



Charitable Gift Annuities—Everyone Wins!

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Many people wish to have a portion of their retirement income guaranteed. For example, a man who knows that statistically he is likely to die before his wife may want to assure that a portion of her income will not fluctuate with their investment portfolio.

An annuity is one investment instrument that may be used to guarantee a stable source of retirement income. People often ask if they should buy a commercial annuity to supplement their portfolio income and Social Security. If you are charitably inclined, a Charitable Gift Annuity may be a good choice.

Annuity

An annuity is a contract with an insurance company and can be very complex. The annuity buyer pays a lump sum in exchange for a future payout which can take many different forms. If it is a standard fixed annuity on one person's life, the payout is a fixed dollar amount based on actuarial tables that take into account life expectancy, value of the account, and interest earned. Annuities have mortality and expense charges which pay for the insurance guarantee, commissions, and selling and administrative expenses. These expenses will lower the monthly payment. When the annuitant dies, any remaining payments are usually forfeited. Furthermore, if the insurance company should fail, the monthly income could end.

Charitable Gift Annuity (CGA)

A Charitable Gift Annuity is an ideal vehicle for someone who would like to make a significant charitable gift and receive payments for life. It is very simple to execute. You can transfer cash or appreciated securities to the charity, and the charity agrees to pay a fixed income for life to the donor or another beneficiary. Without the added mortality and expense charges, the monthly payment can be higher. In fact, the monthly payment may be more than what you are currently receiving on your CDs or bonds. You receive an immediate tax deduction for a portion of the gift, and the promise to pay the annuity becomes a general obligation of the charity so there is no risk of default as long as the charity is well established and experienced at managing annuities. At the death of the beneficiary, the remaining balance passes to the charity.

It is very important to understand the financial stability of the charity. Some charities have taken on annuity commitments, but their investments do not keep up with the payments. Annuities are generally purchased by people who are in good health and think they have longevity. Annuitants may live much longer than expected and generate a loss for the charity. For example, the life expectancy of an 80 year old woman is 9 years. There is a good likelihood that she could live to 98 requiring double the number of payments, so the financial strength of the charity is very important.

Using a Charitable Gift Annuity to Help Elderly Family Members

We often want to help elderly parents or other relatives who may need some additional income to pay living or medical expenses. It is difficult to do this in a tax-efficient manner. A Charitable Gift Annuity with the elderly person as the income beneficiary is a good way to transfer income tax efficiently. The donors set up a Charitable Gift Annuity using appreciated stock or cash. They will get an immediate tax deduction for the charitable donation, and the elderly person will receive income for their life. The annuitant will pay taxes on the taxable portion of the payment. At the death of the income beneficiary, the remainder goes to the charity.

However, one must have a clear understanding of the beneficiary's financial picture. One problem is that Medicaid eligibility or other types of government assistance such as subsidized housing or Veterans Aid and Assistance can be impacted by an additional source of regular income. Thus, it is important to consult with an elder law attorney before setting up a charitable gift annuity for another individual.

Conclusion

With a Charitable Gift Annuity, you can create a guaranteed income for life, feel the satisfaction of contributing to a worthy charitable cause, and receive an immediate tax deduction for the charitable portion of the gift. Everyone wins!

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