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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;
and
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 in an environment of low interest rates on CDs, money market funds, and other low-yield savings vehicles. Under the current annuity rates suggested by the American Council on Gift Annuities (that went into effect on 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 June 2014

Donor, Age 55

Payments Deferred to Age 65

IRS Discount Rate presumed to be 2.0%

Investment in a CD	
Invested	\$50,000
Interest (1.25%) ¹	\$625
Income tax on interest (28% federal rate)	(\$175)
Net after-tax cash flow	\$450

Gift Annuity	
Contribution	\$50,000
Annual Payments	\$3,200
Taxed as follows:	
Ordinary Income	\$1,488
Tax free ²	\$1,712

Income tax (28% x \$1,488)	(\$417)
Net after-tax cash flow	\$2,783

[1] The CD rate of 1.25 percent is representative of what was attainable in June 2014.

² The tax-free portion will last for first 19.9 years of payments.

In addition to significantly increasing 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 within a range of years might look like this:

If payments commence

This will be the

on this date:

annual annuity amount:

6/30/2025

\$3,200.00

6/30/2026

\$3,400.00

6/30/2027	\$3,500.00
6/30/2028	\$3,700.00
6/30/2029	\$3,900.00
6/30/2030	\$4,100.00
6/30/2031	\$4,400.00
6/30/2032	\$4,600.00
6/30/2033	\$4,850.00
6/30/2034	\$5,200.00
6/30/2035	\$5,450.00

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% capital appreciation before the flip happens, and 3% income and 5% capital appreciation after the flip event:

YR	Principal	Income
2015	\$100,000	
2016	107,750	\$141
2017	116,101	152
2018	125,018	164
2019	134,794	177
2020	145,240	191
2021	156,496	206
2022	168,625	221
2023	181,693	239
2024	195,774	257
2025	210,947	277
2026	202,617	6797
2027	208,695	7001
2028	214,956	7211

2029	217,275	7427
2030	223,793	7650
2031	230,507	7879

You can see that payments are modest through 2025, 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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