

# South Seattle Community College

## Charitable Gift Annuities

### The Gift that Gives Back Guaranteed Income

In cooperation with the Seattle Foundation, South Seattle Community College offers a popular and flexible gift annuity program that offers donors a chance to enhance their income and make a gift while enjoying significant tax benefits.

While securing a guaranteed lifetime income that won't shrink, you can also help South Seattle Community College deliver the very highest quality educational programs and training to meet students' needs.

#### Lifetime income from a gift annuity:

With a gift annuity, the donor gives cash or other assets to a charitable or educational institution and, in exchange, receives fixed payments for life in quarterly installments. The return rate can be very competitive and often exceeds the current rate associated with fixed income investments such as savings plans, money market funds or CD's. The payments may be made to the donor, a spouse or someone else such as a parent, sibling or friend. The payments can extend for one life or two. At the last beneficiary's death, the remaining assets are retained by the institution and used to support its mission.

#### Two key benefits exist under this arrangement.

The donor receives an immediate income tax deduction. Any excess beyond the annual legal limit may be carried forward for up to five additional years. The exact amount of the deduction depends on the ages of the persons receiving payments, the annuity rate and the discount rate under the U.S. tax code.

The annual payments are taxed favorably, depending on the life expectancy of the persons. A portion of payments from cash gifts will be tax-free. If a gift is made using appreciated property such as securities or real estate, the donor also avoids tax on a portion of the capital gain, and the capital gain that is taxed can be spread over the relevant life expectancy.

#### Safety and Security:

A great advantage of charitable gift annuities is they reduce risk in two ways, thereby offering you safety and security in retirement. First, gift annuities provide a reliable stream of income for life – thereby reducing the risk that you might outlive your retirement assets. No matter how long you (or you and your survivor) live, you are guaranteed your payments.

Second, the amount of the payment is fixed forever, regardless of the performance of the financial markets or overall economy. Even people who can tolerate moderate or even high risk with their investments can benefit from incorporating some amount of low-risk income (such as from an annuity) in their retirement plan in order to reduce the overall risk of the portfolio.

## Establishing an annuity:

The minimum amount to establish a gift annuity is \$25,000, and the person receiving the annuity must be at least 60 years old when the income payments begin. However, because income payments can also be deferred, gift annuities are ideal for supplementing retirement savings plans. Any person, no matter how young, can give to establish a deferred annuity. Moreover, unlike qualified retirement plans (such as IRA's and 401-K plans), gift annuities have no contribution limit, and the donor receives income and capital gains tax benefits on contributions.

## Income now or later:

With an immediate gift annuity, your payments begin as soon as the contract takes effect. For example, if quarterly payments are elected, payments begin at the end of the quarter in which you make your gift. These are recommended for donors whose age is 65 or older.

A deferred annuity option allows younger donors to postpone the start of payments until they have reached retirement age or later. Like an immediate annuity, you can take a charitable deduction in the year you make your gift. Because payments are deferred, however, you or your designated annuitants will receive substantially higher income payments. This type of gift works best for contributors between the ages of 40 and 65.

## Illustration:

George and Martha Washington (ages 82 and 81) have \$50,000 in stock that they purchased for \$20,000 some years ago. Their investment is in a growth company that pays little or no dividend income to stockholders. Although George and Martha would like more current income in order to be able to travel, they are reluctant to sell their stock and pay the resulting capital gains tax.

They use the stock to establish a donor and survivor charitable gift annuity at the Seattle Foundation benefiting South Seattle Community College. The annuity pays them \$3,600 a year (a 7.2% return) for both of their lives, and of that amount \$1,015 would be tax-free each year. They are also able to take an immediate income tax deduction of \$20,319 and partially bypass capital gains tax on the appreciation of the stock.

After they both pass, the remainder of their contribution would be available for charitable purposes. Of this, 85% would go to the South Seattle Community College Foundation and 15% would remain at the Seattle Foundation to support educational purposes throughout the city.

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A charitable gift-planning officer is available to help you and your advisors develop ways that charitable gift opportunities, annuities and trusts could form part of your retirement or estate plan.