

**More and more people are discovering the surprising benefits of establishing charitable gift annuities for dependable income from their assets in retirement years.**

**Below are answers to frequently asked questions.**

**Q. What is a gift annuity?**

**A.** Gift annuities are contracts with your favorite charity which provide fixed guaranteed lifetime income. You transfer assets to charity in return the charity agrees to make regular, fixed payment for the rest of your life and/or the life of another person. The transaction is both a purchase of an annuity and a charitable contribution.

**Q. Are there tax benefits?**

**A.** Yes, since a portion of your gift will be used in the future for the charitable purpose you choose, you will receive a partial income tax charitable deduction. The IRS allows you a federal income tax deduction in the year of your gift if you itemize. Another benefit is part of each payment is tax-free for a period of years. If you don't itemize your taxes the tax-free portion of the gift is increased.

The charity proposal will list all the benefits you will receive. The net effect for you will be an increase in income and decrease in taxes.

**Q. What determines the amount of my payment?**

**A.** There are several factors, including the amount of your gift, your age to your nearest birthday, if the agreement is for one or two lives, and the payment rates set by the American Council of Gift Annuities on the date of your gift.

**Q. Why does my age affect the rate of payment I will receive?**

**A.** Part of the annuity agreement is returned to you over your life expectancy which changes with age. The older you are when you establish a gift annuity the higher your payments will be. If you establish a two-life agreement your payments will be based on both life expectancies and will be lower than one-life agreements.

**Q. Will my payments change from year to year?**

**A.** No, once established your payments do not change. If you do another gift annuity, which many people do, and you are older the rate of payment will most likely be larger. Depending on the economy the rates do change periodically.

**Q. Is there a minimum gift requirement?**

**A.** Yes, gift annuities start a \$10,000.

## THE GIFT THAT LIVES WITH YOU CHARITABLE GIFT ANNUITY (CGA) QUESTIONS & ANSWERS

### **Q. What if I outlive my life expectancy?**

A. One of the attractive benefits of a gift annuity is all payments are guaranteed for the lifetime of each annuitant.

### **Q. Are my payments affected by interest rates or economic fluctuations?**

A. No. Payments are never lowered or raised regardless of changes in interest rates or the national economy. All the assets of the agreement are backed by the assets of the charity where you established your agreement.

### **Q. Can I benefit my spouse or another person through a gift annuity?**

A. Absolutely. A gift annuity may be created for one or two individuals. Therefore, a spouse, brother, sister or another party may benefit from the payments if they qualify for the agreement based upon their age.

There are special rules for two-life agreements for non-spouse individuals which will be explained in the charity's proposal.

### **Q. What assets are best to fund a charitable gift annuity?**

A. You may gift cash, securities, closely held stock and IRA assets.

### **Q. May I give securities rather than cash or a combination to set up a gift annuity?**

A. Yes. The tax benefits are even greater if appreciated securities are gifted as they will avoid a portion of the capital gains tax. A gift annuity is part gift and part return of payments. Therefore, any capital gain associated with the gift portion is forgiven and not taxed. A gift annuity is an excellent plan if you have low yielding securities and wish to increase your income with no immediate taxes.

With a gift of appreciated securities payments are taxed in three ways: tax-free payment, ordinary income payment and capital gains payment. The gain on the securities is spread out over your life expectancy.

### **Q. How do I gift IRA assets?**

A. If you are 70 ½ you may make a one-time transfer of up to \$53,000 to fund a gift annuity in your name or you and your spouse. While your gift does not qualify for an income tax deduction, it does escape income tax liability on the transferred amount and counts toward all or part of your required minimum distribution (RMD).

The total amount you may transfer to charity from your IRA in any year is currently \$105,000

### **Q. What happens to my gift after I die.**

A. In a one-life agreement the balance left after all payments is allocated to the program or project listed in your agreement. If you have a two-life agreement payments continue to the other annuitant and then after they pass the balance goes to the program you choose.

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### **Q. Will my annuity reduce my estate.**

A. Yes. A single life annuity is totally removed from your estate and will avoid any potential estate taxes. With a two-life annuity the calculated amount of future payments to a spouse is calculated and reported but may not be sufficient to be subject to estate taxes.

### **Q. Do you have an example of a gift annuity financial benefits?**

A. Below is a simple example of a one-life gift annuity funded with \$100,000 at age 70.

Age	70
Asset to gift annuity	\$100,000
Annuity rate	6.3%
Annual payment received	\$6,300
Charitable deduction	\$38,695*

\*Based on quarterly payments and 5.4% IRS charitable midterm federal rate.

### **Q. How do I begin a gift annuity.**

A. We have a simple form to complete but first let us know the birthdate of each annuitant and we will develop a simple proposal indicating all the benefits. The next step is to transfer the cash, securities or other assets to fund the annuity so we can complete the agreement. We will then develop a tax report to support your income tax return charitable deduction for you and your advisors.

Each year you will also receive a statement indicating the taxability of the annual payments.

Contact: XXXXXXXXX at (address) and (phone number)



**ABOUT JAMES E. CONNELL**

James E. Connell FAHP, CSA of Connell & Associates, Pinehurst, North Carolina, is a respected gift planning consultation firm with over four decades of experience offering a broad range of charitable estate and gift planning services to non-profits throughout the country. He heads CONNELL & ASSOCIATES, Charitable Estate & Gift Planning Specialists in Pinehurst, North Carolina. Contact him to help your organization analyze the value CGAs may provide.

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