

CHARITABLE GIFT  
AND FINANCIAL  
PLANNING IDEAS  
FROM THE  
UNIVERSITY  
OF WISCONSIN  
FOUNDATION

FALL 2006

W I S C O N S I N

# Dividends



Planning a charitable bequest?

*A lifetime gift annuity may provide surprising benefits*

Among the most popular ways to make a significant gift to a favorite charity are provisions in wills and trusts. Since such gifts—known as *testamentary provisions*—take effect at the death of the donor, they are particularly attractive to those who feel they need the income generated by all their assets during their lifetimes.

Many philanthropic people are discovering, however, that there may be some very attractive reasons to accelerate these kinds of testamentary provisions and make gifts during their lifetimes in the form of charitable gift annuities. “What are the advantages of a lifetime charitable gift annuity?” you may be asking. In this issue of *Wisconsin Dividends*, we will provide answers to many of the key questions about this powerful and versatile gift-planning strategy.

## Realize immediate benefits by making your gift now

### What exactly is a charitable gift annuity?

Simply stated, a charitable gift annuity is a contractual agreement between a donor and a charitable organization under which the charity agrees to pay a fixed annual amount to one or two designated beneficiaries for life.

I rely on the income my assets generate. Can I make a charitable gift annuity contribution and still maintain my standard of living?

Not only can a charitable gift annuity allow you to maintain your standard of living, but it may increase your annual cash flow. It does this in multiple ways.

First, the gift annuity provides you with a guaranteed, fixed stream of income for as long as you live. The specific rate you receive depends on your age, with older beneficiaries receiving a greater percentage than younger beneficiaries. The University of Wisconsin Foundation issues gift annuities in any amount of \$10,000 or more, and the chart at left shows the rates we currently offer at various representative ages.

Given current low interest rates on popular income-producing investments like CDs, money market funds and bank savings accounts, the payment from your gift annuity is likely to exceed the interest you are getting on these traditional investments.

In addition, a gift annuity contribution will enable you to claim a sizable income tax deduction. The deductions for a \$100,000 charitable gift annuity contribution are also shown in the chart.

### Sample Benefits for a \$100,000 Gift Annuity

Age(s)	Allowable Payout Rate	Annual Payout	Tax-Free Portion	Charitable Deduction	Tax Savings in 33% Tax Bracket
<b>One annuitant</b>					
60	5.7%	\$ 5,700	\$2,576	\$37,974	\$12,531
65	6.0%	\$ 6,000	\$2,952	\$41,310	\$13,632
70	6.5%	\$ 6,500	\$3,504	\$44,273	\$14,610
75	7.1%	\$ 7,100	\$4,189	\$48,082	\$15,867
80	8.0%	\$ 8,000	\$5,112	\$51,929	\$17,137
85	9.5%	\$ 9,500	\$6,659	\$54,744	\$18,066
90	11.3%	\$11,300	\$8,396	\$58,846	\$19,419
<b>Two annuitants</b>					
60-60	5.4%	\$ 5,400	\$2,327	\$31,173	\$10,287
65-65	5.6%	\$ 5,600	\$2,643	\$34,185	\$11,281
70-70	5.9%	\$ 5,900	\$3,044	\$37,535	\$12,387
75-75	6.3%	\$ 6,300	\$3,566	\$41,544	\$13,710
80-80	6.9%	\$ 6,900	\$4,264	\$45,853	\$15,131
85-85	7.9%	\$ 7,900	\$5,317	\$49,484	\$16,330
90-90	9.3%	\$ 9,300	\$6,668	\$53,302	\$17,590

Calculations are based on quarterly payments.

If you itemize deductions on your federal tax return, this deduction will produce tax savings for you proportional to your marginal tax bracket. (See Example 1)

### Example 1

Joe T., 70, contributes \$100,000 to the UW Foundation in exchange for a charitable gift annuity that will pay him \$6,500 each year for life. He can deduct \$44,273 as a result of the gift, which in his 33 percent tax bracket saves him \$14,610.

Even if you typically take the standard deduction because you do not have enough deductions to itemize, the deduction from your charitable gift annuity may be large enough to allow you to enjoy the benefits of itemizing in the year of the gift.

#### Are there any other tax advantages of charitable gift annuities?

Definitely. Your gift annuity contribution is treated for tax purposes as two transactions: a gift to charity of a portion of the contribution and an investment in an annuity with the balance. Just as with a commercial annuity, part of each payment you receive from a gift annuity over your life expectancy is deemed to be a return of your investment and is income-tax free.

This means the real return from a gift annuity is even higher than the stated rate of a traditional investment, such as the fully taxable yield from a CD, a money market fund or a bank savings account. (See Example 2)

**Note:** You can use appreciated publicly traded stock to fund a gift annuity. If you do, you will avoid long-term capital gains tax on some of your paper gain and the gain you do have to recognize will be spread over the balance of your life expectancy. In such cases, the long-term capital gain reduces what would otherwise be a tax-free return of your investment.

#### Will a gift annuity cause more of my Social Security income to be taxable?

On the contrary, it is possible that a gift annuity can actually result in less of your Social Security income being subject to tax.

Why? All income—even *tax-exempt income*—can work against you for purposes of determining how much of your Social Security income is taxable. Here is the good news: The tax-free portion of your gift annuity payout is not “income” but a return of your investment. You may actually be able to increase your cash flow and yet lower the amount that is treated as income.

#### If I wait and direct a gift to UW-Madison at my death, won't my estate get tax benefits from that?

The definitive answer is “Maybe!” What your estate will *not* get is a federal income tax deduction for a testamentary gift. A testamentary gift might generate federal estate tax savings, depending on the size of your estate.

If your gross estate is less than the amount exempt from federal estate tax—currently \$2,000,000—your

### Example 2

Margaret W., 80, made a cash contribution of \$250,000 to the UW Foundation for a charitable gift annuity that pays her \$20,000 per year. Each year for the rest of Margaret’s life expectancy, \$12,780 of the annual payment will be considered a tax-free return of a portion of her investment in the annuity and the remaining \$7,220 will be taxable.

Thus after paying federal income tax in her 33 percent bracket, Margaret will have spendable cash of \$17,617.

A fully taxable alternative (e.g., certificate of deposit) would have to generate a return of 10.5 percent to give her the same amount of spendable cash.

In addition, Margaret’s gift annuity will generate an income tax deduction of \$129,823 which means an actual tax savings of \$42,842. The tax savings reduces the cost of her gift to \$207,158 and boosts her effective return from the gift annuity to 9.65 percent (\$20,000 divided by \$207,158).

estate will owe no tax and the gift will produce no tax savings. As the exempt amount has risen, fewer and fewer people are subject to federal estate tax.

Frankly, one of the reasons many people have chosen to accelerate their testamentary gifts and make current gift annuity contributions is to benefit from the income tax savings available during their lifetimes. These savings could generate a meaningful amount of additional resources at your death. (See Example 3)

### Example 3

Let's compare the results of two different courses of action for June—a 75-year-old donor in the 33 percent tax bracket. In the first scenario, June has \$100,000 invested in a CD that pays 4.1 percent—or \$4,100—and she plans to give \$100,000 to the UW Foundation under her will.

In the second scenario, June decides to make a \$100,000 contribution for a gift annuity with the UW Foundation right now that will pay her 7.1 percent—or \$7,100—each year. The gift will generate a deduction of \$48,082 and save her \$15,867 in federal income tax.

If she lives 15 years and is able to earn a 6 percent annual return by investing her tax savings and the additional net annual income from the gift annuity, June essentially adds almost \$117,000 to the amount available for other purposes at the time of her death. See the table above for a comparison of the two gift plans.

### June's Gift Comparison

	By Will	Current Gift Annuity
Charitable contribution	\$100,000	\$100,000
Income tax deduction	0	\$ 48,052
Income tax savings	0	\$ 15,867
Value of savings—15 years at 6%	0	\$ 38,026
Additional annual net income	0	\$ 3,392
Value of additional income in 15 years at 6%	0	\$ 78,952
Total additional value in 15 years	0	\$116,978



I am concerned that my spouse will also need income from all of my assets. Can a gift annuity make payments to both of us as long as either of us is alive?

Yes. As shown in the first chart, a gift annuity can be payable for one or two lives. The addition of a second beneficiary does cause a small reduction in the annuity rate and will change the amount that is deductible.

## Need more answers?

Chances are you still have some questions about gift annuities and how one might benefit you. We welcome the opportunity to address your questions, and we encourage you to contact our office to discuss your concerns or to schedule a time when we can meet with you.

We would also like you to have a copy of our latest booklet, *12 Ways a Charitable Gift Annuity May Benefit You*. Request a complimentary copy by returning the enclosed card, or simply contact the Foundation. Our contact information is listed on page 7.

# Snill og generøs mann\*

*Sylvia Thompson, an undergraduate at the University of Wisconsin-Madison in the 1940s, remembers seeing a cute boy on campus and remembers how badly she wanted to meet him.*

She cut class and went to the agricultural library hoping to “bump” into him. She knew he went there often because her friend had previously seen him there. Unbeknownst to Sylvia, Truman Graf, the young man in question, also had noticed her. When he saw her in the library, he took advantage of the opportunity and introduced himself. The couple talked and he asked her out on a date. They went to a Tommy Dorsey UW Homecoming concert. Truman and Sylvia grew closer, fell in love and eventually got married. They have had a long happy life together, and Truman is very proud of Sylvia.

“She is the best cook in the city, she was a Mrs. Wisconsin finalist and she makes most of her own clothes,” brags Truman about his wife of 59 years.



*Sylvia and Truman Graf*

To honor her, Truman has made a gift to the School of Human Ecology to honor and recognize Sylvia as one of 100 women to be recognized by the School of Human Ecology’s 100 Women Campaign. This special campaign acknowledges the honoree’s contributions to family and community. “In every respect she is a woman who lived the mission of the School—improving the quality of human life,” said Truman.

Sylvia got tears in her eyes when Truman insisted she be one of the 100 women honorees. “I have been blessed with a very kind and generous husband,” she replied.

The couple created the Sylvia Graf Scholarship fund with a gift annuity

to recognize Sylvia’s life work. She earned a bachelor of science degree in textiles and clothing in 1949 and a master’s degree in continuing and vocational education in 1974 from the UW School of Human Ecology. She enjoyed a 22-year career teaching home economics courses at Madison Area Technical College. During this time she also served on the Market Development Council of the Wisconsin Department of Agriculture, Trade and Consumer Protection. Her professional memberships included the American Home Economics Association and Omicron Nu, a national home economics honor society.

This scholarship also honors Sylvia’s dedication to family and

*(continued on page 6)*

## Snill og generøs mann\*

*continued from page 5*

community. In addition to raising three children, she volunteered for several organizations throughout the community. She is a member of the Attic Angel Association, University League, Daughters of Demeter, Metropolitan Women's Club, Wisconsin Home Economics Association, Meriter Foundation, Friends of Meriter and the Madison Symphony League. She served in leadership positions on the boards of these organizations with an eager willingness to give of her time, expertise and many talents. She was one of two women to represent the state of Wisconsin in a "Better Living Congress," and she was a finalist in the Mrs. Wisconsin Contest.

As a daughter of Norwegian immigrants, she took great pride in her Norwegian heritage and served as president and in various positions on the Madison-Oslo Sister City committee. She organized and escorted tours to Norway for more than 200 Madisonians and was honored to be invited to a private dinner with the King of Norway.

Truman came from humble beginnings and was raised on a dairy farm in Manitowoc County, Wisconsin. His mother and father believed that education was very important, which encouraged Truman to finish high school and go to college. In 1939



*The horse barn, seen here on a sunny autumn day, was built in 1900 and is on the National Register of Historic Places.*

Truman came to UW-Madison on an academic scholarship that paid his tuition for the first year. He also received a Sears Roebuck Scholarship for \$75, a lot of money at that time, which helped to finance his remaining years at the UW. His studies were interrupted by a three-year stint as a U.S. naval dive-bomber pilot in World War II. Truman received his bachelor's, master's and PhD degrees in agricultural economics from UW-Madison.

Upon graduation, he was hired by the College of Agricultural and Life Sciences (CALs) as an agricultural economics professor. He spent the next 35 years at CALs. Now retired, Truman is considered an expert on dairy marketing and pricing and spends a great deal of time overseas in countries such as Bulgaria, Romania, Honduras, Uganda, Russia, Finland, Ukraine, Hungary, Poland, Zimbabwe, Armenia and Kazakhstan, where he helps farmers improve their marketing efficiency and income.

Truman has received many honors, one of which was being named "Man of the Year" by the Federation of Co-ops. He also was the first educator to be named "Man of the Year" by The World Dairy Expo. He received a national award for the best research publication from the American Agricultural Economics Association and the Unsung Hero award from the local Kiwanis Club.

Truman believes it is time to give something back to the University for his education, career and the opportunities that were made available to him. The couple has a second gift annuity that supports the Truman and Sylvia Graf Scholarship for those students in the department of agricultural and applied economics who were raised on a Wisconsin farm. Sarah Gunnink is the current recipient of the Truman and Sylvia Graf Scholarship.

*\*Kind and generous husband*



Photo credit: Jeff Miller

We would like to send you a complimentary copy of our booklet, **12 Ways a Charitable Gift Annuity May Benefit You.**

To get your copy, simply return the attached card or call:

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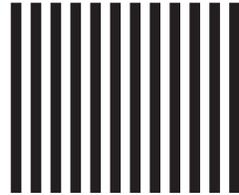
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You should consult your attorney about the applicability to your own situation of the legal principles contained herein.



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*The University of Wisconsin Foundation engages those who care about the University, provides opportunities to enhance its teaching, research and outreach programs and guarantees ethical stewardship of the gifts received.*

## Dear Friends,

Many Americans wait until the literal last minute and make their gifts to charity via bequests. By contrast, a charitable gift annuity allows you to speed up your giving, receive income for life and enjoy significant tax benefits *now*. You also enjoy the satisfaction of knowing—and sometimes even seeing firsthand—the good that your gift is doing.

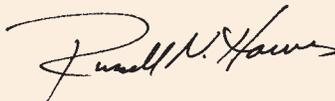
This issue of *Wisconsin Dividends* answers questions pertaining to this popular type of gift. You may conclude that reaping the lifetime income and tax benefits of a charitable gift annuity is better suited to your situation than a bequest would be.

To assist in your planning, we would like you to have a complimentary copy of our latest booklet, *12 Ways a Charitable Gift Annuity May Benefit You*. To request your copy, please return the enclosed card or call our office.

Whether you are considering such a gift or a bequest, our staff would welcome the opportunity to work with you and your advisors to find the perfect gift arrangement for your situation. We want to offer any assistance that would be helpful.

We look forward to working with you.

Sincerely,



Russ Howes  
Vice President  
Planned Giving and Legal Affairs



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