



Case Study Approach to Integrating Charitable and Financial Lifecycle Fund Raising with Gift Annuities into your Annual, Major and Planned Gift program

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Philanthropy has many faces

n	Communitarian	26%	★ ★ ★
n	Devout	21%	
n	Investors	15%	★ ★ ★ ★ ★
n	Socialites	11%	
n	Repayers	10%	★ ★ ★ ★
n	Altruists	9%	
n	Dynasts	8%	★ ★

Source: Russell Prince study

Estate Planning Personal Concerns

lifestyle

YOU family concerns

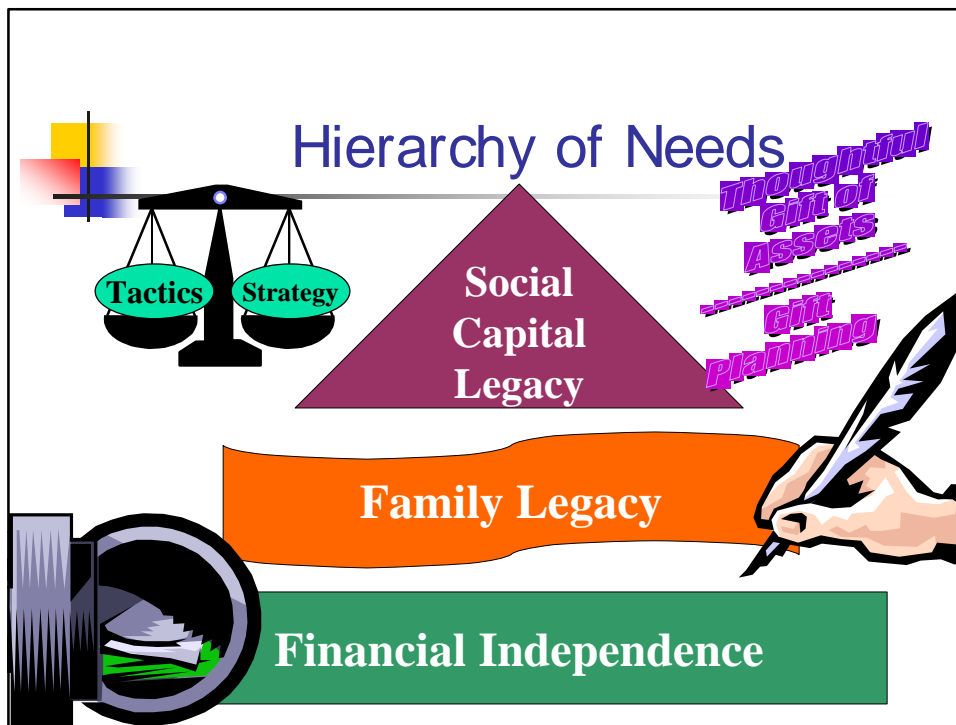
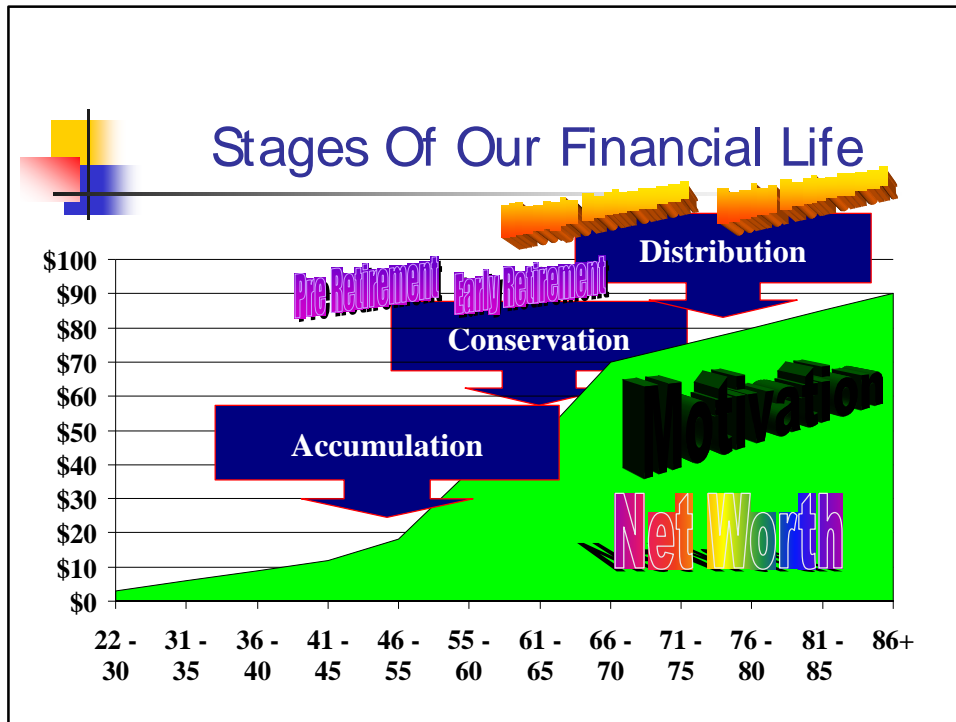
tax law changes

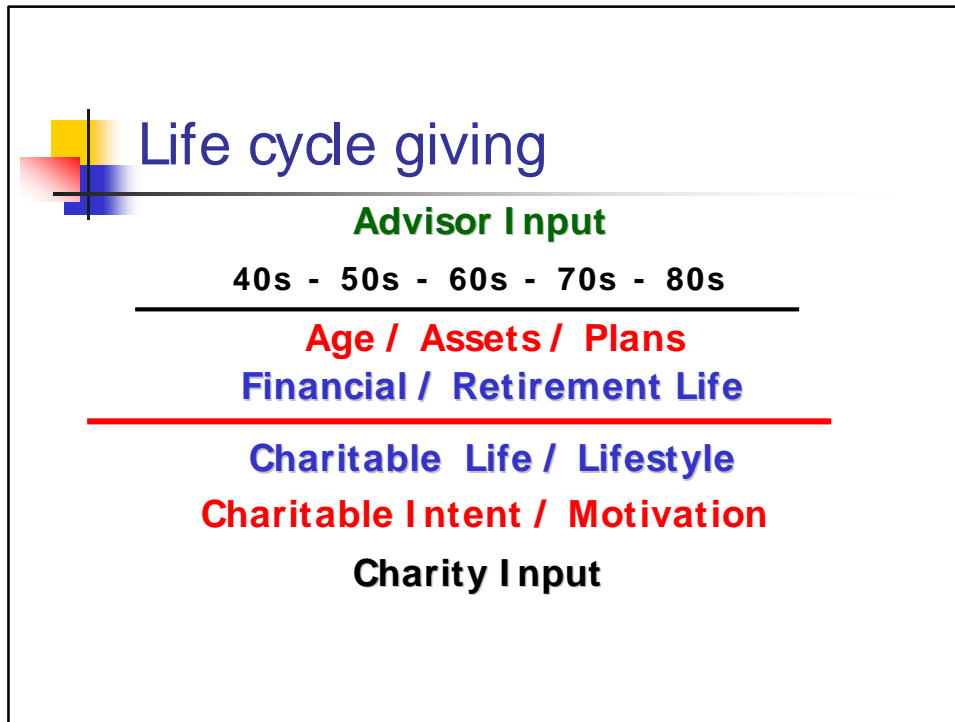
government changes

Life cycle giving

Financial Life

Charitable Life

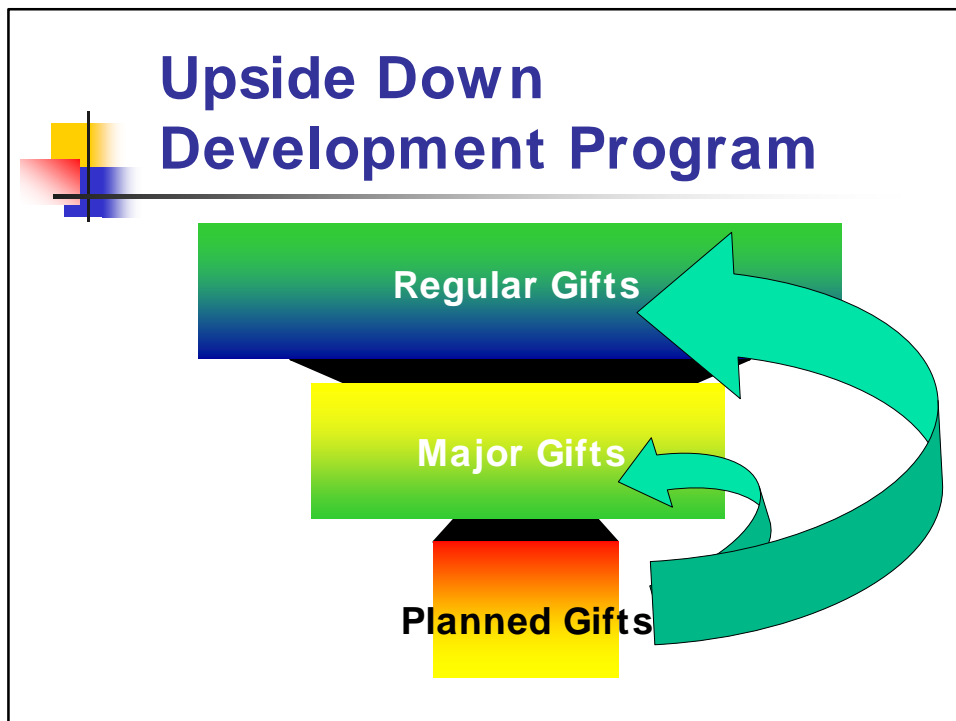




Age and Wealth-Based Matrix

A1 Gifts of Cash Appreciated Property Term of Years Trusts Charitable Lead Trusts Life Income Gifts for Others	B1 Gifts of Cash Appreciated Property Term of Years Trusts Charitable Lead Trusts Life Income Gifts for Others Current Retirement Plan Gifts Deferred Gift Annuities	C1 Gifts of Cash & Property Bequests & Gift Annuities Term of Years Trusts Charitable Lead Trusts Charitable Trusts for Life Life Income Gifts for Others Current Retirement Plan Gifts Life Insurance Proceeds Retirement Plan Remainders
A2 Gifts of Cash	B2 Gifts of Cash Pooled Income Funds Deferred Gift Annuities	C2 Gifts of Cash Appreciated Property Pooled Income Funds Bequests Gift Annuities Life Insurance Proceeds Retirement Plan Remainders
A3 Gifts of Cash	B3 Gifts of Cash	C3 Gifts of Cash Bequests Gift Annuities Life Insurance Proceeds Retirement Plan Remainders

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What is a Charitable Gift Annuity?



- n Contract with Charity..gift arrangement
- n Assets are irrevocably transferred
- n Donor receives fixed guaranteed lifetime payments
- n Payments begin immediately or may be deferred
- n Payments depend upon age, number of beneficiaries and type of annuity
- n Part Gift – Part Investment



Donor Benefits of Gift Annuity



- n Simple to understand
- n Simple to arrange
- n Modest gift amount
- n Multiple contracts
- n Guaranteed payment
- n Lifetime payment
- n Start with cash, stock, can do real estate
- n Competitive after tax return
- n Satisfaction of making a future gift
 - n lifetime use of assets
- n No estate tax







Candidates for Gift Annuity

1. Certificates of deposit are maturing...
“Desires more income”
Solution: Immediate Payment CGA
2. Corporate bonds are being called...
“Desires lifetime payments”
Solution: Immediate Payment CGA
3. Municipal bonds being called...
“Desires tax-free payments”
Solution: Immediate Payment CGA





Candidates for Gift Annuity

4. Has excess life insurance policy
“Desires conversion without taxes”
Solution: Immediate payment CGA
5. Freeze value of appreciates stocks
“Google Effect”
Solution: Immediate payment CGA
6. Freeze value of stock that is declining
“Enron Effect”
Solution: Immediate payment CGA



Candidates for Gift Annuity

7. Convert dividend income to fixed guaranteed payments
“Dividend Converter and Extender”
Solution: Immediate payment CGA
8. Tax-free exchange of fixed or variable annuity
“Annuity converter”
Solution: Immediate or Deferred CGA
9. Guaranteed payments for a younger spouse
“May-December Annuity”
Solution: Deferred CGA



Candidates for Gift Annuity

10. Decrease my taxes NOW...
I don't need more income now...
But I may need income if I change my life style or living arrangements
“Zero Coupon Charitable CD”
Solution: Deferred CGA

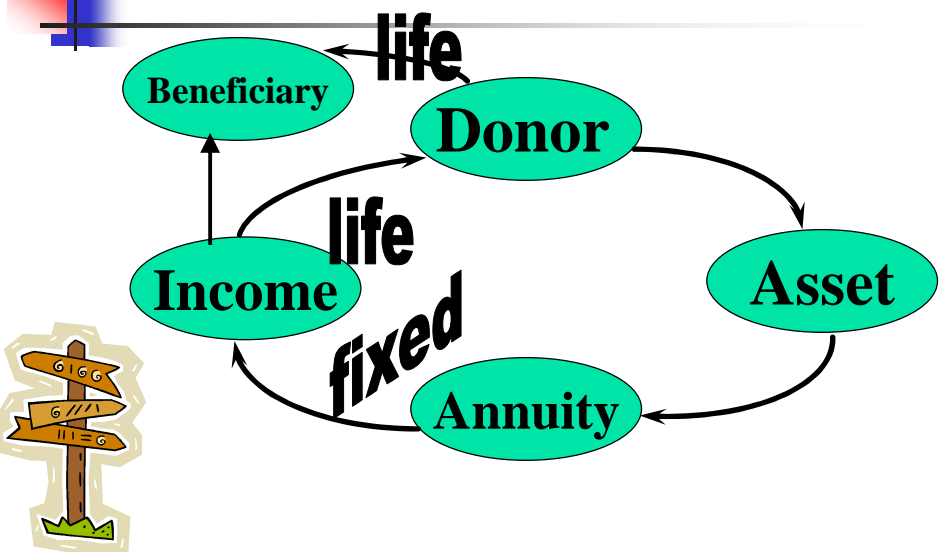


2009 Survey of Gift Annuities

- n 568 organizations, higher education bias
- n 72% of immediate annuities are issued to donors 80 and older
- n 9% of annuities issued to donors 70 or younger
- n Most annuities are funded with cash, and for one life (72.4%)
- n Average size vary widely by type of organization
 - n College and Universities - \$78,548
 - n Arts organizations - \$22,195
- n \$3+ billion currently under management
- n Average number of CGAs issued 16, median 5
- n 28% of programs started after 1999



Gift Annuity Donor Cycle




Types of Gift Assets

- n Cash
- n Securities
- n Bonds - Corporate
- n Bonds - Municipal
- n **Bonds - US Savings**
- n Real Estate
 - n residence
 - n vacation home
 - n investment property
- n Mutual Funds
- n Life Insurance
- n Variable Annuity
- n Personal Property
- n Business Interests
 - n S - corp
 - n C - corp
- n **Retirement Assets**
 - n IRA
 - n Keogh
 - n Pension & Profit Sharing plans
 - n 401k, 403b plans




Annuity payment rates

Single Life



Two Life

n Age of Donor	n Payment Rate	n Age of Donors	n Payment Rate
60	5.20%	60/60	4.90%
65	5.50%	65/65	5.10%
70	5.90%	70/70	5.40%
75	6.40%	75/75	5.70%
80	7.20%	80/80	6.30%



ACGA rates effective July 1, 2010

Gift Strategies – Standard Deduction



	Single	Joint	Household	Married Separate
Basic	\$5,700	\$11,400	\$8,350	\$5,700
65+	\$7,100	\$12,500 ⁽¹⁾ \$13,600 ⁽²⁾	\$9,750	\$6,800
Blind	\$7,100	\$12,500 ⁽¹⁾ \$13,600 ⁽²⁾	\$9,750	\$6,800
65+ Blind	\$8,500	\$13,600 ⁽¹⁾ \$15,800 ⁽²⁾	\$11,150	\$7,900

Gift Strategies – Cost of Gift



	A – Give Cash	B – Sell & Give Cash	C- Give Property
Value	\$5,000	\$5,000	\$5,000
Tax savings (25%)	\$1,250	\$1,250	\$1,250
Capital gains tax savings \$4,000 gain	\$0	\$600 paid	\$600 saved
Total Tax Savings	\$1,250	\$650	\$1,850

Gift Strategies - Proper Asset Selection

	Investment A	Investment B	Difference
Value	\$5,000	\$5,000	\$0
Ordinary tax savings (25%)	\$1,250	\$1,250	\$0
Capital gains tax savings A \$4,000 gain B \$1,000 gain	\$675	\$150	A) \$525 more
Total Tax Savings	\$1,925	\$1,400	A) \$525 more
After tax cost of gift	\$3,075	\$3,600	B) \$525 less

Gift Strategies # 1 Capital Gain Offset

Tax Bracket	Capital Gain	Charitable Gift	Capital Gain Offset
25%	15%	\$1.00	\$1.66
28%	15%	\$1.00	\$1.86
33%	15%	\$1.00	\$2.20
35%	15%	\$1.00	\$2.33

Note: No 3% reduction rule for charitable deductions in 2010

Gift Strategies # 1

Capital Gain Offset



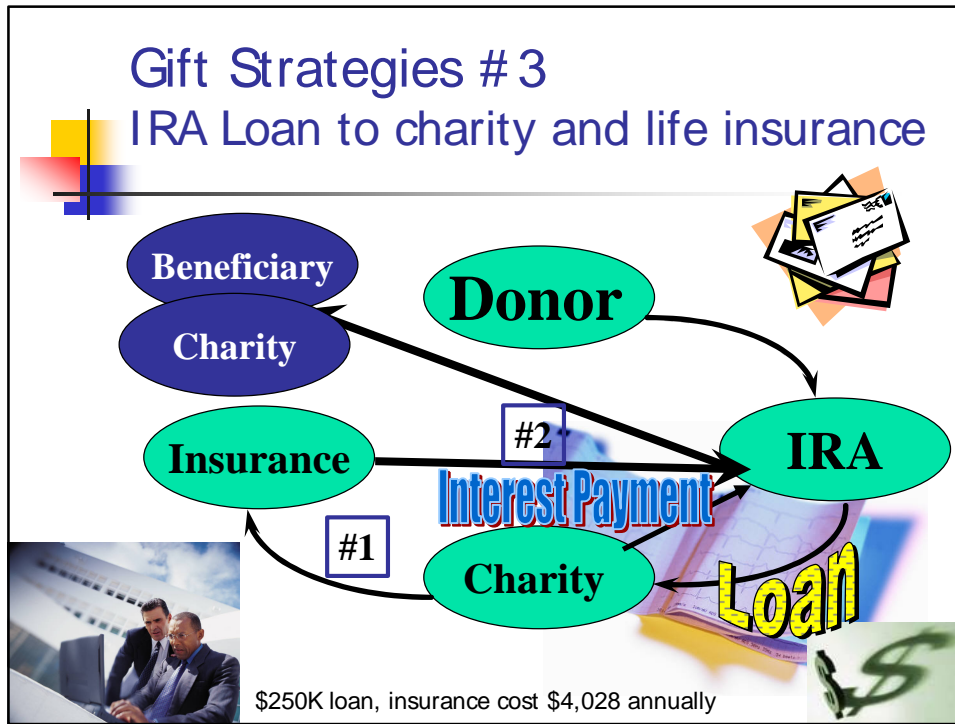
- n Capital Gain Offset
- n Tom and Betty 3,000 shares of Merck
- n Cost \$6/share, value \$35/share
- n Gift 1,000 shares (\$35,000)
- n 28% tax bracket, offset @ \$1.86 = \$65,100
- n Sell 2,000 shares tax free
- n Use deduction to free up additional value
- n Could sell 2,244 shares with no capital gains tax

Gift Strategies # 2

Interest free loans to charity



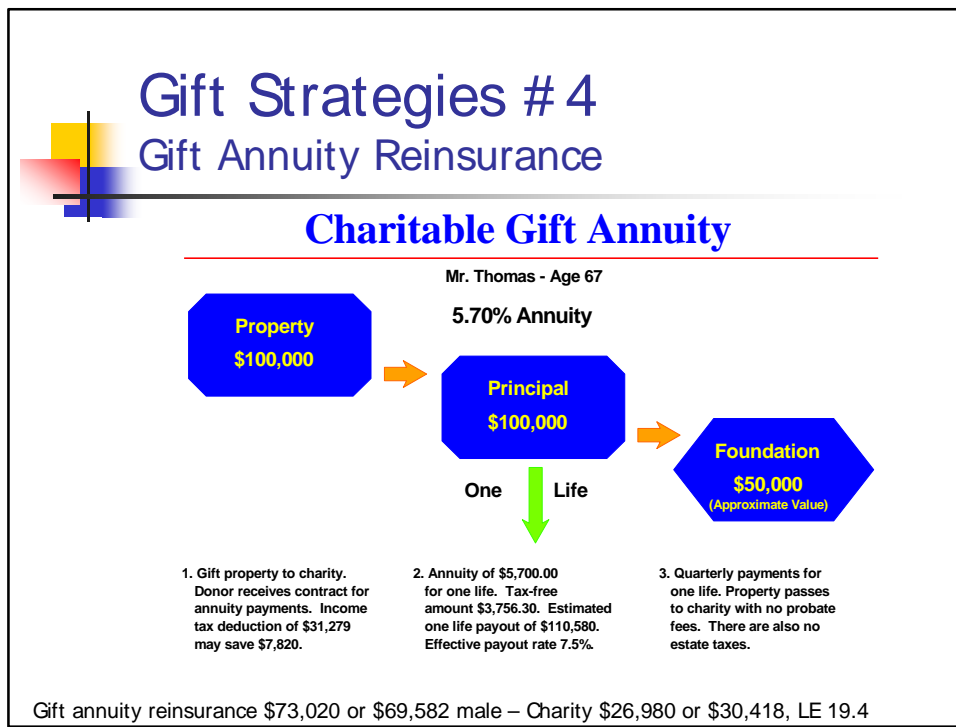
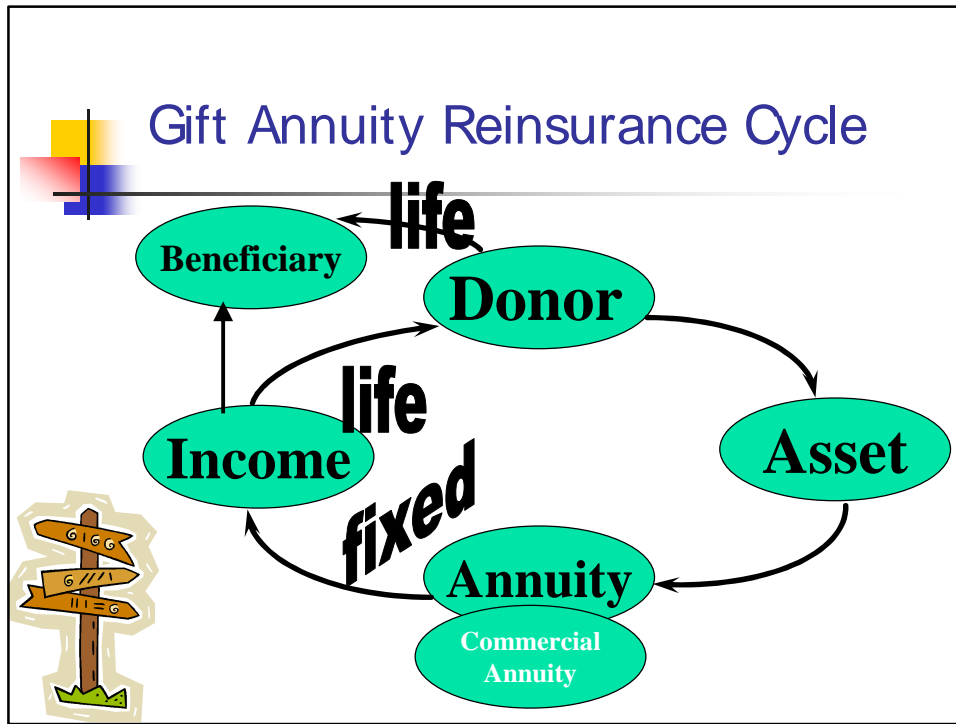
- n Simple demand note
- n Allow charity to use or invest capital
- n \$250,000 limit, Reg. 1.7872-5T(b)(9)
- n Allows high income taxpayers to remove earning from taxable income
- n Could be repaid or a future bequest to charity

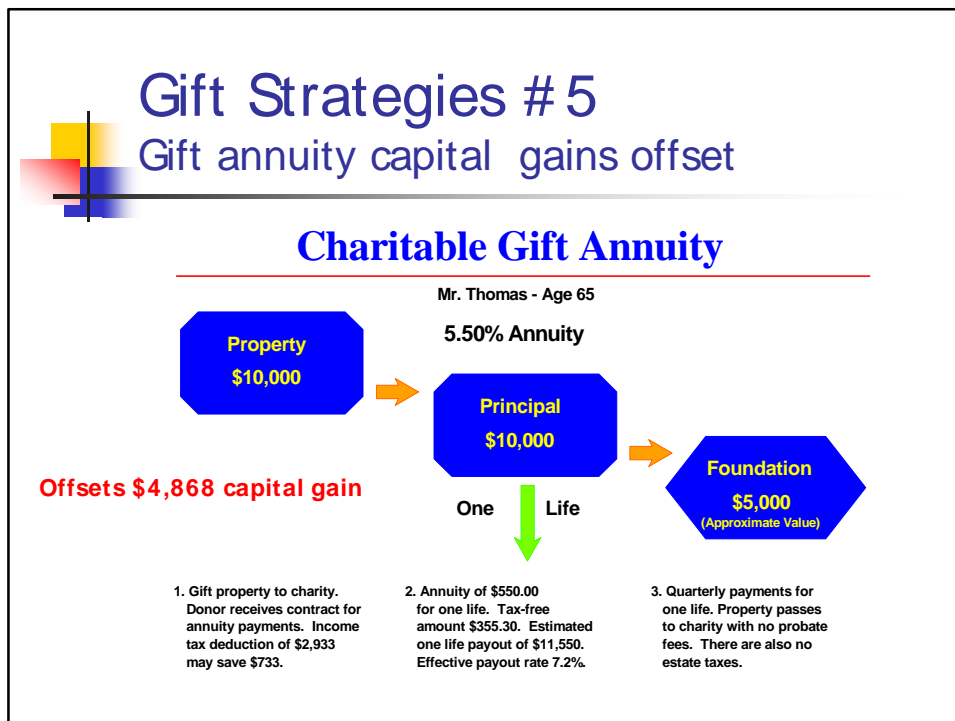
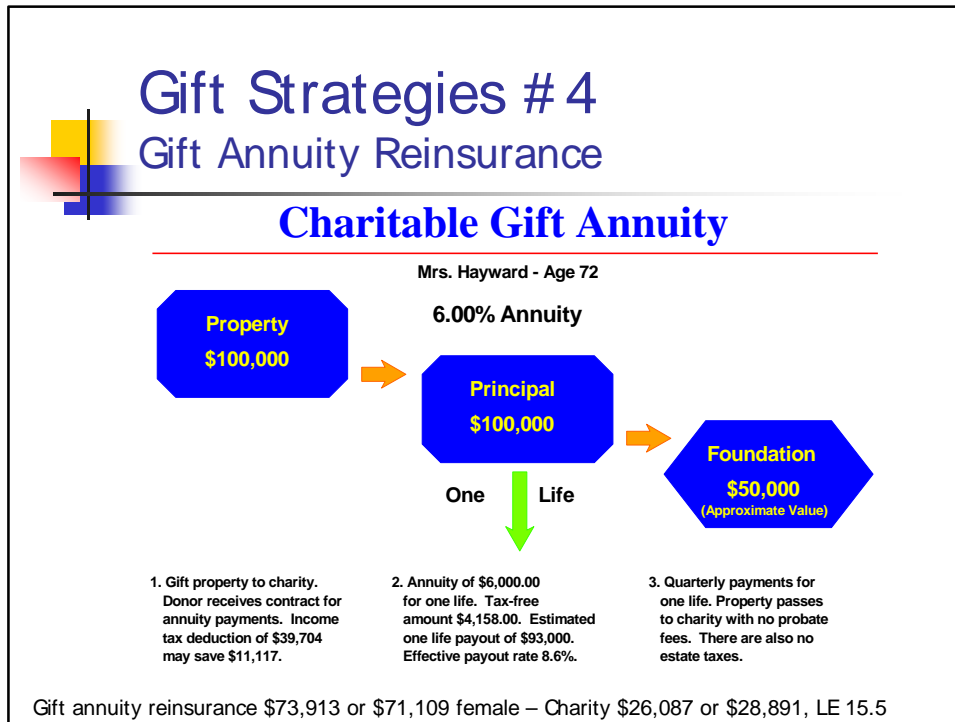


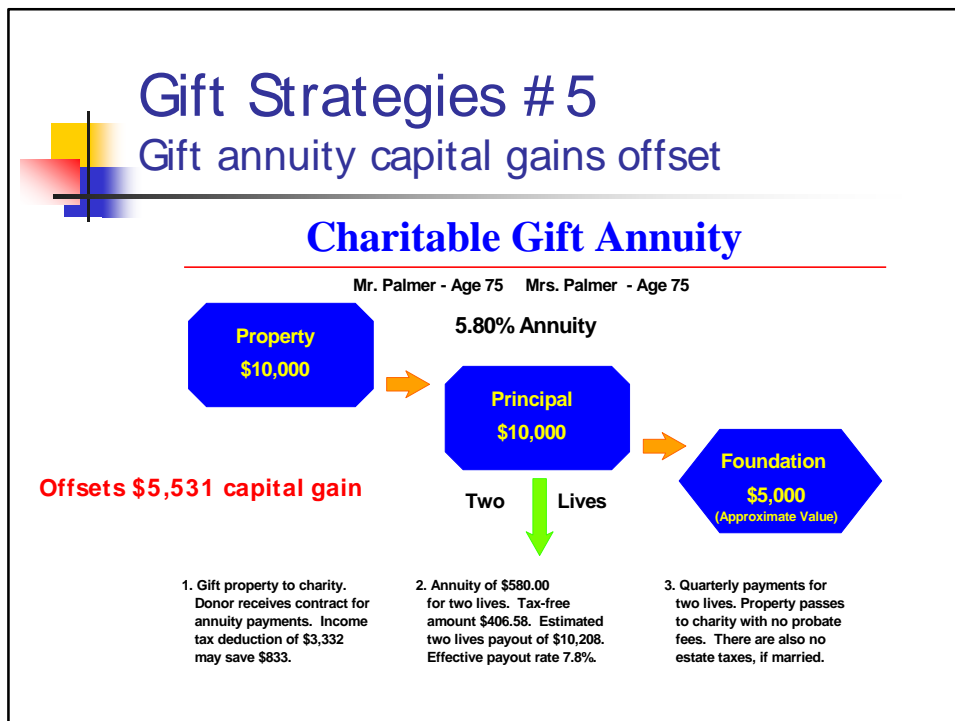
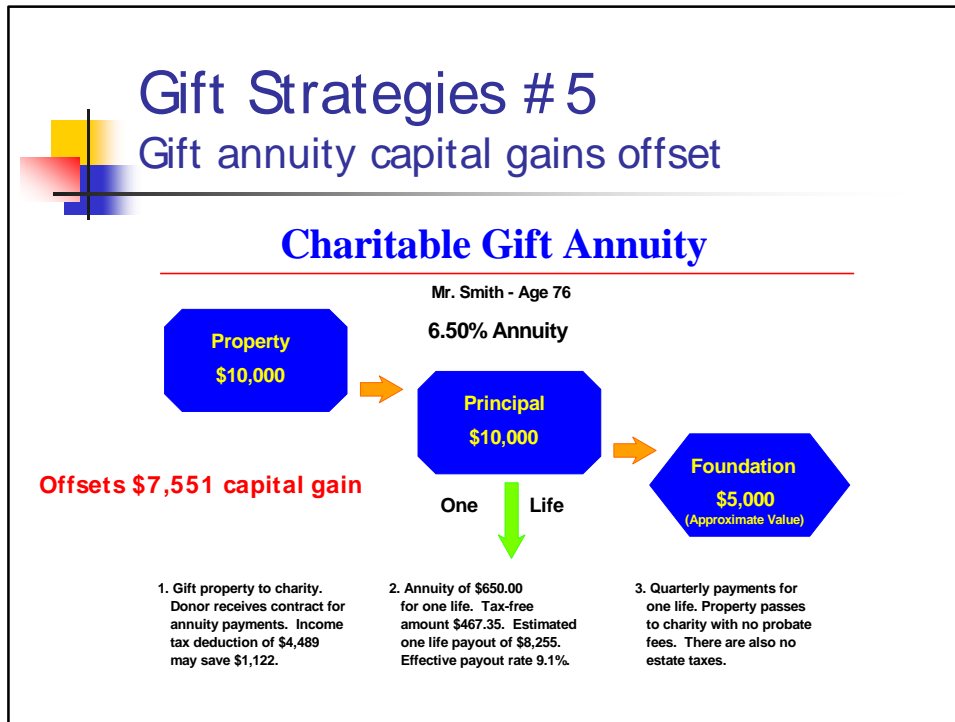
Gift Strategies # 3


IRA Loans to Charity-CHIRA

- n IRAs assets currently \$3 - \$4 trillion+
- n IRA owners interested in charity but only while benefiting from IRA income
- n No age or asset limits
- n PLR 200741016 approved a loan from IRA to charity from self-directed IRA
 - n IRA loan at annual interest rate for a loan term included life insurance as collateral
 - n Charity required to pay interest annually at the minimum amount of current month's Applicable Federal Rate (AFR), currently 3.2%
 - n Charity owner and beneficiary of life insurance policy to cover loan amount
- n No charitable contribution deduction
- n Minimum required distribution issues
- n www.chirausa.com









Gift Strategies # 6

Gift annuity to endow annual gift

- n Female donor, age 80 contributes \$5,000 per year to annual fund
- n Stock, bond, mutual fund portfolio
- n Select \$100,000 in stock paying 2.1% dividend
- n Result: no decrease in donor income, \$5,000 annual gift, future residuum of gift annuity, large deduction

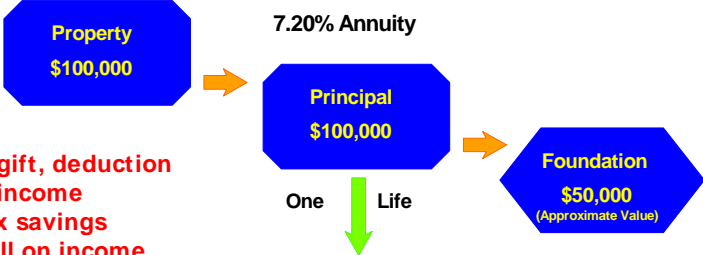
Gift Strategies # 6

Gift annuity to endow annual gift

Charitable Gift Annuity

Mrs. Park - Age 80

7.20% Annuity



\$5,000 for gift, deduction
\$2,200 for income
\$13,867 tax savings
\$504 tax bill on income

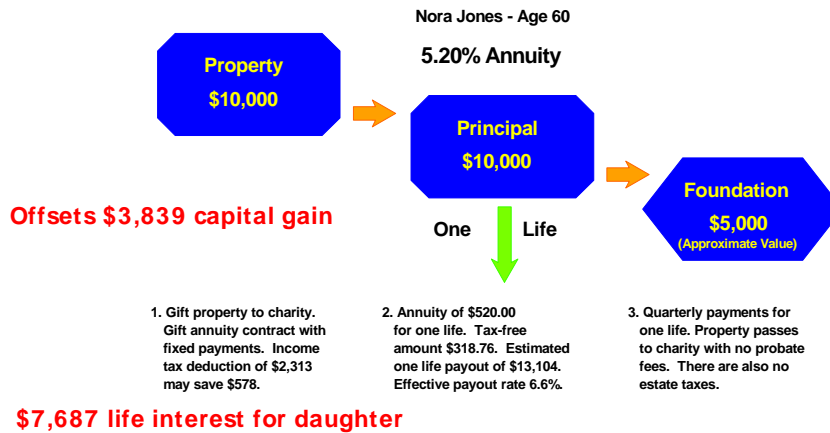
1. Gift property to charity. Donor receives contract for annuity payments. Income tax deduction of \$49,525 may save \$13,867.

2. Annuity of \$7,200.00 for one life. Tax-free amount \$5,371.20. Estimated one life payout of \$73,440. Effective payout rate 10.8%.

3. Quarterly payments for one life. Property passes to charity with no probate fees. There are also no estate taxes.

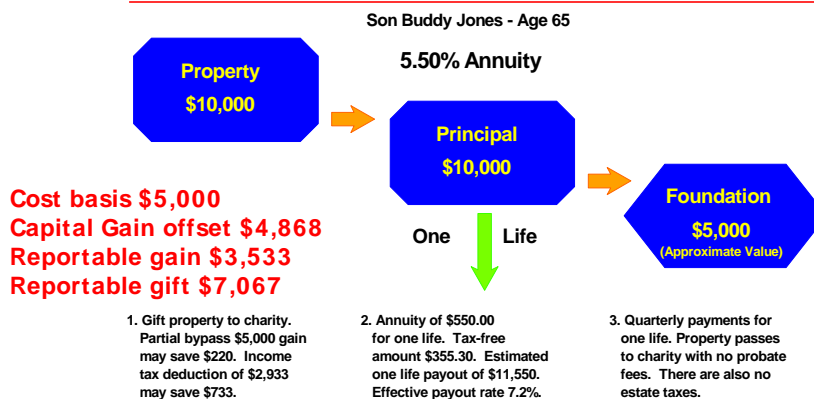
Gift Strategies # 7 Gift annuity offset, Mother established annuity for daughter

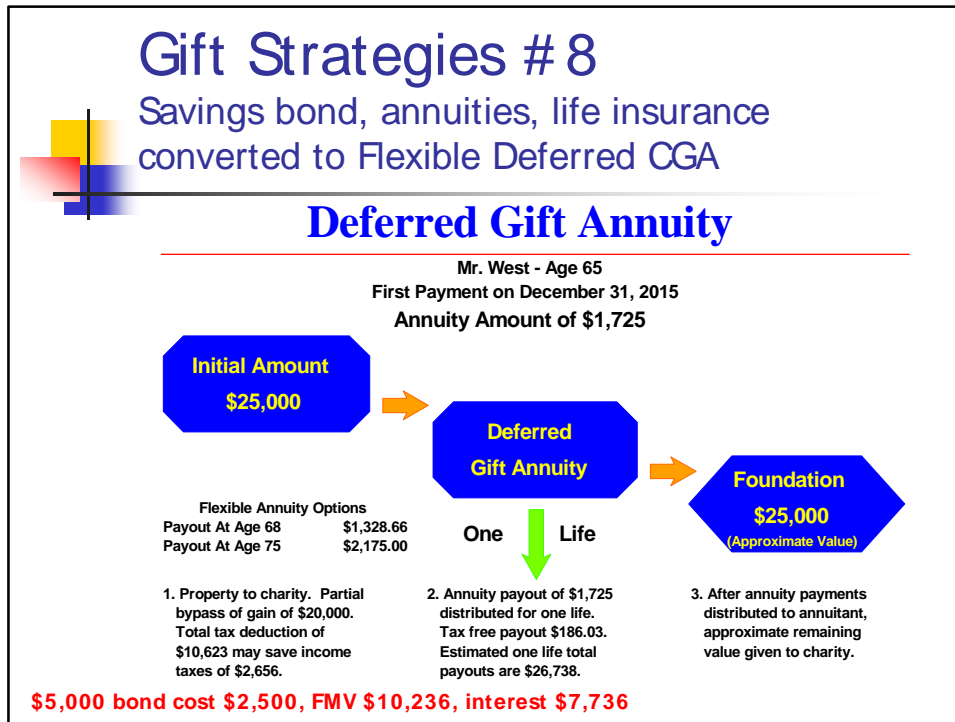
Charitable Gift Annuity



Gift Strategies # 7 Gift annuity offset, Mother established annuity for son with stock

Charitable Gift Annuity





Gift Strategies # 8

Commercial annuities



- n DOB February 25, 1941, age 69, Married
- n Assets:
 - n 2 USAA annuity contracts
 - n # 1 FMV \$23,988
 - n Taxable gain \$13,988
 - n # 2 FMV \$17,057
 - n Taxable gain \$7,057
 - n **Total assets: \$41,045**
 - n **Total gain: \$21,045**
 - n AGI \$175,000
 - n Tax rates 33%, 15%
- n Charitable intent
- n Cash in annuity assets
- n Offset gain with charitable gifts
- n Possible immediate or future income
- n No income for spouse
- n Other charitable gifts this year

Gift Strategies # 8 Commercial annuities

Deferred Gift Annuity

Allan W - Age 69
First Payment on December 31, 2015
Annuity Amount of \$3,504.16

Initial Amount
\$44,356

→

Deferred Gift Annuity

→

Charity
\$44,356
(Approximate Value)

Flexible Annuity Options


Payout At Age 72	\$2,542.68
Payout At Age 77	\$3,992.04

One ↓ Life

1. Property to charity. Partial bypass of gain of \$37,310. Total tax deduction of \$23,179 may save income taxes of \$6,490.
2. Annuity payout of \$3,504.16 distributed for one life. Tax free payout \$269.98. Estimated one life total payouts are \$43,452.
3. After annuity payments distributed to annuitant, approximate remaining value given to charity.

2,600 shares Genworth Financial, FMV \$44,356, Cost \$7,045, Deduction \$23,179

Gift Strategies # 9 Candidates for Gift Annuity



- n Decrease my taxes now...I do not need more income now...but may need income if I change my living arrangements
“Zero Coupon Charitable CD”
 Solution: Deferred CGA for seniors
- n 70 year old donor, with \$100,000 in appreciated stock could receive 8.3% in 2016, but deduction today = \$51,638 or \$12,910 tax saving

Gift Strategies # 10 – Dividend substitute, major gift

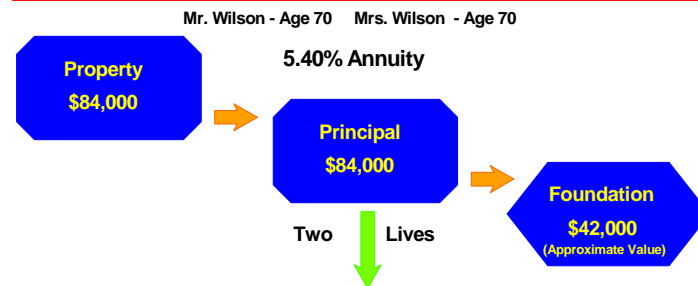


- n Donors 70/70
- n 2,200 shares, ExxonMobil
- n FMV \$154,000
- n Cost \$ 75,000
- n Dividend 2.3%
 - n \$3,696 gross
 - n \$3,141 after tax
- n **1,000 share = gift, \$70,000**
- n **1,200 shares = two-life gift annuity**

Gift Strategies # 10 – Dividend substitute, major gift



Charitable Gift Annuity

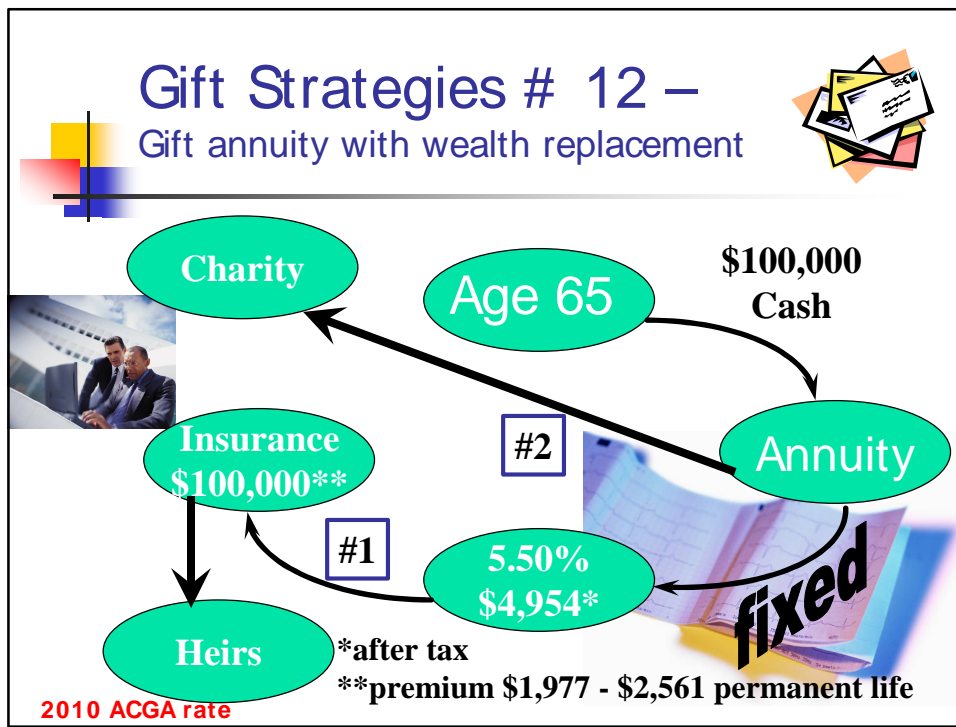
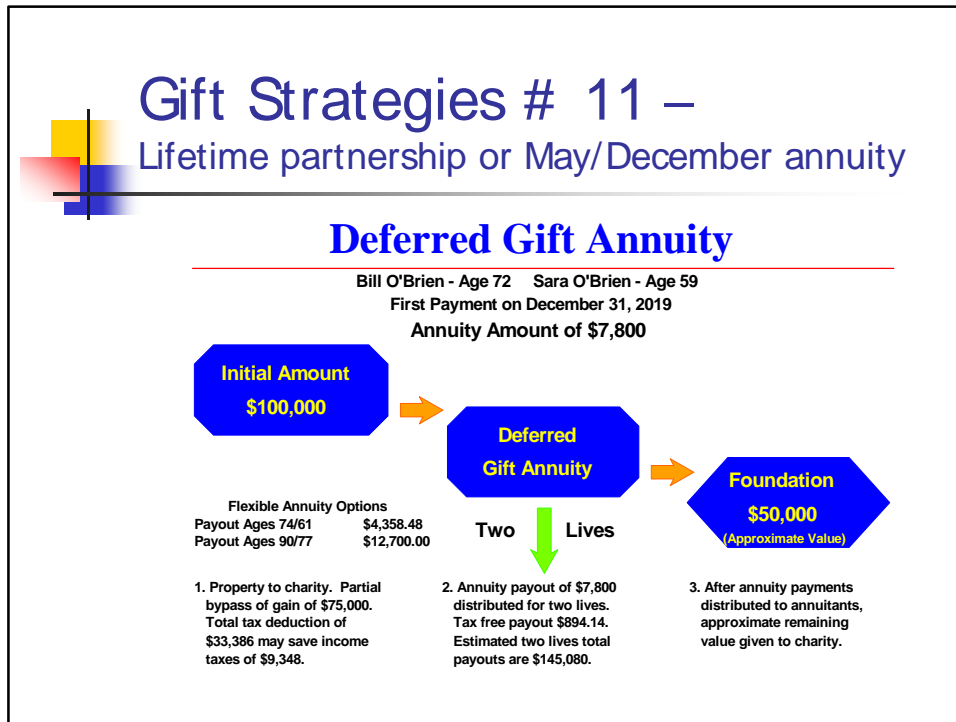


1. Gift property to charity. Partial bypass \$43,090 gain may save \$1,686. Income tax deduction of \$21,910 may save \$6,135.

2. Annuity of \$4,536.00 for two lives. Tax-free amount \$1,476.37. Estimated two lives payout of \$98,885. Effective payout rate 6.9%.

3. Quarterly payments for two lives. Property passes to charity with no probate fees. There are also no estate taxes, if married.

After tax payment \$3,879, two tax deduction \$70,000 and \$21,910



What is the cost to purchase \$100,000 of permanent life insurance from after tax income from a \$100,000 gift annuity?

Sex/Age – (Income*) \$100,000 Insurance

Female 60 (\$4,380)	\$1,179 - \$1,470
Male 65 (\$4,696)	\$1,977 - \$2,561
Male 70 (\$5,118)	\$2,681 - \$3,484
Joint 65/65 (\$4,322)	\$1,263 - \$1,507
Joint 70/70 (\$4,643)	\$1,569 - \$1,962

* After tax income in 28% Federal tax bracket, 2009 ACGA rates

How much insurance can be purchased with the after tax income from \$100,000 gift annuity?

Sex/Age – (Income*) Insurance Amount

Female 60 (\$4,380)	\$275,732
Male 65 (\$4,696)	\$173,809
Male 70 (\$5,118)	\$139,357
Joint 65/65 (\$4,322)	\$283,758
Joint 70/70 (\$4,643)	\$229,248

* After tax income in 28% Federal tax bracket, 2009 ACGA rates

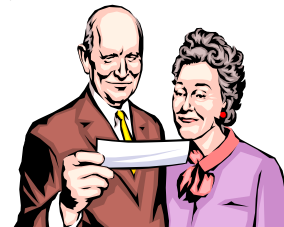
Gift Strategies # 13 – Gift annuity for 85%, real estate

- n Rannow's vacation home value
\$440,000
- n Rannow's annuity value \$374,000
- n Age 80 payment rate 7.5%
- n Fixed guaranteed lifetime payments
- n Payment amount \$21,920 with \$14,945
tax-free
- n Lifetime \$223,584



Gift Strategies # 13 – Gift annuity for 85%, real estate

- n Double deductions
 - n discount of \$66,000
 - n annuity of \$128,670
 - n total deductions \$194,670 @30% of AGI
- n Tax savings @ 33% = \$64,241



Gift Strategies # 14 – Bargain Sale



BARGAIN SALE

Prepared For John Jones

Property
\$106,000

→

Sale Portion
\$81,000

Foundation
\$25,000

Net Benefit

Cash To Donor	\$81,000
Less:	\$11,004
Plus:	\$8,250
Net:	\$78,246

1. When property sold at bargain price to charity, income tax deduction saves \$8,250. Capital gain bypass on gift portion may save \$3,396.
2. Long term capital gain is the difference between sale price and basis allocated to sale. Tax of \$11,004 on gain is offset by charitable income tax saving.
3. Net to donor is cash benefit less net income taxes paid or \$78,246. Donor reduces taxes by \$11,646 and makes \$25,000 gift.

Zero tax = sale for \$75,089

