

RETIREMENT
INCOME PLANS

Ways to Pay You More

a donor's guide

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Learn about ways to increase your income during your retirement years.

People today are retiring younger and living longer than ever before. While you likely can expect better health and a longer life than your ancestors, you also shoulder a greater financial burden because you have to ensure your financial security for an ever-increasing span of years. You may be surprised to learn that some planned giving strategies allow you to receive an uninterrupted stream of income for your lifetime, reduce your taxes and make a gift to us in the future. You gain the double satisfaction of helping both yourself and our organization. And, if you wish, your spouse or another person can receive an income after your lifetime, while still guaranteeing us a generous future gift.

There are many successful methods for making a charitable gift and improving your own financial situation, which we would be happy to discuss in detail. Following is an overview of a few of the most popular life income gift vehicles.

Charitable Remainder Trust (CRT)

To create a charitable remainder trust, you donate assets to us, which we place into a trust. In return, you receive a stream of income for your lifetime or a term of up to 20 years. The income may be greater than what those assets now yield. If you wish, your spouse or another individual can receive an income from the trust after your lifetime. At the end of the trust term, the remaining principal goes to us.

You can choose from two basic types of charitable remainder trusts:

Annuity trust. This type of trust will pay you, year after year, the same dollar amount you choose at the outset. The income payments are fixed, based on the starting valuation; they must be at least 5 percent of this initial amount. If necessary, some of the distribution can be paid from principal, although this would reduce your ultimate gift to us. On the other hand, any yield in excess of the required payout increases the amount that will eventually pass to us.

Example: Nancy transfers \$100,000 to fund an annuity trust and elects to receive \$6,000 a year for life, payable in quarterly installments of \$1,500 each. She likes the idea that this payout won't change, regardless of the yield or the value of the trust.

Unitrust. With this arrangement, you receive each year a fixed percentage of the fair market value of the trust's assets, as revalued annually. If the value of the fund increases, so does your income and, ultimately, your charitable gift. If the market value decreases, your income and our ultimate benefit decrease accordingly. Although the valuation can rise or fall, over time a well-managed unitrust may offer better protection of your purchasing power than fixed dollar payments. A further advantage is that if you want to enlarge the trust later, you can make additional contributions. A unitrust must distribute at

least 5 percent of the annual market value of the assets in the trust.

Example: Norm funds a unitrust with \$100,000 and arranges payouts each year equal to 6 percent of the fair market value of the trust assets. The first year, he receives \$6,000 (6 percent of \$100,000). One year later, the assets are worth \$110,000, so Norm gets \$6,600 for the upcoming year (6 percent of \$110,000). Norm realizes that if the fair market value is less at the start of the succeeding year, the payout for that year will be reduced, but he believes that over the years, the trust investments will grow.

Unitrust variations. With professional help, you can design a unitrust to fit your special circumstances and preferences. In addition to the standard unitrust described above, there are three variations that are especially useful in diverse situations.

- *Net income with makeup unitrust:* This variation of the unitrust pays you only the trust's actual income if it's less than a stated percentage of market value (as recalculated annually). Any deficiency is made up in later years if the trust income exceeds that percentage.
- *Net income with no makeup unitrust:* This variation also pays you only the trust's actual income if it's less than a stated percentage of market value (as recalculated annually). Deficiencies, however, are not made up, which ensures a larger charitable gift.

- *Flip unitrust*: Set up as either of the last two types, this trust converts to a standard unitrust on the date of a predetermined event.

Which type of unitrust is best for you? The answer depends on your individual needs. For example, you may prefer the “standard” unitrust because it maximizes your cash flow. For a given year, if the trust income and gain aren’t sufficient to pay you the percentage you’ve chosen (multiplied by the trust’s market value), the trustee uses principal to cover the deficiency.

Then again, suppose you’d rather defer some income, receiving only partial distributions. Or maybe you want to fund the trust with an asset that initially doesn’t have the capacity to yield the requisite income. Then consider the “net income with makeup” unitrust.

Another option is the “net income with no makeup” unitrust, the choice if you’re willing to forgo any future income supplement—perhaps to further enhance your charitable gift. As the name implies, the payout you receive is the fixed percentage you’ve stipulated, but no more than the net income earned by the trust; deficiencies aren’t made up.

Finally, the “flip” unitrust is a recent variation, permitting the trust to switch or flip from a net income to a standard unitrust, i.e., one paying a fixed percentage of the net fair market value of the trust assets as recalculated yearly. Permissible triggering events include marriage, divorce, death, birth of a child or date a grandchild reaches a certain age. The sale of “unmarketable” assets—such as real property, closely held stock or unregistered securities—can also trigger the conversion.

Benefits of a CRT

1. **Income tax charitable deduction.** When you fund the trust, you immediately obtain the benefit of an income tax charitable deduction equal to the present value of the remainder interest ultimately payable to us, based on Internal Revenue Service tables of life expectancy factors. The deduction varies, depending on the age of the beneficiary, number of beneficiaries and amount of the payout. Federal interest rates also may affect the deduction.
2. **Capital gains savings.** If you fund your gift with highly appreciated assets, such as stock, the trust can sell the assets without incurring any tax and then reinvest the proceeds in order to secure a higher current income yield.
3. **Reduction of taxable estate.** By removing assets from your estate, you reduce your estate tax liability.

Charitable Gift Annuity

Available in many states, this plan will pay you a fixed dollar amount for life. You begin by making an irrevocable gift of money or securities to us. In return, we pay you an annuity, the amount of which is determined by your age (and the age of any other beneficiary you name) at the time of the gift. The older you are, the higher the payment amount you secure from the start. The specific annuity rate for a contract is a matter of agreement between you and the issuing charitable organization. The payment amount remains constant once your gift is made.

Example: Marge, age 75, has a maturing \$10,000 Certificate of Deposit and wishes to contribute that amount for our benefit. She needs continuing income, however, so she decides to use the cash for a one-life charitable gift annuity that we will issue at the suggested maximum rate of 7.1 percent. Payments will be made quarterly. At the time of purchase, the charitable midterm federal rate of interest (a figure used in calculating the results) is 4.6 percent.

The donor's federal income tax charitable deduction will be \$4,297, and she itemizes deductions on her tax returns. With a marginal income tax rate of 28 percent, the tax savings of \$1,203 will reduce the net cost of the gift to \$8,797. The annual payments of \$710 will mean an effective rate of return of 8.1 percent.

The second advantage she will enjoy is that for the next 12 years, more than half of every dollar received will be considered a return of her investment in the contract and will not be subject to tax. Her after-tax spendable dollars received over this significant length of time are calculated as follows:

Ordinary taxable income portion	\$250
Less 28 percent marginal income tax rate	(70)
After-tax income from taxable portion	\$180
Nontaxable portion of cash received	\$460
After-tax dollars annually, to spend or invest from annuity, for 12 years	\$640

Deferred payment gift annuity. With this form of gift, the start of payments is delayed until a specific date initially determined by the donor. Deferral of payments increases the initial income tax charitable deduction, resulting tax savings and the annuity

rate to be paid. By deferring payment, however, you also reduce the nontaxable amounts to be received. A deferred annuity can be a useful option for donors who do not need immediate income but who wish to improve future income. Someone with a weakened retirement income plan can employ a series of deferred charitable gift annuity contracts using excess discretionary income to fund the annuity each year leading to retirement (when the payments are scheduled to begin). The advantages include the following:

- Each amount transferred is partially tax deductible.
- The process can be continued beyond the age of 70½, when qualified plans must start payments.
- Any source of funds can be used, not just earned income as required by qualified pension plans.
- There is no limitation on the amount so used.

Deferred annuity with a variable starting date. Traditionally, deferred payment gift annuities have been written with a specific future date when the annuity commences. That's fine if you know exactly when you want payments to start. But suppose you prefer a flexible date, in case your financial circumstances change sometime after you've created the gift annuity. Can you subsequently elect the date when payments begin?

Yes. Now the IRS allows annuitants to begin receiving payments within a scheduled range of years. The amount of your charitable income tax deduction is fixed when you create the annuity contract but the amount of your annuity payment varies, depending on your age when payments start. The older

you are when payments begin, the larger the payments you receive for life.

Benefits of a CGA

- 1. Creates nontaxable payments.** For a period of years based on a government table of life expectancies, a portion of each payment received is considered a nontaxable return of the donor's investment in the contract. This further improves the after-tax amount available for spending or investing.
- 2. Reduces capital gains.** If you transfer marketable, long-term capital gain property instead of cash to the issuing charitable organization, the amount of appreciation in the property is prorated to the separate purchase and gift portions of the transaction. This results in two advantages: (1) the gain allocated to the gift portion completely avoids the capital gains tax, and (2) the portion of gain to be recognized can be spread over the expected term of the contract (provided the donor is a primary annuitant and the annuity interest is assignable only to the charitable organization). A tax deferred in this way is additional money saved.
- 3. Reduces taxable estate.** By removing assets from your estate, you reduce your tax liability.

For More Information

Our representatives would gladly answer your questions and provide projected results for specific situations, in confidence and with no obligation.