

Chester County
COMMUNITY FOUNDATION
A Decade of Philanthropy



**INFORMATION FOR
 ATTORNEYS AND
 FINANCIAL PLANNERS**

**Doing Well by Doing Good: Help Clients Help Their Communities
 with Charitable Gift Annuities**

The Smith family responds generously to annual appeals, supporting a number of charities dear to their hearts. They also use highly appreciated securities to set up a charitable gift annuity dedicated to several specific charities through one fund at the Community Foundation. As Beth Harper Briglia of the Chester County Community Foundation puts it, giving through gift annuities "turns into a win for them for the rest of their lives, while creating a great charitable gift and a legacy when they're gone."

Your clients may also be generous donors but may be reluctant to entirely give up income-producing assets. When this is the case, advisors can help clients fulfill their charitable intent by using vehicles that support the donors' favorite causes while still maintaining an ongoing income stream. An increasingly popular arrangement is to use a charitable gift annuity.

More advisors are recommending gift annuities to donors for several reasons. The first is that affluent individuals are increasingly interested in supporting local causes. Research shows that the majority of wealthy people report a strong obligation to give back to their communities. In fact, the wealthy view their ability to make charitable gifts as one of the major benefits of their good fortune.

The second reason is the aging of the population. Frank Minton of the American Council on Gift Annuities notes, "A guaranteed income stream is very attractive." As the baby boom generation moves into retirement, more people are seeking income-producing assets while finding ways to make meaningful contributions to their communities.

Finally, the low-interest-rate environment of recent years has made charitable gift annuities more attractive. Instead of rolling over certificates of deposit earning 2% to 3% or relying on assets paying 2% in dividends, advisors can guide donors to put their money into a gift annuity and potentially triple their cash flow. Many put appreciated assets, such as securities or real estate, into gift annuities. Some donors, Minton notes, use gift annuities "to create more income out of an asset not currently producing much income."

*Let your legacy
 make a difference in
 Chester County*

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How Gift Annuities Work

In exchange for a charitable gift to the Community Foundation, the donor is promised an income stream for life and an immediate tax deduction.

That annuity—the lifetime income stream—is based on the donor’s age (and the age of the donor’s spouse if payouts are to continue over the lives of both spouses), as well as the gift annuity rate in effect at the time of the gift. The gift annuity rate is not purely an interest rate, since payments represent both interest and a return of capital. Most charities, including the Community Foundation, use the gift annuity rates set by the American Council on Gift Annuities.

In 2004, for example, a 60-year-old donor could receive an annuity at 5.7% (see table). An annuity for a couple, both aged 60, would be set at 5.4% (a lower rate because the joint life expectancy is longer). The older the donor is, the larger the stream of income. At age 80, the gift annuity rate for an individual is currently 8%; for a couple who are both aged 80, it is 6.9%.

Annuity payments may begin immediately or may be deferred. Annuity payments are usually made quarterly, but they may be made—at the donor’s option—on a monthly, semiannual or annual basis.

Tax Advantages

Donors receive an immediate tax deduction based on their age, the annuity rate, and a rate set by the IRS. Based on today’s rates, a 65-year-old donor contributing \$100,000 could receive an immediate tax deduction of approximately \$33,000. An 80-year-old contributing the same amount could receive a deduction of \$48,000.

In addition to removing the donated amount from their potentially taxable estates, donors also benefit from the tax treatment of annuity income. A portion of each payment check is treated as a tax-free return of principal. However, if donors outlive IRS life expectancy tables, remaining annuity payments are fully taxable. There is an additional benefit if appreciated property is donated, because a portion of the annual income may be taxed at favorable capital gains rates.



Photo: After the Bell

Before Establishing a Gift Annuity

The Community Foundation requires a minimum contribution of at least \$10,000 to establish a gift annuity. While donors can choose a specific charity to accept their contributions, the advantage of giving through the Community Foundation is that donations may support a variety of causes.

Advisors who can help implement planned giving strategies using instruments such as a charitable gift annuity can bring myriad benefits to charities and clients alike. The charity can receive a larger gift than they might otherwise receive with an outright donation, which can bolster support for their programs. Donors will achieve fixed predictable payments plus the satisfaction of making a charitable gift. And advisors can benefit too. By creating a smart giving strategy, you will gain the satisfaction of helping your clients and your community.

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GIFT ANNUITY RATES		
Annuity rate at age	Single life	Two lives, same age
60	5.7%	5.4%
70	6.5%	5.9%
80	8.0%	6.9%

Source: American Council on Gift Annuities