

# Talents

Proving Faithful in Stewardship  
Matthew 25: 14-30

THIS ISSUE:

DEFERRED

CHARITABLE

GIFT ANNUITIES:

SAFE, FLEXIBLE,

AND

PREDICTABLE

## Director's Corner: Gifts That Give Back

I'm pleased to bring you the latest issue of *Talents*. Our newsletters are designed to provide information about financial and estate planning, as well as thoughtful charitable gift arrangements. Each issue features a different topic and includes a

charitable gift annuity. A deferred gift annuity lets you make a current gift, generate an immediate income-tax deduction, and select when fixed-annuity payments, guaranteed by Wheaton, will begin.

*Generate tax savings and receive payments with a deferred gift annuity.*

reply card that you can return to request further information. In this issue we feature the deferred-payment gift annuity, which is a nice way to make a charitable commitment to Wheaton College while supplementing your retirement income or creating a source of funds for college expenses.

The future holds few guarantees, especially when it comes to financial matters. No one knows in which direction the stock market will head. The price of commodities is as unpredictable as the weather. Today's real estate bargain may turn into tomorrow's white elephant.

One way to ensure predictable future income, and also provide for the future of Wheaton College, is the deferred-payment

I would welcome the opportunity to talk to you about your goals and objectives. Such a discussion would help us in suggesting a gift that would make sense in your financial planning and would also fulfill your philanthropic wishes. The discussions, of course, would be confidential and involve no obligation.

I look forward to the opportunity to serve you.



*David H. Melilli*

DAVID H. MELILLI, Associate Director  
of Gift Planning Services

501 College Avenue  
Wheaton, IL 60187

## Deferred Charitable Gift Annuities: Safe, Flexible, and Predictable

Many features of the deferred gift annuity make it an extremely attractive choice for gift planning, including:

- **Larger Payments.** Because the deferred annuity does not begin making payments until a future date, it pays a higher percentage rate than the immediate-payment gift annuity. The longer the deferral period between the gift and the start of payments, the larger they will be. This is an advantage for the person looking to maximize future cash flow.

### *Fund a gift annuity with long-term appreciated property and realize tax savings.*

- **Larger Income-Tax Deductions.**

The size of the payment is not the only factor that increases when payments are deferred. The charitable income-tax deduction is also greater compared to a gift annuity with payments that begin immediately.

- **Flexibility.** A donor has complete control over the amount contributed for a deferred gift annuity and determining the date when payments will

begin. By contrast, some financial vehicles—such as qualified retirement plans—have very specific requirements on the amount of contributions. They also place severe restrictions on when benefits must be paid.

Payments from a deferred gift annuity can begin at any time the donor chooses, as long as it is at least one year from the date of the gift.

- **Tax-Free Return.** A portion of each deferred gift annuity payment is treated as a return of principal. Consequently, it is not taxable

income. (Note: Because this return of principal is not income, it is also not included in calculations to determine the taxable portion of Social Security benefits. In some cases this will reduce the amount of Social Security benefits subject to tax.)

- **Reduced and Deferred Recognition of Long-Term Capital Gain.** If a deferred gift annuity is funded with long-term appreciated capital-gain

### Example 1:

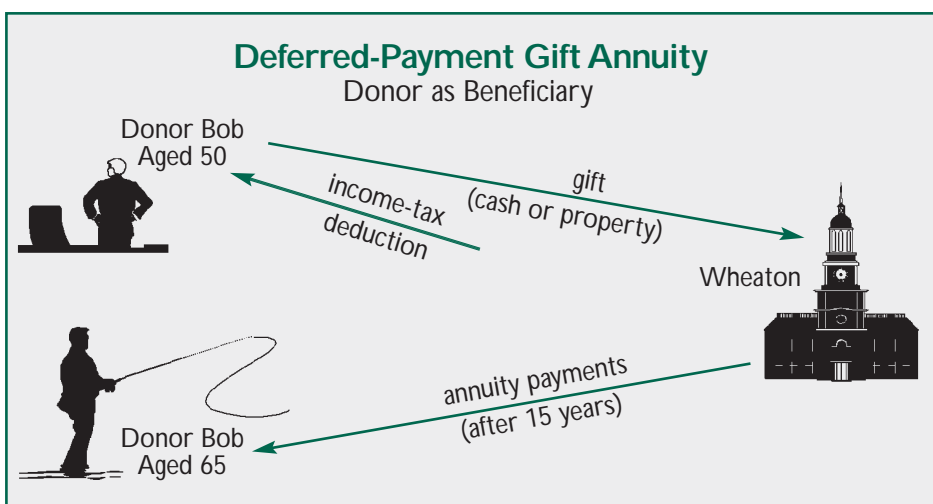
Paul Thomas, 50, contributes \$10,000 worth of stock to Wheaton College in exchange for a deferred gift annuity that will pay him \$1,230 a year beginning at the age of 65. Paul bought the stock years ago for \$2,000.

If Paul had sold the stock, he would have realized a long-term capital gain of \$8,000; and because of the 15% capital-gain tax, he would have had to pay a tax of \$1,200. By using the stock to fund the gift annuity, Paul has to recognize only \$5,248 of the gain, and he can delay recognition of that until he turns 65 and payments begin. Then he will recognize only \$264 per year until he reaches his life expectancy of 84.9 years. He will also receive an immediate charitable deduction of \$3,440.

property, the annuity payments and the charitable income-tax deduction are based on the full fair-market value of that property. However, the donor does not have to recognize all the gain.

If the donor or the donor and his or her spouse are the only beneficiaries, the reduced gain can be spread ratably over the donor's life expectancy. (See Example 1.)

- **Estate-Tax Savings.** Funds contributed for a deferred gift annuity are effectively removed from the taxable estate of the donor, even though a donor may have selected payments for life. (Note: If someone other than the donor or the donor's spouse is named as a beneficiary, the value of that beneficiary's payments will be subject to federal estate or gift tax.)



## A Plan for All Seasons

Not only does the deferred charitable gift annuity offer these attractive tax benefits, it is also extremely versatile in addressing the planning needs of the many stages of life and varied financial profiles.

**Planning for Retirement.** One of the most popular uses of the deferred gift annuity is for retirement planning. As a result of tighter limits on deductible contributions to qualified retirement plans than in the past, the deferred gift annuity is especially attractive to persons in peak-income years looking to supplement retirement benefits *and* make a meaningful gift. (See Example 2.)

### Example 2:

Marsha Roberts, 42, has reached her maximum contribution limits for her qualified retirement plan. She still feels the need to set aside additional funds for her retirement and would also like to make meaningful gifts to support Wheaton College.

She decides to start a program of deferred gift annuity contributions of \$10,000 a year for the next five years. The annuities will begin paying her at the age of 65—a total of \$8,270 per year for life. Of that amount, \$1,690 will be tax-free over the balance of her life expectancy.

Cumulatively, the annuities generate a deduction of \$16,365. In Marsha's 35% bracket, these deductions save her a total of \$5,728. None of the contributions Marsha makes for the gift annuities will count toward the maximum she can contribute to qualified retirement plans.

## \$10,000 DEFERRED GIFT ANNUITY PAYMENTS BEGINNING AT AGE 65

Age(s)*	Annual distribution	Tax-free portion	Deduction
One Annuitant			
50	\$1,230	\$330	\$3,440
55	\$ 970	\$329	\$3,453
60	\$ 760	\$332	\$3,395
Two Annuitants			
50-50	\$1,150	\$329	\$1,814
55-55	\$ 900	\$320	\$2,014
60-60	\$ 710	\$317	\$2,092

*\*Age(s) of beneficiaries at time of gift*

Essentially, you can create your own “charitable IRA” by making annual contributions for a deferred gift annuity program. A significant portion of each amount you contribute is deductible, and this plan generates an important source of funds to supplement retirement income. Best of all, there are no limits on how much you can contribute while addressing significant charitable goals over time.

**Unlocking Gain.** A deferred gift annuity can also help you escape a “locked in” position in an investment, the sale of which would trigger substantial gain. (See Example 3.)

**Planning for College Expenses.** A deferred gift annuity can also be used creatively to help fund a college education, often a top priority of parents and grandparents. A deferred annuity can be planned to create a source of funds just when the student needs it most—when he or she starts college. In some cases those payments can even be “accelerated” into the time

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### Example 3:

Liz Reynolds, 50, has a “nest egg” fund in which she holds growth stock worth \$50,000. She purchased the stock years ago for \$10,000. Concerned about the future of the stock, Liz is reluctant to sell it and incur capital-gain tax. Liz also wants to make a meaningful gift to Wheaton College but is concerned about her retirement security.

Liz decides to use the stock to meet her long-term, charitable goal by exchanging it for a deferred gift annuity. The stock pays no dividends, so this plan does not diminish her current income. In fact, the gift actually increases her current cash flow due to the tax savings from the \$17,201 charitable deduction. It also preserves the entire \$50,000 value of the stock to generate retirement funds for her. **Note:** Liz will recognize some of the gain when she actually starts to receive payments at retirement.

**Example 4:**

Tom and Betty Morgan want to be sure their grandson, Mark, has sufficient funds for college when he turns 18 in six years. They also want to make a major charitable gift to Wheaton College.

They decide to contribute \$50,000 now in exchange for a deferred gift annuity and name Mark as the beneficiary. When Mark turns 18, the deferred gift annuity will begin paying him \$2,650 a year for life, or he can exchange his right to the lifetime payments for payments over four years that would have the same present value. Based on the relevant economic factors in place at the time of the gift, Mark could get four annual payments of \$15,487.

the student is in college, rather than being payable over the student's lifetime. (See Example 4.)

This creative option lets the student have access to the full value of the payment interest in a reduced time frame, when it is needed most.

**Note:** If other education funds are available, a student might decide to take payments over his or her life expectancy.

In Example 4, the Morgans will have made a taxable gift to their grandson but will not have any out-of-pocket cost if they have previously not used their gift- and estate-tax credit. In fact, their own cash flow should increase, since they will receive a charitable income-tax deduction as a result of their contribution.


**A Lifetime of Gifts**

Most of us want to do all we can for the persons and institutions that mean the most to us. We all hope that the impact of our lives will be felt even after we are gone.

Some people have discovered the unique way of using charitable deferred gift annuities to achieve those goals. Deferred annuities can be used to create a lifetime

*Deferred gift annuities can help fund college or retirement.*

reminder of care and affection to a loved one with an annual payment to that person on a special occasion—perhaps a birthday or an anniversary. In this way, your gift truly will last a lifetime. In addition, it will be an important expression of your commitment to Wheaton.

In this newsletter we have touched on some of the many ways deferred gift annuities can be used in your personal and charitable planning. The deferred gift annuity is among the most versatile charitable vehicles. If you would like to learn more about how it might fit into your plans, simply return the enclosed card for a complimentary copy of our latest booklet, *Augmenting Your Retirement Security: The Deferred-Payment Gift Annuity*. Or, if you prefer, call our office at (800) 525-9906. 

This publication is educational in nature and is not to be construed as legal advice. Please consult your legal advisor before acting upon any of the information contained herein.



GOOD THING I STILL HAVE MY WHEATON COLLEGE GIFT ANNUITY.