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The Advanced Planner

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Increased Income

Increasing income has become a major concern for many older Americans. Because of this, charitable gifts which can increase an individual's cash flow have become very popular. Typically, these **planned gifts** (sometimes referred to as "life income gifts") enable donors to increase their disposable income, enjoy greater tax benefits, and make larger gifts than would be possible otherwise. Our community benefits as more people become aware of these planned giving arrangements.

Here's how a life income gift works: The donor makes an irrevocable gift and retains the right to receive an income from the gift for a term of years or his or her life - or the life of one or more designated individuals. Finally, when the life income interest expires - at the end of the term of years or the death of the income beneficiary - Mercy Foundation North then receives the remaining balance of funds for use in the community.

This issue of *The Advanced Planner* examines a case study involving a life income gift using a charitable gift annuity, to illustrate how this tool helps meet the needs of our supporters and the community. We hope that you will find this information helpful to your practice and your clients.

If you would like more information about the works supported by the Foundation or these planned gift arrangements, please let us know. We would be happy to be of any assistance to you.

Jeanine Hedman
President

Bill Altavilla
Planned Giving Specialist

∞ The Case ∞

Increasing Income with a Gift Annuity

The charitable gift annuity is one of the most popular types of planned gifts, second only to the charitable bequest. The reason: simplicity and the fact that the annuity payment rates are often notably higher than what many seniors receive on their CDs or as dividends or interest from their stocks and bonds.

To establish a gift annuity benefiting the works of the Sisters of Mercy, a donor transfers cash or securities irrevocably in exchange for a promise to pay a specified dollar amount to the donor for life. The annuity amount is fixed at the time of the gift based on the age(s) of the annuitant(s). The gift annuity is set up in a short written agreement to benefit one or two annuitants. Mercy Foundation North will receive the remainder value at the death of the annuitant(s).

Best of all, the **donor receives two major tax benefits: an income tax deduction** equal to about 30 to 60 percent of the value of the assets transferred, **plus tax-favored treatment of the annuity payments.** When cash is transferred in exchange for the gift annuity, part of the annuity payments (typically 30 to 50 percent) is federal income tax free to the recipient as a return of principal. Similarly, when appreciated securities are transferred part of the donor's cost basis is received tax-free while a portion of any long-term capital gain is taxed pro-rata at low capital gain tax rates.

Here is a sampling of gift annuity rates and the equivalent pre-tax yield required on a taxable investment as compared to the gift annuity payout when a donor is in a 25% income tax bracket and makes a cash gift:

<u>Age</u>	<u>Gift Annuity Rate*</u>	<u>Pre-Tax Equivalent Yield</u>	<u>Charitable Deduction As % of Gift</u>
65	5.3%	7.00%	35%
70	5.7%	7.73%	40%
75	6.3%	8.76%	45%
80	7.1%	10.13%	51%
85	8.1%	11.91%	57%
90	9.5%	14.29%	62%

(*CGA rates effective 2/1/2009)

Do You Need More Information?

Proposals/Illustrations Available: We can provide a confidential proposal for any interested advisor or individual(s). Please contact our office at (530) 247-3424.

The information provided herein is to assist you in planning for your future. Proper tax and legal advice should always be obtained.