



YOUR
PARTNER
IN PLANNED
GIVING
SUCCESS



Advanced Gift Annuities



Date: February 28, 2019

Time: 1:00 – 2:30 Eastern

Presenter: Gary Pforzheimer
President
PG Calc



Agenda

- I. Recurring Questions
- II. Creative Applications
- III. Questions and Answers



Recurring Questions

- A. Can an annuitant assign his or her annuity interest to the charity?



Assign an annuity to a charity?

Example: A few years ago, Roy contributed \$100,000 cash for a gift annuity and wants to assign his interest to charity:

- *He received a deduction of \$33,977.*
- *Now the market value of his annuity is \$89,223.*
- *The present value of the annuity payments is now \$44,319.*
- *The investment in contract returned was \$32,184.*

Is the deduction for his assignment one of these values?



Assign an annuity to a charity?

- Original investment in contract is gift minus deduction, or $\$100,000 - \$33,997 = \$66,023$.
- Unused investment in contract is total investment in contract minus investment in contract returned or $\$66,023 - \$32,184 = \$33,838$
- Which is less than the income interest of $\$44,319$, so the deduction is **$\$33,838!$**



Assign an annuity to a charity?

Other considerations?

- Gifts of appreciated property
- Language in the contract
- Does the donor need an appraisal?



Recurring Questions

B. Is it possible for an annuitant to cash out a gift annuity, exchanging life payments for a lump sum?



Cash out annuity?

- How is the lump sum determined?
- How would the lump sum received by the annuitant be taxed?



Recurring Questions

- C. Is it possible to execute a single gift annuity agreement when contributions for the annuity are received on different dates?



One agreement for many contributions?

- Do you need multiple agreements?
- How do you document it?
- How long can the gap be?



Recurring Questions

D. Can you wait to decide the amount of the annuity until the property sells?



Can you calculate annuity after property sells?

- Appraised value is \$500,000 (May 15, 2018)
- ACGA rate is 5.8%
- Net sales proceeds is \$427,801 (Dec. 28, 2018)
- Annuity payment becomes \$24,812
- For *Planned Giving Manager*, rate is 4.9624%



Recurring Questions

- E. Does reinsurance of a gift annuity affect the donor's charitable deduction?



Reinsurance affect deduction?

Possible answers:

- Deduction is unaffected
- Deduction is the difference between contribution and the reinsurance premium
- Deduction depends on circumstances



Recurring Questions

- F. Can the income interest of a charitable remainder trust or pooled income fund be contributed for a gift annuity?



CRT or PIF income interest for annuity?

- Why would donors want to do this?
- How do you compute the CGA rate?
- What's the difference between CRTs and PIFs?



Recurring Questions

G. Are annuitants entitled to an additional tax break on their final income tax return?



Recurring Questions

Suppose Helen, a donor who is also the annuitant, contributed \$100,000 cash for a gift annuity, the gift value was \$40,000, and \$15,000 of Helen's investment in the contract was returned during her life.

What if her original gift was \$100,000 of stock with a basis of \$20,000?



Final income tax return deduction?

Present Value of Payments \$60,000		Gift Value \$40,000	
\$12,000	\$48,000	\$8,000	\$32,000
Basis Allocated to Present Value	Gain Allocated to Present Value	Basis Allocated to Gift Value	Gain Allocated to Gift Value



Recurring Questions

H. Can a donor change payment frequency once a CGA has started?



Can a donor change payment frequency?

- More frequent (e.g. quarterly to monthly)
- Less frequent (e.g. quarterly to annually)



Recurring Questions

- I. Can a donor do an IRA Rollover (QCD) directly into a gift annuity?



Direct rollover from an IRA to a CGA?

- Is there an indirect way?
- What about ROTH IRAs?



Recurring Questions

- J. Can a donor fund a CGA with a Donor Advised Fund (DAF)



Use a DAF to fund a CGA?

No.



Creative Applications



A. Gift Annuity for Someone Other Than the Donor

In January of 2019, Marc contributed stock to fund a CGA.

Fair market value: \$100,000

Cost Basis: \$40,000

Annuitant: Mother, age 82

Annuity: \$7,700/year (7.7%), \$1,925/quarter



A. Gift Annuity for Someone Other Than the Donor

Total annual payment	\$ 7,700
Payments taxed as follows during each year of life expectancy :	
Ordinary income	\$1,940
Tax-free	\$ 5,760
Income tax charitable deduction	\$52,225
Taxable gain	\$28,665
Gift tax	????



A. Gift Annuity for Someone Other Than the Donor

- Transfer is Principal – Deduction or \$47,775
- How is this taxed?
- Does Marc have any control over the taxation?



B. Establishing a Gift Annuity for an Employee

- Taxation issues for donor and employer are the limiting issues
- As with the previous case, does the employer have taxation options?



C. Testamentary Gift Annuity for a Survivor

Donor could:

1. Give a certain amount, and payments would depend on the effective rate at the date of death.

or

2. Give whatever is necessary to provide payments of a specific amount.



D. Gift Annuity Funded with Real Estate

- Any state issues?
- Ways to protect charity:
 - ✓ Discount the annuity rate
 - ✓ Offer a deferred gift annuity
 - ✓ Buyer in the wings (in different ways)



E. Retained Life Estate and Gift Annuity Together

- Calculations are a little tricky, but not too bad
- Use the right paperwork
- Have to choose the right annuity rate
- How to handle the principal residence exclusion of \$250,000 or \$500,000?



F. DGAs as Supplemental Retirement Plans

1. Traditional Deferred Gift Annuity
2. Step Gift Annuity
3. Flexible Deferred Gift Annuity
4. Super Flexible Deferred Gift Annuity



F1. Traditional Deferred Gift Annuity

Alane, age 50, contributes \$50,000 on 1/19/2019

- *Quarterly payments begin 3/31/2034*
- *Payments will total \$4,400/year*
- *\$1,417 of each payment will be tax-free*
- *Charitable deduction is \$21,817*



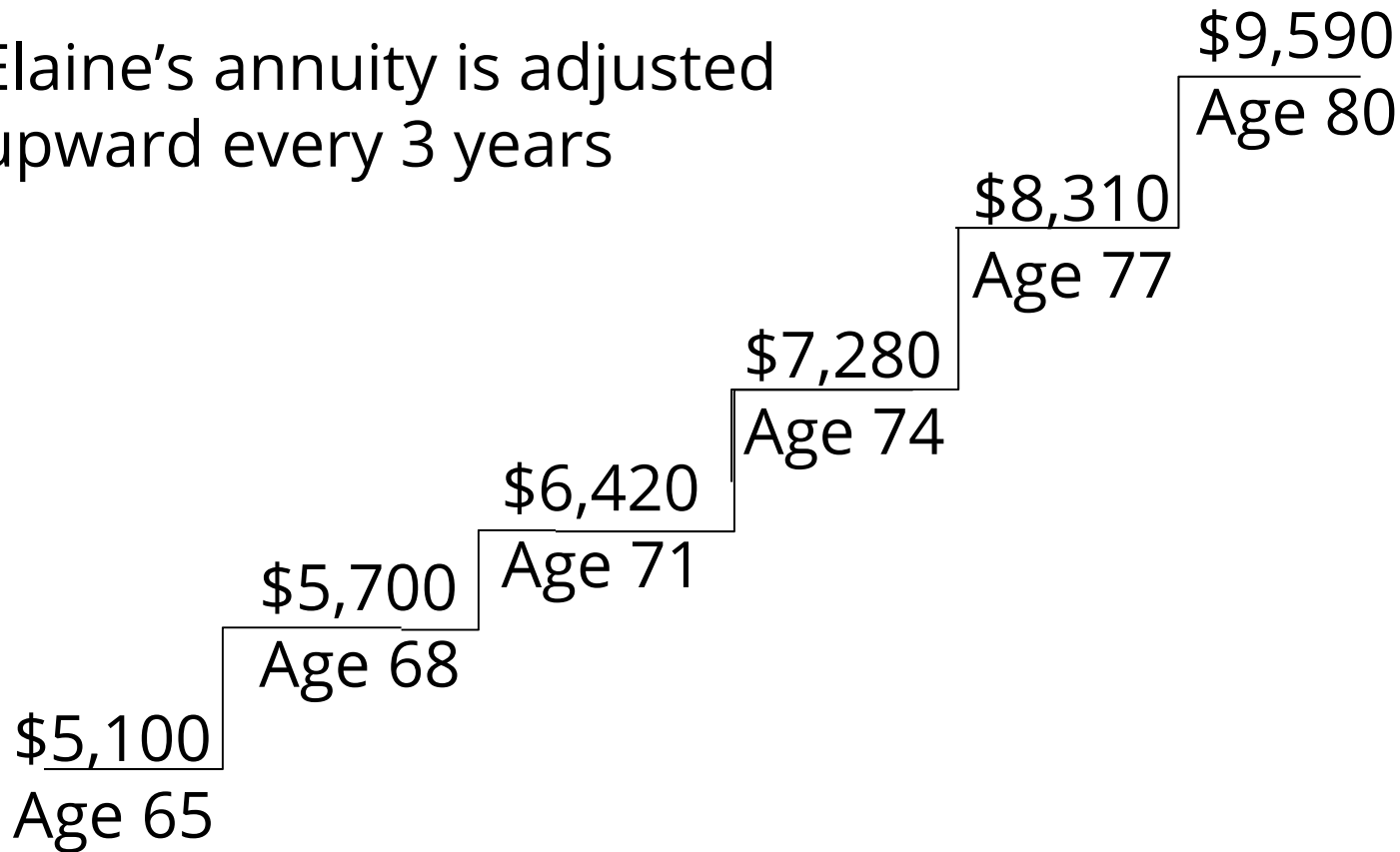
F2. Step Annuity for Inflation Protection

- *Elaine's date of birth was January 20, 1954.*
- *She simultaneously established six gift annuities on January 19, 2019. One was an immediate gift annuity funded with \$100,000 cash. The other five were deferred gift annuities, each funded with \$10,000.*
- *The payment-beginning dates of the deferred gift annuities were on June 30 of 2022, 2025, 2028, 2031, and 2034. Elaine's total income tax deduction for the gifts totaling \$150,000 would be \$64,141.*



F2. Step Annuity for Inflation Protection

- Elaine's annuity is adjusted upward every 3 years





F2. Step Annuity for Inflation Protection

- *Lawrence's date of birth was May 23, 1953.*
- *He simultaneously established nine gift annuities on January 19, 2019 and wants his annual payments to increase at the inflation rate for 2018 (1.9 percent).*
- *Lawrence could set this up any way he wants.*



F2. Step Annuity for Inflation Protection

Lawrence’s annuity is adjusted upward yearly

Type of Annuity	Contribution Amount	Beginning Date	Payout Rate	Payment	Total
Immediate	\$100,000	1/19/2019	5.2%	\$5,200	\$5,200
Deferred	\$1,796	3/31/2020	5.5%	\$99	\$5,299
Deferred	\$1,766	3/31/2021	5.7%	\$101	\$5,399
Deferred	\$1,710	3/31/2022	6.0%	\$103	\$5,502
Deferred	\$1,608	3/31/2023	6.5%	\$105	\$5,607
Deferred	\$1,567	3/31/2024	6.8%	\$107	\$5,713
Deferred	\$1,508	3/31/2025	7.2%	\$109	\$5,822
Deferred	\$1,455	3/31/2026	7.6%	\$111	\$5,932
Deferred	\$1,375	3/31/2027	8.2%	\$113	\$6,045



F3. Flexible Deferred Gift Annuity

Dan, birthdate 3/3/1969, contributes stock with a fair market value of \$100,000 and a cost basis of \$60,000 on 1/19/19

- *Reserves the option to start quarterly payments on 6/30 of any year in the period 2029-2039*
- *Annuity amount depends on start date elected (later start date = higher annuity rate)*
- *Income tax charitable deduction is \$36,625 (lowest among all available start dates)*



F3. Flexible Deferred Gift Annuity

Elective Start Date	Age at Start Date	Annuity Rate	Capital Gain	Tax-free Portion	Ordinary Income	Annuity
6/30/2029	60	6.8%	\$1,053	\$1,579	\$4,168	\$6,800
6/30/2030	61	7.1%	\$1,093	\$1,640	\$4,367	\$7,100
6/30/2031	62	7.5%	\$1,131	\$1,697	\$4,673	\$7,500
6/30/2032	63	8.0%	\$1,178	\$1,766	\$5,056	\$8,000
6/30/2033	64	8.4%	\$1,223	\$1,835	\$5,342	\$8,400
6/30/2034	65	8.9%	\$1,274	\$1,912	\$5,714	\$8,900
6/30/2035	66	9.4%	\$1,327	\$1,991	\$6,082	\$9,400
6/30/2036	67	10.0%	\$1,384	\$2,076	\$6,540	\$10,000
6/30/2037	68	10.4%	\$1,448	\$2,172	\$6,781	\$10,400
6/30/2038	69	10.9%	\$1,517	\$2,276	\$7,107	\$10,900
6/30/2039	70	11.8%	\$1,595	\$2,393	\$7,812	\$11,800



F3. Flexible Deferred Annuity

- Inflation Protection
- Flexibility regarding when payments begin
- Easy to administer and understand



F4. Extra Flexible Deferred Annuity

Instead of establishing a single \$100,000 flexible deferred gift annuity, Jill, Dan's twin sister, simultaneously funds ten of them, each with \$10,000 and each having an elective period ranging from age 62 to 72 (2031 – 2041).

- *She earns a total deduction for her ten annuities of \$39,476.*
- *She can start payments from each annuity at anytime from age 62 to 72.*



F4. Extra Flexible Deferred Annuity

- *At age 62, Jill decides to reduce her work hours to allow more time for travel.*
- *Then, at age 65 she retires from her middle management position but continues to do some consulting until age 68.*
- *She elects to activate two of the annuities at age 62, three more at age 65, and one more each year from age 68 through age 72.*



F4. Extra Flexible Deferred Gift Annuity

Jill’s annuity payments are as shown in the table below..

Age	Number of Annuities Activated	Total Annual Payment
62	2	\$1,500
65	3	\$4,170
68	1	\$5,210
69	1	\$6,300
70	1	\$7,480
71	1	\$8,720
72	1	\$10,030



Questions?





Still Have a Question?

Contact: Gary Pforzheimer

Email: gary@pgcalc.com

Phone: 888-497-4970