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Life income gifts offer solutions to a variety of donor situations that an outright gift cannot address. One situation they can address very nicely is a donor's desire to supplement retirement income with additional cash flow. From a development point of view, the techniques we are about to discuss have the added benefit of widening the pool of prospects to which your planned giving program can appeal.

Who are the prospects?

Many of your supporters will start planning for their retirement in earnest once they reach their late 40s or early 50s. Their children have moved out of the house, or will do so in the next few years. They are established in their careers and entering their peak earning - and saving - years. It's time to start planning for the next stage of life: retirement.

An important aspect of planning for retirement is making sure there will be sufficient cash flow to meet living expenses. There are at least three gift plans that can provide a donor with additional cash flow to meet those expenses starting when a donor retires.

Secure and predictable payments of a DGA will appeal to many

The deferred gift annuity (DGA) has three characteristics that will appeal to many donors who are planning for retirement.

1. It offers the predictability of fixed payments.
2. It offers the security of being backed by your organization's general resources.
3. It allows the donor to set the date when payments will start.

A promise of fixed and guaranteed payments is just what many in our target audience want to hear amidst a world marked by a mortgage lending crisis; an enormous and growing national debt; record high oil prices; rock-bottom interest rates on CDs, money market funds, and other widely-used savings vehicles; and a myriad of other concerns. Even under the relatively low annuity rates suggested by the American Council on Gift Annuities (effective January 1, 2012), DGA payment amounts can look very favorable in comparison to common alternatives, as shown in the table below.

Deferred Gift Annuity

Completed October 2013
Donor, Age 55
Payments Deferred to Age 65
IRS Discount Rate presumed to be 2.0%

Investment in a CD	
Invested	$50,000
Interest (2.0%)	$1,000
Income tax on interest (28% federal rate)	($280)
Net after-tax cash flow	$720

Deferred Gift Annuity	
Contribution	$50,000
Annual payments	$3,250
Taxed as follows:	
Ordinary income	$1,511
Tax free	$1,739
Income tax (28% x $1,488)	($423)
Net after-tax cash flow	$2,783

The CD rate of 2.0 percent is representative of what was attainable in November 2013. The tax-free portion will last for first 19.9 years of payments.

In addition to more than doubling the donor's prospective cash flow from the $50,000 currently held in a CD, the DGA will also make the donor eligible for a $15,920 income tax deduction. If the donor is in the 28% income tax bracket, this deduction could be worth up to $4,458 in saved income taxes.

Gift plan for prospects who want flexibility
While many donors find the predictability of DGA payments reassuring, others want flexibility regarding when payments begin and their amount. For example, they may

not know when they will retire and would prefer to decide on a payment start date when they are more certain of when they will stop working.

The flexible gift annuity (FGA), a variation of a deferred gift annuity, may be just what these donors are looking for. The FGA works like a DGA, but does not lock in a payment start date and amount on the date of gift. Rather, it includes a schedule of possible payment start dates from which the annuitant can choose at any time before payments begin. The later the payment start date chosen, the greater the annuity amount your charity will pay. A typical FGA elective payment schedule for a 55 year-old contemplating a gift on 12/1/2013 might look like this:

If payments commence on this date:	**This will be the annual annuity amount:**
12/31/2023	$3,200
12/31/2024	$3,400
12/31/2025	$3,500
12/31/2026	$3,700
12/31/2027	$3,900
12/31/2028	$4,100
12/31/2029	$4,400
12/31/2030	$4,650
12/31/2031	$4,850
12/31/2032	$5,200
12/31/2033	$5,450

Under the above schedule, our 55 year-old could start receiving payments any time from age 65 to 75. While she may not be sure exactly when she will want payments to start, she may be confident that it will be sometime during that 10-year span. In addition to receiving payments that start when she wants them to start, she will earn a substantial income tax deduction and some of each payment will be tax-free throughout her life expectancy. Her deduction will be the same regardless of which payment start date she ultimately chooses.

Gift plan for donors wary of fixed payments

Some donors with a long life expectancy may not find the promise of fixed payments so appealing. For example, they may worry about the potential effects of inflation on the buying power of those dollars over the decades to come. For these donors, a flip unitrust may be more attractive than either a DGA or FGA. A flip unitrust has the same ability to start distributing substantial income in the year the donor chooses, but also has the potential to increase its distributions over time.

A flip unitrust works this way. It starts out as a net income unitrust that distributes either its stated unitrust percentage or its net income for the year, whichever is LESS. If the trust earns no net income, it makes no distribution. Starting in the year following a chosen triggering event, which can be a particular date, the trust becomes a standard unitrust that distributes a specified percentage of its value each year, regardless of its net income. This feature can be very useful in the context of a donor who is looking to supplement retirement income.

For example, our 55 year-old donor could create a 5% flip unitrust with a triggering event that is the last day of the year in which the donor will turn 65. During the first 10 years of the trust, the trustee could invest predominantly in growth-oriented securities that pay little or no dividends. Once the trust flips payment methods, the trustee could pursue a balanced investment approach and distribute 5% of the trust's value every year thereafter, no matter what. The payments will then reflect the value of the trust's principal: if the principal grows, the payments will grow, too. The payments would look like this if the trust is able to earn .25% income and 7.75% appreciation annually:

Year	**Before Tax Principal**	**Beneficiary Income**
2013	$100,000	$250
2014	$107,750	$269
2015	$116,101	$290
2016	$125,098	$313
2017	$134,794	$337
2018	$145,240	$363
2019	$156,496	$391
2020	$168,625	$422
2021	$181,693	$454
2022	$195,774	$489
2023	$210,947	$10,547
2024	$223,604	$11,180
2025	$237,020	$11,851

2026	$251,241	$12,562

You can see that payments are modest through 2023, jump dramatically after the trust flips payment methods, then grow steadily thereafter as trust value continues to increase. There is, of course, the risk that trust value will go down - and payments along with it. This means the flip unitrust solution will appeal only to those donors for whom the possibility of increasing payments over time outweighs the risk that those payments could shrink over time instead.

It is also worth noting that the complexities of creating and administering a flip unitrust mean that they require a far greater funding amount to be cost-effective. Most charities that offer to manage these trusts themselves set a minimum threshold of $100,000 - $250,000. In contrast, most charities set their minimum acceptable DGA amount at $10,000 - $25,000.

Conclusion

There are several planned gift vehicles that can act to supplement a donor's cash flow during retirement. Each of these gift plans will appeal to donors with a particular set of concerns. This is good news. It means that you have some excellent options for tailoring a gift plan that matches well the goals of your prospects.

That said, all of these plans are foremost charitable gifts. For these gifts to make sense, a donor must be motivated by the desire to support your charity, not just to supplement his or her retirement income. Promote your charity's mission first, and the financial benefits of these planned gifts second, and the gifts will follow.

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