

CHEAP TRICKS

Gift annuities help the Society and protect your financial future

by Martin M. Shenkman, CPA, MBA, PFS, JD

Year-end cheer: benefits of gift annuities

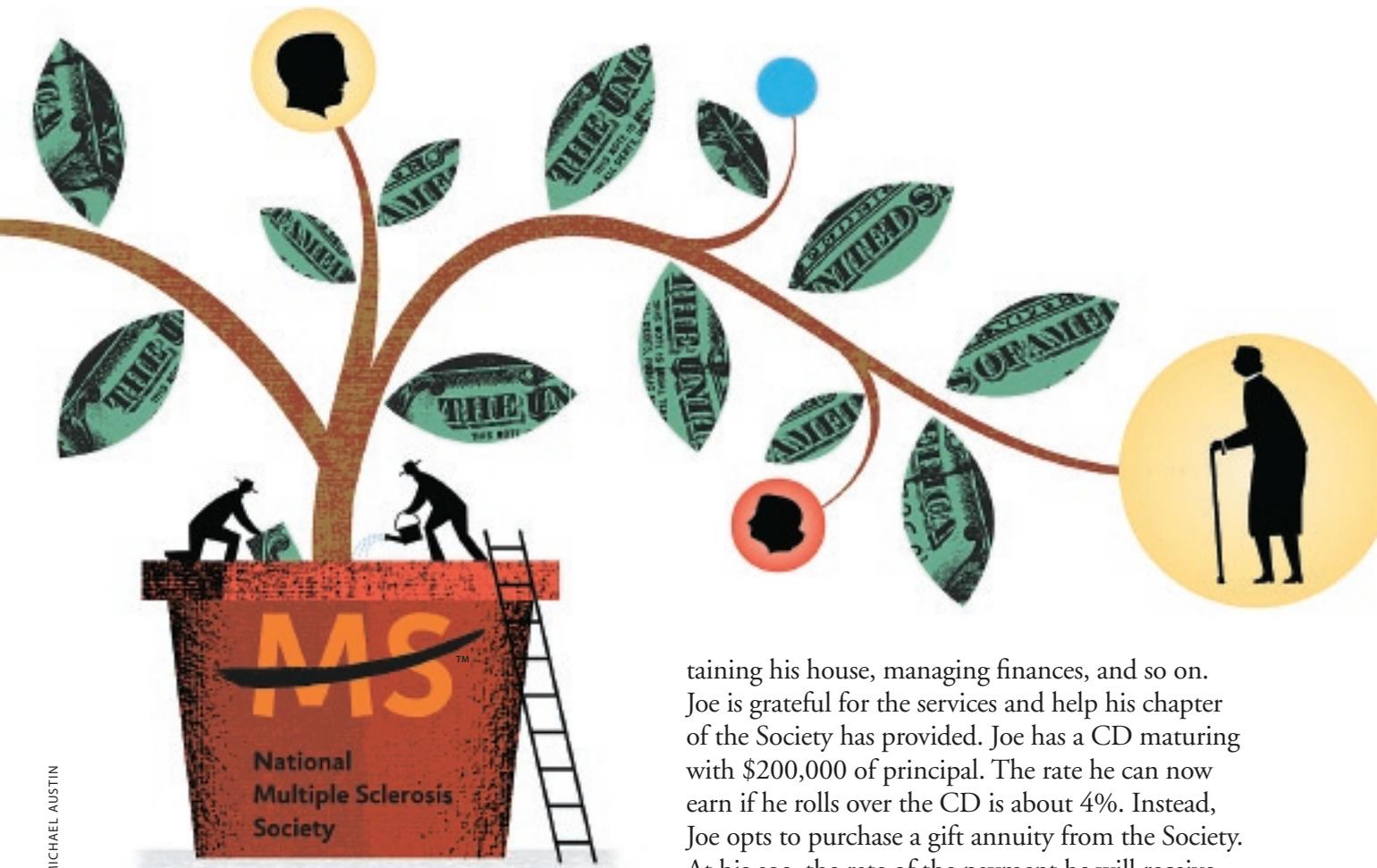
It's getting near year-end, when everyone starts thinking about Prancer, Dancer, Vixen, Donner and the IRS. Yes, year-end brings Christmas cheer, and year-end tax planning angst. But there may be a simple and great solution to some of your year-end tax woes, and many of your other financial concerns as well. Here's some of the great benefits you might get (we'll tell you about the fine print later):

- An income tax deduction that can cut the tax bill you'd otherwise owe come April.
- A monthly or quarterly cash flow stream for the rest of your life.
- Cash flow payments that are fixed regardless of what happens.
- No worries about asset allocation, monitoring a stock portfolio, or market ups or downs (or recently, downs and downs).
- A return that may be substantially greater than what you can earn on a money market account.
- Possible capital gains savings. If you use appreciated property (e.g., real estate or securities) to pay for the gift annuity, you won't have to recognize capital gains immediately as you would if you simply sold the property and purchased a commercial annuity. Instead, the taxable gain will be recognized over the period the annuity is expected to be paid (your actuarial life expectancy).
- Possible income tax savings. A portion of every annuity payment you receive will be tax free as it will be considered by the IRS as a return of part of your payment for the annuity. The tax rules are complicated, so you should consult your accountant.



- Psychological satisfaction. You'll know you're helping the Society continue its essential work in funding research to find a cure and helping other people living with MS.
- Gift annuities are highly regulated by the states in which they are offered to ensure that the charity will be able to meet its contractual obligation to you. Many states oversee charitable annuity programs by requiring an initial registration and monitoring annual filings by the charity.

Gift annuities are subject to strict regulation. This article is intended to explain the use of gift annuities, but does not recommend or endorse them for any particular reader. Payment amounts cited in the examples may change each month, so please call 1-800-923-7727 for customized, current calculations or use the calculator on our Web site (nationalMSsociety.org/gift-calculator). We recommend that you consult with your financial advisor before making a contribution for a charitable annuity.



MICHAEL AUSTIN

OK, you're ready to sign up, but it sounds like one of those too-good-to-be-true late-night cable television pitches for a kitchen gizmo. But it's not. This technique is a common and widely used financial and charitable planning tool.

What is a gift annuity?

Gift annuities are a contract between you and the Society. You give the Society a one-time payment. You'll receive a lifetime fixed payment, called an annuity. The amount of the annuity is determined at the start. You'll know what you'll be getting before you pay. On your death (or the death of a spouse or other loved one, since you can name up to two people to receive the annuity), the Society will receive all the funds that remain for its charitable purposes.

How you can use gift annuities

Joe Smith is 67, single and living with MS. Since a recent exacerbation, Joe is finding it increasingly difficult to deal with the responsibilities of main-

taining his house, managing finances, and so on. Joe is grateful for the services and help his chapter of the Society has provided. Joe has a CD maturing with \$200,000 of principal. The rate he can now earn if he rolls over the CD is about 4%. Instead, Joe opts to purchase a gift annuity from the Society. At his age, the rate of the payment he will receive is 5.9%. So his return is \$11,800, substantially more than he could get on a CD. In addition, the amount Joe receives from his gift annuity is not fully taxable, so he will net even more after taxes than a comparable CD.

Another example: Jane Smith has a successful business. Her brother Sam is living with MS and Jane is worried that if Sam's MS progresses it may be hard for him to keep his job. She also knows that Sam has had a tough time obtaining disability insurance, so he has no safety net. Jane has been moved by Sam's involvement and dedication to the Society. She decides that each year for as long as she can she will purchase a \$10,000 annuity for Sam from the Society. She believes that if she can accumulate enough gift annuities for Sam the payments will be sufficient to cover his mortgage should he stop working and, once his mortgage is paid off, will provide a cash flow every three months to help with medical costs that are likely to be higher when Sam is older. Jane's generosity might have gift tax implications, so she should consult with her accountant.

A third example: Jill and Mike Jones have been married many years. Jill is living with MS and Mike has recently retired. Mike wants to minimize any additional burdens Jill might have to face in the future. He purchases a large gift annuity that is designed to make payments to both himself and Jill, and to whomever is the survivor. He feels that this will provide Jill with guaranteed payments if she outlives him, with no need for her to deal with investment issues and complexities—or probate. (Gift annuities payable to a survivor of two annuitants does not require probate.)

While gift annuities are a great way to provide for your financial future, or the financial future of a friend or loved one, all while helping the Society achieve its important goals, there are a number of issues that you must understand to make an informed decision. Here are several of them:

- There is no flexibility. You cannot get at the principal you've given away. Your cash flow is higher, but your annuity is a fixed payment that may not keep pace with inflation. If you live for many years after paying for an annuity, inflation might eat into your purchasing power. Part of the solution to these issues is to limit the portion of your investment assets you use to purchase gift annuities.
- The younger you are, the lower the gift annuity payment rates. Under age 55 it probably doesn't pay to buy one. At ages 55–60 it might make sense. Over 60 it makes more sense. From 65 on, a gift annuity can be a tremendous deal.
- You can always get a larger annuity payment from an insurance or brokerage firm. The assumption used in calculating a charitable gift annuity is that about 50% of the value of the annuity should ultimately go to the issuing charity, e.g., the Society. Since commercial annuities don't have this requirement, the payments will always be higher. This is why purchasing a charitable gift annuity requires that you have **two** goals, benefiting the charity, and

providing an assured cash flow for yourself or a loved one. You should review with a financial planner how much of your assets you can commit to a gift annuity as part of your overall financial plan.

- If you die prematurely you won't realize the returns you anticipated. However, this "loss" is really a gain because the benefit will go to the Society and you'll be helping it pursue its valuable mission. If you have children or other heirs to whom you want to leave assets, gift annuities can still be great, but you should limit the amount you purchase.
- A charitable annuity is backed by the general assets of the Society. While gift annuities are highly regulated, they do depend on the financial stability of the issuing charity and thus they are not an absolute guarantee.

Who you gonna call?

Dean R. Laatt
Vice President, Major
and Planned Giving
Phone: 800-923-7727
E-mail: giftplanning@nmss.org

Conclusion

Gift annuities can be a tremendous tool to provide a regular cash flow for life, obtain a current income tax deduction and defer capital gains on appreciated assets, all while helping the Society achieve vital goals. As with all complex financial arrangements, you need to understand how a gift annuity will work for you, and make the decision as part of an overall financial plan.

As with any legal arrangement, read the agreement carefully to be sure you understand all the nuances.



Martin M. Shenkman, CPA, MBA, PFS, JD, an attorney in practice in Paramus, New Jersey, and New York City, is author of 37 books, including **Funding the Cure** (Demos Medical Publishers, 2007). For more information on financial, estate and charitable planning for MS, and a complimentary newsletter, the

Practical Planner, see Martin's Web site: laweasy.com.

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Gift annuity glossary

Annuitant – The person receiving the annuity payment. The annuitant is often, but not always, the same person as the “donor.” Another name for the annuitant is “beneficiary.”

Basis – Your investment in the property you give the Society to pay for the annuity. If you donate appreciated stock it could be what you paid for the stock, plus dividends reinvested. If you donate real estate it could be what you paid for it, plus the cost of improvements, less depreciation.

Beneficiary – The person receiving the annuity payment. See “annuitant” above.

Capital gains income – If you used appreciated securities or real estate to pay for your gift annuity, a portion of each annuity payment will be treated as favorably taxed capital gains. The federal tax rate on capital gains is presently 15% but that might change in the future.

Commissioner of Insurance – Most states regulate gift annuities; it is usually the Commissioner of Insurance who does this.

Contract – The agreement you sign with the Society that governs the annuity arrangement.

Donor – The person making the payment for the annuity. The donor may also be an “annuitant.”

Financial illustration – Before you sign the annuity contract, obtain a report, called a financial illustration, from the Society, and review it with your accountant or financial planner. This is a projection of how much you will receive and the income tax consequences of the payments. This will assure that you understand what the annuity will mean to you.

Form 1099-R – The tax form the Society will send you each year reporting to you and the IRS how much of your annuity payment is taxable, and in what manner.

Ordinary income – A portion of each annuity payment will be taxed as ordinary income at your maximum tax rate.

Rate – The percentage of your investment that will be paid each period as an annuity.

Return of capital – A portion of each annuity payment will be tax free. This is because it is treated as a return of part of the payment made to obtain the annuity.

Funding the Movement: Rosalie and Dale Hollinger support the Society and their devoted personal care attendant



Rosalie and Dale—seen here on their wedding day—have been a couple for 42 years. More than half of those years have been shared with an uninvited guest, Rosalie’s MS. The Hollingers have purchased multiple charitable gift annuities to guarantee support for

the Society’s Maryland Chapter and retirement income for Arlene Horst, who has provided personal care for almost 18 years. The start date for Arlene’s payments is flexible, so she can decide when it makes sense to start receiving them.