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Charitable Gift Annuities

Even though annuities tend not to be such good investments, here is one I do like.

In these uncertain times, many of us have had to reduce our charitable giving as we want to ensure we will have enough money for our retirements. Through a planned giving program you may be able to accomplish your gifting while minimizing the risk of depleting necessary funds. There are several strategies in planned giving to consider, but one of my favorites is a charitable gift annuity.

In the past, I have written about my dislike of annuities in general due to the fact that the investor loses and the annuity salesperson and the insurance company are the only ones who really make money on the transaction.

However, a charitable gift annuity is one through which a salesman makes little if any commission and you receive a decent monthly payment, as well as a deduction on a portion of your contribution. When you pass, the beneficiary is the non-for-profit that you have chosen.

Here is how a charitable gift annuity works. Select the foundation or organization that you want to receive the funds. For example, I will use the Advocate Foundation as it is one of my favorite organizations. A 60-year-old couple could donate $50,000 (plug in a dollar amount that works for you) to the Advocate Foundation, get an immediate $10,000 deduction on their taxes and receive a steady stream of quarterly checks at 4.8 percent or $2,150 for the rest of their lives. A portion of that income check is tax deductible, so if you are in the 40 percent tax bracket (35 percent federal and 5 percent state), your taxable equivalent income is 5.8 percent. When you and your spouse pass, the funds remain with the organization to use as you have directed.

This compares with annuities from any of the major insurance companies that typically range from 5 to 5.5 percent in income generation. In contrast, when you and your spouse pass, the insurance company is the beneficiary. No part of your contribution is tax deductible, but similar to a charitable gift annuity, a portion of the income is tax deductible.

If you are not ready to retire but want to make a contribution now, you may want to consider deferred annuities. Under this scenario, you make the contribution today and start getting income payments at a later date. These annuities are generally more generous in their rates of return as the issuer has had use of the funds for an extended period of time.

When considering a charitable gift annuity be sure to contact the organization that you would like to declare as the beneficiary and check whether it accepts these investments. Speak with the annuity provider to obtain a proposal based on the amount you want to give, your age and when you want to start receiving funds. Consider the credit quality of the annuity provider, because you want to be sure the firm will be in business as long as you are receiving payments.

Tagged as: *philanthropy, finance and investment*

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