

FIXED INCOME NEVER GETS OLD: THE CHARITABLE GIFT ANNUITY (CGA)

If you are 60 or older, you've probably heard about charitable gift annuities (CGAs). The concept is pretty simple: A donor makes a gift and receives lifetime income in return, either immediately or starting on a future date. In addition to the income, the donor receives a charitable deduction and the organization receives the remainder value.

Here's what you might not know about gift annuities:

- 1 || In 1831 when he was 75, American painter John Trumbull created the first charitable gift annuity in the United States with Yale College. Trumbull was rich in non-liquid assets (paintings) but income-poor, and he came to donate his paintings to Yale in exchange for a "competent annuity for the remainder of my life."
- 2 || In 1843, the American Bible Society started the first formal gift annuity program, a model for all charitable gift annuity programs that followed.
- 3 || In 1946, Pomona College in California pioneered gift annuity marketing by promoting CGAs to the general public through *The Wall Street Journal*, attracting many non-alumni donors to Pomona with concepts like

"free money management in exchange for a philanthropic contribution" and "sizable tax deductions while feeling good about giving toward the future of young people."

Today, CGAs are as attractive to donors as they were in the 19th century, and for the same reasons: They provide income that can't be outlived while supporting a cause important to you.

The payout rate for CGAs is determined by the number and age of the annuitant and the start date of the payments. The higher the age and the longer the income is deferred, the higher the rate. For example, two annuitants age 65 starting income immediately would receive 4.5 percent income for life, while a single annuitant age 70 deferring payments for five years to age 75 would enjoy a payout rate of 7.4 percent. *We can easily calculate any payout rate if we know the age of the annuitant and when the income starts (immediately or later),* but the general range of payout rates is 4 percent to 10 percent.

One of the strongest appeals of CGAs is their simplicity of execution, being a one-page agreement signed with the foundation issuing the CGA. Donors who particularly benefit from CGAs include those who are in high tax brackets, those in



"We have half your money in bonds and annuities, the other half under an oak tree in the Caymans."

good health, and those who hold assets in a taxable account and/or assets that are too risky or not yielding much income.

The University of Maryland, Baltimore (UMB) and its schools of dentistry, law, medicine, nursing, pharmacy, social work, and the Graduate School accept CGAs through the **University of Maryland Baltimore Foundation, Inc.** CGAs can be issued to residents of all states except Washington and Hawaii, with cash or appreciated investments (but not IRA distributions or donor-advised funds), in any amount \$10,000 or greater. To receive rate information or to initiate a new CGA, please contact the Office of Planned Giving.

"People always live forever when there is an annuity to be paid them."

— FROM JANE AUSTEN'S *SENSE AND SENSIBILITY*

EVERYONE ASKS: Do All Charities Pay the Same CGA Rates?

Ninety-seven percent of charities issuing CGAs, including the UMB Foundation, follow rates recommended by the American Council on Gift Annuities (ACGA). The 3 percent that do not use ACGA tables offer payouts higher or lower than the recommended rates. The ACGA calculates the rates to target 50 percent remainder value in the annuity, but in fact the national average for remainder value in CGAs is 64 percent, and the average remainder value at UMBF is 93 percent.

Below is a chart showing the most recent ACGA payout rates for a *single annuitant, immediate payments*:

<i>Age</i>	<i>Rate</i>	<i>Age</i>	<i>Rate</i>
65	5.1%	79	7.1%
67	5.3%	81	7.5%
69	5.4%	83	7.9%
71	5.7%	85	8.3%
73	5.9%	87	8.7%
75	6.2%	89	9.2%
77	6.6%	90+	9.5%

For tables or rates on two annuitants, or rates for deferring the income, please email or call the Office of Planned Giving.

ANNUITANT VIEW: JOAN LEVY ZLOTNIK, PHD '98, MSW

Joan Levy Zlotnik and her husband Marc had heard about gift annuities over the years from a friend who spent a career in planned giving who “always explained why he thought it was a good thing to do,” Joan says. “We were visiting our friend, looking at the retirement stage in life and our funds, and we had both stopped working full time.”

Joan had been a member of the University of Maryland School of Social Work’s Board of Advisors for several years. “I realized we could do more than my serving on the board,” Joan says. “As a PhD grad, I felt great attachment to the doctoral program, and I liked the idea of having a legacy to the school and the students.”

After exploring the idea with their children, Joan and Marc each funded a one-life gift annuity in November 2017, each using appreciated stock. “It was just an easy process, and the timing was good,” Joan says.

Joan and Marc each will receive fixed lifetime income starting at age 70, with Marc’s payout rate being 5.4 percent and Joan’s 5.6 percent, after which time the proceeds establish a graduate fellowship for students focusing on child welfare or services to older adults and their families.

This publication is not intended to provide legal, tax, investment, or other professional advice, and should not be relied upon for such advice. In advance of any charitable gift plan, we encourage you to seek the advice of legal, tax, and investment professionals.

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