



Case Study Approach to Integrating Charitable Gift Annuities into Wealth Preservation, Wealth Enhancement and Portfolio Diversification

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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

Financial Planning Personal Concerns

Lifestyle

YOU

family concerns

age

tax law changes

government changes

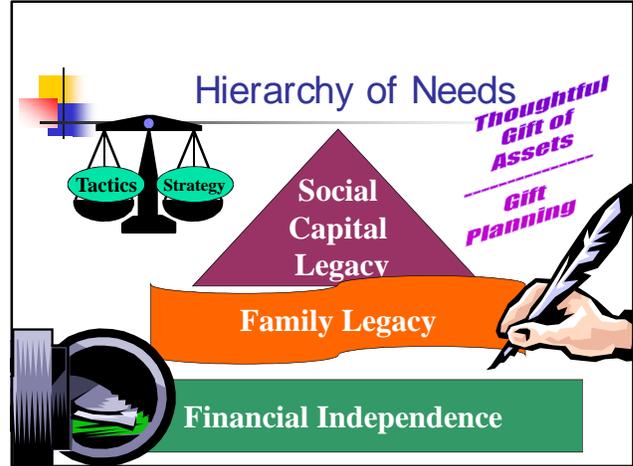
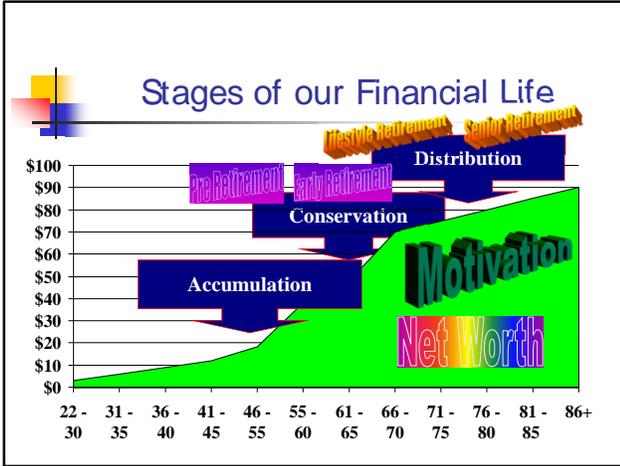


Life cycle giving

Financial Life

Charitable Life



Life cycle giving

Advisor Input

40s - 50s - 60s - 70s - 80s

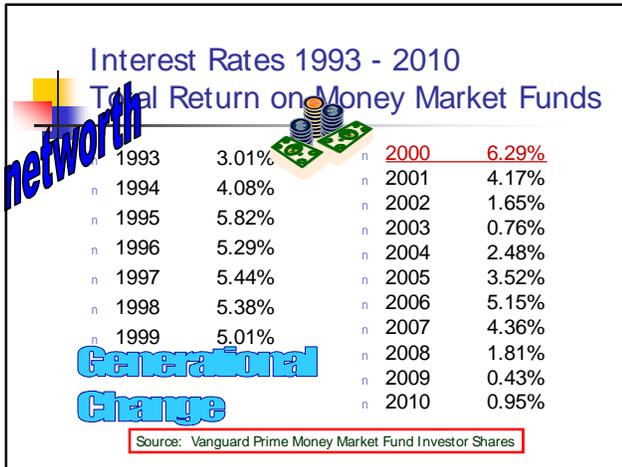
Age / Assets / Plans
Financial / Retirement Life

Charitable Life / Lifestyle
Charitable Intent / Motivation

Charity Input

Gift Annuity – America’s Most Popular Life Income Program

Account for about 90% of the activity and 80% of the dollars in life income plans



What is a Charitable Gift Annuity?

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

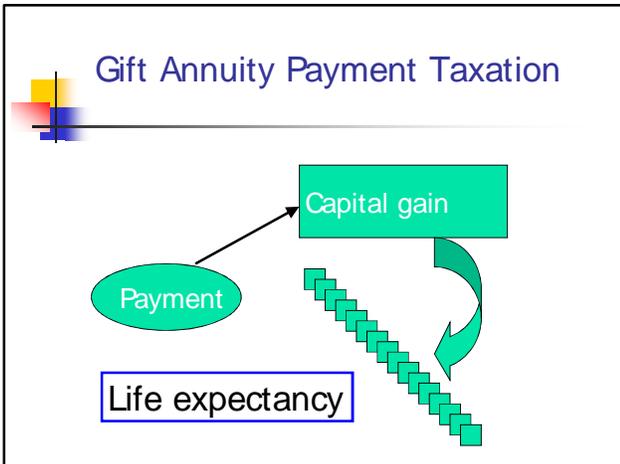
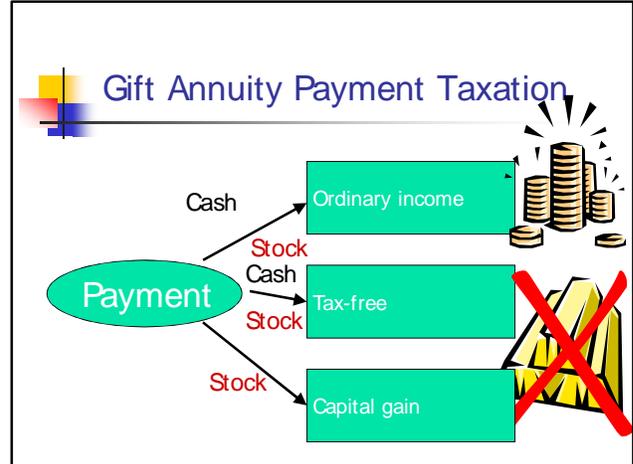
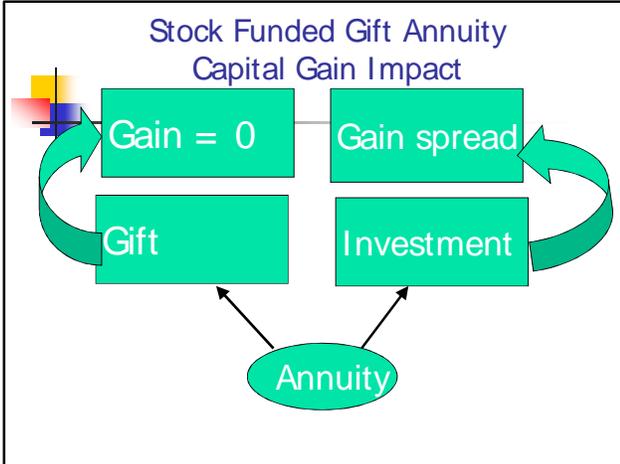
Donor Benefits of Gift Annuity

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

What is a Gift Annuity Income Tax Deduction?

Payment rate, size of gift, age and number of beneficiary, number of payments, Applicable Federal Rate

Government bonus for being charitable today!



- ### ACGA Annuity Rate Assumptions
- n Life expectancy Annuity 2000 tables
 - n All annuitants female and 2 years younger than their actual ages
 - n Total investment return 5.50%
 - n Administrative expense of 1% per year
 - n Residuum to charity will be 50% of contribution
- ACGA approved July 1, 2010 rate structure



Candidates for Gift Annuity

1. Certificates of deposit are maturing...
“Desires increased cash flow”
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

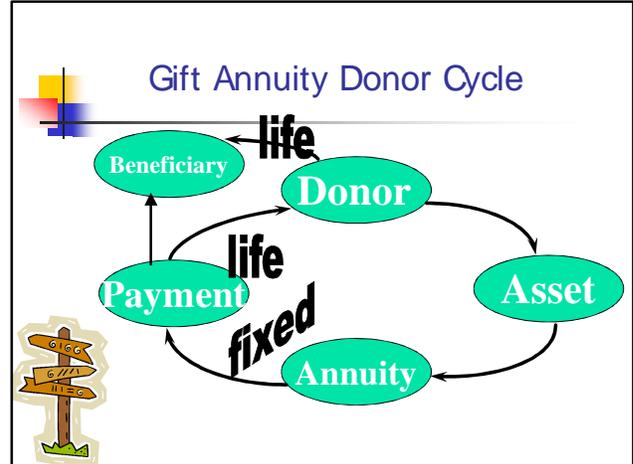


Candidates for Gift Annuity

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



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	
Age of Donor	Payment Rate	Age of Donors	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-2011



	Single	Joint	Household	Married Separate
Basic	\$5,800	\$11,600	\$8,500	\$5,800
65+	\$7,250	\$12,750(1) \$13,900(2)	\$9,950	\$6,950
Blind	\$7,250	\$12,500(1) \$13,600(2)	\$9,950	\$6,950
65+ Blind	\$8,700	\$13,600(1) \$15,800(2)	\$11,400	\$8,100

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 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

Technical Considerations

- n Donors in 25% or 28% Federal tax bracket
- n Assumed Section 7529 rate, Charitable Mid-term Federal Rate = 3%
 - n Lower rate = lower deduction
 - n Lower rate = higher tax-free payment
- n Cash deductible up to 50% of AGI
- n Appreciated assets deductible up to 30% of AGI
- n American Council on Gift Annuity rates unless noted
- n All gifts qualify for the IRS required 10% charitable deduction (IRS Sec. 514(c)(5)).

Gift Strategies # 1

Gift Annuity Income Enhancement -Cash

- n Mr. Thomas, 67, receives pension income, social security payments, dividends from a few stock and interest from CDs. His cash flow has been declining as interest rates have fallen. CDs yielding only 2%.
- n To increase cash flow he gifts \$100,000 from a CD maturity to a hospital that treated his late wife.

Gift Strategies # 1

Gift Annuity Income Enhancement-Cash

Charitable Gift Annuity

Mr. Thomas - Age 67

1. Gift property to charity. Donor receives contract for annuity payments. Income tax deduction of \$31,301 may save \$8,764.
2. Annuity of \$5,600.00 for one life. Tax-free amount \$3,752.00. Estimated one life payout of \$108,640. Effective payout rate 7.7%.
3. Quarterly payments for one life. Property passes to charity with no probate fees. There are also no estate taxes.

Gift Strategies # 1

Gift Annuity Income Enhancement-Cash

Prior to Gift		After the Gift	
Invested in CD	\$100,000	Contributed	\$100,000
Interest	2,000	Annual payment	5,600
Tax (28%)	560	Ordinary income	1,848
Net spendable	\$1,440	Tax-free*	3,752
		Income tax (28%)	517
		Net spendable	\$5,083
		Bonus savings	\$8,764

* tax-free until 2028

252% increase in net spendable income plus one time bonus

Gift Strategies # 2

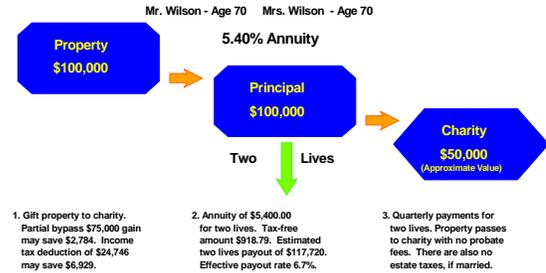
Gift Annuity Income Enhancement -Stock

- n Mr. & Mrs. Wilson, 70/70 have been stock investors all their lives. They wish to convert some of their stock investments to more secure assets. They have several highly appreciated stock but most are returning only 2% in dividend payments.
- n Their CPA and investment advisor are concerned about the capital gains taxes as they will reduce the capital they have for reinvestment.
- n Mr. Wilson had a recent emergency hospital admission and is very grateful for his cardiac care and the hospital has plans to remodel its cardiac unit.

Gift Strategies # 2

Gift Annuity Income Enhancement -Stock

Charitable Gift Annuity



Gift Strategies # 2

Gift Annuity Income Enhancement-Stock

Prior to Gift		After the Gift	
Invested in stock	\$100,000	Contributed	\$100,000
Dividends (2%)	2,000	Cost basis	\$25,000
Tax (15%)	\$300	Payment rate	5.60%
Net spendable	\$1,700	Total payment	\$5,600
		Ordinary income	1,728
		Capital gains	2,753
		Tax-free*	919
		Tax OI 28%	\$484
		Tax CG 15%	\$413
		Net spendable	\$4,703
		Bonus savings	\$6,929
			*tax-free to 2030
Capital if Sold			
Fair market value	\$100,000		
Cost basis	25,000		
Capital gains tax (15%)	\$11,250		
Net capital	\$88,750		

Gift Strategies # 3

Retirement Gift Annuity

- n John, 60, a successful businessman is trying to save extra funds for retirement at age 70. He makes maximum contributions to his IRA and pension plan accounts.
- n His long term goal is to endow a fund for a local charity to support community based health prevention activities.
- n He has the ability to set aside \$25k cash for the endowment but does not want to lose the economic value of the assets in case he needs it for retirement. He would also like to lock in some stock gains to fund his retirement.

Gift Strategies # 3

Retirement Gift Annuity - Fixed Date

Deferred Gift Annuity

John West - Age 60
First Payment on December 31, 2020
Annuity Amount of \$2,175

Initial Amount \$25,000 → **Deferred Gift Annuity** → **Charity \$12,500 (Approximate Value)**

One Life

- Property transferred to charitable organization. Total tax deduction of \$5,375 may save income taxes of \$1,505.
- Annuity payout of \$2,175 distributed for one life. Tax free payout \$1,204.95. Estimated one life total payouts are \$35,453.
- After annuity payments distributed to annuitant, approximate remaining value given to charity.

Gift Strategies # 3

Retirement Gift Annuity - Flexible Dates

Deferred Gift Annuity

John West - Age 60
First Payment on December 31, 2020
Annuity Amount of \$2,175

Initial Amount \$25,000 → **Deferred Gift Annuity** → **Charity \$12,500 (Approximate Value)**

Flexible Annuity Options
Payout At Age 62 \$1,245.42
Payout At Age 80 \$4,050.00

One Life

- Property transferred to charitable organization. Total tax deduction of \$5,375 may save income taxes of \$1,505.
- Annuity payout of \$2,175 distributed for one life. Tax free payout \$1,204.95. Estimated one life total payouts are \$35,453.
- After annuity payments distributed to annuitant, approximate remaining value given to charity.

Gift Strategies # 3

Retirement Gift Annuity - Flexible Rates

Age	Rate	Annuity	Tax-free	Gift
62	4.98	\$1,245	\$860	\$5,375
65	6.03	\$1,508	\$966	\$5,375
70	8.70	\$2,175	\$1,204	\$5,375
72	9.60	\$2,400	\$1,327	\$5,375
75	11.7	\$2,925	\$1,544	\$5,375
77	13.2	\$3,300	\$1,722	\$5,375
80	16.2	\$4,050	\$2,065	\$5,375

Stock fund DCGA avoids capital gains on gift portion, capital gains on annuity taxed over life expectancy

Gift Strategies # 4

Capital Gain Offset - Gift

- Tom and Betty, 67/67, own 3,000 shares of Merck, with a cost basis of \$6/share and a value of \$35/share (\$105,000)
- Gift 1,000 shares (\$35,000)
- 28% tax bracket, offset @ \$1.86 = \$65,100
- Sell 2,000 shares tax free
- Use deduction to free up additional value
- Could sell 2,244 shares with no capital gains tax

Gift Strategies # 4 Capital Gain Offset - Annuity

Charitable Gift Annuity

Tom Jones - Age 67 Betty Jones - Age 67

Property \$52,500 → 5.20% Annuity → Principal \$52,500 → Charity \$26,250 (Approximate Value)

1,500 share to annuity
Capital gain offset \$20,128
805 shares sold for reinvestment

Two Lives

1. Gift property to charity. Partial bypass \$34,500 gain may save \$1,067. Income tax deduction of \$10,822 may save \$3,030.
2. Annuity of \$2,730.00 for two lives. Tax-free amount \$618.88. Estimated two lives payout of \$66,612. Effective payout rate 6.4%.
3. Quarterly payments for two lives. Property passes to charity with no probate fees. There are also no estate taxes, if married.

Gift Strategies # 4 Capital Gain Offset - Annuity

Charitable Gift Annuity

Mr. Palmer - Age 75 Mrs. Palmer - Age 75

Property \$10,000 → 5.70% Annuity → Principal \$10,000 → Charity \$5,000 (Approximate Value)

Cash gift, 25% tax bracket
Offsets \$5,578 capital gain

Two Lives

1. Gift property to charity. Donor receives contract for annuity payments. Income tax deduction of \$3,347 may save \$837.
2. Annuity of \$570.00 for two lives. Tax-free amount \$405.84. Estimated two lives payout of \$10,032. Effective payout rate 7.7%.
3. Quarterly payments for two lives. Property passes to charity with no probate fees. There are also no estate taxes, if married.

Gift Strategies # 5 Gift annuity to endow annual gift

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

Gift Strategies # 5 Gift annuity to endow annual gift

Charitable Gift Annuity

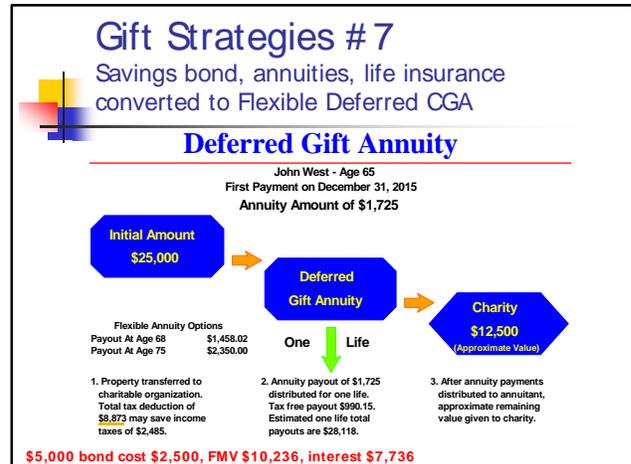
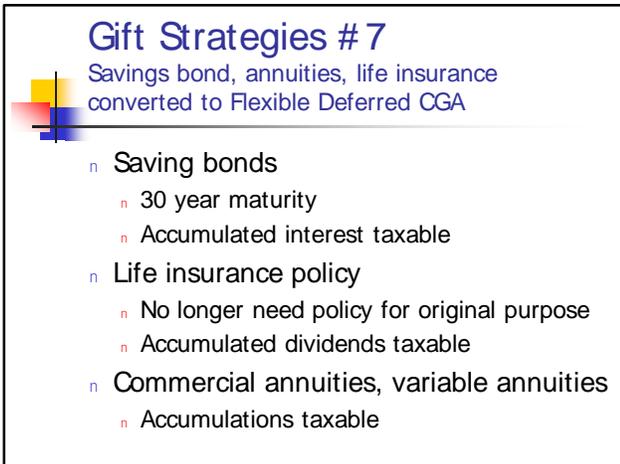
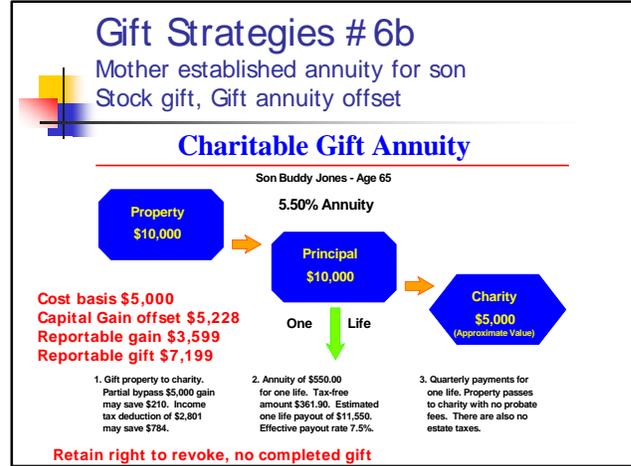
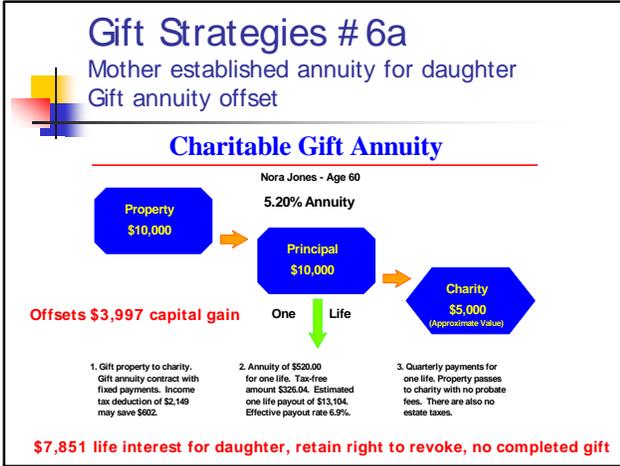
Mrs. White - Age 80

Property \$100,000 → 7.20% Annuity → Principal \$100,000 → Charity \$50,000 (Approximate Value)

One Life

1. Gift property to charity. Partial bypass \$50,000 gain may save \$3,673. Income tax deduction of \$48,977 may save \$12,244.
2. Annuity of \$7,200.00 for one life. Tax-free amount \$2,714.82. Estimated one life payout of \$73,440. Effective payout rate 9.6%.
3. Quarterly payments for one life. Property passes to charity with no probate fees. There are also no estate taxes.

Prior to Gift	
Invested in stock	\$100,000
Dividends (2.1%)	2,100
Tax (28%)	-\$588
Net spendable	1,512
Capital gift	3,488
After Gift	
Annuity	\$100,000
Payment	7,200
Net after tax	6,295
Gift amount	-\$5,000
Net	\$1,295
Bonus	+\$13,713



Gift Strategies # 7 Commercial annuities



- n DOB February 25, 1941, age 69, Married
- n Assets:
 - n 2 USAA annuity contracts
 - n #1 FMV \$23,988
 - o Taxable gain \$13,988
 - n #2 FMV \$17,057
 - o 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 # 7 Commercial annuities

Deferred Gift Annuity

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

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

1. Property to charity. Partial bypass of gain of \$37,310. Total tax deduction of **\$23,179** may save income taxes of \$5,490.
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 # 8 Zero Coupon Charitable CD



- n Decrease my taxes now...I do not need more income now...but may need income if I change my living arrangements
- n **“Zero Coupon Charitable CD”**
- n **Solution:** Deferred CGA for seniors
- n 70 year old donor, with \$100,000 in appreciated stock could receive 8.4% in 2016, but deduction today = \$49,851 or \$12,463 tax saving

Gift Strategies # 8 Zero Coupon Charitable CD

Deferred Gift Annuity

Mary Teacher - Age 70
First Payment on December 31, 2016
Annuity Amount of \$8,400

Flexible Annuity Options
Payout At Age 74 \$6,738.68
Payout At Age 80 \$11,100.00

1. Property to charity. Partial bypass of gain of \$70,000. Total tax deduction of \$49,851 may save income taxes of \$12,463.
2. Annuity payout of \$8,400 distributed for one life. Tax free payout \$1,275.47. Estimated one life total payouts are \$99,120.
3. After annuity payments distributed to annuitant, approximate remaining value given to charity.

Gift Strategies # 9

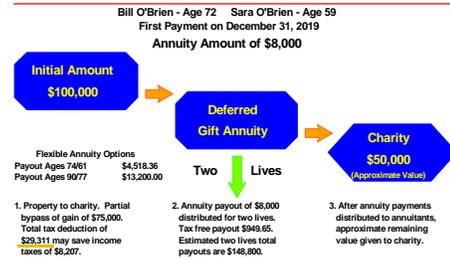
Lifetime partnership or May/December annuity

- n Bill, 72, is concerned about providing economic support for his spouse Sara, 59 once he dies
- n Sara will lose payments from his pension
- n Bill and Sara could use an income tax deduction this year to offset taxes on required minimum withdrawals from Bill IRA
- n Stock portfolio is underperforming
- n Solution: Deferred gift annuity with options

Gift Strategies # 9

Lifetime partnership or May/December annuity

Deferred Gift Annuity



Gift Strategies # 10 – Dividend substitute, major gift

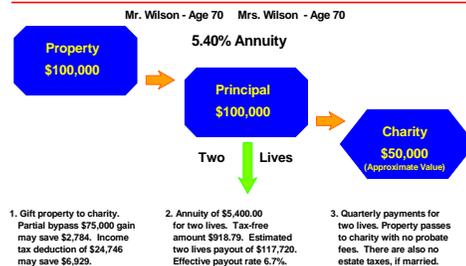


- n Donors 70/70
- n 2,200 shares, ExxonMobil
- n FMV \$154,000, Cost \$75,000
- n Dividend 2.3%
 - n \$3,696 gross
 - n \$3,141 after tax
- n Strategy: 1,000 share = gift, \$70,000
- n 1,200 shares = two-life gift annuity

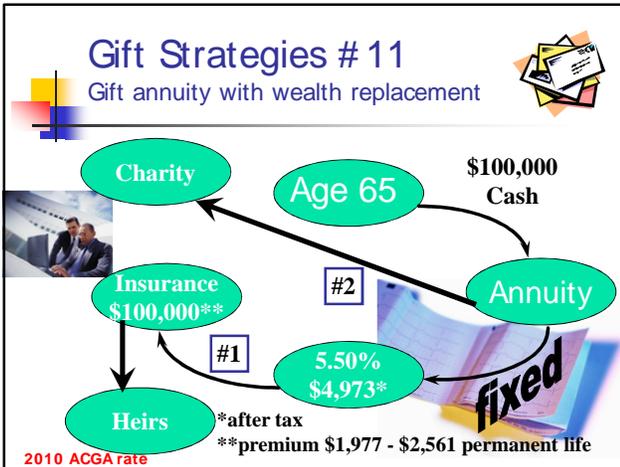
Gift Strategies # 10 – Dividend substitute, major gift



Charitable Gift Annuity



After tax payment \$3,683, two tax deduction \$70,000 and \$24,746



Gift Strategies # 11-

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

Sex/Age – (Income*)	\$100,000 Insurance
Female 60 (\$4,656)	\$1,179 - \$1,470
Male 65 (\$4,973)	\$1,977 - \$2,561
Male 70 (\$5,300)	\$2,681 - \$3,484
Joint 65/65 (\$4,596)	\$1,263 - \$1,507
Joint 70/70 (\$4,916)	\$1,569 - \$1,962

* After tax income in 28% Federal tax bracket, 2010 ACGA rates

Gift Strategies # 11-

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

Sex/Age – (Income*)	Insurance Amount
Female 60 (\$4,656)	\$275,732
Male 65 (\$4,973)	\$173,809
Male 70 (\$5,300)	\$139,357
Joint 65/65 (\$4,596)	\$283,758
Joint 70/70 (\$4,916)	\$229,248

* After tax income in 28% Federal tax bracket, 2010 ACGA rates

Gift Strategies # 12 –

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 # 13 Super flexible CGA



- n Roger, 50, not knowing when he wishes to retire and concerned about future health issues that might force early retirement does not wish to pre-commit to a fixed date for starting annuity payments.
- n To maximize flexibility Roger simultaneously establishes 10 flexible deferred gift annuities each funded with \$10,000 in appreciated stock, with option to begin payments between age 61 to 71

Gift Strategies # 13 Super flexible CGA



- n Roger decides to turn two agreements on at age 62, three at age 65 and one each year beginning at age 66.
- n Charitable deduction \$10,800 (CMFR 2.6%)

Beginning age	Payment
62	\$1,780
65	\$4,930
66	\$6,030
67	\$7,200
68	\$8,450
69	\$9,770
70	\$11,150

Gift Strategies # 14 Security and inflation

- n Mildred, 65, wants her payments to increase with anticipated inflation for the next eight years
- n She has \$125,000 available for gifting



Gift Strategies # 14 Security and inflation



Type	Amount	Begin Date	Payment	Total
Immediate	\$100,000	12/31/2010	\$5,500	\$5,500
Deferred	\$3,368	12/31/2011	\$192	\$5,692
Deferred	\$3,262	12/31/2012	\$199	\$5,891
Deferred	\$3,169	12/31/2013	\$206	\$6,097
Deferred	\$3,087	12/31/2014	\$213	\$6,310
Deferred	\$3,069	12/31/2015	\$221	\$6,531
Deferred	\$2,974	12/31/2016	\$229	\$6,760
Deferred	\$2,890	12/31/2017	\$237	\$6,997
Deferred	\$2,816	12/31/2018	\$245	\$7,242

Gift Strategies # 15 Charitable reverse mortgage

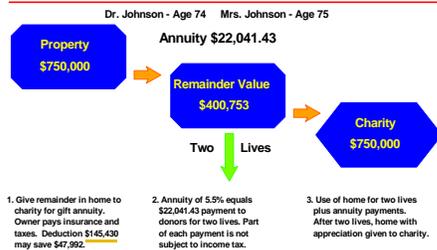


- n It is possible to give the remainder interest in a home for a gift annuity.
- n Donor continues to live in the home and receive payments
- n Donor pays all expenses
- n Charity must front payments and assumes longevity risk

Gift Strategies # 15 Charitable reverse mortgage



Gift Annuity For Home



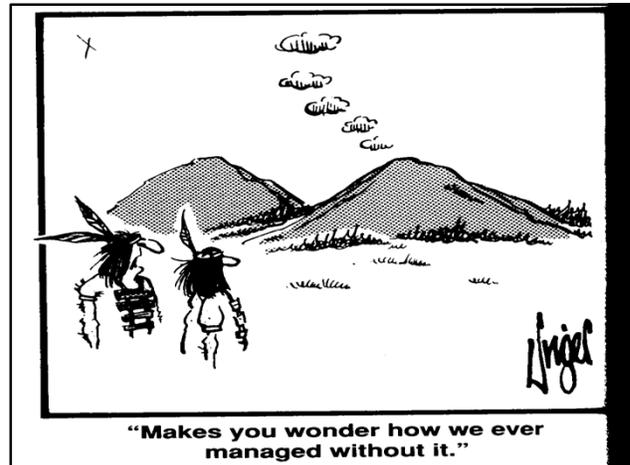
Gift Strategies # 16 Gift annuity for survivor

- n Gift annuity like a charitable trust may be established at the end of life to provide payments to survivors. Maximum two beneficiaries
 - n "I give...the sum of ...to (Charity) provided if (annuitant) survives me, (Charity) shall pay to (him/her) in quarterly installments a life annuity, the annual payments shall be equal to the value of the property transferred to (Charity) multiplied by the charitable gift annuity rate suggested as of the date of my death by the American Council on Gift Annuities for a person their age."
- n Testamentary CGA may be funded with IRA or other retirement assets



Substantiating charitable gifts

- n Close is not good enough
- n Gifts under \$250, donor must have a bank record or written communication from charity with name, date and amount of gift
- n Over \$250, donor must have written receipt and include a statement that no goods or services were received in return for the transfer
- n Over \$500 donor must file 8283 for personal property gifts
- n Over \$5,000 donor must file 8283 and have appraisal of personal property but not securities



Case Study Approach to Integrating Charitable Gift Annuities into Wealth Preservation, Wealth Enhancement and Portfolio Diversification

