



# Charitable Gift Annuities

The Basics and Beyond

June 14, 2016



### PRESENTED BY

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## Presenter



**Lynn M. Gaumer, J.D.**  
Senior Technical Consultant  
The Stelter Company

- + Joined the Stelter Company in December 2011
- + Prior to coming to Stelter, Lynn worked as an associate attorney for 10 years with Duncan, Green, Brown & Langeness, P.C., a law firm in Des Moines, Iowa, specializing in estate planning, charitable planning, probate, guardianships, conservatorships, real estate and business planning.
- + Bachelor of Arts degree in economics and communication studies from the University of Iowa, and a law degree from the University of South Dakota School of Law
- + Member and board member of the Mid Iowa Planned Giving Council
- + Member of the Leadership Institute: the Partnership for Philanthropic Planning

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## Presenter



**Craig C. Wruck**  
Vice President for University Advancement  
Humboldt State University

- + Vice President for University Advancement at Humboldt State University
- + Craig holds an MBA from University of St. Thomas and a bachelor's degree in journalism from the University of Utah.
- + He has served as vice president of Development and Alumni Relations at Hazelden Foundation as well as director of gift planning for the University of Minnesota.
- + Past president of the Partnership for Philanthropic Planning and served as chair of the Government Relations Committee from 1998 through 2011
- + Craig is the author of "Planned Giving in a Nutshell," a practical guide to planned giving for fundraising professionals. He is a frequent speaker at the ACGA and PPP conferences.

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## Today's Agenda Charitable Gift Annuities

- + A Few Basics
- + Assets Used to Fund CGAs
- + CGA Administration
- + State Regulations
- + CGA Best Practices
- + Donor Conversations & Good Stewardship
- + Marketing Best Practices

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## Charitable Gift Annuities A Few Basics

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## What Is a Charitable Gift Annuity?

- + The donor gives property directly to a charitable organization in exchange for lifetime payments from the organization.
- + No trust is necessary.
- + The agreement is formed with a simple contract between a charity and the donor. At death, the balance is used by the charity to support its mission.
- + Actuarially it is valued at 50 percent upon reaching life expectancy.
- + The donor's lifetime payments are backed by the charity's assets.
- + This is an irrevocable gift.
- + It is not a product sold by an insurance company.

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## Lifetime Payments

- + The amount of the payments is generally determined using rates recommended by the American Council on Gift Annuities.
- + A fixed amount is determined by the donor's age at the time of the gift.
- + Payments can be made to one or two people, jointly or consecutively.
- + The payment to the beneficiary of a gift annuity is taxed as follows:
  - + Tax exempt
  - + Capital gain (if CGA is funded with long-term capital gain property)
  - + Ordinary income

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## Recap: How It Works

### The Donor:

- + Transfers assets to a charity
- + Receives income tax deduction
- + Receives lifetime payments, which are tax-favored.
- + Typically pays no capital gains tax when asset is given to a charitable organization

### The Charity:

- + May sell the donated asset
- + Pays no capital gains tax when selling the asset
- + Pays donor a fixed amount annually for life
- + May eventually use the residual value of asset

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The donor transfers property to a charitable organization. The donor receives an income tax deduction for a portion of the gift amount. Charity makes lifetime annuity payments to the annuitants, usually the donor and/or other named beneficiaries.

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## Benefits of a Charitable Gift Annuity

- + Donor can never outlive steady payments.
- + Asset is removed from the donor's taxable estate.
- + Charity receives the asset immediately.
- + Payments can be delayed with a deferred gift annuity.
- + It is simple to implement: No trust is needed, just a simple contract.
- + Donor receives a partial income tax deduction.

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## Sample Gift Annuity Rates

AGE*	RATE**
60	4.4%
65	4.7%
70	5.1%
75	5.8%
80	6.8%
85	7.8%
90+	9.0%

\*Age nearest birthday | \*\*As of June 14, 2016

Visit [www.ACGA-web.org](http://www.ACGA-web.org) for a full set of CGA rates.

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## Average CGA Donor Profile\*

- + Average age: 79
- + 57 percent female/43 percent male
- + 70 percent are single life
  - + Concurrently or consecutively
  - + Maximum of two lives
- + 88 percent start immediately

\*Source: American Council on Gift Annuities - 2013 Survey of Charitable Gift Annuities.

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## Case Study

- + Mary is 79 years old.
- + Mary has a strong connection to your charitable organization.
- + Mary donates \$25,000 worth of appreciated stock to your organization. She originally paid \$10,000 for the stock. Mary transfers the stock immediately.
- + Her charitable deduction is \$11,915.\*
- + She can deduct this up to 30 percent of her adjusted gross income for the year.
- + Plus, she has five additional years to use her tax deduction if she can't use it up this year.



\*Based on annual payments and a 1.8 percent charitable midterm federal rate.

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## Case Study

- + In return, Mary receives \$1,650 in annual payments from the charity.
- + The fixed amount Mary receives is recommended by rates established by the American Council on Gift Annuities.
- + Each \$1,650 payment is tax-favored throughout her projected life expectancy.



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## Why a Gift Annuity?

- + Donors have heard of a charitable remainder trust but don't like the complexity of having a trust.
- + They have a smaller asset to give than a trust requires.
- + Donors would like a higher income than they are receiving from other fixed investments.
- + Donor can provide fixed payments for another person (e.g., mother-in-law, sister, valued employee).

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## A Few Variations

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## Deferred Gift Annuity

- + Works the same way as an immediate gift annuity
- + The annuity payments begin at a future date:
  - + Determined by the donor
  - + On the date of the gift
  - + At least one year in the future

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## Deferred Payment Gift Annuity

Assumptions	
Annuitant Age at Date of Gift	55
Age at Date of First Payment	65
Cash Contributed	\$25,000
Annuity Rate	
Charitable Deduction (CMFR = 1.8%)	
Annuity	
Tax-free Income	
Ordinary Income	

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## Deferred Payment Gift Annuity

Assumptions	
Annuitant Age at Date of Gift	55
Age at Date of First Payment	65
Cash Contributed	\$25,000
Annuity Rate	6.4%
Charitable Deduction (CMFR = 1.8%)	<b>\$7,393</b>
<b>Annuity</b>	
Tax-free Income	
Ordinary Income	

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## Deferred Payment Gift Annuity

Assumptions	
Annuitant Age at Date of Gift	55
Age at Date of First Payment	65
Cash Contributed	\$25,000
Annuity Rate	6.4%
Charitable Deduction (CMFR = 1.8%)	<b>\$7,393</b>
<b>Annuity</b>	<b>\$1,600</b>
Tax-free Income	\$902
Ordinary Income	\$698
After 19.5 years, the entire annuity becomes ordinary income.	

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## Flexible Deferred Gift Annuity

- + Works the same way as a deferred gift annuity
- + The annuity payments begin at a future date:
  - + Donor selects a start date from a predetermined range of dates at least one year in the future.
  - + Annuitants who at the time of gift are not certain when they want to start receiving income find it appealing.

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## Assets Used to Fund CGAs

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## Assets Used to Fund CGAs

- + Cash
- + Securities
- + Real Estate
- + Other Assets
  - + Commodities
  - + Life insurance policy
  - + Closely-held stock

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Charitable Gift Annuity Funded With:	Cash	Appreciated Securities
<b>Assumptions</b>		
Annuitant Age		
Principal Donated		
Cost Basis		
Annuity Rate		
<b>Charitable Deduction (CMFR = 1.8%)</b>		
<b>Annuity</b>		
Tax-free Income		
Capital Gain Income		
Ordinary Income		

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Charitable Gift Annuity Funded With:	Cash	Appreciated Securities
<b>Assumptions</b>		
Annuitant Age	72	
Principal Donated	\$25,000	
Cost Basis	\$25,000	
Annuity Rate	5.4%	
<b>Charitable Deduction (CMFR = 1.8%)</b>		
<b>Annuity</b>		
Tax-free Income		
Capital Gain Income		
Ordinary Income		

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Charitable Gift Annuity Funded With:	Cash	Appreciated Securities
<b>Assumptions</b>		
Annuitant Age	72	
Principal Donated	\$25,000	
Cost Basis	\$25,000	
Annuity Rate	5.4%	
<b>Charitable Deduction (CMFR = 1.8%)</b>		
	<b>\$10,016</b>	
<b>Annuity</b>		
	<b>\$1,350</b>	
Tax-free Income		
Capital Gain Income		
Ordinary Income		

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Charitable Gift Annuity Funded With:	Cash	Appreciated Securities
<b>Assumptions</b>		
Annuitant Age	72	
Principal Donated	\$25,000	
Cost Basis	\$25,000	
Annuity Rate	5.4%	
<b>Charitable Deduction (CMFR = 1.8%)</b>		
	<b>\$10,016</b>	
<b>Annuity</b>		
Tax-free Income	\$1,062	
Capital Gain Income	\$0	
Ordinary Income	\$288	
After 14.1 years, the entire annuity becomes ordinary income.		

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Charitable Gift Annuity Funded With:	Cash	Appreciated Securities
<b>Assumptions</b>		
Annuitant Age	72	72
Principal Donated	\$25,000	\$25,000
Cost Basis	\$25,000	\$5,000
Annuity Rate	5.4%	5.4%
<b>Charitable Deduction (CMFR = 1.8%)</b>	<b>\$10,016</b>	<b>\$10,016</b>
<b>Annuity</b>		
Tax-free Income	\$1,062	\$212
Capital Gain Income	\$0	\$850
Ordinary Income	\$288	\$288
After 14.1 years, the entire annuity becomes ordinary income. Assumes 1.8% CMFR and annual payments		

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Charitable Gift Annuity Funded With:	Cash	Appreciated Securities
<b>Assumptions</b>		
Annuitant Age	72	72
Principal Donated	\$25,000	\$25,000
Cost Basis	\$25,000	\$5,000
Annuity Rate	5.4%	5.4%
<b>Charitable Deduction (CMFR = 1.8%)</b>	<b>\$10,016</b>	<b>\$10,016</b>
<b>Annuity</b>		
Tax-free Income	\$1,062	\$212
Capital Gain Income	\$0	\$850
Ordinary Income	\$288	\$288
*Capital gain of \$11,987 must be reported over 14.1 years, after which the entire annuity becomes ordinary income.		

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## Charitable Gift Annuity

Notes on contributions of appreciated property:

- + If donor is annuitant, portion of each payment taxed as long-term capital gain over life expectancy
- + If donor is not annuitant, portion of gain is taxable to donor in year of gift
- + Beware of married couples with separately owned assets

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## Legacy IRA

HR 5171

- + Donors can use their IRAs to benefit charities and provide taxable income.
- + IRA owners can fund charitable remainder trusts and charitable gift annuities during their lifetime.
- + Annual ceiling is \$400,000 for individuals 65 and older. For individuals 70½ or older it is \$400,000 for a life income transfer plus \$100,000 for a direct transfer.

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## Funding Best Practices

- + Review/update your Gift Acceptance Policy.
- + Adjust gift annuity rate to take into consideration that the net proceeds might be less than the appraised value.
- + Use deferred gift annuities for hard-to-sell assets.
- + Review state laws:
  - + Certain states limit the type of investments in the required segregated reserve fund.

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## CGA Administration

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## Charitable Gift Annuity Solutions

If you do not have the necessary resources for a CGA program, you can work with:

- + A local community foundation
- + Charitable Giving Resource Center [www.magnifyyourimpact.com](http://www.magnifyyourimpact.com)
- + Charitable Trust Administration Company (CTAC)
- + Other CGA third-party administrators

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## Working With a Third-Party Administrator

- + 47 percent of charities outsource their gift annuity administration.\*
- + You are able to focus on gifts.
- + Make sure you have a positive working relationship.
- + Your organization is freed from time-consuming tasks. Third-party administrator is responsible for:
  - + Maintaining gift data
  - + 1099-R tax forms/filing
  - + Payments

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\*Source: American Council on Gift Annuities – 2013 Survey of Charitable Gift Annuities

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## Handling Your Own Administration

- + 29 percent\* of nonprofits have their business office handle the administration.
- + Comply with state regulations.
- + Monitor reserve fund.
- + Provide disclosure statement.
- + Maintain organized and complete files for audits.
- + Educate your staff.

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\*Source: American Council on Gift Annuities – 2013 Survey of Charitable Gift Annuities

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## State Regulations

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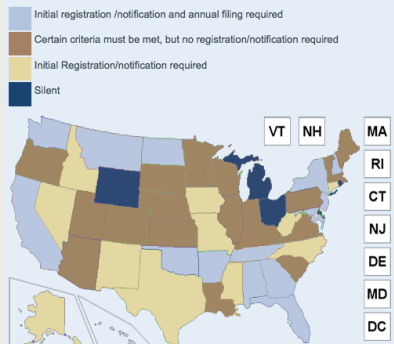
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Click on a state below or choose a state from the list to view the state regulations.



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## State Regulations

- + Charitable gift annuities are subject to regulation under state law.
- + Many states regulate charitable gift annuities.
- + Some require registration; some require annual reporting.
- + As of February 2015, these states require a prototype agreement to be filed: Alabama, Arkansas, California, Maryland, New Jersey, New York, North Dakota, Tennessee and Washington.
- + The ACGA website is a great resource.

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## State Regulations

An organization should register in the state(s) in which it is "doing business."

- + In which you are located
- + Sending marketing materials
- + Visiting with prospective donors

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## CGA Agreements

+ Check your state regulations for specific requirements:

- + Governing law
- + State specific disclosure language
- + Use and purpose of gift

+ Resource:

- + "Charitable Gift Annuities: The Complete Resource Manual"

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## Disclosure Statements

+ Philanthropy Protection Act of 1995 requires certain disclosures.

- + Check state regulations.
- + Many states have specific language regarding regulation.
- + Sample disclosure statement – ACGA website

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**CGA Best Practices**

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**CGA Best Practices\***

- + Make sure your donor understands the gift is irrevocable.
- + Sign the contract/disclosure statement.
- + Follow the ACGA rates.
- + Establish minimum amounts for a gift annuity.
- + Establish minimum ages for immediate and deferred annuities.
- + Develop a Gift Acceptance Policy that specifies what assets will be accepted.

47 \*Source: American Council on Gift Annuities

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**CGA Best Practices\***

- + Invest the entire face amount of the annuity.
- + Invest the assets appropriately.
- + Establish a method for determining the balance of each gift annuity.
- + Develop a good working relationship with your finance and administrative staff.
- + Market your gift annuity program.
- + Communicate regularly with your annuitants.
- + Educate your board and colleagues about the benefits and liabilities of gift annuities.

48 \*Source: American Council for Gift Annuities

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## Donor Conversations & Good Stewardship

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## Clues in Conversations

- + Listen for clues:
  - + Concern about retirement
  - + Life insurance
  - + Current and future health expenses
  - + Low dividend stock
- + Identify the blended gift opportunities.

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## Case Study

- + Matt and Sue are approaching retirement. They have a personal connection with your organization.
- + They would like to make an immediate impact to your organization.
- + They have life insurance they no longer need.
- + Matt and Sue have expressed concern over the low return they receive from their stock portfolio.
- + They would like to support your organization after their lifetimes.



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### Blended Gift Proposal: Outright Gift, Charitable Gift Annuity, Bequest

- + Matt and Sue make an outright gift of a life insurance policy.
- + Matt and Sue set up a charitable gift annuity. They transfer appreciated stock to fund the annuity. The annuity payment they receive is far greater than the current dividend income.
- + Matt and Sue also update their wills to include a charitable bequest to your organization.
- + This arrangement helps your organization now and in the future.



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### Stewardship Best Practices

- +Always, always, always send payments on time!
- +Hand-deliver payments to special donors if possible.
- +Provide accurate tax information.
- +Continue to steward CGA donors – newsletters, special events, etc.

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### Marketing Best Practices

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# ACGA Marketing Best Practices

- + Before you begin marketing CGAs:
- + Follow the American Council on Gift Annuities (ACGA) Guidelines and Best Practices




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# Marketing Best Practices

- + Satisfy your state's requirements.
- + Establish the types of assets that can transferred.
- + Have a Gift Acceptance Policy for minimum ages/amounts.
- + Follow ACGA suggested rates.
- + Ensure gift designations are followed.

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# State Regulations

California, Oklahoma and South Dakota require disclosures on marketing and promotional materials:

- + Annuities are subject to regulation by the State of California. Payments under this agreement, however, are not protected or otherwise guaranteed by any government agency or the California Life and Health Insurance Guarantee Association.
- + A charitable gift annuity is not regulated by the Oklahoma Insurance Department and is not protected by a guaranty association affiliated with the Oklahoma Insurance Department.
- + Charitable gift annuities are not regulated by and are not under the jurisdiction of the South Dakota Division of Insurance.

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# Marketing Best Practices

- + First and foremost—it's a gift.
- + Avoid financial instrument terminology—product, purchase, yield.
- + It is irrevocable.
- + Don't use "guaranteed income."
- + Donor stories work well.

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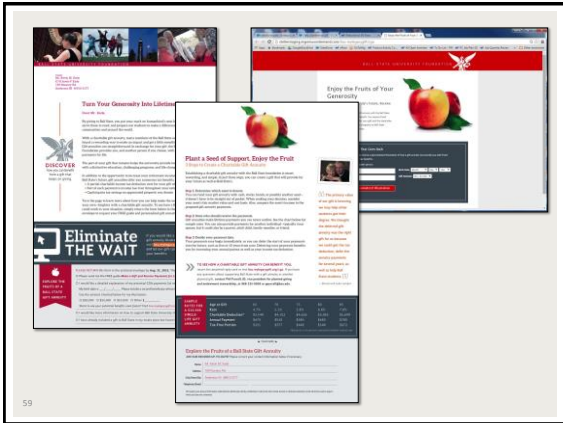
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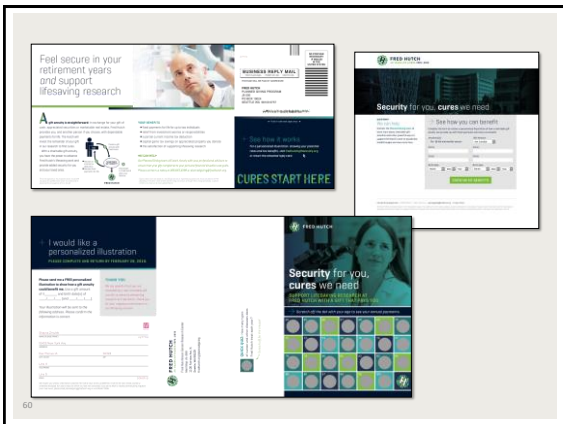
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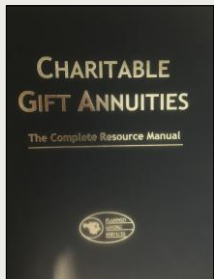
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## Frank Minton's Charitable Gift Annuities: The Complete Resource Manual



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## Questions?



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Senior Technical Consultant  
The Stelter Company



**Craig C. Wruck**  
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## Additional Questions

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## Following the Webinar

In a few days you will receive an email giving you instructions on how to access:

- +The recording
- +The presentation slides

[www.stelter.com/webinars](http://www.stelter.com/webinars)

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## Thank You!

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