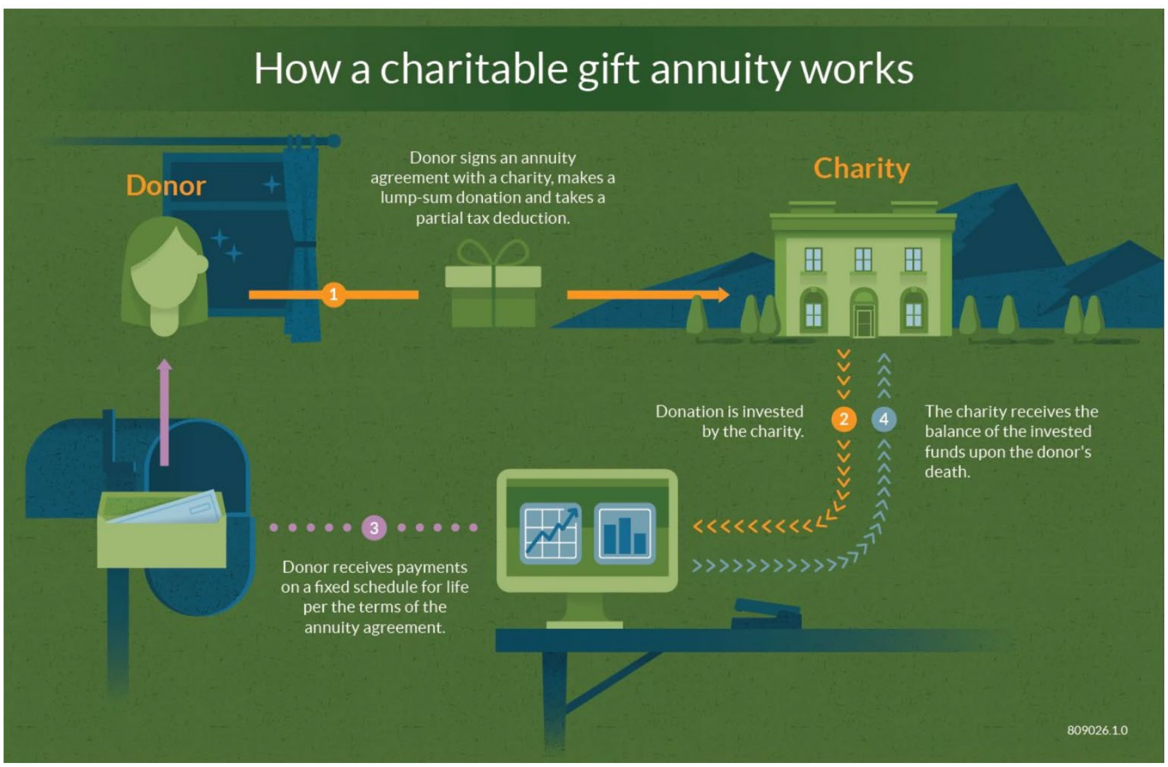
Charitable Gift Annuities – Are They Right for You?

Leigh Bivings, Ph.D., CFP®, CDFA

The season of giving is upon us and I suspect that if you are like me, your mail is full of solicitations from your favorite charities, some of whom are touting their charitable gift annuity programs. Are charitable gift annuities a good idea? They can be under certain circumstances but they are not right for everyone.

What is a charitable gift annuity?
A charitable gift annuity is essentially a contract between a donor and a charity in which the donor makes a reasonably-sized gift and in return, receives a partial tax deduction and a fixed stream of income from the charity for the rest of the donor's life (or joint life if making the gift with a spouse).



Source: Fidelity

The fixed amount received monthly (or quarterly) is set based on the size of the original gift and the age of the donor(s) at the time the gift is made. Once the donor(s) dies, the charity receives the remainder of the gift.

Attractive Features

One attractive feature is that unlike standard fixed annuities, a donor can fund the charitable gift annuity with almost any kind of asset – including stocks, property, artwork, etc., and like a regular charitable gift, avoid capital gains tax liability on any appreciation. Also, like a regular charitable gift, a gift annuity donor can get a tax deduction for the 'gift' portion of the annuity (the amount that will not be paid out to the donor as income). Finally, a donor can establish a gift annuity in a year in which receiving a tax deduction might be particularly attractive but defer the income payments until later when the income is needed and when the donor might be in a lower tax bracket.

One additional note is that if the annuity is funded with appreciated securities or real estate owned more than one year, and the donor is receiving the annuity payments, part of the payments will be taxed as ordinary income, part as capital gain, and part may be tax-free return of principal. This can also be helpful from a tax management perspective.

Disadvantages

One important thing to know is that charitable annuity rates are generally lower than non-charitable annuities because they are set with a goal to preserved 50% of the original gift for the charitable organization. As such, they are not a perfect substitute for non-charitable annuities.

In addition, I have yet to see a charitable gift annuity offering inflation-adjusted payment streams, a feature increasingly available with standard annuities (at a price). Finally, charitable gift annuities are gifts to a single charity – they cannot be used to fund several charities.

Bottom Line: When Do They Make Sense?

The most important consideration is whether there is a need for a steady stream of income either now or in the future. If there is no need for supplemental income but the donor has charitable intent, he/she will typically be better off simply gifting the entire amount up front and getting the tax deduction on the full amount. In addition, charitable gift annuities don't make sense if the goal is to fund multiple charities as this is not allowed. In such cases, the donor might be better off by opening a donor-advised fund, which allows for an immediate and full tax deduction, immediate or deferred gifting, and gifting to multiple charities. If retaining an income stream and being able to direct the remainder to any number of charities is also important, then a charitable remainder trust might be a better tool.

In short, a charitable gift annuity works best for those who want to make a sizable gift to a single charity, but have some concerns that should they live a long time, such a large gift might impact their future quality of life.

Please get in touch if you would like to learn more about a variety of tools and which might be right for your situation.

Artemis Financial Advisors
115 Newbury Street
Suite 302
Boston, MA 02116