The Charitable Gift Annuity: Guaranteed Income for Life

As people approach or start to think about retirement, they often wonder how they will ensure a steady income for themselves while maximizing whatever tax breaks are available. In addition, many people think about their commitment to their favorite charities and want to continue to support causes they care about, even when forced to live on a fixed income.

Many individuals have used gift annuities to accomplish both income and philanthropic goals. A *charitable gift annuity* is part investment and part gift. It can be an excellent option for donors who want to secure their own financial stability while ensuring some level of support for charities of their choice. An annuity can be particularly attractive to the donor who wants to receive income from assets that have risen sharply in value, such as stocks. A charitable gift annuity can provide:

- **supplemental income payments** for your lifetime (and the lifetime of your spouse);
- **significant tax breaks** at the time of the gift and every year thereafter; and
- **support for our organization** for generations to come.

In basic terms, a charitable gift annuity is a legal contract under which an individual, in exchange for his or her gift to a qualified charity, will receive fixed payments for life. The charity, or "payor," uses the interest and part of the principal to make the payments to the individual, or "annuitant."

This brochure discusses gift annuities and highlights many of the charitable planning options available to you. We are happy to answer any additional questions about gift annuities and/or provide a free analysis of your proposed gift that will demonstrate the income and tax savings you can achieve through such a gift.

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Q. How does a charitable gift annuity work?

A. In return for a gift of cash or property, a charitable organization, such as ours, will contractually guarantee to pay you a specified annuity for as long as you live.

Q. What determines the amount of the annuity payment?

A. The amount of the annuity payment depends upon the age of the individual receiving the annuity and the amount of the gift. The table below shows the various payout rates at different ages, as recommended by the American Council on Gift Annuities, a national association of charities.

Age	Rate	Age	Rate
65	5.7%	**80**	7.6%
70	6.1%	**85**	8.9%
75	6.7%	**90**	10.5%

For example, if a 65-year-old individual makes a contribution of $25,000 for a gift annuity, we will guarantee payments of $1,425 a year for as long as he or she may live.

Q. Can a charitable gift annuity be set up for more than one person?

A. Yes. Gift annuities are frequently arranged to provide annuity payments for two persons. The most common type of two-life annuity is the joint-and-survivor annuity. Under such an arrangement, payments are made to both annuitants for their joint lifetime. Upon the death of the first annuitant, the payments are continued for the lifetime of the survivor.

The following table shows the recommended annuity rates for two beneficiaries:

Ages	Rate	Ages	Rate
65-65	5.4%	**80-80**	6.6%
70-70	5.6%	**85-85**	7.4%
75-75	6.0%	**90-90**	8.7%

Q. How are the annuity payments taxed when received by the annuitant?

A. As with other types of annuities, a portion of each annuity payment is treated as a tax-free return of the original principal over the life expectancy of the donor. *Note:* When a donor lives beyond his or her actuarial life expectancy, the entire annuity payment will be taxed as ordinary income.

The table below shows the rates of return and dollar values of annuity payments resulting from a contribution of $25,000 to our gift annuity program. Also shown are the amount of each payment received tax-free and the amount taxable when the gift is made with cash.

Age	Rate of Return	Total Payout	Tax-Free Portion	Taxable Portion
65	5.7%	$1,425	$ 836	$589
70	6.1%	$1,525	$ 959	$566
75	6.7%	$1,675	$1,126	$549
80	7.6%	$1,900	$1,355	$545
85	8.9%	$2,225	$1,702	$523

Q. Since a contribution for a gift annuity is considered a charitable gift, is a charitable deduction allowed at the time the contribution is made?

A. Yes. A donor may claim a charitable deduction on his or her income-tax return in the year the gift is made. The table below shows various deductions allowed for a gift of $25,000 in cash, with annuity payments made quarterly.

$25,000 GIFT ANNUITY

Age	Charitable Deduction
65	$ 8,353
70	$ 9,746
75	$11,036
80	$12,272
85	$13,425

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The charitable deduction, in effect, reduces the cost of the gift annuity. For example, the table reveals that the charitable deduction allowed for a 70-year-old donor is $9,746. Assuming a 28% tax bracket, the deduction would result in an actual dollar savings of $2,729. Thus, the cost of the $25,000 gift annuity is only $22,271. Since the donor will receive an annual annuity of $1,525—and the actual cost of the annuity is only $22,271—the effective rate of return for the annuity is 6.8%.

Q. Are there any advantages if a charitable gift annuity is funded with appreciated property rather than cash?

A. Funding a gift annuity with appreciated property is an excellent way to minimize and spread out the capital-gain tax. Part of the appreciation escapes capital-gain taxation entirely, and the portion of capital gain that is reportable may be spread out over the donor's life expectancy.

Example: Mr. and Mrs. Carlton, both 80, fund a gift annuity with $40,000 worth of long-term appreciated securities. The securities originally cost them $20,000. Payments will be made quarterly as long as either is living. What will the Carltons receive as a result of their funding of a gift annuity?

1. Charitable income-tax deduction of in the year of the gift. *Since the securities contributed are appreciated, the deduction is limited to 30% of their adjusted gross income. (Any unused portion may be carried over the next five years.)*	$16,530
2. Quarterly payments of $660 for an annual return of	$2,640
3. Annual return of principal	$924
4. Amount includable in taxable income[1] each year	$792
5. Amount reportable each year as capital gain, spread over Mr. and Mrs. Carlton's joint life expectancy[2]	$924

[1]If either Mr. or Mrs. Carlton lives beyond 12.7 years, the entire annuity will be taxed as ordinary income. [2]The capital gain is reportable over their joint life expectancy, which is 12.7 years.

Q. How can a gift annuity increase current spendable income?

A. One of the most attractive features of a gift annuity is that it allows you to receive a stream of income while making a significant gift.

You will recall in the example above that the Carltons funded their gift annuity with stock worth $40,000. Assuming this was growth stock paying about 1% of its fair-market value in dividends, the Carltons would have realized about $400 in annual income from the stock. By using the stock to fund the gift annuity, they are now getting annual payments of $2,640—almost seven times what they were receiving.

The degree of increase, of course, would depend on the specific property used to fund a gift annuity. So, if you transfer property with a relatively low return to fund a gift annuity, you will generate a significant increase in spendable cash.

Q. Is it possible to make an immediate contribution for a charitable gift annuity but delay actual receipt of the annuity payments until later?

A. Yes. The deferred-payment gift annuity plan is designed to appeal to the younger donor who has a high current income, can benefit from a current tax deduction, and is interested in augmenting retirement income on a tax-favored basis. It involves the current transfer of cash or marketable securities in exchange for an annuity starting at a future date—usually at the donor's retirement. The gift can consist of a single transfer, a series of transfers, or periodic transfers to the plan in high-income years.

The donor realizes an immediate charitable income-tax deduction for the gift portion of each transfer to the deferred gift annuity plan. A portion of each annuity payment, when the annuity payments begin, will be considered a tax-free return of principal.

Note: Please consult with your advisor and the charity if you are planning a deferred gift annuity in either New York or New Jersey, as their rate requirements are different.

Example: Denise Watson, 55, is a successful accountant who is in the 35% income-tax bracket. While she could use a charitable income-tax deduction, she really

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doesn't need any additional income right now. On the other hand, Denise would like to supplement her income when she retires in about ten years.

Denise decides to contribute $25,000 for a deferred gift annuity that will begin paying her $2,250 a year in quarterly payments at the age of 65. Of this annuity amount, $792 will be treated as tax-free return of principal. ***Result:*** She gets an immediate income-tax deduction of $9,251, which produces actual cash savings of $3,238.

The following table shows the rates of return and tax deductions available with $25,000 gift annuities, deferred until the age of 65 for beneficiaries of the ages indicated:

$25,000 DEFERRED GIFT ANNUITY

Age	Rate of Return	Annual Payout	Charitable Deduction
ONE LIFE			
50	11.3%	$2,825	$9,225
55	9.0%	$2,250	$9,251
60	7.1%	$1,775	$9,156
TWO LIVES			
50-50	10.7%	$2,675	$5,025
55-55	8.5%	$2,125	$5,409
60-60	6.7%	$1,675	$5,799

Q. Can a deferred gift annuity supplement a qualified retirement plan or an IRA?

A. Deferred-payment gift annuities are an excellent means of supplementing retirement income.

Example: Mr. and Mrs. Cullen, both 50, wish to supplement their retirement income with a deferred-payment gift annuity. After consulting with their own financial advisors and a member of our staff, they decide to contribute $10,000 each year for the next 15 years to our gift annuity program.

Under the deferred gift arrangement, the Cullens are entitled to a charitable deduction for each annual contribution. While the deductions vary from year to year, the total charitable deduction over the 15-year period, based on current IRS mortality and interest assumptions, will be $33,027 (*22% of the amount they contribute over the 15-year period*).

At the age of 65, when retirement income becomes important, the Cullens will receive $11,840 each year from their well-planned annuity. In addition, a portion of those payments will be excludable from their taxable income for their life expectancy.

Q. Can the beneficiary of a gift annuity be someone other than the donor?

A. Yes. You may name anyone—a parent, sibling, friend, faithful employee, etc.

Example: If you are contributing to the care of a parent with after-tax dollars, you could transfer some cash or property and have the payments made directly to your parent. The payments would be taxed in your parent's lower tax bracket, but you would receive a deduction that reduces your income tax. ***Note:*** When you name a beneficiary other than yourself or your spouse, you make a taxable gift to that person and must report it if it exceeds certain limits.

FINAL NOTE

The charitable gift annuity offers many attractive benefits for the security-minded individual. Certainly it's worth investigating if your objectives include receiving guaranteed, dependable payments for life, substantially reducing income tax, providing cash flow for other family members, or shoring up your retirement.

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