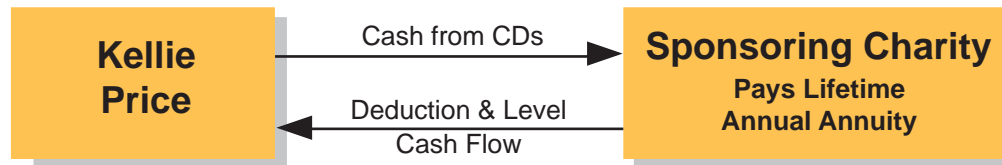


# Case Strategy:

## Using a CGA to Increase Income

PRICE



Kellie Price (80) owns \$100,000 of Certificates of Deposit (CDs) that will mature in the next few months and she is disappointed with the interest rates currently available for new CDs. Kellie would like to convert her CDs to something that produces a guaranteed cash flow for her life and raised the issue in casual conversation at a recent dinner sponsored by her favorite charity.

Kellie was ecstatic when the charity's development officer, Jan Reed, described a way that Kellie could cash in the CDs at maturity, then make a \$100,000 gift to the charity in exchange for a guaranteed lifetime cash flow of \$7,200 per year. Further, Kellie would be making a gift to the charity. Jan said the technical name for this tool is a Charitable Gift Annuity (CGA) and offered to run some numbers for further discussion.

As a result of creating the CGA, Kellie will receive a \$49,525 income tax deduction this year. Kellie's CGA allows her to receive a lifetime cash flow that is level and dependable. Kellie is no longer subject to the risks of interest rate changes. However, because CGA recipients are a general creditor of the charity, Kellie's lawyer and professional advisor both reviewed the charity's financial statements and investment policies to ensure the charity would be likely to be able to pay the lifetime payments.

Kellie was pleased to increase her cash flow, shift the investment risk to the charity, and make a sizeable gift to a charity she already supports.

### Key Features of CGAs

- CGAs pay a level cash flow to the annuitant so it is well-suited for people who desire a continuous, predictable cash flow.
- CGAs can never accept additional contributions after the initial funding. However, since CGAs are so easy to create, many people create multiple CGAs to approximate an additional contribution.
- CGA payments are tax-advantaged through the annuitant's life expectancy. After that, all payments are taxed as ordinary income.
- Investment risk is shifted to the charity.
- Most charities that issue CGAs use the recommended rates published by the American Council on Gift Annuities.
- Immediate CGAs must make a payment to the annuitant each year. Deferred CGAs start the annuity payment in a future year.

Income Tax Deduction

\$ 49,525

Before-Tax Lifetime Cash Flow

\$64,800\*

After-Tax Lifetime Cash Flow

\$61,508\*

Charity

\$86,210\*

\*Based on a 9.4-year life expectancy.

#### Assumptions:

Marginal Federal and state income tax rate of 20%.  
1% dividend yield and 5% capital appreciation (only affects the charity's interest). CGA payout rate = 7.2%.  
CMFR = 3.2%. Deduction may be limited. Consult a tax advisor.  
Not all charities are eligible and/or registered to issue CGAs. CGAs are subject to state regulation.  
Some charities reinsure their CGA obligations to reduce their risk.

**For more details about this strategy or any other charitable or trust case, please call Renaissance at 800.843.0050.**

**Renaissance**

This example is hypothetical and for educational use only. The situations, tax rates or return numbers do not represent any actual clients or investments. There is no assurance that the rates depicted can or will be achieved. Actual results will vary. Please consult with legal and tax counsel about the suitability of this plan before proceeding.

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