Fixed Income yet Higher Rates than a CD or Money Market

Situation: Linda Barrows spent her career working as a librarian in a private Christian school. She loved her work and followed her students' accomplishments in the local paper over the years. She also religiously put away funds towards her retirement down the road. Because it took years to accumulate, she didn't want to take any risks with what she had saved. Since retiring 10 years ago she had invested in Certificates of Deposit and was quite happy with the risk-free, insured 3 ½ and 4% returns. But now the CD's were maturing and all she could get was a 1.25% in a CD or actually less than 1% in a money market fund. Was there a way that a charitable plan could boost those returns?

Possible Plan: As each CD matures, roll it into a Charitable Gift Annuity (CGA) to provide a lifetime income stream with Villanova as the remainder beneficiary.

Details: Each of Linda's CD's were $25,000. They mature sequentially over many years. Since a CGA payout rate is based on the donor's age, as each one matures Linda will be older and get a higher rate. This will produce an increasing amount of "fixed income" cash flows that will end up hedging against inflation.

- When the first CD matures, ask Steve Grourke to provide a CGA contract. No attorney is necessary to write this contract.
- Based on Linda's age of 75 the CGA will pay a lifetime fixed rate of 5.8%.
- Linda will receive a charitable income tax deduction of $11,369 for this year's taxes which could save her $1,705 based on her 15% tax rate.
- Because the CD was all after-tax principal, the CGA payment will be nearly all tax-free money; making the effective rate of return of **7.1%**! So much better than 1.25%!
- **Linda will receive $1,450 annually for life – no more worries about the rate decreasing with a lower renewal rate or the stock market volatility.**
- Villanova can look forward to around $13,000 at the end of her life.
- When the next CD matures when Linda is 77, she will receive a rate of 6.2%. Her second CGA of $25,000 would give her $1,550 with an effective rate of return of 7.6%!
- By the time Linda is 85 years old, her fixed income CGA payments will total $10,200 a year based on six CD gifts of $25,000 each.

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Fixing the Undiversified Holdings Problem

Situation: Marty Anderson has a large amount of his employer's stock and he and his wife, Stephanie, are starting to structure their investment portfolio to reduce risk for their approaching retirement. Since his stock is a combination of shares acquired in incentive stock options and employee stock purchase plans, he has a huge amount of capital gains and deferred tax issues plus a very difficult problem of assigning cost basis. On top of that, it's very risky to have such a large position in one security. How can they "fix" their portfolio and at the same time benefit Villanova?

Possible Plan: A Charitable Remainder Unitrust (CRUT) is a trust that allows asset sales inside the trust without paying tax. It also grants a charitable income tax deduction based on the fair market value of the funding asset, not the cost basis (unless it is an inventory gift – ex: art by the artist). The Anderson's could gift a portion (or all) of Marty's employer stock to a CRUT with their children as subsequent beneficiaries and Villanova as the remainder beneficiary.

Details: The employer stock is currently valued at $700,000 with a cost basis of $100,000. The dividends pay 3% and are not guaranteed but based on company performance. By gifting the company stock and taking a 6% payout for life, Marty and Stephanie can diversify their assets and receive a more predictable income stream that is doubled. The children will continue to receive the income for 20 years after they pass away and at the end of the 20 years, Villanova will receive the remainder.

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Help Me! I Have Too Many Possible Scenarios!

Situation: Dale Smith is 55 years old and currently employed. He expects to retire within the next few years, and would like supplemental income to begin at that time. But many factors go into the decision of which year to say goodbye to the company, yet he wants to start planning now and is also motivated by wanting to be included in the current Villanova campaign. How can he do this without knowing when he will retire?

Possible Plan: Dale can establish a Flexible Deferred Charitable Gift Annuity. Since he is still working he feels comfortable parting with $100,000 now and asks Steve Grourke to give him a few figures.

Details: Steve explains that when the Flexible Deferred CGA contract is established Dale will have to identify a target retirement date. He can adjust that earlier or later as life unfolds, but the charitable income tax deduction is based upon the target date. If Dale decides to start the CGA earlier, the payout will be reduced to the level that produces the same income tax deduction as the target year. For a longer deferral period, the rate is determined by the American Council on Gift Annuities and the tax-free amount of Dale's payout would be adjusted. To give Dale an idea of how deferring his CGA payment affects the payout rate, Steve gave him this chart based on his $100,000 potential gift.

Age at Start Date	Annuity Rate	Annual Income	Tax Deduction
59	4.9%	$4,900	$13,430
60	5.1%	$5,100	$13,430
61	5.3%	$5,300	$13,430
62	5.6%	$5,600	$13,430
63	5.8%	$5,800	$13,430
64	6.1%	$6,100	$13,430
65	6.4%	$6,400	$13,430

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Investment Property for a CRUT

Situation: Tom and Mary Jones own a condo in a desirable vacation location. Currently they are finding that the burden of maintenance and rental duties has hindered their freedom to travel. There are tax concerns with a simple outright sale of their property. They want to know if a charitable plan makes sense.

Possible Plan: Donate the property to Villanova using a Charitable Remainder Unitrust.

Details: The property is valued at $1,000,000 with capital gains of $400,000. As an investment real estate property they would not be able to use the $250,000 gain exclusion per person; additionally, the property has been depreciated and there will be recapture of taxes.

Use of a CRUT will bypass those gains, diversify the investments, give a charitable deduction and potentially increase their retirement income.

- Donate the property to a CRUT (attorney writes document)
- They get an income tax deduction of approximately $400,000 saving about $135,000 in taxes for the year of the gift or for a five year period following
- The CRUT sells the property tax-free
- Tom and Mary selected a 5% payout from the trust
- **They traded maintenance, insurance, bookkeeping and being tied down for a $50,000 annual payout.**
- Their payment is partially tax free with an effective rate of return of 5.8%.
- The estimated lifetime income for Tom and Mary from the trust could be $1,300,000 based on their ages of 70 (nearly 22 years).
- The trust assets are valued every year and 5% of that balance becomes the new yearly payout. This allows their payment to keep up with inflation.
- This payment lasts for both of their lives!
- When they pass, Villanova receives the remaining trust amount which could be approximately $1,400,000 based on normal lifespans and market performance.
- As an irrevocable trust, this is outside of probate and not included in Tom and Mary's estate.

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Providing for a Parent with a Charitable Gift Annuity

Situation: Dr. Stanley Brown enjoys a very nice standard of living yet his mother does not. He benefit from scholarships to get through college and later loans for medical school yet his family roots were not as privileged. He wants to assist his mother financially, yet she is very proud and doesn't want him to pay her bills or give her money. Can a charitable plan overcome her pride and refocus her view?

Possible Plan: Dr. Brown could fund a Charitable Gift Annuity payable to his mother for life. Since she is 82, she would receive a very nice payout rate of 7.2%. He would like to see her receive at least $20,000 annually so he asks Steve Grourke to work up an example showing him how much he should gift. Steve calculates that a $300,000 gift would provide $21,600 annually. Dr. Brown likes that idea and can use some of his appreciated stock to fund the CGA.

Details: Dr. Brown plans to use appreciated stock with a cost basis of $225,000. He knows that this will be considered a gift by the IRS and his CPA tells him that he will need to pay the tax on the capital gains in the year he establishes the CGA and also file a Form 709 gift tax return. But he will receive a charitable income tax deduction to help balance that out, plus he has a lifetime gift exclusion amount of over $5 million so he will not owe any gift tax.

- Dr. Brown visits with his CPA to be clear on the tax issues.
- He gifts the unsold stock to Villanova in exchange for a $300,000 charitable gift annuity.
- **His contract with Villanova gives his mother monthly income of $1,800 for life! Since she knows Villanova is receiving a gift, she finds it easier to accept this "assistance."**
- He will owe $14,100 in capital gains tax the year he establishes the CGA.
- To counter balance that, he will receive a $156,000 charitable income tax deduction that will save over $54,000 in tax based on his 35% tax rate.
- Since Dr. Brown paid the capital gains tax, the payments his mother receives are almost completely tax free. Her standard of living can increase and she isn't afraid of running out of money.
- Dr. Brown can ask Villanova to add this remainder to his previous gift to Villanova funding scholarships for a student planning on a medical career.

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