



## WESTERN INDIANA COMMUNITY FOUNDATION



### *A Flexible and Reliable Way to Give —* **The Charitable Gift Annuity**

Every year, some of our supporters consider setting up a charitable gift annuity with the Western Indiana Community Foundation. In many cases, the charitable gift annuity creates an opportunity for a charitable gift that might not otherwise be possible.

When donors set up a gift annuity, they do not lose the income associated with the asset they give. In fact, the annual payout may be an improvement on the yearly income that asset produced.

What is more important, though, is working together to discover the purpose for the gift itself. Finding the right way to use your gift increases our effectiveness and assures that your decision to give is personally satisfying.

In difficult economic times, we want to help you make the most of your philanthropy. Please contact our office to discuss the charitable gift annuity or any planned giving ideas that might interest you. More information is available by simply returning the enclosed card. We look forward to hearing from you.

Sincerely,

Dale A. White  
Executive Director

## visions IN PERSONAL PLANNING

### **What is a Charitable Gift Annuity?**

The name says it all: a charitable gift annuity is considered both a charitable gift and an annuity. The donor contributes property to a charity and the charity agrees to pay a certain sum of money to the donor (or someone the donor chooses) every year for life.

The value of the annuity is always less than the value of the donated property, so the donor can deduct the value of the gift as a charitable contribution. It is important to consider the potential tax savings when deciding if a charitable gift annuity might work for you.



## QUICK QUESTIONS AND ANSWERS

**Q: Why should I consider a charitable gift annuity?**

**A:** The simplicity of the gift annuity makes it attractive to many of our donors. Plus, a gift annuity can be set up with a relatively small gift. And, donors like the fact that the payments are fixed for life no matter what happens in the economy.

**Q: Why are the payout rates for a two-person gift annuity lower than the payout rates for a one-person gift annuity?**

**A:** The payout rates for a two-person charitable gift annuity are generally lower because they reflect the actuarial calculation that payouts for a two-person gift annuity will likely continue longer than the payouts for only one person.

**Q: Who can be an annuitant for a charitable gift annuity?**

**A:** One or two people can be the annuitant(s) for the charitable gift annuity you set up. Many married couples benefit from charitable gift annuities, but it can be anyone. However, if you name a person other than your spouse as an annuitant, there could be federal gift tax consequences.

**Q: What can a donor use to fund a charitable gift annuity?**

**A:** Cash or other property. Many donors use equities such as stocks (usually because of the ability to spread capital gains tax over many years).



## Charitable Gift Annuity Basics

The gift annuity payments are based on the age of the annuitant(s) at the time the gift is made.

Part of each and every annuity payment you receive will be taxable, but a portion will be free of income taxes until you reach your life expectancy as measured at the time you set up the gift annuity.

Plus, if you transfer appreciated property (such as stocks) to set up the charitable gift annuity and you are an annuitant, the capital gains that you would normally owe is spread out over your life expectancy.

Finally, you can take an income tax charitable deduction in the year of the gift. Note that if you cannot deduct the full amount of the deduction due to the yearly limit as a percentage of adjusted gross income, you can carry over the remaining deduction into the next year (up to five years total).

### CURRENT GIFT ANNUITY PAYOUT RATES\*

AGE	RATE
65	5.3%
70	5.7%
75	6.3%
80	7.1%
85	8.1%
90	9.5%

\*Rates subject to change. Please contact us to verify current rates. *Deferred gift annuity rates are higher.*



## What is a Deferred Charitable Gift Annuity?

Deferred gift annuities permit you to postpone the start date of the annuity for a specified period of time and still receive an immediate charitable deduction. Deferring the start date of the annuity increases both the annuity payout amount and the income tax charitable deduction as compared to a regular gift annuity.

Deferred gift annuities are attractive supplements to IRAs or other

retirement plans, and can be used to increase your retirement income. Deferred gift annuities allow you to get greater tax relief in high income years and a higher income stream later on when you will likely have a greater need for the annuity income (e.g., after retirement).

John is a good example. He's a successful dentist (age 55) and a consistent annual supporter of ours. He doesn't need more income right now, but he is concerned about having enough income in his retirement years to maintain his current standard of living. In his 35% federal tax bracket, he would welcome an immediate tax deduction. After talking with his financial advisor and our staff, John establishes a gift annuity that will start in ten years and provide income to supplement his retirement.

John is able to accomplish several of his goals:

- Generate a substantial charitable deduction which will reduce his income taxes in the year of his gift.
- Increase his retirement income each year for life beginning at age 65.
- Receive annual payments that will be partially income tax-free.
- Make a significant gift to support the future work of his favorite charity.

### PLANNING TIP #1

The Applicable Federal Rate (AFR) is a rate the U.S. Treasury publishes every month to measure the present value of an annuity. If a donor sets up a charitable gift annuity when the AFR is low, a larger portion of the gift annuity payments will be tax free.

For instance, Helen is 70 years old. She donates \$20,000 in cash to set up a charitable gift annuity. The gift annuity will pay her \$1,140 every year. But what part of her gift annuity payment is tax-free? That would depend on the AFR:

If the AFR is **3.0** — the tax-free portion is **\$774** of \$1,140

If the AFR is **5.0** — the tax-free portion is **\$667** of \$1,140

The difference can be significant. Recently, the AFR has been very low — 2.0% in February 2009. Be sure to contact our offices when considering a charitable gift annuity to learn the most current rates.

### PLANNING TIP #2

Donors who have a charitable gift annuity often have more than one. These donors “ladder” the charitable gift annuities — because they set up the gift annuities over time, the payout rates for the successive gift annuities are often higher over time. Life income gifts such as the charitable gift annuity can provide a way to make a charitable commitment part of retirement planning.

## Is a Gift Annuity Right for You?

If you can identify with any of the following statements, you may want to consider a gift annuity.

- You would like an easy-to-understand, user-friendly way to help make a difference in our institution.
- You have a modest amount of cash or property to give, but you want to make a significant gift.
- You want a significant income tax deduction this year.
- You would like to receive income payments for life.
- You want to receive fixed payments that are not affected by fluctuations in the stock market.
- You wish to give a friend or family member income payments for his or her life.
- You would like to spread out capital gains tax liability over your life expectancy, rather than paying it immediately in a lump sum.
- You wish to receive tax benefits now, but delay your payments until retirement.

Please call or email our office to learn more about how a charitable gift annuity could benefit you. Or return the enclosed card to receive a complimentary copy of our helpful brochure. We look forward to hearing from you.



## Back to the Basics with a Gift Annuity

You may have questions about how a charitable gift annuity could work for you:

- Should I use cash or appreciated stock to fund my gift?
- How safe is my income from a gift annuity?
- Can I select a program at the Western Indiana Community Foundation to support through my gift?

For answers to these questions, simply return the enclosed card for a complimentary brochure, *Charitable Gift Annuities — Back to Basics*. The information is clearly organized to cover the basics of giving with charitable gift annuities. Of course, you are always welcome to call with any questions about how the gift annuity works for both you and the communities served by the Western Indiana Community Foundation. We are happy to provide illustrations that suit your needs or answer any questions we can.



**WESTERN INDIANA  
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**Western Indiana Community Foundation**

Dale A. White  
Executive Director

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