PG Calc — YOUR PARTNER IN PLANNED GIVING SUCCESS

The Top Ten Lessons Learned from the Front Lines

Date:	June 30, 2022
Time:	1:00 – 2:30 Eastern
Presenter:	Jeffrey Frye
	Associate Director for Gift Planning

0

PG Calc — YOUR PARTNER IN PLANNED GIVING SUCCESS

We Have A Lot Of Stories To Tell!

- This webinar is about some lessons we have learned from working on the front lines in PG Calc's Client Services Department.
- We won't name any names, but these are all lessons learned from real-life situations.
- We are hoping that you will learn some new things, but perhaps we will also remind you about some basic concepts that have been forgotten.

© PG Calc 2022

1

PG Calc — YOUR PARTNER IN PLANNED GIVING SUCCESS

1. Is it a gift, or is it an investment? Umm…yes.

- A split-interest charitable gift represents the combination of a gift to a charitable organization and an investment for personal benefit.
- Charitable Remainder Trusts, Charitable Gift Annuities, and Pooled Income Funds are the most popular split-interest charitable gifts and are referred to as life income gift arrangements.
- Life income gift arrangements provide payments to annuitants and beneficiaries, with the charitable organizations receiving the remainders of the underlying principle.

© PG Calc 2022

2

PG Calc — YOUR PARTNER IN PLANNED GIVING SUCCESS

1. Is it a gift, or is it an investment? Umm…yes.

- Charitable Lead Trusts make payments to charitable organizations over a period of time, and the remaining principal goes back to the donors or to other individuals.
- Retained Life Estates allow donors to transfer ownership of a home or farm to charities, while reserving the right to live in or use the property over a period of time.
- Bargain sales involve the donor selling property to the charity for less than the fair market value; the charitable gift is the difference between the total value and the sale amount.

© PG Calc 2022

3

PG Calc — YOUR PARTNER IN PLANNED GIVING SUCCESS

2. Never forget about the value of the non-charitable benefit

Actuarial Calculations

4.9% Charitable Gift Annuity

ASSUMPTIONS:

[1]	Annuitant	72
	Date of Gift	6/30/2022
[2]	Cash Donated	$50,000.00
[3]	Payout Rate from ACGA2020A Table	4.9%
[4]	Payment Schedule	quarterly at end
[5]	Discount Rate under IRC Section 7520(a) for	3.6%

CALCULATIONS:

[8]	Investment in Contract	$23,920.00
[9]	Charitable Deduction	**$26,080.00**

© PG Calc 2022

4

PG Calc — YOUR PARTNER IN PLANNED GIVING SUCCESS

2. Never forget about the value of the non-charitable benefit

Non-Charitable Interest Actuarials

5% Charitable Remainder Unitrust

ASSUMPTIONS:

[1]	Beneficiary Age	72
	Date of Gift	6/28/2022
[2]	Principal Value	$500,000.00
[3]	Payout Rate	5%
[4]	Payment Schedule	quarterly 3 months to 1st payment
[5]	Discount Rate under IRC Section 7520(a) for 6/2022	3.6%
[9]	Value of Remainder Interest ([2] x [8])	$278,440.00
[10]	Value of Life Interest ([2] - [9])	$221,560.00

© PG Calc 2022

5

PG Calc — YOUR PARTNER IN PLANNED GIVING SUCCESS

3. CGAs (almost) always lose money – really!

Detailed Cash Flow Analysis

ASSUMPTIONS:
Projection begins in 2022 and runs for 9 years.
Measuring life age 82.
Original principal is $50,000.
Donor income tax bracket is 45.8%, 42% for tax savings, and 28.8% for capital gains.
Management fees: 1% of principal.

7% Charitable Gift Annuity

YR	Year-End Principal	Appreciation (4.5%)	Income (2.5%)	Mgmt Fees (1%)	Payments to Beneficiary	Tax-Free Portion	After-Tax Payments
2022	$50,000						
2023	49,477	$2,250	$1,250	$522	$3,500	$2,618	$3,096
2024	48,924	2,226	1,237	517	3,500	2,618	3,096
2025	48,337	2,202	1,223	511	3,500	2,618	3,096
2026	47,716	2,175	1,208	505	3,500	2,618	3,096
2027	47,057	2,147	1,193	499	3,500	2,618	3,096
2028	46,360	2,118	1,176	492	3,500	2,618	3,096
2029	45,620	2,086	1,159	484	3,500	2,618	3,096
2030	44,837	2,053	1,141	477	3,500	2,618	3,096
2031	44,007	2,018	1,121	469	3,500	772	2,251
TOT	**$44,007**	**$19,275**	**$10,708**	**$4,476**	**$31,500**	**$21,716**	**$27,019**

© PG Calc 2022

6

PG Calc — YOUR PARTNER IN PLANNED GIVING SUCCESS

3. CGAs (almost) always lose money – really!

Detailed Cash Flow Analysis

ASSUMPTIONS:
Projection runs for 10 years.
Measuring life age is 82.
Original principal is $50,000.
Donor income tax bracket is 45.8%, 42% for tax savings, and 28.8% for capital gains.

7.5% Charitable Gift Annuity

Year	Year-End Principal	Appreciation (4.5%)	Income (2.5%)	Mgmt Fees (1%)	Payments to Beneficiary	Tax-Free Portion	After-Tax Payments
2022	$50,000						
2023	49,228	$2,250	$1,250	$523	$3,750	$2,805	$3,317
2024	48,409	2,215	1,231	514	3,750	2,805	3,317
2025	47,542	2,178	1,210	506	3,750	2,805	3,317
2026	46,623	2,139	1,189	497	3,750	2,805	3,317
2027	45,649	2,098	1,166	487	3,750	2,805	3,317
2028	44,618	2,054	1,141	477	3,750	2,805	3,317
2029	43,525	2,008	1,115	466	3,750	2,805	3,317
2030	42,367	1,959	1,088	455	3,750	2,805	3,317
2031	41,139	1,906	1,059	443	3,750	827	2,411
2032	39,839	1,851	1,028	430	3,750	0	2,033
Total	**$39,839**	**$20,659**	**$11,477**	**$4,798**	**$37,500**	**$23,267**	**$30,981**

© PG Calc 2022

7

PG Calc — YOUR PARTNER IN PLANNED GIVING SUCCESS

3. CGAs (almost) always lose money – really!

Detailed Cash Flow Analysis

ASSUMPTIONS:
Projection runs for 10 years.
Measuring life age is 82.
Original principal is $50,000.
Donor income tax bracket is 45.8%, 42% for tax savings, and 28.8% for capital gains.

7.5% Charitable Gift Annuity

Year	Year-End Principal	Appreciation (3%)	Income (2%)	Mgmt Fees (1%)	Payments to Beneficiary	Tax-Free Portion	After-Tax Payments
2022	$50,000						
2023	48,235	$1,500	$1,000	$515	$3,750	$2,805	$3,317
2024	46,400	1,447	965	497	3,750	2,805	3,317
2025	44,492	1,392	928	478	3,750	2,805	3,317
2026	42,508	1,335	890	458	3,750	2,805	3,317
2027	40,446	1,275	850	438	3,750	2,805	3,317
2028	38,302	1,213	809	417	3,750	2,805	3,317
2029	36,072	1,149	766	395	3,750	2,805	3,317
2030	33,754	1,082	721	372	3,750	2,805	3,317
2031	31,344	1,013	675	348	3,750	827	2,411
2032	28,839	940	627	323	3,750	0	2,033
Total	**$28,839**	**$12,347**	**$8,231**	**$4,239**	**$37,500**	**$23,267**	**$30,981**

© PG Calc 2022

8

PG Calc — YOUR PARTNER IN PLANNED GIVING SUCCESS

4. The IRS discount rate isn't really that important (for the most part).

4.9% Charitable Gift Annuity

ASSUMPTIONS:

Annuitant	72
Cash Donated	$50,000.00
Payout Rate from ACGA2020A Table	4.9%
Payment Schedule	quarterly at end

CHOICE OF BENEFITS:

	April 2022 IRS Discount Rate 2.2%	May 2022 IRS Discount Rate 3.0%	June 2022 IRS Discount Rate 3.6%
Charitable Deduction	**$23,463**	**$25,014**	**$26,080**
Annual Payout	**$2,450**	**$2,450**	**$2,450**
Tax-free Portion (for 14.5 yrs)	$1,830	$1,722	$1,649
Ordinary Income	$620 *	$728 *	$801 *

* Once all tax-free portions have been distributed, the entire annuity will become ordinary income.

© PG Calc 2022

9

PG Calc — YOUR PARTNER IN PLANNED GIVING SUCCESS

4. The IRS discount rate isn't really that important (for the most part).

5% Charitable Remainder Annuity Trust funded with $500,000 cash

Charitable Income Tax Deduction

April 2022 – 2.2%	May 2022 – 3.0%	June 2022 – 3.6%
$230,490	$245,185	$255,920

5% Charitable Remainder Unitrust funded with $500,000 cash

Charitable Income Tax Deduction

April 2022 – 2.2%	May 2022 – 3.0%	June 2022 – 3.6%
$277,170	$277,900	$278,440

© PG Calc 2022

10

PG Calc — YOUR PARTNER IN PLANNED GIVING SUCCESS

5. The donor does NOT escape all his capital gains with a life income gift; it's in his best interest to supply a cost basis for a life income gift.

Taxation of Gift Annuity Payments

5.4% Charitable Gift Annuity

ASSUMPTIONS:

Annuitant	75
Date of Gift	6/30/2022
Principal Donated	$50,000.00
Cost Basis of Property	$15,000.00
Payout Rate from ACGA2020A Table	5.4%

BREAKDOWN OF ANNUITY:

	Capital Gain	Tax-free Portion	Ordinary Income	Total Annuity
2022 to 2022	662.29	283.83	411.30	1,357.42
2023 to 2033	1,317.33	564.57	818.10	2,700.00
2034 to 2034	1,170.73	501.75	1,027.52	2,700.00
2035 onward	0.00	0.00	2,700.00	2,700.00

Total reportable capital gain of $16,323.65 must be reported over 12.4 years (donor age 75 is primary annuitant).

After 12.4 years, the entire annuity becomes ordinary income.

© PG Calc 2022

11

PG Calc — YOUR PARTNER IN PLANNED GIVING SUCCESS

5. The donor does NOT escape all his capital gains with a life income gift; it's in his best interest to supply a cost basis for a life income gift.

Taxation Schedule

ASSUMPTIONS:
Projection runs for 14 years.
Measuring life age is 77.
Principal donated is $500,000. Cost basis is $100,000.
Donor income tax bracket is 45.8%, 42% for tax savings, and 28.8% for capital gains.
Income is 2.5%. Appreciation is 4.5%.
Management fees: 1% of principal.

5% Charitable Remainder Unitrust

Year	Payments to Ben.	Ordinary Income (45.8%)	Capital Gain (28.8%)	Capital Tier	After-Tax Payments
2023	$25,000	$7,275	$17,725	$383,038	$16,563
2024	25,239	7,344	17,894	366,652	16,721
2025	25,480	7,415	18,065	350,822	16,881
2026	25,723	7,485	18,238	335,528	17,042
2027	25,969	7,557	18,412	320,753	17,205
2028	26,217	7,629	18,588	306,480	17,369
2029	26,467	7,702	18,765	292,691	17,535
2030	26,720	7,775	18,944	279,369	17,703
2031	26,975	7,850	19,125	266,500	17,872
2032	27,233	7,925	19,308	254,067	18,042
2033	27,493	8,000	19,492	242,056	18,215
2034	27,755	8,077	19,679	230,452	18,389
2035	28,020	8,154	19,866	219,242	18,564
2036	28,288	8,232	20,056	208,412	18,742
Total	**$372,578**	**$108,420**	**$264,158**	**$208,412**	**$246,844**

© PG Calc 2022

12

PG Calc — YOUR PARTNER IN PLANNED GIVING SUCCESS

6. Confusion over using IRAs to fund charitable gifts.

Lifetime Gifts from IRAs

Here's what a simple example might look like:

Qualified distribution from IRA	$50,000
Owner's marginal income tax bracket	35%
Federal income tax on distribution	$17,500
Amount contributed to charity for CGA	$50,000
Income tax deduction	$25,014
Tax savings from CGA	$9,255
Net federal tax on combined transactions:	$8,245

Please note: these figures are for a 72-year-old single donor establishing a 4.9% CGA with a discount rate of 3.0%. The federal income tax on the distribution would be increased by a 10% penalty for early withdrawals if the donor were less than 59 ½ years old.

© PG Calc 2022

13

PG Calc — YOUR PARTNER IN PLANNED GIVING SUCCESS

6. Confusion over using IRAs to fund charitable gifts.

QCD from an IRA (a/k/a "Charitable IRA Rollover")

Here's what the transfer of $50,000 under the QCD looks like:

Qualified charitable distribution from IRA	$50,000
Owner's marginal income tax bracket	35%
Federal income tax normally assessed on distribution	$17,500
Federal income tax assessed under QCD	$0
Amount transferred to charity (outright gift)	$50,000
Income tax deduction normally earned	$50,000
Income tax deduction under QCD	$0
Net federal tax on combined transactions:	$0
Reduction of adjusted gross income:	**$50,000**

© PG Calc 2022

14

PG Calc — YOUR PARTNER IN PLANNED GIVING SUCCESS

7. Beware gifts of real estate!

Median Sales Price of Houses Sold in the U.S. from 2006 to 2013

15

PG Calc — YOUR PARTNER IN PLANNED GIVING SUCCESS

7. Beware gifts of real estate!

Median Sales Price of Houses Sold in the U.S. from 2006 to 2013

In the housing market bubble during the 2000s, the median price of houses sold in the U.S. peaked in the first quarter of 2007 at $257,400.

In the second quarter of 2007, the median price dropped to $242,200

The housing cycle hit bottom in the first quarter of 2009 at a median price of $208,400.

That change in price represented a $49,000 decline, or a drop in value of about 19%.

It would take another 4 years to get back to the high point of 2007.

In the first quarter of 2013, the median sale price rose to $258,400.

16

PG Calc — YOUR PARTNER IN PLANNED GIVING SUCCESS

8. The three critical CRT questions.

Here are the three questions a gift planning professional should address when a donor proposes establishing a CRT:

1) Who will serve as trustee of the CRT?

   a. The charity
   b. The donor
   c. An attorney
   d. A financial institution
   e. Some combination of the above

2) Who will manage the assets of the trust?
   a. The charity
   b. The donor
   c. An investment advisor
   d. A financial institution
   e. Some combination of the above

17

PG Calc — YOUR PARTNER IN PLANNED GIVING SUCCESS

8. The three critical CRT questions.

The 3 critical CRT questions continued…

3) Who will handle the administrative tasks?

a. The charity
b. The donor
c. An accountant or accounting firm
d. An attorney or law firm
e. A financial institution
f. Some combination of the above

And here are some bonus questions for extra fun!

4) Who will draft the trust document?
5) Who will obtain the tax ID#?
6) How much will each service cost?
7) How will fees and expenses be paid?

© PG Calc 2022

18

PG Calc — YOUR PARTNER IN PLANNED GIVING SUCCESS

9. Nobody ever dies on schedule.

Mary is a 72-year-old female.

Her estimated remaining life expectancy is as follows:

According to the 2012 IAR table:	**19.6 years**
According to the 2000CM mortality table:	**12.9 years**
According to the 2010CM mortality table:	**14.0 years**

Present value of $50,000 future bequest using 3.0% discount rate:

Based on 2012 IAR table:	**$ 28,836.50**
Based on 2000CM table:	**$ 34,872.00**
Based on 2010CM table:	**$ 33,795.50**

© PG Calc 2022

19

PG Calc — YOUR PARTNER IN PLANNED GIVING SUCCESS

9. Nobody ever dies on schedule.

John is a 72-year old male.

His estimated remaining life expectancy is as follows:

According to the 2012 IAR table:	**18.1 years**
According to the 2000CM mortality table:	**12.9 years**
According to the 2010CM mortality table:	**14.0 years**

Present value of $50,000 future bequest using 3.0% discount rate:

Based on 2012 IAR table:	**$ 30,084.50**
Based on 2000CM table:	**$ 34,872.00**
Based on 2010CM table:	**$ 33,795.50**

© PG Calc 2022

20

PG Calc — YOUR PARTNER IN PLANNED GIVING SUCCESS

10. Hey, I've got a lead trust that's about ready to close!

Charitable Lead Annuity Trusts

Projection begins in 2022 and runs for 12 years.
Lead trusts make annual, end of period payments to THE CHARITY.
Original principal of $5,000,000 has a cost basis of $5,000,000.
Value of donor's estate is $25,000,000. Prior taxable gifts are $15,000,000.
Basic exclusion is $12,060,000; IRS Discount Rate for 5/2022 is 3.0%.
Income is 2.5%, capital appreciation is 4.5%.

	5% Non-Grantor Lead Annuity Trust	**10.0462% Non-Grantor Lead Annuity Trust**
Principal Placed in Plan	$5,000,000	$5,000,000
Annuity to THE CHARITY	$250,000	$502,310
Gift Tax Deduction	$2,488,500	$5,000,000
Taxable Gift	$2,511,500	$0
Gift Tax (paid 2022 by donor)	$1,004,600	$0
Total Management Fees	$667,436	$453,774
Total Income Tax Paid Over Term by Trust	$0	$0
Principal after 12 Years	$5,803,426	$1,558,138
Benefit to Family (ending principal less taxes)	**$4,798,826**	**$1,558,138**
Total Distributed to THE CHARITY	**$3,000,000**	**$6,027,720**
Total Benefit	**$7,798,826**	**$7,585,858**

© PG Calc 2022

21

PG Calc — YOUR PARTNER IN PLANNED GIVING SUCCESS

10. Hey, I've got a lead trust that's about ready to close!

Split-interest trust statistics from the IRS based on Form 5227s filed in 2012

Item	Total	Size of end-of-year book value of total assets (in $1,000s)				
		Under $500,000	$500,000 under $1,000,000	$1,000,000 under $3,000,000	$3,000,000 under $10,000,000	$10,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)
CLT Number of returns	6,498	2,658	1,406	1,353	757	324
Change from 2011	-1.798%	-7.193%	-2.089%	3.599%	7.224%	6.230%
CLT Total net assets	23,705,41	413,545	995,305	2,286,958	4,048,280	15,981,328
CRAT Number of	14,616	11,944	1,429	912	279	52
Change from 2011	-7.855%	-7.080%	-13.499%	-10.500%	1.455%	-16.129%
CRAT Total net assets	6,447,093	1,272,029	1,039,877	1,475,705	1,338,531	1,320,951
CRUT Number of	91,250	65,444	13,587	9,012	2,532	675
Change from 2011	-2.748%	-2.629%	-2.231%	-3.780%	-4.184%	-5.330%
CRUT Total net assets	85,240,00	11,233,567	9,435,938	14,307,813	12,517,904	37,744,783
PIF Number of returns	1,324	1,011	104	122	64	23
Change from 2011	-6.583%	-6.514%	-10.345%	0.826%	-9.859%	-4.167%
PIF Total net assets	1,254,989	114,910	80,459	199,917	335,990	523,713

Note: the statistics provided here are the most recent ones available.

Source: http://www.irs.gov/uac/SOI-Tax-Stats-Split-Interest-Trust-Statistics

© PG Calc 2022

22

PG Calc — YOUR PARTNER IN PLANNED GIVING SUCCESS

© PG Calc 2022

23

PG Calc

YOUR PARTNER IN PLANNED GIVING SUCCESS

Still Have a Question?

Contact: Jeffrey Frye
Associate Director for Gift Planning
PG Calc

E-mail: jfrye@pgcalc.com

Phone: 888-474-2252

© PG Calc 2022