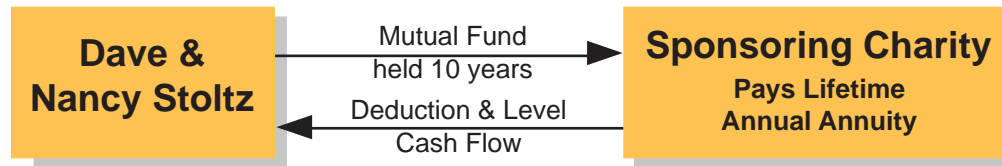


Case Strategy: CGA Increases Retirement Cash Flow

STOLTZ



Dave and Nancy Stoltz, both 79 years of age, are retired and active in their community. Nancy enjoys volunteering at the local hospital and the Stoltz have named the hospital in their will. However, they need to increase their income and are considering selling a mutual fund they bought 10 years ago for \$40,000 that is now worth \$100,000. Although the mutual fund produces a 2% dividend, that is only \$2,000 and they need to increase their annual cash flow to \$6,000. While they could sell the mutual fund and reinvest the proceeds, they know they would owe \$11,550 in capital gain taxes and are concerned about whether they can generate enough safe income to meet their needs.

Their financial advisor, Bob Brown, describes a solution for the Stoltz that will allow them to use their mutual fund to provide them with a safe, secure annual cash flow of \$6,100 per year for the rest of their lives that will be tax-advantaged. Two side benefits are that the hospital will still receive a gift and the Stoltz will receive an immediate income tax deduction.

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.

Payment Years	Capital Gain	Tax-Free	Ordinary Income	Total Annuity
2010 to 2022	2,737.68	1,825.12	1,537.20	6,100.00
2023 to 2023	1,090.56	727.04	4,282.40	6,100.00
2024 onward	0.00	0.00	6,100.00	6,100.00

As noted in the table, only part of this cash flow will be taxed as ordinary income. Some of it will be taxed as capital gain and some will be exempt from income tax. It is important to point out that after Dave and Nancy reach their life expectancy, all future payments under the CGA contract will be taxed as ordinary income. The Stoltz are excited to triple their cash flow, receive a current income tax deduction, spread out their capital gain over several years and make a gift to the hospital.



*Based on an 13.4-year joint life expectancy.

Assumptions:

Combined Federal and state income tax rate of 28.75%.
 Combined Federal and state capital gain tax rate of 19.25%.
 1% dividend yield and 5% capital appreciation (only affects the charity's interest). Some charities reinsure their CGAs. CGA payout rate = 6.1%.
 CMFR = 2.8%. 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.

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.

6100 W. 96th St. • Suite 100 • Indianapolis, IN 46278 • Ph: 800.843.0050 • Fax: 877.222.1829