Greetings,

As we watch the news each day it becomes more and more apparent that Harvard Law School prepares the world’s leaders and problem solvers. Harvard Law School has a long tradition of commitment to excellence in legal education and research—a tradition that is needed in our global community to find solutions to the complex issues in our world today.

We live in challenging economic times. It seems a day does not go by without more bad news about the economy and the financial markets—stock values are down in most cases, dividend payments are being reduced or not made altogether, and fixed income investments like Treasuries and certificates of deposit are inconsistent—most likely paying less and less.

As you assess your personal financial situation, you may need to carefully evaluate your philanthropic plans. You may find that in order to maintain your tradition of generosity, you need to consider new and different ways to make a gift. In a low interest rate environment like today, there are charitable gift opportunities which may bring some relief while allowing you to provide valuable support for Harvard Law School.

Inside this newsletter you will find information about charitable gift annuities and charitable lead trusts. I invite you to read further and share these ideas with your financial and tax advisors to determine if one of these options might be useful.

Our alumni shape and strengthen Harvard Law School through their generosity, contributing greatly to the quality of education for current and future students. Support for Harvard Law School in these uncertain times is especially meaningful, and will have a direct impact on the students who will help solve tomorrow’s problems.

Thank you for all that you do for Harvard Law School.

Sincerely,

Charles B. Gordy II, J.D.
Director of Planned Giving
An Economic Factor to Consider

The instability of the current economy has many people concerned. It seems as though the only thing that is certain is uncertainty. However, as we wait for the volatility to slow down and the economy to stabilize, there is a potentially positive factor worth discussing: low interest rates.

Low interest rates are often seen as a good thing—a lower interest rate can mean a lower cost to borrow money, to obtain a mortgage, or to finance a car. But, there is a downside to low interest rates for those who depend on interest payments from money market accounts, from certificates of deposit (CDs), or from Treasuries. In a low interest rate environment, it can be difficult to find safe fixed income investments that generate desired income levels.

Conversely, low interest rates are very desirable when individuals are looking to convey assets to children and grandchildren because the applicable federal rate (AFR) used to determine the present value of the assets conveyed is based on the average of mid-term Treasury obligations. The lower that average is, the greater the gift and estate tax savings are when passing assets downstream.

Discussed in this issue are techniques that address both these situations and enable you to continue your philanthropy while taking care of other financial concerns in the current economic environment.

Charitable Gift Annuities: A Wise Choice Today

A charitable gift annuity is a way of giving that can increase your current income when compared to other fixed income opportunities and at the same time enable you to make an impact at Harvard Law School. You may have already heard of gift annuities because many people have discovered this popular way to support their philanthropic interests while addressing their need to maintain an income stream. In fact, many donors have found the experience so rewarding, they have established more than one gift annuity with Harvard. If you haven’t set up a gift annuity, now may be an advantageous time to consider doing so, especially if you have CDs, Treasuries, or other bond investments that are maturing.

An Income to You

A gift annuity operates as follows: in exchange for your gift of cash or appreciated property, Harvard contractually agrees to pay you a fixed annual income for the rest of your life. Your percentage payout is based on your age at the time the gift annuity is established, and the older you are at the time the contract is signed, the greater your percentage. The minimum to establish a gift annuity at Harvard is $25,000.

The chart below is a sample of Harvard’s gift annuity payout rates and the corresponding benefits for a $25,000 one-life gift annuity. Harvard’s gift annuity rates are capped at 9% for those 85 years of age and older. We can provide an illustration specifically for you (or for you and a second person—payout rates will decrease.

At these sample ages, a $25,000 Harvard Law School one-life charitable gift annuity provides:

<table>
<thead>
<tr>
<th>AGE</th>
<th>RATE</th>
<th>ANNUAL PAYMENT</th>
<th>DEDUCTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>65</td>
<td>5.9%</td>
<td>$1,475</td>
<td>$ 6,837</td>
</tr>
<tr>
<td>70</td>
<td>6.2%</td>
<td>$1,550</td>
<td>$ 8,776</td>
</tr>
<tr>
<td>75</td>
<td>6.9%</td>
<td>$1,725</td>
<td>$10,059</td>
</tr>
<tr>
<td>80</td>
<td>8.0%</td>
<td>$2,000</td>
<td>$11,140</td>
</tr>
<tr>
<td>85+</td>
<td>9.0%</td>
<td>$2,250</td>
<td>$12,995</td>
</tr>
</tbody>
</table>

Example based on an Applicable Federal Rate of 2.0%
It is my privilege and a pleasure to join in welcoming you to the Oliver Wendell Holmes Society lunch and to thank you for being here. I am delighted to see so many old friends and devoted supporters of our Law School.

This has been a wonderful year for the Law School. We have seen the highly successful conclusion of our capital campaign, where as most of you probably know we raised over 475 million dollars, far exceeding our goal. This was due not only to the great leadership of Bob Clark who initiated the campaign, Finn Casperson who chaired the campaign, and our wonderful current dean, Elena Kagan, who picked up the torch in mid-campaign and brought it to its magnificent conclusion, but to the generosity of those in this room and literally thousands of others.

There have been outstanding additions to the faculty. Construction has begun on a major new building complex. And regardless of our political views we can all rejoice at the election for the first time in 132 years of a Law School alumnus as president of the United States. So we have much to celebrate.

But as we celebrate, I think it appropriate to consider the bond that has brought us together and what it is that creates that bond and leads us to

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support the Law School not only financially but also in so many other ways.

Let me note some of the reasons that have led me, and I am sure many others, to support the Law School. A great institution, it is a vital contributor not only to the life of our nation but also to the whole world. Each year it sends out into the world hundreds of well-educated men and women who do make a difference. They become leaders in almost every aspect of our society—lawyers, judges (including 6 of the current justices of the Supreme Court), business executives, governors, legislators, diplomats and other statesmen not only in the United States but in many foreign countries, deans and faculty of law schools, presidents of universities and colleges, other educators, and leaders of other institutions.

The Law School is an extraordinary laboratory for legal theory; its influence is worldwide. A recent example is the just-announced appointment of Professor Elizabeth Warren (who I am proud to say occupies a Chair established by my law firm) as a member and chair of the panel appointed by Congress to oversee the financial bailout program.

Another reason for supporting the Law School was best expressed by a friend of mine who once told me that when his wife asked him why he contributed to the Law School he said the answer was simple and could be expressed in two words—“but for.” I think in my own case of the life-long friends I made at the Law School, the intellectual stimulation of my years there, and the effect of the Law School on my career. There is an incredible debt that I can never fully repay.

And in addition, there is the fact that even those of us who paid full tuition and received no scholarship or other aid were still heavily subsidized. The per-student cost to the Law School far exceeded what we paid. Just as others partly subsidized our education, I believe that we have a moral obligation to help subsidize those who come after us. This is even more important today when the cost of Law School is such that a large percentage of the student body could not afford to be there if it were not for student aid.

Without the generosity of our alumni, the Law School would become more and more a place for only the children of the privileged. If we are going to have a student body that looks like America, we must make sure that no one is denied the opportunity that we had because of lack of funds.

To ask ourselves and others to make additional gifts—whether planned gifts or otherwise—may seem to be asking too much in light of the efforts we have already made during the capital campaign and before. But we must do so. In this connection, since this is the Oliver Wendell Holmes Society, some words written by Holmes seem appropriate:

“The riders in the race do not stop short when they reach the goal. There is time for a little finishing canter, to hear the kind voice of friends, and to say to oneself, ‘The race is over.’ But just as one says that, the answer comes, ‘The race is over, but the work never is done’.”

Thank you.

Have you included Harvard Law School in your will? Please let us know so that we might honor you as a member of the Oliver Wendell Holmes Society and thank you for your generosity.

For more information about the Oliver Wendell Holmes Society, please return the enclosed reply card, or contact:

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when two people receive payments from an annuity). Please keep in mind your payout rate would be fixed and will not change regardless of prevailing interest rates or what happens in the markets.

**An Immediate Tax Benefit**
If you establish a gift annuity, you qualify for an income tax charitable contribution deduction in the year you establish your gift annuity. The deduction is the charitable portion of the gift annuity as calculated when your gift is made. There are some limits on how much one can deduct in a single tax year—up to 50% of your adjusted gross income for gifts of cash, and up to 30% for gifts of appreciated property. If you are unable to fully utilize the deduction in the year you set-up the annuity, you can carry forward any unused excess for up to five years.

**Favorable Long-Term Tax Benefits**
You may enjoy favorable tax treatment of your gift annuity income because some of your gift annuity payout may be tax-free or taxed at more favorable capital gains rates. Part of your payment may be a tax-free return of principal. As you receive each payment, you recover part of the cash or basis from your original gift—and that amount comes to you tax-free.

If you use an asset that is worth more than you paid for it to fund your gift annuity, you will avoid paying tax on the portion of your gain that is attributable to the gift-element of your annuity, i.e. the charitable deduction, and any remaining gain will be prorated and taxed to you over your actuarial lifetime. Payments made to you after that point has been reached will be taxed as ordinary income in their entirety.

**Defer Your Income**
If you would like to establish a gift annuity now, but don’t need the income right away, it is possible to defer the receipt of your annuity payments. You can pick a specific date on which your payments will commence or you can specify a range of dates in the contract. The payout percentage and the deduction for which you qualify with a deferred gift annuity can be substantially larger than you would receive from an immediate gift annuity.

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**Lead Trusts—a Gift of Income while Keeping the Funding Assets in the Family**

A lead trust can take several forms: it can be either a “non-grantor lead trust,” in which assets are generally passed to heirs at the end of the trust term, or a “grantor lead trust,” in which the funding assets revert to the grantor; a lead trust can pay either a variable amount (a lead unitrust), or a fixed amount (a lead annuity trust).

A lead trust essentially acts like a short-term private foundation without the restrictions and reporting requirements—it has a trustee and makes annual distributions to charity.

What follows is a general description of the benefits of non-grantor charitable lead trusts. It is not meant to be comprehensive, but to give you an idea of the benefits to you and to Harvard Law School of establishing a lead trust. We can provide more detailed information for you and for your advisors if the idea of a lead trust appeals to you.

**The Non-Grantor Lead Trust**
A non-grantor charitable lead trust provides you with the opportunity to make a current gift of an income stream to Harvard Law School while conveying assets to heirs at a reduced gift and estate tax cost. You essentially lend the funding assets to Harvard for a term of years,
generally not more than 20, and then the remaining trust principal is distributed to the named beneficiaries at the end of the trust term. There is no current income tax deduction for setting up a non-grantor lead trust, but the gift and estate tax savings can be significant.

**Why Current Low Interest Rates Make a Non-Grantor Lead Trust Attractive**

Gift and estate taxes are reduced because you receive a gift tax deduction for the present value of the lead trust’s income stream to Harvard, and can apply this deduction against the value of the assets you are passing down to heirs. The deduction is generally determined when the trust is established (there are some exceptions to this if the trust distributes to grandchildren).

The present value of the income stream is determined by applying the Applicable Federal Rate, also known as the Section 7520 rate, to the total value of the trust payments over the trust term. The 7520 rate is the average of mid-term Treasury obligations multiplied by 120%. The lower this number (the rate for February 2009 is 2.0%, for March it is 2.4%, and for April it is 2.6%—you can use the lowest of these three rates for calculation purposes), the smaller the discounting factor, which results in a correspondingly larger gift to Harvard and gift-tax deduction for you.

**How the Numbers Work**

The precise benefits of a lead trust will depend on what the gift and estate tax rates and individual exemption amounts are when the trust is established, but let’s assume you set up the trust today, your estate is valued at $10 million, and you have your entire $1 million gift tax exemption amount available. If you placed $1 million, which is the minimum funding amount for a lead trust at Harvard, in a 6% 15-year charitable lead annuity trust, Harvard Law School would receive $60,000 per-year for 15 years. You would receive a gift tax deduction of $770,960 and would make a taxable gift to your heirs of $229,040, which would be covered in its entirety by your gift tax exemption amount. At the end of 15 years, the trust’s remainder beneficiaries would receive approximately $308,000. By outperforming the AFR by 6% in this example, your heirs would receive approximately $1.3 million more at no additional tax cost.

**Let Us Hear from You**

If you would like more information about charitable gift annuities, charitable lead trusts, or other gift planning options, let us know by returning the enclosed card. We can provide you with a personalized illustration which outlines your possible financial and tax benefits.

Please let us know if you have an email address or if your email address has changed. You may contact us directly:

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