# Please Note:

Issues of *Futures* appear as they were originally published. Information in these publications has not been updated to reflect changes that could affect calculations given in case examples.

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# Futures

Summer 2005

A no-nonsense newsletter for estate planners and financial advisors from The Dayton Foundation

*Strategy in an Uncertain Environment*

## A Method for Supplementing Clients' Retirement Income

**By Jay A. Buckingham, CFP/CSC, President, Buckingham Financial Group, Inc.**

Most individuals reading this are in the business of consulting with clients, whether it is estate planning, tax planning, investment allocation or a combination of these. Many of us in this business are dealing with an expressed concern from clients regarding corporate and public retirement plans.

In many cases, we are finding clients who fear that their "dream retirement" could become a time of uncertainty – or worse – for them and for their families.

They are troubled about the rising cost of health insurance and the possibility that their monthly income flow in retirement will be reduced for a variety of possible reasons. Money they had put aside to give them more flexibility in retirement now may become an emergency fund to back them up financially and supplement the rising cost of health insurance, long-term care and other eventualities.

*CGAs can provide charitable clients with secure, dependable income in a changing economic environment.*
*– Jay Buckingham*

Jay A. Buckingham

So how does an advisor address these concerns with his or her clients? What strategies can assist clients to help assure that they will have the resources they need to fund their retirement?

Among the approaches I have explored with my clients is the charitable gift annuity. A number of my clients have chosen to establish charitable gift annuities – and deferred charitable gift annuities – through The Dayton Foundation. Here is how this works.

### Creating a Steady Income Stream

A charitable gift annuity allows a charitably minded individual with low-yield assets to receive improved payments and benefit charity at the same time. A client can transfer cash, mutual funds, securities or other assets to The Dayton Foundation and receive a contract from The Dayton Foundation for payment of a fixed rate of income to one or two persons for the remainder of their lives, with the remainder amount going to an endowment fund for the charities he/she wishes to support. The annuity rate is calculated based upon interest rates at the time of the gift and the age(s) of the annuitant(s), i.e., life expectancy.

If a 60-year-old were looking for an immediate payout and were the single annuitant on the contract, for example, he or she would expect, at today's annuity rates, to receive a rate of 5.7%. If a second annuitant on the contract were age 62, for instance, the rate would drop slightly to 5.5%, but the payout would cover both of their lifetimes. (The older the annuitant, the higher the annuity rate will be. At age 70, a single charitable gift annuitant today could expect a 6.5% rate.)

If, however, the same 60-year-old annuitant chose to contract for a *deferred* charitable gift annuity (CGA) to begin paying at age 65, he or she could count on a substantially increased annuity rate, amounting to 7.5% for one annuitant and 7.1% for two annuitants (the second being 62 years of age at the time the contract is signed).

This provides the client (and a second individual, if desired) with dependable yearly income, no matter how the market adjusts or how the economic or political environment may change. The CGA also may confer favorable tax benefits by providing a charitable gift deduction at the time of the transfer of the asset to fund the annuity, by avoiding the long-term capital gains tax on the remainder going to charity and, in most cases, by providing a portion of the annuity payments tax free to the annuitant(s).

### E Bonds, Security and Congress

Many of us have experienced the situation in which clients come to us with E/EE bonds that have matured. In the past, they could convert them to interest-paying HH bonds, thereby deferring the accumulated interest on the E/EE bonds. As of September 1, 2004, clients no longer have that option to improve their yield while deferring the payment of taxes.

Here is another situation where the CGA can be useful. By cashing the E/EE bonds and using the proceeds to establish a CGA with The Dayton Foundation, clients with charitable intent can find a satisfying way to help offset taxes on the accrued interest on their bonds with a charitable gift deduction. This also gives them an income stream, part of which they will receive tax free. This can be a good planning tool and an attractive alternative for charitable individuals.

*Continued…*

*Strategy in an Uncertain Environment*

## A Method for Supplementing Clients' Retirement Income

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Another consideration in planning is the issue of security for clients. In today's environment, when reports of companies in trouble – financial or ethical – are so much in the news, clients can find comfort in the fact that a CGA through The Dayton Foundation is backed by the full $250 million assets of the Foundation.

Furthermore, if Congress permits the donation of assets from a qualified pension plan into a CGA, without the tax consequences such a donation currently would have, the CGA alternative will look more attractive still.

*The charitable gift annuity offers diversification in retirement planning, as well as possible tax benefits and a charitable result.*

*– Jay Buckingham*

### Benefit of Diversification

Another reason I like the CGA is that it provides clients with added diversification to their portfolio. This is not only asset diversification, but also diversification of ideas and planning.

Let's say that your client is charitably minded, and he elects to establish a CGA through The Dayton Foundation. Let's also say that when the annuity payments begin, he finds that his cash flow is better than he thought it would be and he therefore doesn't need the payments. He can elect to donate the payments to his favorite charities and take the tax benefits instead.

Another type of diversity can come through how the CGAs are acquired. A couple I've worked with for several years plans to purchase 12 CGAs over the course of their working years. Their plan is to defer the income stream until they retire and to use it to fully fund their retirement in a predictable manner, while ultimately assisting charity. If one individual passes away, the other will continue to receive the income until the second person dies. Currently the couple takes the tax benefits associated with placing a portion of their earnings into CGAs.

Of importance to the couple is that when both parties pass away, the residual will go to an endowed fund at the Foundation, named for them and set up to benefit their charitable beneficiaries in perpetuity.

Another option is that they can create a family fund within The Dayton Foundation that permits their children or other family members to advise The Dayton Foundation regarding which charities they want to receive the income from their fund. This allows the family to pass philanthropy to younger generations and encourage it in their heirs.

### One Final Consideration: Wealth Replacement

Clients frequently are concerned that their gifts to charity will reduce the assets that will pass from their estate to their children or other family members. The CGA can be of assistance in this regard, in that CGAs can be written to include a second annuitant that can be a child or grandchild, for instance.

Another possibility is to use some of the cash flow from the CGA to purchase a second-to-die insurance policy to replace the assets that would have gone to the family member from the estate. In this way the CGA can help fulfill a client's charitable goals, while minimizing the impact on heirs.

### In Summary

A charitable gift annuity, then, can provide a secure, steady stream of income for clients when they are retired, favorable tax benefits and, ultimately, satisfaction that the residual will go for the greater good as a gift to charity.

To my mind, the CGA is a phenomenal tool that can be the right answer for many clients to help fulfill both their retirement and their charitable-giving needs.❧

**Note: Solutions differ from case to case. The above does not constitute professional financial or tax advice.**

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## *Futures* Wins National and Regional Awards

**The Dayton Foundation's *Futures* has received top honors recently from local and national organizations. For the second consecutive year, *Futures* has been named a Gold Award winner by the national Wilmer Shields Rich Awards Program for Excellence in Communications. The program is sponsored by the Council on Foundations, the premiere professional organization for all foundations in the U.S. and abroad. The local chapter of the International Association of Business Communicators also bestowed a Bronze Quill Award of Excellence, the organization's top award, for *Futures*.**

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