

# Planning with Gift Annuities



## Do More for Yourself and for Charity

Each year, thousands of people choose charitable gift annuities as a way to provide major financial support to the charitable organizations that mean the most to them. In many cases, this time-tested technique has let donors make gifts that would not otherwise have been possible.

Consider Chloe, age 70. Chloe has always wanted to make a significant gift to us, but she feels she cannot afford an outright gift. With a gift annuity arrangement, she can give \$25,000 to us and we will provide her with \$1,475 every year for as long as she lives. Moreover, the annuity payments will be favorably taxed, and the gift qualifies for a charitable tax deduction. A charitable gift annuity provides Chloe with an opportunity to do more for herself and us.\*

## A Gift Annuity Is Popular and Flexible

The ability to arrange a gift that combines annuity payments with favorable tax results is a major reason for the popularity of charitable gift annuities. A carefully planned gift annuity can accomplish important personal and financial objectives. Let's look at some examples:

- Sergio, age 58, earns more than enough to meet his everyday expenses, but he wants to reduce his current tax liabilities and supplement his retirement savings. A deferred gift annuity that begins payments years from now could be an excellent option for him.
- Naomi wants to provide financial help for a dear sister. She finds she can make a gift to us, enjoy an immediate tax deduction, and arrange for the charity to make annual payments to her sister for as long as she lives.
- Frances is preparing for retirement and wants to convert assets that are producing little or no income to yearly payments. Channeling these assets into a charitable gift annuity lets her benefit us and accomplish her objective without incurring immediate capital gains tax.

Our gift annuity program offers a great deal of flexibility and is simple, direct, and certain.

- You fund the annuity with cash or other property.
- You name yourself and/or someone else as beneficiary (two beneficiaries maximum).
- You direct us to begin annuity payments now or at some later time.

\* All examples are for illustrative purposes only. CGA examples use a 4.6% AFR.

## Answers to Commonly Asked Questions

### **How is the annuity amount determined?**

The amount of the annuity payment is based on the age of the beneficiary (either you or another beneficiary) and the amount or value of the gift. The older the beneficiary, the higher the payout rate.

### **Is part of the gift 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 if you itemize.

### **Can the annuity payment change?**

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

### **How does a 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.

### **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. If the beneficiary lives beyond life expectancy, subsequent payments are taxable as ordinary income.

### **How are annuity payments treated in determining the taxation of Social Security benefits?**

Only the taxable portion of each annuity payment is considered income for the purpose of computing the potential tax on Social Security benefits. The favorable taxation of gift annuity payments can be an important advantage to retirees receiving Social Security benefits.

### **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. Think carefully before making a gift if it's possible you may need the gift property for personal financial security.

### **Can I fund a gift annuity out of my IRA?**

Yes. Beginning in 2023, an individual may make a one-time qualified charitable distribution of up to \$50,000 to fund a new charitable gift annuity. No tax is due on the distribution even though it counts toward the individual's required minimum distribution if one is due (generally, age 73 and older).

## Planning Option: Providing a Lifetime Income for a Family Member

With a contribution to our gift annuity program, you can name anyone you like as the annuity beneficiary. You can even direct that the annuity be paid to one person for life and thereafter to a second beneficiary for as long as the second beneficiary lives. (Two beneficiaries is the maximum.)

Keep in mind that the age of the beneficiary—not the age of the donor—determines the amount of the annuity and the charitable deduction.

**EXAMPLE:** For years, Naomi has been giving her 76-year-old sister, Karin, \$8,000 a year in support. Since Naomi is in the 35% federal income tax bracket, it costs her roughly \$12,300 a year in pre-tax income to provide this support. Naomi has learned that she can enjoy a substantial tax deduction and still provide the same level of support to her sister Karin by purchasing a charitable gift annuity.

Naomi decides to transfer \$140,000 to us in return for our contractual agreement to pay her sister \$9,520 a year for life. The charitable gift portion of the transfer (\$67,122) is tax deductible if she itemizes, so Naomi reduces her current income tax and continues to provide a stable source of annuity income to her sister (based on an AFR of 4.6% and annual payments). Equally important to Naomi is the satisfaction she receives by making a generous gift to us.

## Planning Option: A Deferred Gift Annuity Can Increase Retirement Income

Our gift annuity program lets you postpone the start date of the annuity for a specified period of time—say, until retirement age. Since annuity payments are postponed, both the amount of the annuity and the allowable charitable deduction are higher compared to an immediate gift annuity.

**EXAMPLE:** Sergio, a pediatrician, doesn't need more income now, but he is concerned about having enough income during retirement. Since he is also in the top income tax bracket and he plans to itemize, 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 making payments in ten years, when he will be 68 and expects to retire.

## Planning Option: Multiple Gift Annuities Can Increase Cash Flow

If you don't want to make a significant gift all at once, you could choose to set up a series of gift annuities that produce a cumulative retirement income. Moreover, each gift can reduce your income tax liability in the year the gift is made.

**EXAMPLE:** Richard, age 55, is in a position to give us \$30,000 a year for the next 10 years. Part of each annual gift to our gift annuity program will be tax deductible, reducing Richard's income tax liability if he itemizes. He directs that all annuity payments be deferred until he reaches age 70, at which time each of the annuities will provide payments to supplement his retirement income for the rest of his lifetime.

## Planning Option: Increase Benefits by Funding with Appreciated Property

In addition to all of the other benefits associated with charitable gift annuities, funding a gift annuity with appreciated property also creates an additional capital gains tax advantage, in that capital gains tax is only due on the portion of the gift attributed to the annuity. Furthermore, when you are the annuitant, you can spread the capital gains tax over your life expectancy.

**EXAMPLE:** Ellen (age 70) bought 100 shares of stock in 2009 for \$25,000. Today, the stock is worth \$50,000. Ellen gives the stock to us to set up a charitable gift annuity. Ellen will receive an annual payment of \$2,950. This year, if Ellen itemizes, she can take an income tax deduction of \$21,671 for her gift (based on an AFR of 4.6%).

If Ellen had sold the stock, she would have paid capital gains tax on \$25,000 in the year of the sale. Instead, Ellen will pay capital gains tax on \$14,164 (the part of the gain attributable to her annuity). Tax on the gain is spread out over the next several years.



## The Next Step

Find out how you can support us while supplementing your retirement income with a charitable gift annuity. We'll be happy to provide you with an illustration of the financial and tax benefits you can expect. Contact us to request an illustration (without any obligation whatsoever). Explore how you, too, can benefit from a charitable gift annuity.

