



WESTERN
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the WESTERN ILLINOIS UNIVERSITY PLANNER

Ideas on Financial, Gift, and Estate Planning

Dear Alumni & Friends:

I did not live through the Great Depression. I have no idea what hardships were encountered by people during those difficult years. I know that many of you reading this right now did live through it. I have read about it, and I have heard my grandparents talk about it. But I did not live through those tough times.

I do know that my generation and the one before me and the ones after me have never experienced anything close to the Great Depression—until now. Yet I am amazed because, in spite of this tough economic climate that we now find ourselves in, the support for Western Illinois University continues to grow!

Now we must ask our alumni and friends to continue to support our causes and needs as state support declines for higher education. However, please understand that we do so with a level of restraint and understanding, knowing that many of you will have to reduce your giving to Western or may have to say no for now.

I wish to thank our alumni and friends who continue to help and to ask how they can help now. This newsletter may offer you ideas on how you can weather this storm and still support your charitable causes, whether it is your alma mater or other causes in your community. As always, I would be happy to visit with you at any time to answer any questions you might have about including Western in your charitable estate plans.

Again, thank you for your outstanding support! My warmest regards to you from Western!

Sincerely,

Brad Bainter
WIU Foundation

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 *The Planner*, we explore in the informative question-and-answer format how gift annuities work and some of the tremendous

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Examples

A. Tom B, 65, makes a gift of \$50,000 to WIU. In return, we promise to pay Tom \$2,650 a year for as long as he lives.

B. Bill and Ellen J, both 70, make a gift of \$20,000 to WIU 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.

C. Martha M, 75, is considering making a gift annuity contribution to WIU 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 \$10,424.

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 \$7,996.

D. George N, 68, contributes \$40,000 for a charitable gift annuity. Each year he will get income of \$2,200. Of that amount, \$1,533 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.

E. Jessica D, 70, owns stock worth \$100,000 that she purchased years ago for \$20,000 and wants to use the value of the stock to fund a gift annuity agreement with WIU.

If she sells the stock, she will realize an \$80,000 gain that will generate a \$12,000 capital-gain tax. This will leave her just \$88,000 to fund the gift annuity.

Alternatively, if she contributes the stock itself for the gift annuity, her annual payments will be based on the full \$100,000 value. The amount of taxable gain she must recognize will be reduced from \$80,000 to just \$51,650. Better yet, she will have to recognize only \$3,247 of the gain each year over her life expectancy of 15.9 years rather than recognizing—and paying tax on—all of her gain right now.

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 Western Illinois University Foundation. In exchange for a gift of a specified amount, we agree to make specified annual payments for life to one or two beneficiaries (annuitants). (See *Example A*.)

Are the funds I contribute for a gift annuity set aside and invested to secure my annual 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 WIU 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

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	\$326	\$2,151
65	5.3%	\$530	\$360	\$2,843
70	5.7%	\$570	\$406	\$3,544
75	6.3%	\$630	\$470	\$4,170
80	7.1%	\$710	\$551	\$4,818
85	8.1%	\$810	\$663	\$5,487
Two annuitants				
60-60	4.6%	\$460	\$299	\$1,139
65-65	4.9%	\$490	\$333	\$1,701
70-70	5.2%	\$520	\$369	\$2,441
75-75	5.6%	\$560	\$415	\$3,198
80-80	6.1%	\$610	\$471	\$4,017
85-85	7.0%	\$700	\$564	\$4,639

Calculations are based on quarterly payout.



economic factors. (Any changes would affect only newly issued annuities.) The chart on page 2 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, 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 B*.)

You can also 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 C*.)

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

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%.

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. (See *Example E*.)

If you designate someone other than yourself to receive the annual income, the amount of gain you must recognize is still reduced if compared to a sale, but you must recognize all of it in the year you create the gift annuity.

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

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Examples

F. 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 \$10,080, 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 \$5,840 and his annual income would have been \$2,200.

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

Helen is pleased to learn that she can support WIU 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 \$1,244 of her annual income payment is taxable, Helen would net \$5,012 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 \$36,780. This could save an additional \$10,298 in taxes which, in turn, could be reinvested for even more cash flow.

securities traded on national markets—are not suitable to fund a gift annuity.

I like the idea of making a gift by means of a charitable gift annuity, but I really don't want or need any additional income now. 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 F.*)

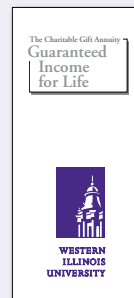
How do returns on gift annuities compare with returns on regular investments?

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 G.*)

More questions? 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 enclosed card.

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

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