


PG Calc YOUR PARTNER IN PLANNED GIVING SUCCESS

What to Use and When: CGAs vs. CRUTs and CRATs



Jeff Lydenberg
Vice President, Consulting
jeff@pgcalc.com
617-497-4997

August 30, 2018

©2018 PG Calc

PG Calc | Your Partner In Planned Giving Success

Agenda

- Characteristics of gift annuity and charitable remainder trust donors
- Features of CGAs, charitable remainder annuity trusts, and charitable remainder unitrusts
- Comparison of a gift annuity and a CRAT
- Charitable remainder unitrusts: variations on themes
- Deferred annuities and CRTs to supplement retirement
- Funding life income gifts with real estate


© 2018 PG Calc What to Use and When: CGAs vs. CRATs and CRUTs 7

PG Calc | Your Partner In Planned Giving Success

Gift Annuity Donor Profile

- Concerned about outliving assets
- Relies on income to maintain lifestyle
- Not comfortable with risk
- 79 years old or older
- Frequently establish multiple annuities


© 2018 PG Calc What to Use and When: CGAs vs. CRATs and CRUTs 8

PG Calc | Your Partner in Planned Giving Success 

Charitable Remainder Trust Donor Profile

- Wealthy
- Younger, 50's and 60's (but not always!)
- Financially savvy
- Comfortable with financial risk
- Capable of making six figure or larger gift
- Planning requires a flexible life income gift


© 2018 PG Calc What to Use and When: CGAs vs. CRATs and CRUTs 9

PG Calc | Your Partner in Planned Giving Success 

CGAs, Annuity Trusts, and Unitrusts

- Estimates suggest that there are hundreds of thousands of gift annuities issued by hundreds of charities.
- In 2012, there were 14,616 annuity trusts in existence
- In 2012, there were 91,250 unitrusts in existence
- Remainder trusts often initiated by donors estate and financial planning professionals
- Most CGAs are initiated by gift planning officers through their charity's marketing efforts.


© 2018 PG Calc What to Use and When: CGAs vs. CRATs and CRUTs 10

PG Calc | Your Partner in Planned Giving Success 

Features of the Gift Annuity

- Low barrier to entry (\$10,000 min. common)
- Easy to establish and understand
- Annuities backed by all of charity's assets
- Subject to heavy regulation in some states
- Can only benefit one charity
- Can only have one or two annuitants


© 2018 PG Calc What to Use and When: CGAs vs. CRATs and CRUTs 11

PG Calc | Your Partner In Planned Giving Success 

The Prototype CGA

- Leah, 78 years old
 - ✓ \$50,000 CD paying 3%
 - ✓ After-tax income \$1,140 (24% bracket)
- Contributes \$50,000 cash for 6.8% CGA
 - ✓ \$3,400 annual payment
 - ✓ \$2,475 tax-free for her 10.5 year life expectancy
 - ✓ \$925 taxed as ordinary income
 - ✓ \$3,178 net spendable for first 10.5 years


© 2018 PG Calc What to Use and When: CGAs vs. CRATs and CRUTs 12

PG Calc | Your Partner In Planned Giving Success 

The Prototype CGA

- Charitable deduction of \$22,400
- CGA is irrevocable
 - ✓ Leah can't get contribution back
 - ✓ She owns an income stream, not principal
- Not equivalent to an investment, it is a gift
- Does not keep pace with inflation
- Not subject to market fluctuation


© 2018 PG Calc What to Use and When: CGAs vs. CRATs and CRUTs 13

PG Calc | Your Partner In Planned Giving Success 

Rules Applicable to Charitable Remainder Trusts

- Requires trust agreement and separately managed trust account managed by trustee
- Payout may not be lower than 5% or over 50%
- Deduction must be no less than 10% of gift
- Term can be lives, fixed term, or a combination
- Can name multiple charitable beneficiaries
 - ✓ Donor usually retains power to change charities


© 2018 PG Calc What to Use and When: CGAs vs. CRATs and CRUTs 14

PG Calc | Your Partner in Planned Giving Success 

Rules Applicable to Charitable Remainder Trusts

- Can be created during life or at donor's death
- Unitrusts, in particular, offer flexibility
 - ✓ Trust terms can more easily accomplish multi-generational benefits
 - ✓ Vehicle of choice for illiquid assets
 - ✓ Unitrust can keep pace with inflation if investments appreciate
 - ✓ Can make additions to a unitrust


© 2018 PG Calc What to Use and When: CGAs vs. CRATs and CRUTs 15

PG Calc | Your Partner in Planned Giving Success 

**Charitable Remainder Annuity Trust:
The "other" fixed income gift**

- Gift minimums much higher than CGAs
 - ✓ \$250,000 is common
- Can benefit multiple charities
- Term can be combination of lives and fixed term
- Deduction must be at least 10% of gift amount
- May not be greater than 5% chance trust will exhaust


© 2018 PG Calc What to Use and When: CGAs vs. CRATs and CRUTs 16

PG Calc | Your Partner in Planned Giving Success 

**Charitable Remainder Annuity Trust:
The "other" fixed income gift**

- Liability for payments limited to assets in the annuity trust
- No risk to charity if named as beneficiary
- Charity acting as trustee fraught with peril
- Not subject to CGA regulations
- Payout negotiated between donor and trustee
 - ✓ No ACGA for trust rates!


© 2018 PG Calc What to Use and When: CGAs vs. CRATs and CRUTs 17

PG Calc | Your Partner in Planned Giving Success 

**Charitable Remainder Annuity Trust:
The "other" fixed income gift**

- George and Sally, 85 and 84
- \$2M highly appreciated, low yielding stock
- Gift of stock to 5% annuity trust
 - ✓ Payments of \$100,000 for life
- Capital gain trapped inside annuity trust
- Income taxed at capital gain rates after reporting interest and dividend income


© 2018 PG Calc | What to Use and When: CGAs vs. CRATs and CRUTs | 18

PG Calc | Your Partner in Planned Giving Success 

Unitrust to Diversify and Increase Income

- Sarah and Andrew, both 77
- \$1M appreciated stock to 5% unitrust
- No immediate capital gain tax
- \$445,080 income tax charitable deduction
- \$50,000 income in year one
 - ✓ Income taxed at capital gain rates after first reporting interest and dividend income

© 2018 PG Calc | What to Use and When: CGAs vs. CRATs and CRUTs | 19

PG Calc | Your Partner in Planned Giving Success 

Unitrust to Diversify and Increase Income

- Trustee sells stock and diversifies investments without triggering immediate capital gain tax
- Assume constant net return of 6%
 - ✓ 2% income, 4% capital appreciation
 - ✓ \$1M principal has grown to \$1,104,622 in year 10
 - ✓ Before-tax income has increased to \$54,684

© 2018 PG Calc | What to Use and When: CGAs vs. CRATs and CRUTs | 20

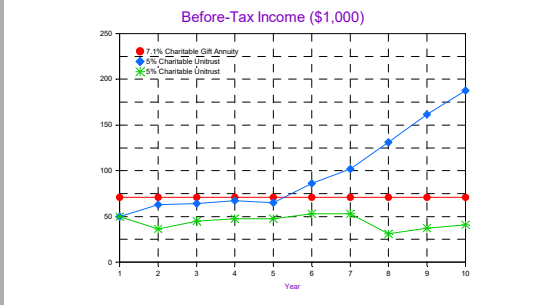


Security v. Growth Potential

- Charitable remainder unitrust payments subject to market performance
- Compare two 5% CRUTs invested as follows
 - ✓ Historical returns for 10 year period beginning 1/1/1990
 - ✓ Historical returns for 10 year period beginning 1/1/2000
- Compare to 7.1% annuity paying to 80 year-old




Security v. Growth Potential





Security v. Growth Potential


- 5% CRUT invested for 10 years beginning 1/1/1990
 - ✓ Before-tax income of \$979,229
- 5% CRUT invested for 10 years beginning 1/1/2000
 - ✓ Before-tax income of \$442,410
- 7.1% Charitable Gift Annuity
 - ✓ Before-tax income of \$710,000

PG Calc | Your Partner in Planned Giving Success 

The Flip Charitable Remainder Unitrust

- Operates as net-income trust until trigger event
 - ✓ Operates as straight payout after trigger
- Flip trigger may not be in discretion of donor, trustee, or any other person
- As a retirement vehicle
 - ✓ Invest for low income in pre-flip years
 - ✓ Invest for total return post-flip
- Flip occurs in year following flip trigger

© 2018 PG Calc | What to Use and When: CGAs vs. CRATs and CRUTs | 24


PG Calc | Your Partner in Planned Giving Success 

Life Income to Supplement Retirement

- Dr. and Mrs. Mahoney, both 55
- Retiring at age 70
- Gift of \$250,000 to flip CRUT in 2018
 - \$40,000 annual additions for 10 years
 - Flips at age 70

\$250,000 in year one, \$40,000 additions for 10 years	\$650,000
Trust fair market value at age 70	\$764,082
Trust income at age 70 (5% x \$764,082) (Income in subsequent years will vary.)	\$37,826
Total income tax charitable deductions, approximately	\$169,360

© 2018 PG Calc | What to Use and When: CGAs vs. CRATs and CRUTs | 25

PG Calc | Your Partner in Planned Giving Success 

Deferred Payment Gift Annuity

- Annuity payments begin at least one year from date of gift
- ACGA rate compounded at 3.75% a year
 - ✓ Deferred offers higher annuity rate and larger deduction than immediate payment annuity
- Two flavors of deferred annuities
 - ✓ Donor picks a future payment date at time of gift
 - ✓ Donor chooses a range of payment start dates (flexible)

© 2018 PG Calc | What to Use and When: CGAs vs. CRATs and CRUTs | 26



Deferred Payment Gift Annuity

- Linda Sommers, 50
 - ✓ 4% if an immediate CGA in 2018
- Gift of \$50,000 in 2018
- Defers payments to age 65
- Deferred annuity rate 8.9%
 - ✓ Annual annuity of \$4,450 for life
- Income tax deduction of \$20,125 in year of gift




Flexible Deferred Annuity

- Richard Runcey, 59
- Unsure when he might want CGA payment
- Funds flexible deferred annuity with \$100,000
- Retains right to begin payments between age 65 and 75
- Lowest deduction of all possible start dates



Flexible Deferred Annuity


Elective Start Date	Age at Start Date	Annuity Rate	Annuity Amount
9/30/2024	65	6.3%	\$6,300.00
9/30/2025	66	6.7%	\$6,700.00
9/30/2026	67	7.1%	\$7,100.00
9/30/2027	68	7.3%	\$7,300.00
9/30/2028	69	7.8%	\$7,800.00
9/30/2029	70	8.4%	\$8,400.00
9/30/2030	71	8.8%	\$8,800.00
9/30/2031	72	9.3%	\$9,300.00
9/30/2032	73	9.8%	\$9,800.00
9/30/2033	74	10.5%	\$10,500.00
9/30/2034	75	11.1%	\$11,100.00

PG Calc | Your Partner In Planned Giving Success 

Deferred Annuity with Inflation Protection

- Matthew Kennedy, 64
- Wants secure fixed payments of a CGA
- Wants 3.5% annual inflation protection
- Creates immediate annuity funded with \$100,000
- At same time, creates smaller deferred annuities to increase income by 3.5% per year


© 2018 PG Calc | What to Use and When: CGAs vs. CRATs and CRUTs | 30

PG Calc | Your Partner In Planned Giving Success 

Deferred Annuity with Inflation Protection

Type of Annuity	Payment Beginning Date	Funding Amount	Payment Increment	Total Annuity
Immediate	9/30/2018	\$100,000		\$5,000
Deferred	9/30/2019	\$3,302	\$175	\$5,175
Deferred	9/30/2020	\$3,234	\$181	\$5,356
Deferred	9/30/2021	\$3,177	\$187	\$5,544
Deferred	9/30/2022	\$3,181	\$194	\$5,738
Deferred	9/30/2023	\$3,089	\$201	\$5,938
Deferred	9/30/2024	\$3,012	\$208	\$6,146
Deferred	9/30/2025	\$2,947	\$215	\$6,361
Deferred	9/30/2026	\$2,892	\$223	\$6,584
Deferred	9/30/2027	\$2,810	\$230	\$6,814

© 2018 PG Calc | What to Use and When: CGAs vs. CRATs and CRUTs | 31

PG Calc | Your Partner In Planned Giving Success 

Stacking Flexible Deferred Annuities

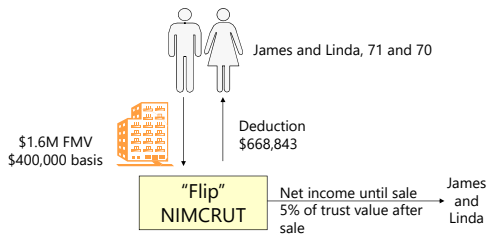
- Richard Runcey, 59
- Previous case showed 3.5% inflation protection
- In this case, Richard creates 10 flexible deferred annuities each funded with \$10,000
- Richard can choose when and how many annuities to begin payments to meet his income needs

© 2018 PG Calc | What to Use and When: CGAs vs. CRATs and CRUTs | 32

Illiquid Assets Funding a Flip CRUT


- Timing of trigger event matters!!
- Flip to straight payout occurs year following trigger event
- Sale on January 1 v. December 31?
 - ✓ If income producing asset sold early, net income could drop precipitously
 - ✓ Circumstances of income and sale require special attention

Flip CRUT Funded with an Apartment Building



Flip CRUT Funded with an Apartment Building


Year	Year-End Principal	Capital Appreciation	Income	Before-Tax Payments
		(0%)	(4%)	
Year of gift 1	\$1,600,000	\$0	\$64,000	\$64,000
Sale in year 2	\$1,800,000	0	\$64,000	\$64,000
		(4%)	(2%)	
Flip in year 3	\$1,616,000	\$64,000	\$32,000	\$80,000
4	\$1,632,160	\$64,640	\$32,320	\$80,800
5	\$1,648,482	\$65,286	\$32,643	\$81,608
6	\$1,664,966	\$65,939	\$32,970	\$82,424
7	\$1,681,616	\$66,599	\$33,299	\$83,248
8	\$1,698,432	\$67,265	\$33,632	\$84,081
9	\$1,715,417	\$67,937	\$33,969	\$84,922
10	\$1,732,571	\$68,617	\$34,308	\$85,771

PG Calc | Your Partner in Planned Giving Success 

Gift Annuity Funded with Real Estate

- **CGA funded with real estate fraught with peril!**
- Opportunity if charity wants real estate
- Deferred annuity highly recommended
 - ✓ Allows time to liquidate property
- Same due diligence as with any gift of real estate
- Must plan how to liquidate quickly
 - ✓ Danger of pre-arranged sale


© 2018 PG Calc What to Use and When: CGAs vs. CRATs and CRUTs 39

PG Calc | Your Partner in Planned Giving Success 

Gift Annuity Funded with Real Estate

- Value of real estate must match donor's appraisal
- Net proceeds of sale may be far less than appraised value
- Use appraised value as gift amount, but adjust annuity rate

© 2018 PG Calc What to Use and When: CGAs vs. CRATs and CRUTs 40

PG Calc | Your Partner in Planned Giving Success 

Gift Annuity Funded with Real Estate

Adjust annuity rate on CGA funded with real estate

1. Appraised value = \$750,000
2. ACGA rate = 7.1% (\$53,250)
3. Anticipated net proceeds = \$650,000 (minus expenses and attractive sale price)
4. Annuity rate is 7.1% of \$650,000 = \$46,150

© 2018 PG Calc What to Use and When: CGAs vs. CRATs and CRUTs 41

PG Calc | Your Partner In Planned Giving Success


Summary

- One life income gift does not suit all
- Consider donor's profile and risk tolerance
- Consider donor's objective with life income
- Select the vehicle that suits donor and charity
- Use familiar vehicles in new ways
- Take advantage of flexibility of some life income gifts

© 2018 PG Calc | What to Use and When: CGAs vs. CRATs and CRUTs | 42

PG Calc | Your Partner In Planned Giving Success


Conclusion



© 2018 PG Calc | What to Use and When: CGAs vs. CRATs and CRUTs | 43

PG Calc | Your Partner In Planned Giving Success

Questions and Answers



© 2018 PG Calc | What to Use and When: CGAs vs. CRATs and CRUTs | 44



Still Have a Question?

Contact: Jeff Lydenberg
Vice President, Consulting
PG Calc Incorporated
E-mail: jeff@pgcalc.com
