

# Exploring Gift Annuities

## *Understanding the Basics*



Generally accepted wisdom is not always the best advice. Take the maxim that *“A bird in the hand is worth two in the bush.”* It implies that holding onto something, having it in your hands, is generally better than the prospect of having even more. When it comes to financial matters, some choose to place great stock in the wisdom of this little proverb. But as this booklet will show, there is a way to make a charitable gift and actually gain something substantial in return — benefits that are the direct result of letting go of something, rather than holding onto it.

Another maxim worth re-examining: if you give away something, you have less for yourself. Actually there are ways to give to a charity such as ours and, at the same time, set up annuity payments for life. Careful planning can increase the resources available for both you and your favorite charities.

One gift plan that allows you to give away something and have more without high risk is the charitable gift annuity. Certainly, a gift annuity can provide you with yearly fixed payments and those payments are backed by

our general assets (not just the asset(s) you gave us). You receive your payments on a regular basis for the rest of your life, yet your gift also supports our work.

Little wonder that the charitable gift annuity has become one of our most popular gift plans. In this brochure we address some of the most frequently asked questions about the charitable gift annuity and how it might benefit you.

## What is a charitable gift annuity?

A charitable gift annuity is part charitable gift and part annuity. At the time you fund your gift annuity, we agree to pay you and/or another beneficiary a percentage of the gift amount over your designated beneficiary's lifetime(s).

## What payout rate can I expect?

The payout rate depends on several factors. The most important is the age of the annuitant (the person who receives the annuity payments). Another important factor is whether the income is to be paid for one or two lifetimes. Below are some examples of payout rates that you might expect to receive from a charitable gift annuity.

### GIFT ANNUITY RATES

Single Life		Two Lives	
AGE	RATE	AGE	RATE
65	4.7%	65 & 69	4.4%
70	5.1	70 & 72	4.7
75	5.8	73 & 76	5.0
80	6.8	76 & 76	5.2
85	7.8	80 & 83	6.0
90	9.0	83 & 85	6.5

NOTE: Charitable gift annuity rates are subject to change. Please call our office for the latest rates, or for the rate for your actual age(s).



## Why has the charitable gift annuity become so popular?

First, it gives many people the opportunity to make a meaningful gift that might not otherwise be possible. The minimum gift requirement is quite modest. What's more, donors like the idea of being able to benefit themselves while benefiting their favorite charities. Often they are able to increase their fixed income, save taxes up front and support charitable causes in which they believe.

**Example:** Madge Templeton (age 80) found out about the charitable gift annuity, and at her age, she could receive a 6.8% payout rate on such a gift annuity for the rest of her life. By making a \$25,000 cash contribution, she now receives \$1,700 annually.

Moreover, about \$1,355 of her payment is tax free until she reaches her life expectancy, and she receives an income tax charitable deduction of \$12,270 in the year of her gift. A long-time annual giver, Madge is pleased to know that her gift will go to our endowment fund. She is so happy with this win/win arrangement that she is thinking about setting up another charitable gift annuity next year. (Example based on a 2.0% AFR and quarterly payments.)

## What assets can I use to fund my charitable gift annuity?

Most people use cash or long-term appreciated property to set up gift annuities. We will be happy to help you select the asset that will produce the best financial and tax benefits for you.

## What are my tax benefits?

You have three potential tax benefits. First, at the time you set up your gift annuity, you will enjoy a generous income tax charitable deduction. Your deduction will be based on a calculation of the present value of our interest. Second, a portion of each payment may be tax free until you reach your life expectancy (after which the payments are taxed as ordinary income). How much of your payment will be tax free depends on your age and the asset you use to fund the annuity. Finally, if you use an appreciated asset to fund your charitable gift annuity, you can potentially spread out your capital gains tax liability over your life expectancy.

We can provide you with no obligation illustrations that spell out your expected tax and financial benefits so that you can see exactly how a gift annuity might work in your particular situation. Plus, after you establish your gift annuity, we will provide you with the correct tax information each year so you will never have to do the calculations yourself.

## Can I make additional contributions to my charitable gift annuity?

No, a charitable gift annuity arrangement does not permit additional contributions.



However, since gift annuities are so easy to set up, you can always establish a new one. Indeed, some of our donors create a series of gift annuities to begin at different times during their retirement.

## Can I withdraw the funds I contribute for an emergency such as health care expenses?

No. Your contribution to establish a gift annuity is irrevocable. The amount you transfer to the charity can only be returned to you in the form of annuity payments.

## How many beneficiaries can I have?

Charitable gift annuities permit up to two beneficiaries. Most gift annuities are for a single life — usually that of the donor or the donor's spouse. Most two-life annuities are for husband and wife. There are other arrangements that you may want to explore, but you will want to check with us and your tax advisors to consider the tax implications.

## Can I name more than one charity as a beneficiary?

No, a charitable gift annuity is a contractual arrangement between you and our organization. We have good experience with gift annuities and a consistent record of thoughtful stewardship.

## Can I defer my payments to a later date, such as retirement?

Yes, you can. Many of our donors — especially professionals and executives — are still working. Others have an income stream that will last for a few years, perhaps from a contract sale of real estate or from a deferred compensation plan. If you do not need to increase your current income, you can choose to have your annuity payments deferred until a later date. By deferring the payments several years until your expected retirement, you will have the benefit of a higher payout rate than a standard gift annuity offers. You also receive a

larger income tax charitable deduction because of the deferral (which may be better for those who are still in their prime working years).

The very attractive deductions and payout rates of the deferred gift annuity often make it an ideal vehicle for individuals who want to make a significant gift while supplementing their retirement planning.

### LEARN MORE ABOUT THE DEFERRED GIFT ANNUITY

#### **Start payments when it's best for you:**

If you want the benefits of a deferred gift annuity but are not exactly certain of when you would like the annuity payments to begin, consider the flexible gift annuity. Under this special arrangement, you have some built-in latitude regarding when your payments begin. You can set a target date for starting the payments, but you have the flexibility to push that date back as the target approaches. Of course, the fixed payment amount is also adjusted based on when the payments actually begin. Ask us about this possible option and its current availability.

**Fund college tuition for a child or grandchild:** A deferred gift annuity for one person can be set up to provide payments over a four- or five-year period that coincides with a student's college tuition needs (not available in New York State). This special arrangement is typically established by a grandparent who wants to provide college help for a young grandchild (the annuitant) and is more complex than a "typical" gift annuity. We can help you explore the potential advantages and important unique considerations.

*Example:* At age 55, Dr. Michael Martin is still actively practicing medicine and has no plans to retire until he reaches age 65. He wants to make a significant contribution to our organization and receive an annuity based on that gift. However, he wants the income to be

deferred until his retirement years when he will have more need to rely on his savings. Dr. Martin learns that with a deferred gift annuity, he can accomplish both goals. Moreover, he will receive a substantial income tax charitable deduction in the year he establishes his deferred gift annuity. This will help trim his income tax bill which otherwise might be quite high. The chart highlights the benefits of Dr. Martin's gift.

Deferred gift annuity	\$50,000
Annual payout (starting at age 65)	\$3,050
Charitable income tax deduction	\$15,486

*(Calculations based on 2.0% AFR and a quarterly payment.)*

## Can I establish a gift annuity in my estate plan?

Yes. There are situations in which a donor may wish to establish a gift annuity in his or her estate plan. This may be the case when a donor wants to provide for both a surviving relative and our institution. A testamentary gift annuity may be used to accomplish both objectives.

*Example:* Fran Nelson, a long-time donor, has been providing support for her dependent sister, Alice, for the past several years. Fran is worried that if something should happen to herself, Alice might not receive the care that she needs. Fran wants to develop an estate plan that will provide for Alice and also continue her support to our organization. She decides to use a testamentary charitable gift annuity in her estate plan. Upon Fran's death, Alice will receive fixed annual payments for the rest of her life. Moreover, our organization is also assured of receiving a significant charitable gift from Fran's estate. Finally, Fran's estate will qualify for a substantial estate tax charitable deduction for the present value of the charitable gift. Fran is delighted with this arrangement.

## How easy is it to set up a charitable gift annuity?

Very easy. All that is needed is to complete a simple written agreement between you and our organization. You will receive a check at regular

intervals. At the end of each year we will prepare a statement for you to use in preparing your income tax return. That statement will tell you the total amount of income you received in the current year, and how that payment is to be reported on your income tax return.



### **Why would I choose a charitable gift annuity rather than a charitable remainder trust?**

Charitable gift annuities offer some advantages over charitable remainder trusts. First, they are easy to set up, do not require an initial fee, and are administered by our organization at a much lower cost than a trust.

Second, the minimum gift requirement for a gift annuity is considerably less than the amount that is practical to set up a charitable remainder trust. Third, gift annuity payments are backed by the complete resources of our organization rather than just the trust assets. Finally, donors like the simplicity of the gift annuity agreement and the fact that some of the payment they receive may be tax free.

### **How can I find out if a gift annuity is right for me?**

You can contact our development office. We will be happy to prepare a personalized illustration showing how a charitable gift annuity may work in your particular situation.

The illustration will show both the projected income stream and tax savings you can expect, based upon the dollar amount of your gift and the kind of asset you use to fund your gift. The benefits are worth exploring, and you can do so without obligation. Let us show you how you might personally benefit as so many others have from our popular charitable gift annuity program.

You should also confer with your own tax accountant, attorney or other financial advisers to consider whether a charitable gift annuity is appropriate for you in relation to your overall financial situation, objectives and needs.