

PG Calc 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

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Agenda

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

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Recurring Questions

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

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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?

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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!**

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Assign an annuity to a charity?

Other considerations?

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

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Recurring Questions

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

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Cash out annuity?

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

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Recurring Questions

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

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One agreement for many contributions?

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

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Recurring Questions

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

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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%

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Recurring Questions

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

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Reinsurance affect deduction?

Possible answers:

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

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Recurring Questions

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

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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?

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Recurring Questions

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

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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?

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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

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Recurring Questions

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

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Can a donor change payment frequency?

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

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Recurring Questions

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

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Direct rollover from an IRA to a CGA?

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

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Recurring Questions

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

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Use a DAF to fund a CGA?

No.

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Creative Applications

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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

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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	????

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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?

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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?

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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.

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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)

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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?

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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

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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

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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.

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F2. Step Annuity for Inflation Protection

- Elaine's annuity is adjusted upward every 3 years

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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.

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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

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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)

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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

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F3. Flexible Deferred Annuity

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

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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.

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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.

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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

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Questions?



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Still Have a Question?

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