



Charitable Gift Annuities

by Vice President for Institutional Advancement Barry Nickelsberg

Now there is a way to achieve your financial goals while helping meet the educational, research and leadership goals of Sherman College and the chiropractic profession.

Creating a charitable gift annuity allows you to contribute to Sherman College, receive a generous, guaranteed income, and benefit from tax savings. At the same time, Sherman College receives much-needed support to enhance and continue major projects in research and leadership development while providing additional scholarships for students.

What is a charitable gift annuity?

A charitable gift annuity is a simple contract between a donor and Sherman College. In exchange for an irrevocable gift of cash or securities, Sherman College agrees to pay one or two donors a fixed sum monthly, quarterly, semiannually or annually for life. Charitable gift annuities may be created with a gift of \$10,000 or more. Additional contributions create new annuity contracts rather than build on existing annuities.

How is the annuity rate determined?

The annuity rate depends on the age of the donor(s) at the time of the gift. The older the donor(s), the more income Sherman College can agree to pay. The rate in effect when you acquire the annuity never changes and is guaranteed for life. These rates are established by the American Council on Gift Annuities.

Am I entitled to an immediate charitable deduction?

Yes! You can claim an income tax deduction for the portion of the gift annuity that represents the charitable gift. The amount of the deduction is determined by an IRS formula and is claimed in the year the gift is made.

Your donation to a charitable gift annuity funded with cash is deductible up to 50

percent of your adjusted gross income (AGI). Gifts of long-term appreciated securities (held at least a year and a day) are deductible up to 30 percent of your AGI.

If your income is insufficient to use the entire deduction in one year, you can carry forward the unused portion for up to five years.

Are there any other benefits?

Yes! In some cases, part of each payment is tax-free, increasing each payment's after-tax value. The tax-free portion is greatest when the annuity is funded with cash. If you give appreciated property to fund a gift annuity, only that portion of the reportable gain attributable to the annuity interest is deemed taxable; the taxable portion of the gain is spread over the life expectancy of the donor and passed through the annuity payments.

Example

Dr. Jones is 82 years old and has been investing primarily in fixed income investments to supplement her income. She has a \$50,000 Certificate of Deposit that is now coming up for renewal, but the reinvestment rate is only 5 percent. She decides to put the \$50,000 into a Sherman College Charitable Gift Annuity.

At her age, Sherman College was able to create an annuity that will pay Dr. Jones 8.5 percent annually on her \$50,000. As a result of making this gift, she is entitled to an income tax charitable deduction of \$21,486. She will receive a yearly annuity of \$4,250.

Furthermore, approximately 68 percent of each annuity payment is tax-free for the next 8.3 years. Between the charitable deduction and the tax-free component, Dr. Jones, who is in the 38.6 percent federal tax bracket, realizes a taxable equivalent rate of return of 17.3 percent on her gift. After her death, the proceeds from Dr. Jones' charitable gift annuity will be used to provide scholarship support to current students.

Your benefits include:

- Federal income tax charitable deduction.
- Fixed annual income for life for up to two named annuitants.
- If you fund the annuity with an appreciated stock, bond or mutual fund, a portion of the income will be considered a capital gain distribution. If you are named an annuitant, this tax will be spread out over your life expectancy.
- Your estate may enjoy reduced probate costs and reduced estate taxes.
- You will provide generous support to Sherman College to help continue our important work.

The deferred-payment charitable gift annuity

Many retirement arrangements such as IRAs, Keoghs and 401(k) plans have contribution limits. An alternative, if you are younger and wish to supplement your retirement plan, is the deferred payment charitable gift annuity. This program enables you to give cash or securities now and receive annuity payments at a later specified time, such as at retirement. Deferring annuity payments yields higher payouts when payments begin and a significantly larger income tax deduction in the year when the annuity is established.

Example

Dr. Doe, age 56, and his wife, age 50, are looking for creative ways to save for their planned retirement at age 65. By contributing \$25,000 now to a deferred payment charitable gift annuity that will begin at age 65, Dr. Doe is entitled to an immediate income tax charitable deduction of \$9,228. Additionally, when he reaches age 65, Sherman College will pay him a lifetime annuity of \$4,050 (8.4 percent), which represents an 18.9 percent return on his initial \$25,000 gift.

If you would like more information about charitable gift annuities or other planned giving options, or if you would like us to prepare a personalized illustration for you with income and tax deduction information, please contact the Office of Institutional Advancement at 800-849-8771, ext. 241.

PLEASE NOTE: This information reflects, in very general terms, how a gift might affect specified tax liabilities. This is not an effort to reflect your current tax picture or suggest that a particular gift will have the indicated result in your case; only your lawyer and accountant can do that. We suggest you consult your professionals before acting upon the concepts reflected here.