

# Twelve Ways To Close More Gift Annuities

NORTHERN CALIFORNIA PLANNED GIVING COUNCIL  
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## How Charities May Offer Gift Annuities to Northern California Donors

- Local charity issues gift annuities
- Out-of-state charity issues gift annuities to Northern California donors
- National charity issues gift annuities, working with local affiliate
- Local community foundation issues gift annuities, and residua benefits a local charity that does not itself issue gift annuities

All charities that issue gift annuities in California are required to obtain authorization from the State Insurance Department

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## Ways Charities Might Address the Risk of Gift Annuities

- Self-insure gift annuities adopting certain risk-control strategies (over 90% of charities self-insure their annuities).
- Reinsure gift annuities, i.e. use part of the contribution to purchase a commercial annuity that will pay the promised amount. (All or a portion of the risk could be reinsured.)
- Unbundle the gift annuity, i.e. simultaneously make an outright gift and purchase a gift annuity. Not actually a gift annuity but mimics it.

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### News From The April 25-27, 2018 ACGA Conference in Seattle

- Gift annuity rates will increase on July 1.
- Average size of gift annuities has increased to \$64,592.
- Average age of annuitants of immediate annuities remains at 79.
- 54% of annuitants of new annuities are female.
- Residuum of annuities terminated in last five years averaged 62% of contribution. It was higher previously.

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### 1

Show Why Gift Annuities Are Appealing Under the Tax Cuts and Jobs Act




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Although the deductions from contributions for gift annuities are affected the same as deductions from outright gifts,

- The deduction is often a minor consideration.
- More important are:
  - Fixed payments for life.
  - Portion of payments tax-free, and
  - Ratable reporting of gain.

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### Suggestion

Unless the deduction will be beneficial, select lowest Sec. 7520 rate.

If donor will realize no estate tax savings from a charitable bequest, explain that accelerating the bequest via a gift annuity could save income tax.



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## 2

Increase Your Donor Base by Expanding the Age Range of Donors

Primary Market for Immediate Annuities  
Americans 70 and older  
27.9 million

What about adding to this market?  
Americans 50-69  
73.0 million

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### How to expand the market

Not by reducing the minimum age for annuitants,

But by showing younger donors how to use an annuity to provide for an older individual.

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### Older Individuals Might Be

A parent in need of a subsidy.



A retiring domestic worker or company employee with an inadequate pension



An older relative with low income



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### Example of Forrest



Forrest is currently giving his mother \$7,000 per year.  
How much pre-tax earnings is required for this \$7,000?

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### How Forrest Uses a Gift Annuity to Support His Mother

- Forrest contributes stock having a FMV of \$100,000 and a cost basis of \$40,000.
- His mother, age 82, is the annuitant.
- Annual payment is \$7,200, \$5,510 tax-free for life ex.
- Forrest's deduction is \$53,998
- He is taxed on \$27,601 of gain. Why?
- He makes a taxable gift to his mother of \$46,002

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### Issues When an Employer Establishes a Gift Annuity for an Employee

Tax consequences for employee



Tax consequences for employer

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Offer a Tax-Free Gift Annuity

I thought that payments from a gift annuity would be partially taxable as ordinary income, partially taxable as capital gain (if appreciated property is contributed), and, in most cases, partially a tax-free return of capital.

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### Example of George



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### Summary of Benefits to George

- Tax-free payments exceed tax-free interest from municipal bonds.
- Reduces federal and state income tax.
- Increases annual giving.
- Can create an endowment with residuum to continue support.
- May request full payment at any time.

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### 4

#### Use a Gift Annuity to Create a Virtual Endowment



I thought that an endowment funded with a gift annuity would not come into existence until the death of the sole surviving annuitant because the charity would likely keep the entire contribution in the reserve fund until that time.

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### Example of Lois

Lois, age 75, wants to fund scholarships now, but she is concerned whether future income will be sufficient.

What might you suggest to her?




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Example of Lois (continued)

Contribution	\$450,000
Annual Payment (retained for scholarship)	26,100
Initial deduction	215,595

May elect to receive payment anytime.

Endowment created with residuum plus portion of payments in excess of \$20,000.

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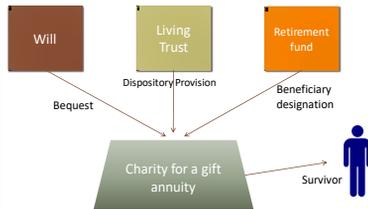
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Promote Testamentary As Well As Inter Vivos Gift Annuities




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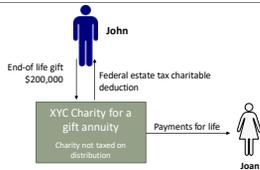
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Gift Annuity For A Survivor



- \*Payments equal distribution multiplied by applicable rate
- \*Annuitant fully taxed on payments
- \*Procedure

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## Appeals To Donors Who

- Want to provide the security of fixed payments to a survivor.
- Want to relieve survivors of investment responsibilities.
- Want to make a charitable gift.

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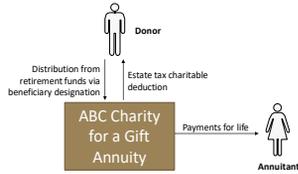
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### 6

#### Fund a Gift Annuity with Remaining Retirement Funds

- Payments equal distribution multiplied by applicable rate.
- Annuitant fully taxed on payments unless gifts from a ROTH plan.




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## Procedure

- Charity and donor execute gift annuity agreement according to which charity agrees to pay an annuity equal to amount received multiplied by applicable rate.
- Donor completes a beneficiary form designating that, upon his or her death, the assets, or a percentage of them, be transferred to the charity.
- Gift can be from IRA, 401(k), 403(b), or any defined contribution plan.

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7

Propose a Commuted Gift Annuity to Those Who Want Fixed Payments for a Term of Years

Can a gift annuity be for a term of years?

No, it must be for life, per IRC Sec. 514(c)(5)

However, life payments can be commuted to installments for a term of years.

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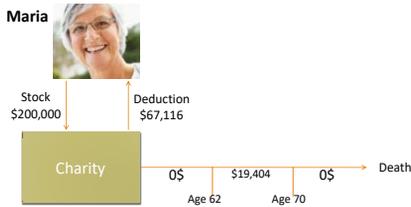
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Example of Maria



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8

Market the Flexible Deferred Gift Annuity As A Supplemental Retirement Plan

**Advantage:** Can decide later when payments begin based on circumstances.

**Disadvantages:** Deduction will probably be somewhat lower. (Though a lower deduction results in more of the payments being tax-free.)

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### David's Flexible Deferred Gift Annuity

Elective Start Date	Age at Start Date	Annuity Rate	Total Annuity
3/31/2028	60	6.1%	\$6,100.00
3/31/2029	61	6.3%	\$6,300.00
6/30/2030	62	6.6%	\$6,600.00
6/30/2031	63	6.8%	\$6,800.00
6/30/2032	64	7.2%	\$7,200.00
6/30/2033	65	7.6%	\$7,600.00
6/30/2034	66	8.0%	\$8,000.00
6/30/2035	67	8.3%	\$8,300.00
6/30/2036	68	8.7%	\$8,700.00
6/30/2037	69	9.2%	\$9,200.00
6/30/2038	70	9.7%	\$9,700.00

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### Super Flexible Deferred Gift Annuity

- David contributes the \$100,000 for 10 flexible deferred gift annuities.
- \$10,000 is allocated to each annuity
- David can elect payments anytime during the period 2024-2034.

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### What David Actually Does

Age	Number of Annuities Activated	Payment
64	2	1,440
65	3	3,720
66	1	4,520
67	1	5,350
68	1	6,220
69	1	7,140
70	1	8,110

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9

Provide a Step Annuity for Those Concerned About Inflation

A step annuity is an immediate gift annuity bundled with a number of deferred gift annuities, each with a successively later start date.




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Example of Sylvia

Type of Annuity	Contribution Amount	Payment Beginning Date	Payment Increment	Total Payment
Immediate	\$100,000	3/31/2018	-0-	\$5,100
Deferred	\$3,236	3/31/2019	\$185	\$5,485
Deferred	\$3,131	3/31/2020	\$192	\$5,677
Deferred	\$3,046	3/31/2021	\$199	\$5,876
Deferred	\$3,015	3/31/2022	\$206	\$6,082
Deferred	\$2,890	3/31/2023	\$213	\$6,295
Deferred	\$2,808	3/31/2024	\$220	\$6,515
Deferred	\$2,735	3/31/2025	\$228	\$6,743
Deferred	\$2,776	3/31/2026	\$236	\$6,979

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Diversify Life Income Plans to Control Risk and Allow for Growth

Just as a balanced portfolio consists of fixed-income investments and equities,

so

Might a balanced charitable life income plan consist of a gift annuity and a charitable remainder unitrust.

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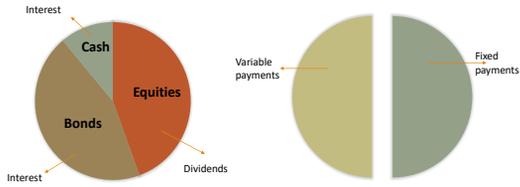
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## Achieving Balance of Risk and Growth Potential




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## Example of Sam and Rachel

<b>Contribution</b>	For unitrust	\$300,000
	For gift annuity	\$300,000
<b>Payments</b>	Unitrust	5% of trust assets
	Gift annuity	\$15,000
	Gift Annuity:	
	Tax-free:	\$7,090
	Taxable OI:	\$4,365
	Capital Gain:	\$3,545
<b>Taxation of Payments</b>	Unitrust:	Varies, but probably combination of OI and capital gains
<b>Charitable Deduction</b>	Unitrust	\$145,557
	Gift Annuity	\$121,455

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### 11

#### Accept Non-Traditional Assets for Gift Annuities

- Real estate
- Closely held stock
- Tangible personal property
- Precious metals
- Life insurance policies
- Commercial deferred variable annuities
- Commodities




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### Assets Charity A Accepts for a Gift Annuity

	Yes	No	Possibly
Cash	X		
Publicly-traded securities	X		
Real Estate			X
Closely-held C stock		X	
Closely-held S stock		X	
LLC interest		X	
Tangible Property			X
Precious Metals			X
Life Insurance	X		
Commercial annuity	X		
Commodities		X	

How would your charity differ?

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### Property that Can Be Readily Converted to Cash

- Precious metals
- Life insurance policy
- Deferred variable annuities




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### Property That Entails Risk

- Real Estate
- Closely held stock
- Tangible personal property




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## Controlling Risk When Real Estate is contributed for a Gift Annuity

- Offer lower-than-normal gift annuity rate.
- Ask donor to defer payments.
- Identify buyer prior to the gift.
- Charity secures pledge from donor, then markets property and executes contingent purchase-and-sale agreement.
- Charity exercises "put" agreement with interested buyer.

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## The Reserve Question



In certain states assets other than cash and publicly traded securities may not be used to satisfy reserve requirements.

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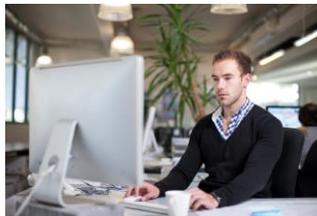
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### 12

Create Compelling Gift Annuity Illustrations



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## Possible Elements of a Customized Illustration

- Statement of donor's objectives
- List of assumptions or data
- Description of proposed gift plan
- Explanation of income to beneficiary(ies)
- Tax implications
- Graphic illustration
- Impact of gift on the charity
- Procedure to complete gift

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## Comparison of Alternatives

	Invest in CD	Contribute for a Gift Annuity
Amount	\$50,000.00	\$50,000
Interest	\$1,250.00	N/A
Annuity payments	N/A	\$3,000.00
Ordinary income	\$1,250.00	\$789.00
Tax-free	\$0	\$2,211.00
Estimate federal and State income tax	\$375.00	\$237.00
After-tax cash flow	\$875.00	\$2,763.00
Charitable deduction	\$0	\$23,909.00
Estimated tax savings	\$0	\$7,173
Retention of \$50,000 capital	Yes	No

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How do you make gift annuities appealing in this environment?

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