

Keys to Effective Charitable Giving

CHARITABLE GIFT ANNUITIES

While many people may not be pleased with the low interest rates, there are silver linings to the situation, creating some excellent charitable gift planning opportunities. One popular alternative is a charitable gift annuity.

For people who depend upon income from relatively safe investments such as Certificates of Deposit, Money Market funds and the like, now may be an excellent time to consider the benefits of a charitable gift annuity. They include:



- Fixed income you can never outlive.
- Very attractive annuity rates based upon their ages.
- An immediate charitable income tax deduction and future estate tax savings.
- Tax-free income for a portion of the annuity payments.
- The opportunity to leave a charitable legacy gift to their favorite ministry.

What Is a Charitable Gift Annuity?

A charitable gift annuity is a simple contractual agreement between a licensed, state-approved charity and a donor. In exchange for the donor's contribution, the charity is obligated to pay an annuity income for his lifetime. The rates are based upon the suggested rates of the American Council on Gift Annuities to which 95 percent of American charities adhere. Upon the death of the annuitant (or surviving annuitant), the remaining principal is available for the charity's use.

A sample of payout rates is shown below. Payment is a combination of interest and principal.

Single Life		Two Lives	
AGE	RATE*	AGE	RATE*
65	5.7%	65, 65	5.0%
70	6.3%	70, 71-72	5.6%
75	7.0%	75, 75	6.2%
80	8.1%	80, 80	6.9%
85	9.1%	85, 85	8.1%
90	10.1%	90, 90	9.8%

*Rates are effective as of Jan 1, 2024 through June 30, 2024

Case Study

To see how the annuity works, let's look at the case of Mary Needsmore. Mary, age 91, would like additional income to support her retirement since declining interest rates are starting to "squeeze" her cash flow. However, she's reluctant to take the requisite risk to increase her returns. She has a good portion of her investments in Certificates of Deposit (CDs), savings accounts and Money Market funds. After she passes away, she would like to leave a gift to Jesus Film Project®, a ministry in which she has had an interest over time. Let's assume she has a \$100,000 CD which is coming due. Her bank is offering her a renewal rate of 5 percent. This amounts to approximately \$5,000 a year in taxable ordinary income. Assuming that her marginal federal and state income taxes are a combined 28 percent, her net after-tax annual income from the investment will be \$3,600. If Mary were instead to take the same \$100,000 and contribute into a charitable gift annuity (CGA), she would receive, based upon her age, a 10.1 percent annuity rate. This would amount to \$10,100 in annual pre-tax income. Of this amount, \$7,939 will be tax free.* Her net after-tax annual income would be \$9,495, Mary's after-tax income will be more than 2.2 times greater!

In addition, she would also receive a charitable income tax deduction of \$61,082 which would generate additional income tax savings. This charitable deduction would likely be limited to 60 percent of her adjusted gross income with a five-year carry forward for any excess contributions that she could not deduct in the year of the gift.

*Tax-free portion applies until donor reaches actuarial date of death; thereafter, entire payment is taxable ordinary income.

	CD	CGA
Value	\$100,000	\$100,000
Rate	5%*	10.1%
Income	\$5,000	\$10,100
Taxable	\$5,000	\$2,161
Tax Free	\$0	\$7,939
After-Tax Income	\$ 3,600	\$9,495
Charitable Deduction	\$0	\$61,082
*1-Year CD		

Who Is a Candidate for a Charitable Gift Annuity?

A person who:

- Would like to increase income and standard of living.
- Would like to receive a fixed secure income that cannot be outlived.
- Has low income-producing investments, such as CDs, stock, or real estate and would like to see an increased return.
- Would like tax-free income and/or capital gains income.
- Would like to get income tax deductions.
- Would like to establish a charitable legacy gift for his or her favorite charity.



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