Promoting DCGA Benefits to Boomers

Planned Giving Today

Vol. 23, No. 7 (July 2012), pp. 5-6

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The Baby Boomers are retiring . . . or at least talking about it. The first of the Boomers turned 65 this past year, and more and more are making plans for the next decade. They know that the next five years will bring at least the first distributions from their qualified retirement plans and their first Social Security checks. They are increasingly attending those seminars and webinars sponsored by retirement plan managers about all the many ways they can elect to position their assets.

Though we know few 65 year olds who actually *are* retiring, the way our fathers did, promptly at 65, almost all of them are currently obsessed with retirement—both the pleasurable parts (Where will we live in the winter? Can we backpack in Brazil next year? Let's try all the Michelin starred restaurants in Alsace!) *and* the more confusing parts (how will we fund all those restaurants . . . and the villa to go with them?).

Gift planners have a unique opportunity, beginning this year, to appeal to the soon-to-be-retiring or the thinking-about-retiring Boomers. Sixty-something Boomers are being deluged by options for their retirement portfolios. The range of alternatives can be confusing, at best, and overwhelming at worst: a lump sum distribution, a guaranteed income for a set amount of years, or an annuity that lasts for one life but not necessarily for the life of a spouse. Even for fundraising professionals, the options are daunting.

Many seminars/webinars pitch commercial annuities for at least part of a retiree's assets because many people want to know they will not outlive their income (and most people know of someone who did or almost did outlive her income). The urge for financial security has increased over the past three years of a volatile (and sometimes downward spiraling) stock market. Let us note that many seminars/webinars also pitch commercial annuities because of the nice commission to the middleman who sells the policies.

For those Boomers considering a commercial annuity, and who at the same time want to make a gift to a nonprofit, a Deferred Charitable Gift Annuity will be a welcome addition to the options available to them. But, it will be up to clever gift planning professionals to explain, clearly and concisely, how a DCGA is different from and in many ways superior to a commercial annuity.

The most important benefits that many commercial annuities lack include

- A guaranteed interest rate, that never changes, based only upon a donor's age the year he or she sets up the annuity
- A two-life option in which the interest rate does not go down after the first spouse dies
- A tax deduction for the gift

A flexible DCGA is particularly appealing to those Boomers who are still working and who do not know when they might retire. With a charitable, flexible DCGA Boomers can also

- Take their tax deduction during one of their highest income years (at a time when they need or can use the deduction the most)
- Decide what year the annuity begins—and increase their interest rate with each year of deferral Set up a supplemental retirement "plan" while giving a major gift

The two following examples illustrate how a DCGA can provide benefits to a charity-minded Boomer:

1. An outright gift of appreciated stock:

   George is an active professional in a mid-sized city. At age 62, he still loves his work, enjoys the income his profession brings, and does not plan on retiring anytime in the near future. Though he loves golf and travel, he cannot envision himself on the course five days a week for the next twenty years.

   George also volunteers at his community hospital two evenings a week. The hospital saved George's life when he fell off a ladder a few years ago trying to hang Christmas lights on his front porch, and he has been immensely grateful ever since and would like to make a significant ultimate contribution to the emergency department.

   George invested, wisely, as it turns out, in Apple Corporation stock when it was "only" $100 a share. Now fluctuating around $600 a share but still offering no dividend, Apple has produced large gains for George, gains he would like to lock in. A flexible DCGA will let him do so, deferring his income for a minimum of eight years until age 70 and allowing him to make a gift at the same time. A gift of 200 shares, worth approximately $120,000, will give him an immediate tax deduction of $43,345 and an income at age 70 of $7,800 (or 6.5%) every year for life. If he waits till age 75 to begin his payments, his income goes up to $10,440 (or 8.7%), with each delayed year only increasing the income further. For George, this plan seems like an unbeatable double win: he can give a major gift and has created a supplemental retirement plan.

2. A personal "roll-over" of an IRA into a DCGA

   Mary is a faculty member at small independent college in the Midwest. She loves teaching American literature, as has done so for the last 35 years, but now, at age 64, she is beginning to think fondly about some extensive travel.

   Having built up nearly $800,000 in her TIAA/CREF plan, Mary decides to use part of her TIAA/CREF plan to ultimately endow a student writing prize that has funded yearly in cash and that she plans to continue to support. Rather than waiting until she dies to let her retirement plan fund the prize (and not knowing for sure whether there will be enough to endow the fund),

> Mary wants to guarantee the prize will continue to inspire students for generations to come by ensuring the endowment will be available. Thus, she takes $50,000 out of her TIAA/CREF plan to establish a DCGA. Mary receives a tax deduction for $18,358 and an income at age 70 of $3,050 (6.1%) for life. Even better, 65% of this income will be tax-free. Although Mary will have to recognize the $31,642 that is not offset by the tax deduction as income, she knows that she is making a significant gift to the school where she has spent her entire career. She also knows that when she starts receiving income much of it will be tax-free, whereas all of the income from her TIAA plan will generate income tax. To Mary, that nearly $2,000 of tax-free income every year outweighs the tax she has to pay when she sets up the DCGA.

Given that no one can (yet) simply roll over a retirement plan into a CGA or DCGA, gift planners will need to explain the stages of a DCGA funded by qualified retirement assets: Like Mary, a donor will have

- to withdraw assets from the plan,
- recognize that withdrawal as income, and then
- fund the DCGA with the withdrawn assets.

Because the tax deduction will be less than the amount funding the gift annuity, the donor will have excess income on which to pay tax, but, like Mary, the donor may find the significant tax-free income when payments begin (and the ability to ensure an endowment gift while still living) will more than offset the tax up front.

Like George and Mary, other Boomers may find DCGAs just the right gift to accomplish their philanthropic and retirement goals simultaneously. How better to create generous and happy donors?

Dr. Carol Kolmerten and Dr. Bruce Bigelow are founding partners of Charitable Development Consulting, a firm dedicated to providing their clients with solid, yet innovative, ways of thinking about gift planning.