



# Gifts That Pay Income

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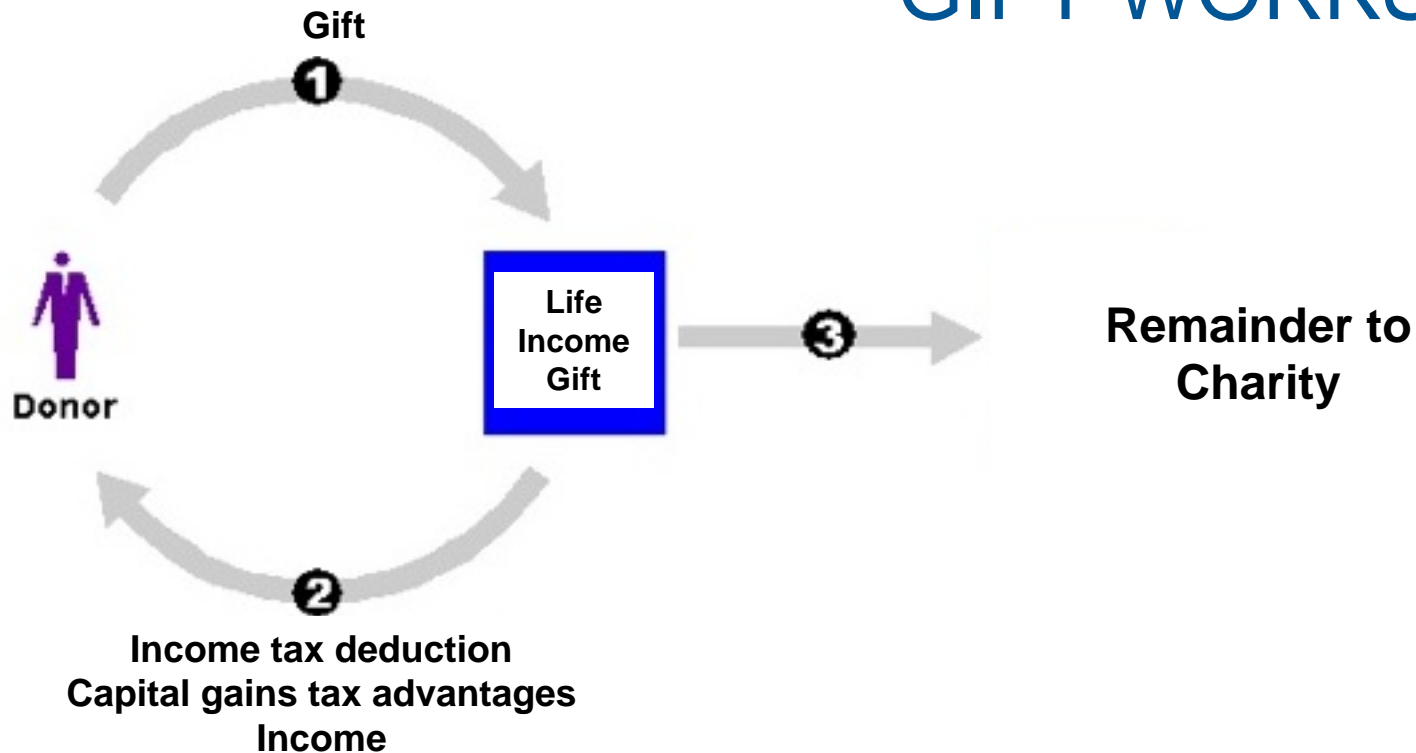
September 15, 2011

# AGENDA

- **How a Life Income Gift Works**
  - Fixed v. Variable Income
  - Financial and Estate Planning Objectives
- **Charitable Gift Annuity**
  - Obtaining the license to issue CGAs
  - Know your resources
- **Charitable Remainder Annuity Trusts**
- **Charitable Remainder Unitrusts**
- **Summary Comparison**
- **Working with Donors**



# HOW A LIFE INCOME GIFT WORKS





## HOW IS THE DONOR'S INCOME DETERMINED?

- Fixed Income
  - Charitable Gift Annuity
    - Immediate Payment
    - Deferred
    - Flexible deferred
  - Charitable Remainder Annuity Trust
- Variable Income
  - Charitable Remainder Unitrust

## FIXED VS. VARIABLE PAYMENT

Single Age:	60	65	70	75	80	85	
Two Ages:	66.7	71.7	76.7	80.8	85.9	91.9	
Horizon (yrs):		24.2	20.0	16.0	12.5	9.5	6.9
	Unitrust Payment			Annuity Payment			



# FINANCIAL AND ESTATE PLANNING OBJECTIVES

- Generate a deduction in a high income year
- Avoid or reduce capital gain tax
- Reduce estate or gift taxes
- Diversify highly appreciated assets
- Increase income for self or others
- Balance riskier personal investments



# CHARITABLE GIFT ANNUITY (CGA)





## HOW DOES A CGA WORK?

- Contract between charity and donor to make payments to one or two beneficiaries in exchange for a given funding amount
  - For life
  - Payment amount never varies
  - Charitable deduction
- American Council on Gift Annuities suggested rate schedule
- Annuity is backed by charity's assets
- Part of income might be tax-free





## WHO IS BEST SUITED FOR A CGA

- Income beneficiaries 65 or older
- Younger beneficiaries using a deferred or flexible deferred CGA looking to supplement
- Retirement income in the future
- Donors with smaller capacities
- Donors looking for secure payments
- Donors looking for simplicity

# HOW TO REGISTER FOR A CGA LICENSE

Charities must be licensed to issue gift annuities by obtaining A Certificate of Authority and Annuities Society from the California Department of Insurance. [www.insurance.ca.gov](http://www.insurance.ca.gov)

## The Application has 16 sections

- |                              |   |  |  |
|------------------------------|---|--|--|
| 1. Application               | 5. Financials   | 9. Table of Rates                                      | 13. Trust Declaration                            |
| 2. Filing Fee                | 6. Board Resolution   | 10 Questionnaire                                       | 14.1. Investment Expertise of Investment Advisor |
| 3. Articles of Incorporation | 7. Annuity Agreements                                       | 11. Authorization for Disclosures of Financial Records | 14.2. Proposed Advertising                       |
| 4. Bylaws                    | 8.1. Individual Affidavits<br>8.2. Organizational Affidavit | 12. Agent  | 15. Bank Account                                 |



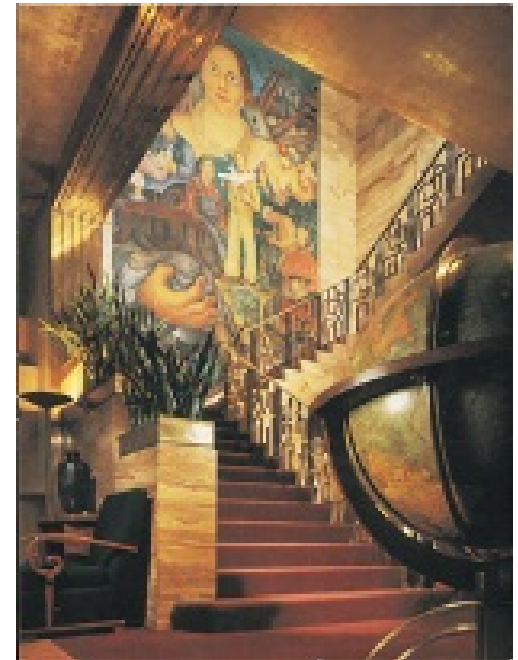
# KNOW YOUR RESOURCES – ALTERNATIVES TO OBTAINING YOUR OWN LICENSE

Partner with a licensed organization  
(i.e. Silicon Valley Community Foundation)

## **Advantages to partnering**

- Everyone benefits; Risk is dispersed among all contracts in a robust CGA pool with many contracts
- Potential marketing assistance
- Knowledgeable guidance for your boards, committees and staff
- Zero or reduced cost to your organization
- No risk, No administration; the licensed organization manages the CGA program, payments and tax reporting

# CHARITABLE REMAINDER ANNUITY TRUST (CRAT)





## HOW DOES A CRAT WORK?

- Trust is set up to pay beneficiary or beneficiaries fixed dollar amount annually
  - More than two beneficiaries permitted
  - Income tax deduction is available
- Payout rate is negotiated between donor and charity
  - Minimum payout rate is 5%
- Trust pays fixed annual amount for life or a term of years (up to 20 years)
- Requires a trust agreement



## WHO IS BEST SUITED FOR A CRAT?

- Donors who want to control trust investments
- Donors who want to include multiple income beneficiaries
- Donors looking to support more than one charity
- Very large gifts, where charity is uncomfortable assuming the payment liability

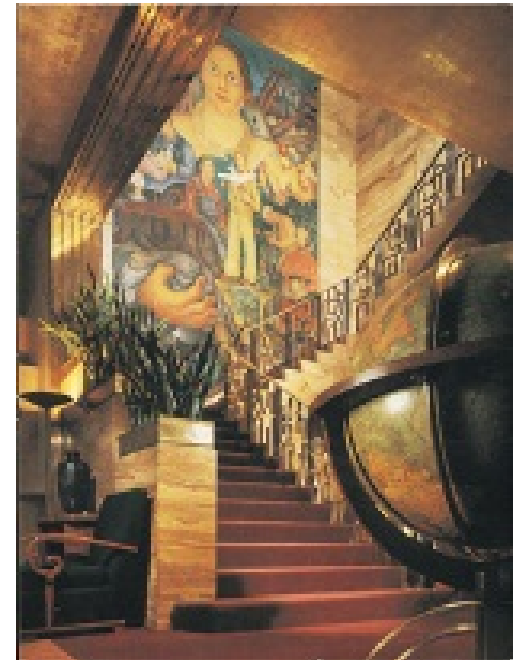


## WHO IS NOT SUITED FOR A CRAT

- Donors setting up testamentary CRAT
- Donors using unmarketable assets to fund CRAT
- Donors with long horizons
- Smaller funding amounts



# CHARITABLE REMAINDER UNITRUST (CRUT)





## HOW DOES A CRUT WORK?

- Trust is set up to pay beneficiary a percentage of the fair market value of the trust annually
  - Fair market value of the trust generally calculated on the first day of the calendar year
  - More than two beneficiaries permitted
  - Income tax deduction is available
- Payout rate is negotiated between donor and charity
  - Minimum payout rate is 5%
- Trust pays percentage of trust's fair market value for life or a term of years (up to 20 years)
- Requires a trust agreement



## WHO IS BEST SUITED FOR A CRUT?

- Donors that want payments to adjust for inflation
- Donors who wish to set up a testamentary CRUT
- Donors who want to include multiple income beneficiaries and support multiple charities
- Donors who are using complex or illiquid assets, such as real estate, to fund the CRUT

## WHO IS NOT SUITED FOR A CRUT

- Donors seeking predictable payments
- Donors using smaller funding amounts
- Donors with securities that have taken a loss
- Donors seeking to fund the CRUT with heavily mortgaged real estate
- Donors adverse to irrevocable gifts

## SUMMARY COMPARISON

CGA	CRAT	CRUT
Lower gift minimum	Higher gift minimum	Higher gift minimum
Easier to establish	Attorney must draft CRAT	Attorney must draft CRUT
Charity issues CGA	Donor can self-trustee	Donor can self-trustee
Two beneficiaries max	Multiple beneficiaries	Multiple beneficiaries
Generally one charitable beneficiary	Multiple charitable beneficiaries permitted	Multiple charitable beneficiaries permitted
Charitable beneficiary can not be change	Charitable beneficiary can be changed	Charitable beneficiary can be changed
Fixed payments based on age/gift amount	Fixed payments, negotiated	Variable payments based on FMV of trust
Payments insured	Payments uninsured	Payments uninsured





## WHEN TO RAISE THE TOPIC WITH A DONOR

- Donor cannot make a significant outright gift
- Donor is looking for additional income
  - For self
  - For others
- Campaign gift
  - Donor can't currently give up income from assets
    - Term of years trust
  - Donor wants to reach a certain dollar goal
    - Outright gift + CGA/CRAT

## ROLE OF THE DEVELOPMENT OFFICER

- Listen for the donors' objectives
- Learn about their financial situation, including assets
- Explain basic benefits to donors
- Good partnership opportunity between Major Gifts and Planned Giving



Thank you!

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## Charitable Gift Annuity Licensing in California

All organizations who wish to issue charitable gift annuities in California must obtain a Certificate of Authority as a Grants and Annuities Society obtained from the California Department of Insurance. The application has 16 sections.

For the application and instructions, visit the California Department of Insurance at: [www.insurance.ca.gov/0250-insurers/0300-insurers/0100-applications/certificate-of-authority/index.cfm](http://www.insurance.ca.gov/0250-insurers/0300-insurers/0100-applications/certificate-of-authority/index.cfm)

1. **Application.** A simple three page form provided by the California Department of Insurance (“CADI”). Once complete, it must be signed and notarized by a corporate officer.
2. **Filing Fee:** The current filing fee \$3,599, checks must be made payable to The Department of Insurance.
3. **Articles of Incorporation.** A certified copy of your Articles of Incorporation must be provided, if you do not have this, you can obtain yours from the Secretary of State.
4. **Bylaws.** Include a copy of your current By Laws which must be certified by having the corporation’s secretary sign and date them.
5. **Financials.** Provide two complete copies of the organization’s most recent independent audited financials each certified by having the organization’s CFO sign them.
6. **Board Resolution.** Your Board must formally resolve to issue CGAs by unanimous written consent. The resolution must be certified by the organization’s secretary.
7. **Annuity Agreements.** Provide two copies of each type of annuity contract you intend to issue (one-life, immediate and deferred; two-life, immediate and deferred; joint and survivor, immediate and deferred)
- 8.1 **Individual Affidavits.** This form is part of the application. The Board chair, Investment and Development Committee Chairs, CEO, CFO, Head of Development, Controller and the Directors of Development and Investments must complete individual affidavit forms. Questions includes height, weight, SSN, driver’s license number, employment history, personal residence address, criminal record, etc.
- 8.2 **Organizational Affidavit.** This form is provided by the CADI as part of the application. You must list all supporting organizations and subsidiaries with their tax identification numbers, as well as a list of all officers and directors of the applying org.
9. **Table of rates.** You must supply the CGA rates you intend to use. We used ACGA. If you use your own rates, you must supply an actuarial certificate prepared by a qualified actuary.
10. **Questionnaire.** A form is part of the application and must be signed by a corporate officer and notarized. The form insures that the organization understands the liability involved with a CGA program, has the size and capacity to manage the program, understands the investment responsibility and requirements, that assets must remain separate from other assets held by the organization, who will manage the pool, the disposition of assets received, etc.

11. **Authorization for Disclosure of Financial Records.** This form is provided by the CADI as part of the application. It discloses that CADI may request your financial records.
12. **Agent.** Charities outside California that wish to issue CGAs to donors domiciled in California must contract a service agent located within the state. This is for CADI's convenience to issue notices, legal process and papers. Agencies like Paracorp charge approximately \$200 annually for this service.
13. **Trust Declaration.** You must provide a trust agreement, prepared by legal, to create the CGA reserve trust. If self-trusteed, must provide a custody agreement with a Trust Declaration. Preparation of this trust instrument can incur significant legal expense.
- 14.1 **Investment Expertise of Investment Advisor.** If you employ an outside investment manager to administer and invest the CGA Pool, you must provide your investment agreement with that firm along with a company profile and investment philosophy.
- 14.2 **Proposed Advertising.** Provide sample marketing material for your CGA program. The CADI is essentially checking for rates and property disclaimers.
15. **Bank Account.** If organization is using bank to manage trust account (see 13), provide the bank and account information.

Our application was 250 pages...

We completed it twice...

The license took 5 years to obtain...