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Planned Giving

An Investment in Cape Cod's Future

Augment Your Retirement Security: The Deferred-Payment Gift Annuity

If we had an advance peek at *The Wall Street Journal* five or ten years hence, it would be easy to plan. Without such a preview, the prudent person plans for retirement security by seeking a proper balance between risk and reward. Some are comfortable with higher risk and greater potential reward, but others prefer a steady and reliable return. Now, more than ever, cautious planners advise hedging risk by putting some money into fixed-payment plans that offer a stable return for future years.

If ensuring reliable spendable cash for future needs—for yourself or someone close to you—is one of your goals and if gifts to organizations such as ours are also in your plans, a deferred-payment gift annuity may be an excellent way to meet both objectives.

With a deferred-payment gift annuity you can:

- Make a gift to support the programs of your choice.
- Receive lifetime annuity payments that will begin at the *future* date of your own selection.
- Obtain a tax deduction for your gift in the *current year*, even though you retain the benefit of future payments.

- Provide a retirement-income supplement for yourself or anyone you name.

How It Works

A deferred-payment gift annuity is created by a simple contract between you and an organization, which in return for your gift of money or assets promises to pay you a fixed dollar amount on a regular basis. When you establish the annuity, you select the date you will start to receive your payments. Alternatively, you can reserve the right to decide later when your payments will begin.

The longer you wait, the larger your payments will be. Furthermore:

- The amount of your future payments is set when you make your gift.
- You need not be concerned about the performance of the stock market or interest rates—your payments are permanently fixed.
- Whatever remains of your contribution after you (and any other beneficiaries) receive payments for life will be used for the charitable purposes you have designated.

Tax benefit now, payments later. This gift vehicle allows a donor who has a substantial income to make a gift and receive a deduction now—when the tax deduction is the most useful. The annuity payments can be postponed to begin on retirement—when additional spendable cash may be needed.

Determining your annuity rate. The payout rate is determined by the ages of the beneficiaries at the time of the gift and the deferral period until payments begin. The longer you defer payments, the higher your rate will be.

GIFT ANNUITY PAYMENT RATES (as percentage of charitable gift)			
Age at time of gift:	Payments beginning at age		
	65	70	75* **
50	11.4%	15.9%	22.3%
55	9.1%	12.6%	17.7%
60	7.2%	10%	14%
*Normally, people start payments earlier than this age (75), but sometimes they might delay them until after retirement because they have other sources of income.			
**New York and New Jersey may require different interest factors for deferred gift annuities with deferral periods exceeding 20 years.			

This table shows how the annuity rate increases with the length of time that payments are deferred.

Example: If Mr. P, aged 65, makes a \$10,000 gift to us in return for an immediate gift annuity, he will receive payments totaling \$570 per year (or 5.7% of the gift) for life. If, however, he chooses to postpone payments to begin at the age of 72, his annual payments will be \$910.

Alert: Gift annuity rates increased effective January 1, 2024, and remain in effect. As a result, all gift annuities, and especially deferred gift annuities, continue to be appealing. For example, in the case of a deferred gift annuity with the contribution made at the age of 50 and payments starting at 65, the new deferred gift annuity rate is 11.4%.

Choosing your payment schedule. The opportunity to choose exactly when you want your payments to begin is an appealing feature of the deferred-payment gift annuity. The amount of your future payments is based on the length of the deferral period and your age when the payments begin.

- You might, for example, have your payments begin in the year you plan to retire in order to maximize your spendable cash when your salary stops.
- If you plan to continue working part-time for a few years after retiring from your position, you could start your payments later—when you need to replace that part-time income.
- It is also possible to begin payments before you actually retire, perhaps at the end of your peak earning years when you plan to start slowing down.
- If you are not sure when you want payments to begin, you can reserve the right to decide later. The longer you wait, the larger your payments will be.

Tax benefits: Although your payments are deferred to some future date, you receive an income-tax charitable deduction now. When you start receiving payments, a portion of them will be tax-free if you have contributed cash. If you have contributed appreciated assets, a portion of your payments will be taxed as capital gain and part of the payments will likely be tax-free. The following chart demonstrates these tax benefits.

CHARITABLE TAX DEDUCTION CONTRIBUTION OF \$10,000 By Donor, Age 55	
Age when payments begin	Deduction
65	\$3,395
70	\$4,099
75	\$5,051

TAXATION OF PAYMENTS CONTRIBUTION OF \$10,000 By Donor, Age 55			
Age when payments begin	Payment	Taxable	Tax-free
65	\$910	\$578	\$332
70	\$1,260	\$888	\$372
75	\$1,770	\$1,372	\$398

The immediate income-tax deduction reduces the cost of the gift, assuming the donor itemizes deductions. The fact that a significant portion of the payments is tax-free increases after-tax income. Interest is fully taxable from CDs, money market funds, and other fixed-income investments other than municipal bonds.



Example: Ms. S, 55, contributes \$10,000 for a deferred payment annuity with payments to begin in ten years when she is 65. She receives a charitable tax deduction of \$3,395, which saves approximately \$815 in income tax (assuming a 24% tax bracket) and reduces the net cost of her gift to \$9,085. The exact amount she can claim as a charitable deduction depends on two factors: the total amount of her charitable gifts (including the deduction described here) and her adjusted gross income. When she turns 65, she will begin to receive a guaranteed payment of \$910, which is 10% of her net cost. And in this case, each year's \$332 will be tax-free for nearly 20 years.

A Secure Income for Two Persons

The deferred-payment gift annuity can provide payments to two individuals. You may name any two people, such as yourself and your spouse, to receive the lifetime payments from your gift annuity.

A different annuity rate applies when two recipients are named because we must guarantee our financial obligation throughout *both* lifetimes. For joint recipients, the rates are shown below.

GIFT ANNUITY PAYMENT RATES (as a percentage of charitable gift)			
Ages at time of gift	Payments beginning at age		
	65	70	75*
50 and 50	10%	13.9%	19.8%
55 and 55	8%	11%	15.5%
60 and 60	6.3%	8.7%	12.4%

A Retirement Plan Made to Order

Retirement planning is becoming more important as people live longer, assuming long-term security is now a priority for adults of all ages.

In seeking that security, one should never rely on any single investment or savings plan as the only source of future income. For many people, the cornerstone of a secure retirement is their company pension plan—but this alone is seldom adequate. The amount that you can contribute to it is limited, and the plan is subject to complex restrictions.

A deferred-payment gift annuity can be an excellent supplement to your company plan. It can be customized to your own situation because you determine how and when contributions are made and when payments will start. While you are securing your own future, you are also supporting our work.

The flexibility of the deferred-payment gift annuity is demonstrated by the following comparisons with **qualified retirement plans** (such as 401(k) plans and 403(b) plans).

What can I contribute? You must fund a **qualified plan** with earned income.

Deferred-payment gift annuity contributions can be from securities and other assets and don't have to be in cash.

How much can I contribute? The tax code imposes strict limits on contributions to all qualified plans. For example, in the case of two popular plans, the 401(k) and 403(b), the 2026 combined limit for employer and employee contributions is \$72,000 and the maximum employee contribution through salary reduction is \$24,500 (Some additional catch-up provisions are allowed for older employees.) These numbers are adjusted for inflation and periodically change. The traditional IRA contribution limit in 2026 is \$7,500.

No limits apply to contributions to deferred-payment gift annuities. You could fund one large gift annuity or a series of deferred gift annuities annually.

No matter what you contribute, each gift is invested to compound on a tax-deferred basis until the date your annuity payments begin.

Portion of contributions that is deductible.

Contributions to a qualified plan are fully tax-deductible up to the amounts prescribed—in other words, completely sheltered from current taxation.

A portion of the amount you contribute for a deferred-payment gift annuity is deductible in recognition of the gift that will remain for our charitable use.

How payments are taxed. Periodic payments received from a qualified plan are usually fully taxable—unless

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the participant had made nondeductible contributions to the plan.

Deferred gift annuity payments have a tax-free component; and if you contribute appreciated assets, a portion of the payments will be reportable as capital gain. The charitable use of such assets eliminates some of the capital-gain tax liability and spreads out the rest in installments over your life expectancy.

Scheduling Retirement Payments

Perhaps you are already 65 and don't need more income right now. You may still be working part-time or full-time. Taxable pension payments may have begun or must begin soon. You may also have just realized significant gain from the sale of assets.

A deferred-payment gift annuity could give you tax relief now and more cash later when you must depend more on your pension.

Example: Dr. A, aged 69, has continued his practice but is now in the process of selling his interest in the clinic to his partners. Next year, upon turning 70, he plans to start taking distributions from his retirement plan. He is confident that these distributions and his investment income will sustain his lifestyle in the foreseeable future, but he wants another source of income in case he needs it.

To provide some additional security, Dr. A contributes \$200,000 of stock for a "flexible" deferred-payment gift annuity that will allow him to decide later when to start payments. Below are annual payments he would receive beginning at certain ages:

Age	Payment	Age	Payment
70	\$13,200	76	\$20,000
72	\$15,200	78	\$23,000
74	\$17,200	80	\$27,000

If he elected to supplement his other income at the age of 76, his annual annuity payments would be \$23,000. He receives a tax deduction of \$105,256, which, per recent tax legislation, must be reduced by a relatively small amount—one-half of one percent of his adjusted gross income. His tax savings will still be substantial, and they will, to some degree, offset the high taxes he will pay during his final year of practice.

Is a Deferred-Payment Gift Annuity Right for You?

A deferred-payment gift annuity is a charitable gift. Thus the size of the annuity payments will likely be smaller than those of a commercial annuity. Gift annuity rates are designed to leave a portion of the contribution for charitable use. But when you consider the tax savings and flexibility of this plan, you may find it to be an excellent way to both support our work and provide retirement security.

We urge you to consult your own financial advisors, and we stand ready to assist you in considering how the deferred-payment gift annuity can work for you.

Note: The numbers in the various examples are based on the current gift annuity rates and an assumed IRS discount rate of 4.4%.

The information contained herein is offered for general informational and educational purposes. The figures cited are accurate at the time of writing. State law may affect the results illustrated. This is not legal advice. Any prospective donor should seek the advice of a qualified estate and/or tax professional to determine the consequences of their gift. **Annuities are subject to regulation by the State of California. Payments under such agreements, however, are not protected or otherwise guaranteed by any government agency or the California Life and Health Insurance Guarantee Association.** 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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