Planning with Gift Annuities

How to Do More for Yourself and Charity

Each year thousands of caring individuals use the charitable gift annuity to provide major financial support for important charitable organizations. In many cases, this time-tested technique has permitted gifts that otherwise might not have been made.

Elizabeth, age 70, is a good example. Although she has always wanted to make a significant gift to her favorite charity, she feels she cannot afford an outright gift. Through a gift annuity arrangement she is able to give $10,000 to a charity which, in turn, commits itself to pay her $580 every year for as long as she might live. Moreover, her annuity payments will be favorably taxed. Elizabeth's gift also will result in an immediate income tax savings from the charitable deduction. For Elizabeth, a charitable gift annuity presented an opportunity to do more for herself and charity.

The Gift Annuity Is Popular and Flexible

Certainly, the ability to arrange a gift that includes annuity payments — and with very favorable tax results — is a major reason for the popularity of the charitable gift annuity. But a carefully planned gift annuity can accomplish other important personal and financial objectives as well.

Perhaps you will see your own objectives mirrored in one or more of these cases:

- Patrick, at age 58, has an income more than adequate for his present lifestyle, but wants to reduce his current tax liabilities and also supplement his retirement savings. A deferred gift annuity would be an excellent technique for him.
- Helen wants to provide a stable and favorably taxed lifetime annuity for a dear friend. She finds that she can make a gift to a charity that she has long supported, gain an immediate tax deduction, and arrange to have the charity pay an amount every year to her friend for as long as the friend may live.
- Frances is preparing for retirement and wants to dispose of assets that are producing little or no income and direct the proceeds in a way that will produce a dependable annuity. The charitable gift annuity permits her to accomplish this objective without incurring an immediate capital gains tax while also benefiting a favored charity.

Although our gift annuity program is very simple, direct and certain, it also offers a great deal of flexibility. For example:

- You can name yourself or any other person as the annuity beneficiary or you can name two beneficiaries (but no more).
- You can direct us to start making annuity payments immediately or at some later time.
- You can fund the annuity with cash or other property such as appreciated stock — generally with favorable proration of capital gains taxes.

We'll address these planning options later in this booklet. Now let's discuss some general questions that are frequently asked about the program.

Answers to Commonly Asked Questions

How is the annuity amount determined?

The amount of the annual annuity is based on the age of the donor (or other beneficiary) and the amount or value of the gift made to our program. The older the beneficiary, the higher the payout rate.

Is any part of the gift made to your gift annuity program tax-deductible?

Yes, a portion of the amount you transfer to our gift annuity program is deductible as a charitable contribution on your federal income tax return.

Let's say you transfer $10,000 to the program and, at your age and at the current applicable federal rate, exactly one-half of the gift is tax-deductible. If you are in a 35% federal income tax bracket, the gift will reduce your current income taxes by $1,750 ($5,000 x .35 = $1,750).

Can the annuity payment change?

No. The annuity is fixed at the time the gift is made. You don't have to worry about the volatility of the stock market or interest rate fluctuations.

How does the charitable gift annuity differ from fixed-income investments?

A charitable gift annuity is not an investment. It is part gift and part annuity. However, you may consider how the value of the charitable tax deduction can boost the effective rate of payout for a gift annuity.

The charitable gift annuity is attractive because it enables you to make a difference in the lives of persons served by the charity of your choice and to enjoy the lifetime payments and tax deduction generated by your generosity.

How are gift annuity payments taxed?

A portion of each payment is taxable as ordinary income or capital gain, but part of each payment is tax-free over the beneficiary's life expectancy. The tax-free portion depends on the beneficiary's age. If the beneficiary outlives his or her life expectancy, subsequent payments are taxable entirely as ordinary income.

How will annuity payments be treated in determining the taxation of my Social Security benefits?

Only the taxable portion of annuity payments is treated as income in computing the potential tax on Social Security benefits. The favorable taxation of gift annuity payments can be a real advantage to many retired persons who are receiving Social Security benefits especially now that up to 85% of these benefits may be taxable in some cases.

What factors should I consider in deciding whether to make a contribution to a gift annuity program?

Gifts made to our gift annuity program are irrevocable. It would likely be a mistake for any person to make a significant gift if there was any real possibility that the gift property might be needed for personal financial security.

Planning Options

Providing a Lifetime Income for a Family Member or Friend

A person making a contribution to our gift annuity program can name himself or a third party as the annuity beneficiary. Indeed, the donor can direct that the annuity be paid to one person for life and thereafter to a second beneficiary for as long as the second beneficiary may live. Two beneficiaries is the maximum.

Keep in mind that it is the age of the beneficiary — not necessarily the age of the donor unless the donor is the beneficiary — that will determine the amount of the annuity and the charitable deduction.

Example: Helen has been giving $9,000 a year to help support her 72-year-old sister. In Helen's 35% federal income tax bracket, she needs a pre-tax income of about $13,850 a year to provide this support.

Helen transfers $150,000 to a qualified charity and the charity commits to pay the sister $9,000 a year for as long as she lives. Because the gift portion of the transfer ($59,555) is deductible, Helen reduces her current income taxes by $20,844 and provides a stable source of income to her sister. (Based on an AFR of 3.2% and a quarterly payment.)

Equally important to Helen is the satisfaction she receives by making a generous gift to an important charity.

Multiple Gift Annuities Can Increase Cash Flow

Many donors choose to set up a series of gift annuities, which collectively produce a cumulative retirement income. Moreover, each gift may reduce income tax liability in the year the gift is made.

Example: Richard, now 55 years old, is in a position to give us $10,000 a year for the next ten years. To help secure his own financial future, he decides to make these gifts to our gift annuity program and directs that all annuity payments be deferred until he reaches age 65.

Part of each $10,000 annual gift will be tax-deductible. Over the next ten years, the charitable deduction will help reduce Richard's income tax liability. When he reaches age 65, Richard will start receiving payments from each deferred gift annuity — payments that will continue for as long as he lives.

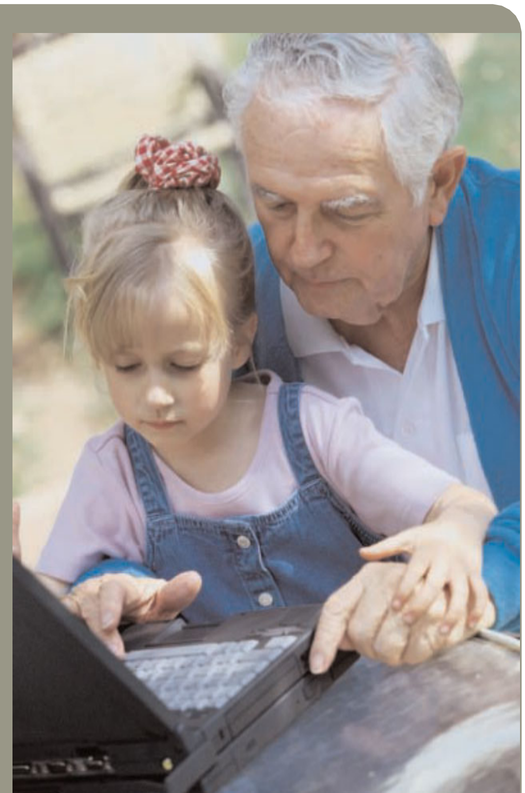
The Deferred Gift Annuity Can Increase Retirement Income

Our gift annuity program permits the donor to postpone the start date of the annuity for a specified period of time — say, until the time he or she expects to retire. Since annuity payments are postponed, both the amount of the annuity and the allowable charitable deduction are relatively higher compared to a regular gift annuity.

For example, Patrick, a successful doctor, doesn't need more income right now, but he is concerned about having enough income in his retirement years. In his 35% federal tax bracket, he would welcome an immediate tax deduction. After talking with his financial advisors and our staff, he decides to establish a gift annuity that will start in ten years — when he will be 68 and expects to retire.

By choosing a deferred gift annuity, Patrick has accomplished all of his goals:

- generate an immediate charitable deduction,
- supplement his retirement savings with an annuity which begins at age 68, and
- make a gift to his favorite charity.



Funding A Charitable Gift Annuity with Appreciated Property

Contributing appreciated property held in the long-term to set up a charitable gift annuity is a good idea. An example of appreciated property is a stock held more than one year worth more today than at the time of purchase. In addition to the usual benefits of setting up a charitable gift annuity (primarily a charitable income tax deduction and annuity payments for life), funding a charitable gift annuity with appreciated property also creates an advantage in regard to the potential capital gains tax.

When you transfer appreciated property to us in return for a charitable gift annuity, there is a capital gains tax, but only on that portion of your gift that can be attributed to the annuity. Furthermore, the donor who chooses him or herself as an annuitant can spread out any capital gain over his or her life expectancy (determined at the time the gift annuity is set up).

Here is an example: Helen R. (age 72) bought 100 shares of ACME stock in 2007 for $5,000. Today, the stock is worth $10,000. Helen gives the stock to our organization to set up a charitable gift annuity. Every year, Helen receives a payment of $600. This year, Helen can take an income tax deduction for her gift of $3,970. (Based on an AFR of 3.2% and a quarterly payment.)

If Helen had sold the stock, she would have had to pay capital gains tax on $5,000 in the year of sale. But in this gift annuity scenario, Helen will pay capital gains tax on only $3,015 — that part of the gain attributable to her annuity. And, Helen can spread out the capital gains tax over the next fifteen years.

A Bequest to Our Gift Annuity Program

Most gift annuities are completed during the life of the donor. But you can also set up a testamentary gift annuity: in your will, you direct a certain sum of money to our organization as a gift annuity. The donor is your estate, and the beneficiary is any person you choose. That non-charitable beneficiary receives an income for life, and we get a significant gift. This option underscores the flexibility of the gift annuity. We invite you to explore the many possibilities.