



CAPE COD  
HEALTHCARE  
FOUNDATION

# Planned Giving

An Investment in Cape Cod's Future

## Most Popular Questions About the Gift Annuity: What you need to know before you make an immediate or deferred gift annuity

You may be like many people planning for retirement who are concerned about how to ensure steady income while receiving maximum tax benefits. You may also be thinking about your favorite nonprofit organizations, such as ours, and how to continue to support the causes you care about, even when living on a fixed income.

Many individuals have used gift annuities to accomplish both income and philanthropic goals. A *charitable gift annuity* (CGA) is part gift and part annuity. It can be an excellent way to provide you with financial stability while supporting us and your other favorite nonprofits. A gift annuity may be particularly attractive to you if you want to receive income from assets that have increased in value, such as stocks.

A charitable gift annuity can provide you with:

- **Supplemental income payments** for your lifetime and/or the lifetime of another person.
- **Significant tax savings** at the time of your gift and for years afterward.
- **Support for our work** for generations to come.

In basic terms a charitable gift annuity is a legal contract under which you receive fixed payments for life in exchange for your gift to a qualified organization.

This guide discusses gift annuities and highlights many of the charitable-planning options available to you. We are happy to answer any additional questions about gift annuities and/or provide a free analysis of your proposed gift that will demonstrate the income and tax savings you can achieve through such a gift.

**Q. How does a charitable gift annuity work?**

In return for your gift of cash or assets, a charitable organization such as ours will contractually guarantee to pay you a fixed-dollar amount for as long as you live.

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

The annuity payment depends on your age and the size of the gift. The table below shows sample payout rates at different ages as recommended by the American Council on Gift Annuities, a national association of charities.

Age	Rate	Age	Rate
65	5.7%	80	8.1%
70	6.3%	85	9.1%
75	7.0%		

For example, if a 70-year-old contributes \$25,000 for a gift annuity, we promise to pay \$1,575 per year for as long as he or she lives.

**Q. Can I establish a charitable gift annuity for more than one person?**

Yes. Gift annuities are frequently arranged to provide annuity payments for two persons. The most common type of two-life annuity is the joint-and-survivor annuity. Under such an arrangement, payments are made to both annuitants for their joint lifetime. On the death of the first annuitant, the payments continue for the lifetime of the survivor.

The following table shows the recommended annuity rates for two beneficiaries at representative ages:

Ages	Rate	Ages	Rate
65-65	5.0%	80-80	6.9%
70-70	5.5%	85-85	8.1%
75-75	6.2%		

**Q. How are the annuity payments taxed when received by the annuitant?**

As with other types of annuities, a portion of each annuity payment is treated as a tax-free return of the original capital over the life expectancy of the donor.

**Note:** When a donor lives beyond his or her actuarial life expectancy, the entire annuity payment will be taxed as ordinary income.

The following table shows payout rates and payment amounts resulting from a contribution of \$25,000 cash to our gift annuity program. Also shown are the tax-free portion and the amount taxable when the gift is made with cash.

Age	Annuity Rate	Total Payout	Tax-Free Portion	Taxable Portion
65	5.7%	\$1,425	\$ 872	\$553
70	6.3%	\$1,575	\$1,043	\$532
75	7.0%	\$1,750	\$1,241	\$509
80	8.1%	\$2,025	\$1,513	\$512
85	9.1%	\$2,275	\$1,786	\$489

**Q. Can I claim a charitable deduction when I make the contribution?**

Yes. You may claim a charitable deduction on your income-tax return in the year you make the gift. The table below shows various deductions allowed for a gift of \$25,000 cash with annuity payments made quarterly.

CHARITABLE TAX DEDUCTIONS FOR A \$25,000 GIFT ANNUITY	
Age	Charitable Deduction
65	\$7,637
70	\$8,411
75	\$9,619
80	\$10,776
85	\$12,853

The charitable deduction effectively reduces the cost of the gift annuity. For example, the table reveals that the charitable deduction allowed for a 70-year-old donor is \$8,411. Assuming a 32% tax bracket, the deduction would result in an actual dollar savings of



approximately \$2,692. Thus the cost of the \$25,000 gift annuity is only \$22,308. Because the donor will receive an annual payment of \$1,575—and the actual cost of the annuity is \$22,308—the effective rate of return for the annuity is about 7.1%. The exact amount that can be claimed as a charitable deduction depends on two factors: the total amount of charitable gifts (including the deduction described here) and the donor’s adjusted gross income.

**Q. Are there any advantages if I fund a gift annuity with appreciated assets rather than cash?**

Funding a gift annuity with appreciated assets is an excellent way for you to minimize and spread out the capital-gain tax. Part of the appreciation escapes capital-gain taxation entirely, and the portion of capital gain that is reportable may be spread out over your life expectancy.

**Example:** Mr. and Mrs. C, both 80, fund a gift annuity with \$50,000 worth of long-term appreciated securities that cost them \$20,000. They will receive quarterly payments as long as either is living. What will the couple receive as a result of their gift?

- 1. Charitable tax deduction of ..... \$18,524  
in the year of the gift.  
*Because the securities contributed are appreciated, the deduction is limited to 30% of their adjusted gross income. (Any unused portion may be carried over for the next five years.)*
- 2. Annual payment (paid quarterly) ..... \$ 3,450
- 3. Annual return of capital (tax-free) ..... \$ 991
- 4. Amount includable in taxable income<sup>1</sup> each year ..... \$ 973
- 5. Amount reportable each year as capital gain, spread over the couple’s joint life expectancy<sup>2</sup> ..... \$ 1,486

<sup>1</sup>If either Mr. or Mrs. C lives beyond 12.7 years, the entire annuity will be taxed as ordinary income.

<sup>2</sup>The capital gain is reportable over their joint life expectancy, per the IRS table.

**Q. How can a gift annuity increase my current spendable income?**

One of the most attractive features of a gift annuity is that it allows you to receive life payments while making a significant gift. In the example above, Mr. and Mrs. C funded their gift annuity with stock worth \$50,000. Assuming this was stock paying 2% of its fair-market value in dividend income, the couple would have realized \$1,000 annually from the stock. By using the stock to fund their gift annuity, they are now getting annual payments of \$3,450—over three times what they were receiving.

The degree of increase, of course, depends on the specific assets you use to fund a gift annuity. If you transfer assets with a relatively low return to fund a gift annuity, you will generate a significant increase in spendable cash.

**Q. Is it possible for me to make a contribution for a gift annuity now but delay receipt of the annuity payments until later?**

Yes. The deferred-payment gift annuity is designed to appeal to the younger donor who:

- Has a high current income.
- Can benefit from a current tax deduction.
- Is interested in augmenting retirement income on a tax-favored basis.

It involves the current transfer of cash or other assets (typically marketable securities) in exchange for an annuity starting at a future date—usually at the donor’s retirement. You can create a single annuity, a series of annuities annually, or periodic annuities in high-income years only.

**Benefits:** You realize an immediate charitable tax deduction for the gift portion of each transfer to the deferred gift annuity. Once annuity payments begin, a portion of each payment will be considered a tax-free return of capital.



**Example:** Mrs. W, 55, is a successful accountant who is in the 32% income-tax bracket. While she could use an income-tax charitable deduction, she really doesn't need any additional income right now. On the other hand, Mrs. W would like to supplement her income when she retires in about 12 years.

Mrs. W decides to contribute \$25,000 cash for a deferred gift annuity that will begin paying her \$2,550 a year in quarterly payments at the age of 67. Of this annuity amount, \$854 will be treated as tax-free return of capital. **Result:** She gets an immediate income-tax deduction of \$9,349, which produces actual cash savings of approximately \$2,992. Please note that when Mrs. W itemizes her deductions, the amount of charitable gifts she can claim is her total contributions minus a floor, which is 0.5% of her adjusted gross income.

The following table shows the annuity rates and tax deductions available with a contribution of \$25,000 for a gift annuity deferred until the age of 67 for beneficiaries of the ages indicated:

<b>\$25,000 GIFT ANNUITY (Deferred until the age of 67)</b>			
Age	Annuity Rate	Annual Payout	Charitable Deduction
55	10.2%	\$2,550	\$9,349
60	8.1%	\$2,025	\$9,021
65	6.4%	\$1,600	\$8,516

**Q. Can I make my contribution now but decide later when to start payments?**

Yes, a flexible deferred-payment gift annuity enables you to make that decision later when you are more clear about retirement plans and income needs. The longer you defer the payment-starting date, the larger your payments will be.

**Q. Can a deferred gift annuity supplement my qualified retirement plan or IRA?**

Deferred-payment gift annuities are an excellent means of supplementing retirement income. While

establishing one deferred gift annuity can enhance future income, establishing multiple annuities can provide both current and future benefits.

**Example:** Mr. K, aged 57, wishes to supplement his retirement income with deferred-payment gift annuities. After consulting with his financial advisors and a member of our staff, he decides to contribute \$25,000 each year for the next ten years—though he may alter or discontinue the contributions at any time. At the age of 67 he will begin to receive payments.

Mr. K is entitled to a charitable deduction for each annual contribution. While the deductions vary from year to year, the total charitable deductions over the ten-year period—based on current IRS mortality and interest assumptions and on current gift annuity rates—will be \$96,474 (about 38.6% of the \$250,000 he contributes over the ten-year period). At the age of 67, when retirement income becomes important, he will receive \$18,400 each year from his well-planned gifts.

**Note:** The numbers in this example and in all of the preceding examples are based on current gift annuity rates and on an assumed IRS discount rate.

**Q. Can the beneficiary of a gift annuity be someone other than the donor?**

Yes. You may name anyone—a parent, sibling, friend, faithful employee, etc.

**Example:** If you are contributing to the care of a parent with after-tax dollars, you could transfer some cash or assets and have the payments made directly to your parent. The payments would be taxed in your parent's lower tax bracket, but you would receive a deduction that reduces your income tax.

**Note:** When you name a beneficiary other than yourself or your spouse, you make a taxable gift to that person and must report it if it exceeds certain limits.



## Contact Us for Your Illustration

The charitable gift annuity offers many attractive benefits for the security-minded individual. Certainly it is worth investigating if your objectives include receiving guaranteed dependable payments for life, substantially reducing income tax, providing cash flow for other family members, or shoring up your retirement—along with the satisfaction of supporting our work.

Contact us for a free analysis of the benefits you would receive through a charitable gift annuity.

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A charitable gift annuity is not regulated by the Oklahoma Insurance Department and is not protected by a guaranty association affiliated with the Oklahoma Insurance Department. **Charitable gift annuities are not regulated by and are not under the jurisdiction of the South Dakota Division of Insurance.**



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