

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

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W I S C O N S I N

Dividends



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The charitable gift annuity:
benefit from your generosity

Charitable giving doesn't have to be a one-way proposition. It is possible to make a charitable gift and actually have an income stream flow back to you—all while generating valuable income-tax benefits.

Numerous charitable strategies allow you to realize such benefits. One of the oldest—and one of the most popular—is the charitable gift annuity. The rates for gift annuities are generally higher when compared with fixed investments such as certificates of deposit. This is good news for those who want to make an important charitable gift but who need to retain cash flow based on the value of donated assets.

In this issue of *Wisconsin Dividends*, we explore in the informative question-and-answer format how gift annuities work and some of the tremendous planning opportunities they present. You may find that a charitable gift annuity is just the kind of charitable giving plan for you.

What exactly is a charitable gift annuity?

At its heart, a gift annuity is simply a contract between a donor and a charity, such as the UW Foundation. In exchange for a gift of a specified amount, we agree to make specified payments for life (usually quarterly) to one or two beneficiaries (*annuitants*). (See Example 1.)

Example 1

Tom B, 65, makes a gift of \$50,000 to the UW Foundation to support the UW-Madison. In return, we promise to pay Tom \$2,650 a year for as long as he lives.

Are the funds I contribute for a gift annuity set aside and invested to secure my income payments?

Actually, the annuitant's security goes far beyond the specific funds contributed for a gift annuity. Our obligation to make gift annuity payments is backed by all the assets of the UW Foundation, not just the amount contributed for any individual gift annuity.

How are the rates for charitable gift annuities determined?

All charitable organizations are free to set the rates they offer, as long as the rates comply with any applicable state regulations. Generally, charities choose to follow the schedule

of recommended maximum rates published by the American Council on Gift Annuities. These recommended rates change from time to time, based on a variety of economic factors. (Any changes would affect only newly issued annuities.) The chart below shows the most recent rates recommended for annuitants of various representative ages.

If the council rates change, will the rate on my existing gift annuity change?

No, federal tax law requires that the rate be fixed for the life of a charitable gift annuity. Regardless of changes in rates recommended by the council or changes in the economy,

Sample Benefits of a \$10,000 Gift Annuity

Age(s)	Payout rate	Total annual income	Tax-free portion	Allowable charitable deduction
One annuitant				
60	5.0%	\$500	\$319	\$2,321
65	5.3%	\$530	\$353	\$2,978
70	5.7%	\$570	\$400	\$3,647
75	6.3%	\$630	\$464	\$4,248
80	7.1%	\$710	\$545	\$4,875
85	8.1%	\$810	\$658	\$5,526
Two annuitants				
60-60	4.6%	\$460	\$292	\$1,354
65-65	4.9%	\$490	\$326	\$1,878
70-70	5.2%	\$520	\$362	\$2,579
75-75	5.6%	\$560	\$408	\$3,303
80-80	6.1%	\$610	\$465	\$4,093
85-85	7.0%	\$700	\$559	\$4,694

Calculations are based on quarterly payout.

the rates on existing gift annuities will not change.

I am married. If I make a contribution in exchange for a gift annuity, I would want to receive income as long as either one of us is alive. Is this possible?

Absolutely. A gift annuity can be created to pay one or two annuitants for life. It can pay either the donor or the donor and his or her spouse jointly and then the survivor. (See Example 2.)

Example 2

Bill and Ellen J, both 70, make a gift of \$20,000 to the UW Foundation in exchange for a gift annuity. We will make annual payments of \$1,040 to Bill and Ellen jointly while they are both alive and then continue to pay that amount to the survivor.

You also can create a gift annuity with income to someone other than a spouse. Doing so, however, may have gift-tax consequences.

I know I qualify for a charitable tax deduction when I make a contribution for a gift annuity. How is the deduction determined?

The charitable deduction is equal to the difference between the amount of the contribution and the value of payments to the annuitant(s). Deductions are lower for younger people because they are likely to live longer. Similarly, deductions are lower when there are two annuitants rather than one. (See Example 3.)

Example 3

Martha M, 75, is considering making a gift annuity contribution to the UW Foundation in the amount of \$25,000. If she designates herself as the sole annuitant, she will receive annual payments of \$1,575 and qualify for a deduction of \$10,621.

If she decides to make her husband, Bob, also 75, an annuitant as well, their annual income payments will be \$1,400. They will qualify for a charitable income-tax deduction of \$8,257.

Note: The deduction is also affected slightly by both a federal discount rate that changes from month to month and the frequency of payouts.

How frequently can I receive my annuity payments?

Many gift annuity payouts are scheduled quarterly. (*The deductions shown in the chart are based on quarterly payouts.*) They can also be made semi-annually or annually. These less frequent income payments cause the deduction to go up slightly.

How are the gift annuity payouts I receive taxed?

For tax purposes, a gift annuity contribution is treated as part gift and part purchase of an annuity. The part that is treated as a gift is the amount that is deductible the year you create the gift annuity.

The balance is treated as the purchase price for the annuity. It is treated as a return of your original “investment” and comes back to you

Example 4

George N, 68, contributes \$40,000 cash for a charitable gift annuity. Each year he will get income of \$2,200. Of that amount, \$1,507 is treated as a tax-free return of his “investment,” and the balance is treated as ordinary income. If George lives longer than his life expectancy of 17.5 years, all of his income payments thereafter will be treated as ordinary income.

tax-free over your life expectancy. (See Example 4.)

I would like to make a contribution for a gift annuity, but I don’t have a lot of readily available cash. I do have several stock investments. Can I give stock in exchange for a gift annuity?

Most definitely. If you own stock for more than 12 months, any gain you realize on its sale would be subject to capital-gain tax at rates up to 15 percent.

On the other hand, if you use appreciated stock to fund a gift annuity and retain annual payments for yourself, only a portion of the gain would be taxable and you would be allowed to recognize that gain in equal amounts over your life expectancy.

What about other kinds of property? For example, could I fund a gift annuity with real estate?

Generally, assets other than cash—except for assets that can be liquidated readily such as securities traded on national markets—are not suitable to fund a gift annuity.

Can I make a current gift and delay receiving the income? If so, are there any advantages to this?

The answer is “Yes!” on both counts. This is known as a “deferred” charitable gift annuity. You can make a gift now and designate the time in the future when income payments are to begin.

Advantages: The total annual amount of the income payments that will be made when payment starts goes up substantially, and the amount of the charitable income-tax deduction is much higher than that for an immediate-payment annuity. (See Example 5.)

Example 5

Alex W, 50, a successful professional, decides to contribute \$50,000 for a deferred gift annuity that will begin paying him when he retires at 65. His gift generates a charitable income-tax deduction of \$11,969, and Alex will receive income of \$4,900 each year beginning at the age of 65.

If he had made his gift in exchange for an immediate annuity, his deduction would have been \$7,040 and his annual income would have been \$2,200.

How do returns on gift annuities compare with returns on regular investments?

It is important to remember that a charitable gift annuity is a charitable giving plan. It is not an investment.

However, if annual net spendable cash flow is a major objective for you, a charitable gift annuity compares quite favorably with regular investments. (See Example 6.)

Example 6

Helen R, 78, is dismayed that the rate—about 3 percent—at which she can reinvest \$80,000 worth of CDs is lower than the rate she now earns. At 3 percent, they will produce \$2,400 and she will net only \$1,728 after paying tax in her 28 percent bracket.

Helen is pleased to learn that she can support the UW-Madison through the UW Foundation with a gift annuity contribution that will generate annual income of \$5,360—\$2,960 more than the CD investment. But the real difference is even greater.

Because only \$1,292 of her annual income payment is taxable, Helen would net \$4,998 after tax—almost three times the amount she would net with a CD investment. In addition, the gift annuity would produce an income-tax deduction of \$37,298. This could save an additional \$10,443 in taxes which, in turn, could be reinvested for even more cash flow.



Photo credit: Jeff Miller, UW-Madison, University Communications



We're here to help

Charitable gift annuities can offer you many benefits, as we have discussed. If you have additional questions or simply would like additional information, please contact our office.

We would also like to send you a complimentary copy of our booklet, *The Charitable Gift Annuity: Guaranteed Income for Life*. To receive your copy, just return the attached card or call our office at 608-263-0371.

Benefits for all concerned

To Colette Michael's way of thinking, the University of Wisconsin-Madison saved her life twice.

"First, they gave me an opportunity to earn a PhD, not the easiest thing to do for a person on her own with six children," said Michael, professor emerita of foreign languages and literature at Northern Illinois University. "Then a surgeon with the Medical School saved my life when every other doctor would not operate on me."

In her gratitude, and to her benefit, she has established four charitable gift annuities to support neurological surgery at the UW-Madison School of Medicine and Public Health. "I think I am doing the right thing by giving to Wisconsin, and at the same time I'm not robbing myself," she said.

Michael's story is one of determination and perseverance. Colette, who was born in Marseilles, France, and had lived in Paris, had a home in Seattle with her husband and their six children in the late 1960s when her world changed forever. After a difficult divorce proceeding, she received custody of the children and "a little child support." She applied to graduate school at the University



Colette Michael

of California, Berkeley and the UW-Madison.

"I think I am doing the right thing by giving to Wisconsin, and at the same time I'm not robbing myself."

After getting a favorable custody ruling one Friday in December, the next Monday she loaded her kids into an Oldsmobile Vista Cruiser and headed for Madison. "I had no job, no money to speak of," she said. "How was I going to pay for

graduate school?" As fate would have it, the University awarded her a Ford Fellowship for three years, "and three years later, I got my PhD."

Michael stayed in Madison so her eldest son could finish high school, and she used the time productively, earning a master's degree at the University in the history of science. "I commuted and taught at Shimer College," she said, before embarking on a search for a permanent position. She took a three-year appointment

(continued on page 6)

Benefits for all concerned

continued from page 5

at Northern Illinois University in DeKalb.

For someone who was born in France and had experienced life on the U.S. East Coast and in Seattle, DeKalb posed a challenge. "Here I was, in the middle of all this corn," she said. "I counted days until I could leave."

"For anyone who is retired and wants to make a gift, it's a superb idea. You feel generous, and you are rewarded."

But over time, Michael published many journal articles and books. She was invited all over the world to lecture, received tenure and was promoted to research professor. "Once I would have done anything to escape the corn," she said. "Now I don't think I will ever leave the corn."

Her tale took a dark turn when she was diagnosed with brain cancer that was called inoperable. "I saw so many surgeons in Illinois, and they all told me there was nothing they could do," she said.

On a recommendation, she visited Dr. Benham Badie at the UW-Madison. "He agreed to operate on me, when no one else would. He did the surgery, and I have been fine ever since. It took incredible

courage from that guy, and I am eternally grateful."

For Michael, the charitable gift annuity, which gives her a guaranteed payout and will ultimately benefit the University, makes good sense.

"I was trying to give a reward to the University, which essentially saved my life on two occasions," she said. "For anyone who is retired and wants to make a gift, it's a superb idea. You feel generous, and you are rewarded."



Visit our Web site at www.uwfoundation.wisc.edu

Stay in touch with us!

The University of Wisconsin-Madison wants to stay in touch with you. As primary manager of the University's alumni and friends database, the UW Foundation continually seeks up-to-date contact information. You can update your information online by visiting www.uwfoundation.wisc.edu/survey. Please use the identification number located above your name on the *Wisconsin Dividends* mailing label to log in to the Web site. You will help us to maintain accurate information that is shared selectively with the Wisconsin Alumni Association and any other campus departments and programs with which you may be involved as an alumnus, volunteer, faculty member or donor. Thank you!

Your gift is safe and secure

When you establish a gift annuity with the University of Wisconsin Foundation, your security goes far beyond the specific funds contributed for the gift annuity. Our obligation to make gift annuity payments is backed by all the assets of the Foundation, not just the amount contributed for any individual annuity.

When you agree to establish a charitable gift annuity in support of our work, you can rest assured that:

- Your gift is invested carefully in financial instruments that are selected by our investment team using the guidance supplied by the rules of the Wisconsin Insurance Commissioner's office.
- The University of Wisconsin Foundation has never defaulted on any annuity payment.
- We maintain reserve funds in excess of the amounts required under Wisconsin law. As of December 31, 2008, the reserve required under Wisconsin law for all of our annuities was under \$7.5 million. The Foundation reserves totaled over \$12.5 million at that time.

If you have a concern about the security of a gift annuity, please feel free to contact the Office of Gift Planning to discuss this further.

We would like to send you a complimentary copy of our booklet,

The Charitable Gift Annuity: Guaranteed Income for Life.

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

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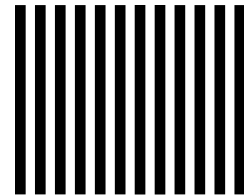
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University of Wisconsin Foundation Vision Statement

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Dear Friends,

My name is Colette Michael, and inside this issue of *Dividends* you will find an article about how charitable gift annuities work for me and for the University of Wisconsin-Madison.

If your situation is like mine, a charitable gift annuity could be a good move for you. I am giving to the University, and at the same time I have a steady source of income.

The University was and still is most important to me. The PhD I earned while raising six children set me on course for a rewarding career in academia, trained for research as well as teaching. Furthermore, a University of Wisconsin-Madison School of Medicine and Public Health surgeon saved my life when no one else would take a chance on me.

I am sure you have your own reasons for loyalty to the University. With a charitable gift annuity, you can benefit yourself and the UW-Madison at the same time.

Sincerely,

Colette Michael