goals while retaining the ability to adjust plans as your goals change.

Giving Sooner

Outright gifts of cash and gifts of stock are simple ways to make a gift that immediately supports Harvard Law School’s work here in Cambridge and around the world. Before you make such a gift, it may be helpful to think about some of the reasons why a gift of stock—especially in today’s environment—may be the preferred gift.

Gifts of Appreciated Stock

Gifts to HLS qualify for an income tax charitable deduction on your tax return in the year of your gift and there may be some carry-forward. The effect of this deduction is that the actual cost to you of making your gift is significantly less than the dollar value. There is more good news to the tax story. When you make a gift of appreciated stock you have held more than one year, you pay no capital gains tax on the appreciation, so there is a double tax savings—an income tax deduction based on the value of the stock when the gift is made, and avoidance of capital gains tax that would be due had you sold the stock.

Example: When you make a $25,000 gift of stock, your taxable income is reduced by $25,000, assuming you can fully utilize the deduction. In the 33% tax bracket, this eliminates $8,250 (33% of $25,000) from your tax bill, so the cost of your gift is $16,750 ($25,000 minus $8,250). The cost of your gift is further reduced by the capital
gains tax you avoid having to pay if you had sold your stock. Assuming your $25,000 in appreciated stock has a cost basis of $12,500, if you sold your stock you would pay a capital gains tax of 15%, which would equal $1,875 plus the net investment income tax of 3.8% for a total tax-cost of 18.8%, or $2,350. The total after-tax cost of a $25,000 gift of appreciated stock with a $12,500 cost basis is $14,400 ($25,000 - $8,250 - $2,350).

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<th>Amount of gift</th>
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**Example:** Five years ago, Susan purchased stock in an IPO for $50,000. Fortunately, the company became a social media darling, and the stock is now worth $100,000. If she sells the stock, she pays capital gains tax on $50,000. But if she gives the stock directly to Harvard Law School, no capital gains tax is due and she is eligible for a tax deduction of $100,000. In a 33% tax bracket, the itemized deduction for the gift reduces Susan’s tax bill by $33,000. She also avoids $7,500 in capital gains tax ($50,000 x 15%) and the 3.8% net investment income tax, $1,900, that would have been due if she sold the stock. The total cost of her $100,000 gift is $57,600 ($100,000 - $33,000 - $7,500 - $1,900).

**Net investment income surtax**

The 3.8% tax on net investment income is a surtax on “passive” income such as interest, dividends, and capital gains. The net investment income tax took effect in 2013. It applies to taxpayers earning more than the threshold amount—over $200,000 for single taxpayers, $250,000 for couples. Taxpayers with significant investment income should pay close attention to this tax because their marginal income tax rate on that investment income could reach as high as 43.4% for those in the top bracket, and their capital gain tax rate could increase to 23.8%. Gifts of appreciated property escape this tax, which makes appreciated property gifts more attractive than ever.

**Enjoy a Lifetime Income from Your Gift of Stock**

Another technique that integrates philanthropy and personal planning is the charitable gift annuity. In exchange for a gift of stock, you receive annuity payments for life. This gift option is ideal for anyone who wants to support our work, provide income for retirement, and enjoy current tax savings. The minimum amount to establish a gift annuity at Harvard is $25,000.

A gift annuity can have one or two beneficiaries and payments can begin immediately or can be deferred—the longer the deferral period, the higher the annuity rate. Whether immediate or deferred, part of your gift qualifies for a tax deduction in the year it is made.

When appreciated stock is used to fund the annuity, a portion of any capital gain is attributable to the “gift” portion of your annuity and is avoided; the remaining capital gain is attributable to the income you receive from the annuity and is spread out over the actuarial lifetimes of the payment beneficiaries. In addition, part of each payment is tax-free for the period of the beneficiaries’ life expectancies.

**Example:** Warren, age 75, uses stock to set up a $25,000 gift annuity with payments to begin immediately. He purchased the stock several years ago for $10,000. Warren will receive annual payments of $1,450 as long as he lives, and the payment amount will not change. For 12 years, $448 of each payment is tax-free, $671 of each payment is taxed as capital gain, and $331 of each payment is taxable as ordinary income. After 12 years, the entire payment amount is taxable as ordinary income. The gift qualifies for a charitable deduction of $11,564.*

* Example for illustrative purposes. AFR 2.4% (the AFR—the Applicable Federal Rate—is the interest rate the IRS uses to calculate charitable deductions for life income gifts)

**Planning Tip:** Charitable gift annuities are also attractive to taxpayers in the prime of their careers. The immediate tax deduction is timely: deferring payments provides a higher payment rate. More important, there is no maximum contribution amount—a particularly attractive feature if you have reached your contribution limits to qualified retirement plans in a particular year.
Charitable Bequests: Plan Now, Give Later

There are meaningful ways to plan a gift today, to retain control of the assets you intend to give, and to complete your gift in the future, and there are good reasons for considering this approach. The first Nobel Prizes, made possible by the provisions in Alfred Nobel’s will, were awarded in 1901. More than 100 years later, this gift continues to make an impact by recognizing individuals who have “conferred the greatest benefit on mankind.” Harvard Law School had a significant bequest that contributed to its founding and early success.

A charitable bequest, planned today, can be changed, modified, or removed, and is a meaningful way to shape your personal legacy. There are many ways to make a bequest. A bequest can establish an endowment fund that provides support year after year. Charitable bequests can also support a specific program, department, or clinic.

**Revocable Living Trusts**

You can also make a legacy gift using a revocable living trust. Some planners prefer revocable living trusts because, unlike a will that becomes public knowledge, a trust is a private document. Whether estate planning utilizes a will or revocable living trust (or both), you can accomplish specific charitable goals while retaining the right to make adjustments during your lifetime.

**Beneficiary Designations**

A meaningful future gift to HLS can be as simple as naming us as the beneficiary of a life insurance policy or retirement account. We can be the primary beneficiary—your first choice for receiving the funds—or a contingent beneficiary, which means we receive the funds only if the primary beneficiary does not. Keep in mind that qualified retirement plan assets are subject to income tax when withdrawn by you or your beneficiary. As a qualifying charitable organization, we do not pay income tax on retirement assets left to us, which means the full amount is used to create your legacy gift.

**Stay Tuned: The IRA Charitable Rollover**

In years past, the IRA Charitable Rollover has been a way for IRA owners over age 70½ to escape income tax and satisfy required minimum distribution rules by making a direct distribution from an IRA to a charitable organization. This provision expired in 2013, and was renewed briefly at the end of 2014. IRA owners please stay tuned—legislation may come from Washington that makes this helpful gift option available again for 2015 and beyond. We will keep you advised.

**Keep Your Balance**

Life has a way of altering the most carefully made plans. That’s why it’s important to periodically review your planning to ensure you’re maintaining the balance you set out to achieve. At Harvard Law School’s Office of Planned Giving, we’re committed to keeping you informed about ideas that can be helpful in balancing your planning strategies with personal goals.

It is always a privilege to work with you and your advisors to explore giving options that can help you harmonize personal and philanthropic planning goals. Working together, we can consider the impact of changes and explore how charitable giving may fit into your overall planning. Please let us know if there is any way we can be of service.
Emeritus Club Reunion Breakfast

Harvard Management Company (HMC) Managing Director and Chief Trusts and Gift Officer Jennifer Pline joined Harvard Law School Director of Planned Giving Charles Gordy to provide an update on HMC at a special breakfast for the HLS Emeritus Club at Reunion last fall. Emeritus Club members are HLS alumni who have already celebrated their 50th reunion.

Ms. Pline gave an informative presentation on recent HMC financial results, areas of investment focus, an update on HMC staffing, and long-term strategies and goals for continued endowment growth in support of the Law School’s and the University’s wide-ranging academic and research goals.

HMC’s current investments strategies are bringing in strong long-term results for Harvard’s endowment, which was valued at $36.4 billion as of June 30, 2014. The endowment return for fiscal year 2014 was 15.4% and exceeded the policy benchmark by 82 basis points. The majority of asset classes outperformed their market benchmarks this past year.

Ms. Pline highlighted a few areas that HMC has focused on recently, including investments in early-stage companies, direct real estate investments and fine tuning allocations to private equity. An improved liquidity profile after the financial crisis has allowed HMC to carefully and incrementally add risk to the portfolio in anticipation of better returns.

This year, HMC is celebrating the 40th anniversary of its singular mission of generating strong, long-term financial results for Harvard University. Managing the majority of Harvard’s assets in-house is very cost-effective according to a recent management survey which listed the costs at 1%. HMC invests the Law School’s portion of the University’s overall endowment.

Additionally, Ms. Pline reports HMC has strong leadership and talent across the board. Following the steady hand of Jane Mendillo for the last six years, Stephen Blyth succeeded her as CEO on January 1, 2015. There is a lot of stability for this transition and Mr. Blyth is well-positioned to lead HMC as at HMC he has been a Managing Director and Head of Public Markets and has worked for HMC for eight years. In addition, Mr. Blyth has a Ph.D in Statistics from Harvard, teaches Applied Quantitative Finance in the Statistics Department at the College, and as Ms. Pline states, “He loves Harvard!”

For HMC, the last five years have been a period of significant recovery and repositioning for the Harvard endowment. The current portfolio is a long-term target portfolio composed of a mix of assets that achieves the right balance and is in line with the University’s needs. HMC looks forward to continually producing excellent financial results for Harvard University, its world-renowned academic programs, and its alumni donors and supporters.
HLS BRIDGE FROM THEORY TO PRACTICE
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This Fall, Harvard Law School Dean Martha Minow and Julio Frenk, dean of the Harvard T.H. Chan School of Public Health, issued a challenge to students across the university to come up with fresh ideas for solving complex problems facing our food system in the United States and around the world.

And this past summer, the Board of Immigration Appeals issued a ground-breaking decision that recognized domestic violence as a basis for asylum, a decision that reflects years of work by HLS’s Immigration and Refugee Clinical Program.

Harvard Law School is committed to helping students pursue their chosen careers in the private sector and in public service. Now in its second year, the Law School’s Public Service Venture Fund, the first of its kind at a law school, awards up to $1 million to public service visionaries who identify unmet legal needs and develop initiatives to meet them. To date, more than 40 graduating students and recent alumni have received funding for organization-based work or start-up ventures.

Initiatives like these are vital, not only for our students but also for the global community they serve, and planned gifts to the Law School help these programs to grow and continue. This year, for example, a generous gift from the late Robert Henigson ’55 and his wife Phyllis, has endowed the Henry J. Steiner Visiting Professorship in Human Rights, named in honor of Henry Steiner ’55, the Jeremiah Smith, Jr. Professor of Law, Emeritus, who founded the Human Rights Program in 1984 and directed it until 2005. Announced during the 30th anniversary celebration of the Human Rights Program this fall, the Henry J. Steiner Visiting Professorship in Human Rights will bring a professor, judge, or advocate engaged in human rights issues within a developing country to teach at HLS for a semester.

We invite you to join with other HLS alumni in building the bridge from theory to practice by taking advantage of the various planned giving options detailed in this newsletter.

—Article by Maureen Stephens, Alumni Affairs and Development

For more information about the HLS programs or initiatives discussed here, please visit the HLS website at: http://www.law.harvard.edu. For more information about Planned Giving, contact Charles Gordy, Director of Planned Giving.

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