12 Ways a Charitable Gift Annuity May Benefit You

1. Provides an appealing alternative to CDs
2. Guarantees income
3. Provides partly tax-free income
4. Lowers income tax
5. Reduces capital-gain tax
6. Supplements retirement income
7. Possibly saves tax on Social Security benefits
8. Creates estate-tax savings
9. Allows you to provide income to others
10. Creates savings for nontaxable estates
11. Avoids management responsibilities
12. Provides the satisfaction of supporting our mission

A gift annuity is one of the simplest yet most versatile of all the charitable gift planning vehicles. It is often just the right answer for the charitable-planning objectives of not only people of considerable wealth but also those of modest means.

Since they benefit such a wide range of donors, let's examine how a contribution in exchange for a gift annuity with our organization might address your needs.

1. Provides an appealing alternative to CDs

Returns of 7% or more on CDs and money market funds of just a few years ago have dwindled to meager levels in the 3.5% range, lowering your potential return. On the other hand, gift annuity rates continue to be substantially above the interest rates on CDs and money market funds. The following table shows suggested rates. *Please call for our current rates and minimum age requirements.*

Charitable Gift Annuity Rates			
One beneficiary		Two beneficiaries	
Age	Rate	Ages	Rate
65	5.7%	65-65	5.4%
70	6.1%	70-70	5.6%
75	6.7%	75-75	6.0%
80	7.6%	80-80	6.6%
85	8.9%	85-85	7.4%
90	10.5%	90-90	8.7%

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2. Guarantees "income"

Once you establish a gift annuity, the income you receive is fixed and guaranteed for life. They will never go down and are backed by the full faith and credit of our organization.

3. Provides partly tax-free "income"

The rates for gift annuities are attractive, but the "effective rates" are actually even better! ***Reason:*** A significant portion of your gift annuity income is treated as a tax-free return of principal for your lifetime.

Example: *Instead of renewing his $100,000 CD at 3.5%, Jim T, 75, increases his income by contributing those funds to us in return for a gift annuity that pays him $6,700 (6.7%) each year, $4,683 of which is tax-free.*

In his 33% tax bracket, Jim would have needed to earn $9,007 of fully taxable income—more than two and a half times the fully taxable income a 3.5% CD would generate—to net the annual income his gift annuity provides.

4. Lowers income tax

Charitable gift annuities also produce valuable tax deductions. In Jim T's example, Jim qualifies for a deduction of $41,968, resulting in income-tax savings of $13,849. Those tax savings reduce Jim's out-of-pocket cost for the gift annuity to $86,151 ($100,000 - $13,849).

The following tables show both the tax deduction and the portion of income that is tax-free from a sample gift annuity funded with cash.

$100,000 Gift Annuity

One beneficiary

Age	Rate	"Income"	Tax-Free Portion*	Deduction
65	5.7%	$ 5,700	$3,528	$29,812
70	6.1%	$ 6,100	$4,014	$36,152
75	6.7%	$ 6,700	$4,683	$41,968
80	7.6%	$ 7,600	$5,586	$47,461
85	8.9%	$ 8,900	$6,987	$52,514
90	10.5%	$10,500	$8,537	$58,154

Two beneficiaries

Ages	Rate	"Income"	Tax-Free Portion*	Deduction
65-65	5.4%	$5,400	$3,310	$17,626
70-70	5.6%	$5,600	$3,629	$25,591
75-75	6.0%	$6,000	$4,122	$32,438
80-80	6.6%	$6,600	$4,792	$39,171
85-85	7.4%	$7,400	$5,676	$46,090
90-90	8.7%	$8,700	$6,925	$51,533

*For the life expectancy of the beneficiary(ies).

Jim's gift annuity income of $6,700 has the same value as $9,007 of fully taxable income and is equivalent to a fully taxable yield of more than 10.4% ($9,007 ÷ $86,151) when measured against his out-of-pocket cost for the gift annuity.

5. Reduces capital-gain tax

If you have highly appreciated stock and are considering selling, be aware that capital-gain tax could take a significant bite out of your paper profit. Many of our donors have used such stock instead of cash to fund a charitable gift annuity.

Assume Mary, 70, bought stock a few years ago for $25,000 and it is now worth $50,000. If she sold the stock she would realize a long-term capital gain of $25,000 and could owe capital-gain tax of as much as $3,750. However, if Mary uses the stock to fund a charitable gift annuity with us that pays her $3,050 per year, she will be entitled to a tax deduction of $18,076.

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Note: She will avoid recognizing and paying tax on a portion of the gain equal to the deductible portion of the gift—in this case about 36% or $9,038 of the gain.

Even the taxable portion of the gain would be spread equally over the balance of her life expectancy. In this case, over the next 15.9 years, $1,003 of Mary's annuity income will be taxed as capital gain. *Note:* Generally, the tax rates on capital-gain income are lower than ordinary-income-tax rates. The amount of gain Mary is taxed on each year reduces the portion of her payments that would otherwise have been tax-free.

6. Supplements retirement income

Retirement-planning options, such as traditional and Roth IRAs, are available to nearly everyone; many employers offer company-sponsored retirement plans; and there are plans specifically for people who are self-employed.

All of us want to have a financially secure retirement, but all of those plans have limits on how much you can contribute in any given year. What if you have reached the maximum contribution level in all traditional planning options open to you and will need still more retirement income? Are there any other tax-advantaged options?

The answer is yes, and one way is through the strategic use of charitable gift annuities: In addition to the *immediate* gift annuity that starts making payments right away, you can create a *deferred* gift annuity that will start paying you at a predetermined point in the future—such as when you reach your anticipated retirement age.

When you defer the receipt of your income payments, two very positive things happen.

- The amount of the income you eventually receive increases significantly—and the longer you defer the income, the more it increases.
- The amount of the charitable deduction generated by the contribution also increases—again, the longer the deferral period, the greater the increase in the deduction.

Example: *Donald M, 50, is a successful business owner making maximum allowable contributions to traditional retirement plans. He would still like to do more to generate retirement income—particularly if there is a way to achieve added tax advantages in the process.*

Since Donald would also like to find a significant way to support our work, he decides on a plan to contribute $20,000 for each of the next 15 years in exchange for deferred gift annuities that will begin making payments to him when he reaches the age of 65.

Donald's first $20,000 contribution will fund an annuity that will be deferred for 15 years. That annuity will eventually pay him $2,260—or 11.3%—each year and will generate a current tax deduction of $5,491. Cumulatively over the next 15 years Donald will make total contributions of $300,000, resulting in annual retirement income of $25,020 beginning at the age of 65 and entitling him to $90,005 in deductions. In Donald's 35% federal tax bracket, those deductions will generate $31,502 in tax savings.

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.

7. Possibly saves tax on Social Security benefits

It is important to know that all *income*—even tax-exempt income—counts when calculating the portion of Social Security benefits that is subject to tax. Depending on your income and filing status, up to 85% of your Social Security benefits can be subject to federal income tax.

One of the most attractive features of a gift annuity is that a substantial part of the payments you receive is tax-free and that tax-free portion is not *income.* It is a *tax-free return of the principal* that you are deemed to have "invested" in the gift annuity. Therefore, less of your Social Security benefits may be subject to federal income tax.

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8. Creates estate-tax savings

In addition to making a gift annuity contribution to support our work during your lifetime, you may create a gift annuity for the benefit of a survivor by way of a provision in your will or trust. Instead of an *income-tax* deduction, your taxable estate will be reduced by the amount of the deductible portion of the gift annuity for federal *estate-tax* purposes.

Example: *Helen B dies this year with a total estate of $5 million. In her will she directs $1 million to us in exchange for a charitable gift annuity for her son Gene, who is 65. The annuity will pay Gene $57,000 each year for the rest of his life.*

Helen's estate is entitled to a $298,120 deduction as a result of the gift. This saves more than $134,154 for the noncharitable beneficiaries of Helen's estate.

Bonus: If your surviving spouse is the annuitant, the value of his or her income interest qualifies for the federal marital estate-tax deduction as well. This means no portion of the gift annuity will be subject to federal estate tax.

9. Allows you to provide income to others

Gift annuity payments may be made to any one or two beneficiaries. While many gift annuities are set up to make payments to the donor or to the donor and a spouse, they can be payable to others—perhaps another family member or a special friend.

One creative use of a gift annuity is to help support a family member in a lower tax bracket while providing important support for our work.

Example: *Dick and Emily P have been helping Emily's mother Ruth, 82, with her expenses for some time. In their 35% federal tax bracket, Dick and Emily have to earn more than $11,500 to net the $7,500 they give to Ruth each year to cover utilities and property taxes.*

When a $100,000 CD matures this year, Dick and Emily plan to use those funds to fund a gift annuity for Ruth rather than reinvest them at 4%. The annuity will pay Ruth $8,000 annually, $6,032 of which will be tax-free. In her 15% tax bracket, Ruth will pay less than $300 in tax on the taxable portion of the annuity, which means she will actually net slightly more than she had been getting each year from Dick and Emily.

This plan results in a significant increase in cash flow for Dick and Emily. While they would have received $4,000 had they renewed their CD, they would have kept only $2,600 of that after federal income tax. What's more, they will keep the $7,500 annual payment they had been making to Ruth. Finally, the gift will produce a $49,946 deduction that will yield $17,481 in tax savings this year.

Summary of Increased Cash Flow

A. Lost net income from CD	$ 2,600
B. Annual savings on gifts to Ruth	$ 7,500
C. Tax savings this year	$ 17,481
• First year positive cash flow (B + C - A)	**$22,381**
• Subsequent years' positive cash flow (B - A)	**$ 4,900**

Note: When a gift annuity is established for a beneficiary other than the donor and/or the donor's spouse, the present value of the annuity may be subject to gift tax. The $12,000 gift-tax annual exclusion and the $1,000,000 gift-tax exemption would be available to offset the gift tax.

10. Creates savings for nontaxable estates

Not all estates are subject to federal estate tax. In fact, most are not. This year, a decedent can pass on $2 million in taxable transfers without incurring any federal estate tax, thanks to a credit that offsets the tax on that amount. In 2009, the exempt amount will increase to $3.5 million per decedent.

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Note: The federal estate tax is set to be repealed in 2010, but unless Congress takes specific action to extend or make those provisions permanent, the estate tax will be back in 2011 with just a $1 million exemption and rates as high as 55%.

If you are contemplating a gift to us at your death—known as a testamentary gift—your gift may or may not result in any federal estate-tax savings, depending on the size of your estate and the date of your death. You may find that a contribution during your lifetime in exchange for a gift annuity will produce better tax results than waiting to make an outright gift at your death.

If your estate is not subject to federal estate tax, a testamentary gift will produce no estate-tax savings. On the other hand, if you make a contribution now in exchange for a gift annuity, you will be able to take advantage of valuable *income-tax* savings.

Even if you do expect your estate to be subject to federal estate tax, making a contribution for a gift annuity during your lifetime may produce better overall benefits for you and your beneficiaries.

The following example shows how establishing a lifetime gift annuity can increase the assets in your estate, leaving more for your heirs.

Example: *Jerry H, 80, has an estate of approximately $6 million and intends to leave $500,000 to us in his will. When he realized that a gift annuity would provide a lifetime source of income and generate significant income-tax savings, he decided to give us those funds this year in exchange for an annuity that will pay him $38,000 each year for life—$27,930 of which will be tax-free for the balance of his life expectancy. This gift generates a deduction of $237,305 and saves Jerry $83,057 in his 35% federal income-tax bracket.*

Each year Jerry will net $34,476 from the gift annuity payment after federal income tax. If he invests the after-tax income and achieves a 6% net return, he will accumulate $419,945 if he lives another nine years. If he also invests his $83,057 tax savings for the same return, that will grow to $140,323 in nine years for a total increase in his assets of $560,268.

Under his previous plan to retain the $500,000 and make a gift through his will, the $500,000 would have grown to $844,739 in nine years invested at a 6% net annual return. After subtracting the $500,000 that would pass to us at that time, there would be a net increase in Jerry's assets of $344,739—about $215,530 less than making a lifetime gift for a charitable gift annuity.

11. Avoids management responsibilities

All traditional investments require some degree of management. At one end of the spectrum, investing in commodities or options usually demands daily—if not hourly—attention. Even at the other end of the spectrum, investing in something as simple as a CD requires vigilance—you need to shop for the best return and term combination to fit your objectives.

Since the amount of return from a charitable gift annuity is fixed and guaranteed, you have one less thing to worry about. We bear all the investment responsibility and risk, **but your gift annuity income is guaranteed for life.**

12. Provides the satisfaction of supporting our mission

One of the primary joys of giving is the satisfaction of knowing you have made a meaningful contribution to a worthy cause. It is easy to feel that you may have to defer that satisfaction, particularly if you need income from all of your assets to meet the cash-flow demands of your lifestyle.

A charitable gift annuity is a wonderful way to address both personal and charitable goals. As we have seen, a gift annuity may allow you to maintain a stream of income generated by your assets and even increase it due to:

- the attractive rates on gift annuities.
- sizable income-tax deductions.

- a substantial portion of the payments you receive being free from income tax.

While you enjoy the benefits of the income stream from your gift annuity, you can also take pride in knowing that you have made a meaningful contribution that will help advance our mission. It is easy to see why so many of our friends have found a gift annuity to be a win-win proposition.

Have Questions? Ask Us.

We hope this booklet has given you a better idea of the many ways you can benefit from a charitable gift annuity. Please call us with your questions about how to create a gift annuity or how a gift annuity may address your planning needs. We welcome the chance to talk with you.

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