TRUST COUNSELORS NETWORK Inc.

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Colmar, PA 18915
215.822.6601 - 800.822.6711
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www.trustcounselors.org

Planned Gift Application

(08312011)

Name of Donor ______________________ Name of Joint Donor ______________________

Date of Birth ______________________ Date of Birth ______________________

Social Security Number ______________________ Social Security Number ______________________

Address, City, State, Zip ______________________

Phone (Home) ____________ (Office) ____________ Email ____________

Annuitant / Beneficiary (If not Donor) ______________________ Date of Birth ____________

Joint Annuitant / Beneficiary (If not Donor) ______________________ Date of Birth ____________

Desired Distributions

Start Date ______________________

☐ Immediate ☐ Deferred ☐ Monthly ($15,000 min.) ☐ Quarterly (Standard) ☐ Semi-Annual ☐ Annual

☐ Term of Years, if applicable ____________ ☐ Years Deferred, if applicable ____________

Type of Planned Gift

☐ CGA ☐ DEFERRED CGA ☐ CRAT ☐ ChIBS ☐ STANDARD Unitrust ☐ NET INCOME Unitrust ☐ NIMCRUT

Additional Comments: ______________________

Amount of Gift ____________ Cost Basis of Gift ____________ Type or Source of Gift ____________

Sponsoring Foundation Account ______________________ Account Number ____________

Advisor's Name ____________ Phone ____________ Email ____________

Suitability Information:

Donor's Income ____________ Net Worth ____________ Tax Rate ____________

Occupation ____________ Relationship to Foundation ____________

Donor/Annuitant ____________ Date ____________ Joint Donor/Annuitant ____________ Date ____________

Witness ______________________ Witness ______________________

Make Checks Payable to "Trust Counselors Network, Inc." and Mail to the Address Above

2013 ACGA Two-Life Suggested Payout Rates

Younger Age	Older Age	Rate
5	5-95+	1.8
6	6-95+	1.8
7	7-95+	1.8
8	8-95+	1.8
9	9-95+	1.8
10	10-95+	1.8
11	11-95+	1.9
12	12-95+	1.9
13	13-95+	1.9
14	14-95+	1.9
15	15-95+	1.9
16	16-95+	2
17	17-95+	2
18	18-95+	2
19	19-95+	2
20	20-95+	2.1
21	21-95+	2.1
22	22-95+	2.1
23	23-95+	2.1
24	24-95+	2.1
25	25-95+	2.2
26	26-95+	2.2
27	27-95+	2.2
28	28-95+	2.2
29	29-95+	2.3
30	30-95+	2.3
31	31-95+	2.3
32	32-95+	2.3
33	33-95+	2.4
34	34-95+	2.4
35	35-95+	2.4
36	36-95+	2.5
37	37-95+	2.5
38	38-95+	2.5
39	39-95+	2.6
40	40-95+	2.6
41	41-95+	2.7
42	42-95+	2.7
43	43-95+	2.8
44	44-95+	2.8
45	45-95+	2.9
46	46-95+	2.9
47	47-50	3
47	51-95+	3.1
48	48	3
48	49-95+	3.1

Younger Age	Older Age	Rate
64	64-66	4.2
64	67-70	4.3
64	71-95+	4.4
65	65	4.2
65	66-68	4.3
65	69-72	4.4
65	73-95+	4.5
66	66-67	4.3
66	68-71	4.4
66	72-75	4.5
66	76-95+	4.6
67	67-69	4.4
67	70-73	4.5
67	74-95+	4.6
68	68	4.4
68	69-71	4.5
68	72-75	4.6
68	76-95+	4.7
69	69-70	4.5
69	71-73	4.6
69	74-76	4.7
69	77-95+	4.8
70	70-71	4.6
70	72-74	4.7
70	75-78	4.8
70	79-95+	4.9
71	71-73	4.7
71	74-75	4.8
71	76-79	4.9
71	80-82	5
71	83-95+	5.1
72	72	4.7
72	73-74	4.8
72	75-76	4.9
72	77-79	5
72	80-83	5.1
72	84-95+	5.2
73	73	4.8
73	74-75	4.9
73	76-77	5
73	78-80	5.1
73	81-83	5.2
73	84-95+	5.3
74	74	4.9
74	75-76	5
74	77-78	5.1

Younger Age	Older Age	Rate
80	80	5.7
80	81	5.8
80	82	5.9
80	83-84	6
80	85	6.1
80	86-87	6.2
80	88-89	6.3
80	90-91	6.4
80	92-93	6.5
80	94-95+	6.6
81	81	5.9
81	82	6
81	83	6.1
81	84-85	6.2
81	86	6.3
81	87-88	6.4
81	89	6.5
81	90-91	6.6
81	92-94	6.7
81	95+	6.8
82	82	6.1
82	83	6.2
82	84	6.3
82	85-86	6.4
82	87	6.5
82	88	6.6
82	89-90	6.7
82	91	6.8
82	92-93	6.9
82	94-95+	7
83	83	6.3
83	84	6.4
83	85	6.5
83	86	6.6
83	87	6.7
83	88-89	6.8
83	90	6.9
83	91	7
83	92-93	7.1
83	94-95+	7.2
84	84	6.5
84	85	6.6
84	86	6.7
84	87	6.8
84	88	6.9
84	89	7

49	49-51	3.1
49	52-95+	3.2
50	50	3.1
50	51-53	3.2
50	54-95+	3.3
51	51-52	3.2
51	53-55	3.3
51	56-95+	3.4
52	52-54	3.3
52	55-95+	3.4
53	53-55	3.4
53	56-58	3.5
53	59-95+	3.6
54	54	3.4
54	55-57	3.5
54	58-95+	3.6
55	55	3.5
55	56-58	3.6
55	59-61	3.7
55	62-95+	3.8
56	56-57	3.6
56	58-59	3.7
56	60-62	3.8
56	63-95+	3.9
57	57-58	3.7
57	59-63	3.8
57	64-95+	3.9
58	58-61	3.8
58	62-65	3.9
58	66-95+	4
59	59-60	3.8
59	61-63	3.9
59	64-68	4
59	69-95+	4.1
60	60-62	3.9
60	63-66	4
60	67-70	4.1
60	71-95+	4.2
61	61	3.9
61	62-64	4
61	65-68	4.1
61	69-95+	4.2
62	62-63	4
62	64-66	4.1
62	67-69	4.2
62	70-95+	4.3
63	63-64	4.1
63	65-67	4.2
63	68-95+	4.3

74	79-80	5.2
74	81-83	5.3
74	84-87	5.4
74	88-95+	5.5
75	75	5
75	76-77	5.1
75	78	5.2
75	79-81	5.3
75	82-83	5.4
75	84-86	5.5
75	87-95+	5.6
76	76-77	5.2
76	78-79	5.3
76	80-81	5.4
76	82-83	5.5
76	84-85	5.6
76	86-88	5.7
76	89-95+	5.8
77	77-78	5.3
77	79	5.4
77	80-81	5.5
77	82-83	5.6
77	84-85	5.7
77	86-87	5.8
77	88-91	5.9
77	92-95+	6
78	78	5.4
78	79	5.5
78	80-81	5.6
78	82-83	5.7
78	84	5.8
78	85-86	5.9
78	87-89	6
78	90-92	6.1
78	93-95+	6.2
79	79-80	5.6
79	81	5.7
79	82	5.8
79	83-84	5.9
79	85-86	6
79	87-88	6.1
79	89-90	6.2
79	91-93	6.3
79	94-95+	6.4

84	90	7.1
84	91	7.2
84	92-93	7.3
84	94-95+	7.4
85	85	6.7
85	86	6.9
85	87	7
85	88	7.1
85	89	7.2
85	90	7.3
85	91	7.4
85	92	7.5
85	93-95+	7.6
86	86	7
86	87	7.1
86	88	7.3
86	89	7.4
86	90	7.5
86	91	7.6
86	92	7.7
86	93-95+	7.8
87	87	7.3
87	88	7.4
87	89	7.5
87	90	7.7
87	91	7.8
87	92	7.9
87	93-95+	8
88	88	7.6
88	89	7.7
88	90	7.9
88	91	8
88	92	8.1
88	93-95+	8.2
89	89	7.9
89	90	8
89	91	8.2
89	92	8.3
89	93-95+	8.5
90	90	8.2
90	91	8.4
90	92	8.5
90	93	8.7
90	94-95+	8.8
91	91	8.6
91	92	8.7
91	93-95+	8.8
92	92-95+	8.8
93	93-95+	8.8
94	94-95+	8.8
95+	95+	8.8

2013 ACGA Single Life Payout Rates

Age	Rate	Age	Rate	Age	Rate
10-May	2	50	3.7	73	5.5
15-Nov	2.1	51-52	3.8	74	5.7
16-19	2.2	53-54	3.9	75	5.8
20-23	2.3	55	4	76	6
24-26	2.4	56-57	4.1	77	6.2
27-29	2.5	58	4.2	78	6.4
30-32	2.6	59	4.3	79	6.6
33-34	2.7	60-61	4.4	80	6.8
35-36	2.8	62-63	4.5	81	7
37-38	2.9	64	4.6	82	7.2
39-40	3	65	4.7	83	7.4
41-42	3.1	66-67	4.8	84	7.6
43	3.2	68	4.9	85	7.8
44-45	3.3	69	5	86	8
46	3.4	70	5.1	87	8.2
47	3.5	71	5.3	88	8.4
48-49	3.6	72	5.4	89	8.7
				90+	9

NOTES:

1. The rates are for ages at the nearest birthday.
2. For immediate gift annuities, these rates will result in a charitable deduction of at least 10% if the CMFR is 1.4% or higher and a quarterly payment frequency is used. If the CMFR is less than 1.4%, the deduction will be less than 10% when annuitants are below certain ages.
3. For deferred gift annuities with longer deferral periods, the rates may not pass the 10% test when the CMFR is low.
4. To avoid adverse tax consequences, the charity should reduce the gift annuity rate to whatever level is necessary to generate a charitable deduction in excess of 10%.

CHARITABLE GIFT ANNUITIES

DEFINITION

Of all the powerful, tax, and economically effective charitable giving devices, the charitable gift annuity (CGA) is perhaps the least understood and most under-utilized. A properly structured CGA allows the donor to achieve two objectives: to make a significant gift to the charity and, in return, obtain a fixed stream of income for the specified annuity period.

"The Charitable Gift Annuity is a contract between a donor and a qualified charity with the donor transferring cash or appreciated property to the charity. In return the charity makes an unsecured promise to pay an annuity to the donor or his designated annuitant, typically for life, or for the lives of two joint and survivor annuitants."

In a typical CGA arrangement, a donor transfers cash and/or other property (i.e., mainly publicly-traded securities and to a lesser degree real estate) to a qualified charity in exchange for the organization's legal commitment to pay the donor an agreed-upon amount annually (or more frequently) for his or her lifetime. Technically, there are two contemporaneous transactions: while the donor is purchasing an annuity contract from the charity, he or she is making an immediate gift of a future interest in the annuity to the charity.

The gift is determined by excess of the value of the cash and/or property transferred to the charity over the value of the annuity the charity has promised to pay the donor. This excess is also the measure of the donor's charitable income tax deduction. The deduction arises because the charity receives cash and/or property in return for its obligation (i.e., the annuity payments) that is greater than the donor would have paid for the same annuity from a commercial carrier. In other words, the donor's "over-payment" generates the charitable deduction.

WHEN SHOULD A CGA BE CONSIDERED?

Clients should consider CGAs when they want:

- to benefit a charity, but the amount (or value) of contribution in question is relatively small and not large enough to warrant the creation of a CRAT, CRUT, or pooled income fund. (Many authorities suggest a minimum of $100,000 of funding for a CRT.)
- to make a gift to charity but also want to obtain a fixed and steady source of cash flow,
- a relatively high and guaranteed rate of return,
- to minimize or reduce investment risks,
- to minimize or reduce investment management expenses, responsibilities, and aggravation,
- to obtain a significant increase in after-tax income from an asset (such as stock with low dividends, or unproductive land, or a highly appreciated asset) which, if sold (to generate income or more income), would result in sizeable capital gain.
- an alternative for a reverse mortgage (which is often hard to find and in some instances not cost effective).

Older individuals (in their 70s) are the largest annuitant population, while those in their late 50s may find deferred CGAs more appealing. Most annuitants are single, either never married, or have lost his or her spouse prior to purchasing a CGA.

WHAT'S IN IT FOR THE CHARITY AND THE CLIENT?

From a charity's perspective, the CGA is relatively easy to explain to a donor (or prospective donor). Legally, the contract often can be reduced to two or three pages – coupled with a few pages of supporting information which provides examples of the potential benefit to the donor and a computation of the anticipated tax consequences. Usually, legal and/or accounting services required are minimal at the time of implementation. Unlike a CRT (charitable remainder trust) where the donor can change his or her mind and name another charitable beneficiary, once a CGA is established, the charity that issued the contract is assured of its remainder interest.

From the donor's perspective, the CGA is financially appealing because of the favorable tax treatment accorded the annuity payments. For example, a donor gifts appreciated stocks to a charity in return for a CGA, unlike dividends which are entirely income taxable, part of each gift annuity payment is considered a tax free return of the donor's investment, part of each payment receives favorable capital gains treatment (and any balance is ordinary income as explained below). Another reason is that a donor's after-tax cash flow often increases (possibly significantly), because, prior to the transfer, the donated asset most likely produced relatively little or no income. In addition, the increased income/cash flow is due to the fact that the charity receives the principal at the death(s) of the annuitant(s) – whenever that may occur – and the risk of the annuitant's premature death is factored into the calculation of (and therefore slightly increases) the annuity payment.

Gift annuities are subject to fewer and less complex federal income tax rules than charitable remainder trusts (e.g., there are no 5% exhaustion tests in a CGA) and are typically much less complicated and expensive to set up and administer. Nor is there the risk to the annuitant of underperformance to which CRTs are more susceptible. And the donor's charitable income tax deduction may be greater than a gift of the same size to a CRT.

The income generated by the CGA can be used to purchase a life insurance policy on the client donor's life. For example, if the client is the annuitant, he or she can gift some or all of the annuity payment received from the charity to a third party (e.g., a child, an irrevocable or wealth replacement trust), which in turn purchases and owns a policy on the donor-client's life. The death benefit (depending on the client's age and health) can replace the net value of the asset the heir(s) would have received had it not been contributed to the charity. (In some instances, the CGA may be the only source of cash flow for a client with liquidity problems to finance the premiums for a much needed death benefit.) Using this technique, the charity, the client, and his/her heir(s) all may benefit more than if nothing is done.

DOWNSIDES OF CHARITABLE GIFT ANNUITY

When a smaller or less financially sound charity is involved, the donor takes a risk that the charity may not be able to make payments as promised. This is because the charity's promise to pay the annuity cannot be secured (if the charity's obligation is unequivocally secured, the donor may lose favorable tax treatment) and, although the charity's entire assets are subject to the obligation, it remains only a general claim against the charity's assets. (It is permissible for a charity to set aside the contributed funds until the annuitant's death as long as the annuitant does not retain any particular interest in those assets.) A default by the charity places the annuitant as one of its general (and probably many) creditors. Only after the organization's preferred and secured creditors are paid will the donor share with the remaining creditors in what remains (if anything) to satisfy his/her claim. This CGA downside should be compared with the security (and flexibility) provided by a CRT where the asset(s) is (are) held in a separate trust and, therefore, beyond the reach of the creditors of either the initial charity or any other charitable remainder beneficiaries (named in the CRT).

Another potential downside is when a client wishes to benefit multiple charities using a single charitable contribution, or wants to reserve the right to designate or change the charitable beneficiary at a future date. As noted earlier, no charity other than the one issuing the CGA can be the remainder beneficiary; nor is it permissible to change the beneficiary. In such a case, a CRT would be more appropriate

If a charity uses an annuity rate that is too high, or the annuitant lives too long, or the charity realizes a rate of return on investments that is too low (or a combination thereof), it could lose money. This is the reason why most charities closely follow the rates recommended by the American Council on Gift Annuities (ACGA, or Council). The Council's suggested rates are computed by actuaries and designed to leave the charity (assuming the assumed rate of return on the charity's investments is realized) with approximately half of the amount paid for the annuity. (See discussion on Council's CGA rates below.)

Gifts of closely-held stock are often problematic because, by definition, the asset is relatively illiquid. The charity will have difficulty generating a return sufficient to pay the promised annuity, and it will be difficult (and expensive) to value the stock – which may be more vulnerable to economic trends and, hence, fluctuate widely in value.

COMPUTATION OF AMOUNT REQUIRED TO GENERATE A GIVEN ANNUITY

Charities which sponsor and market CGAs usually quote a rate of return on the amount donated by the donor rather than state a dollar amount for each dollar of annual income. The guideline rates, recommended but not mandatory, are suggested by the American Council on Gift Annuities (at 233 McCrea Street, Suite 400, Indianapolis, IN 46225, phone: 317-269-6271, or www.acga-web.org/welcome.html). A sample single life table is available at the conclusion of this commentary. Based on the table, a 55-year-old annuitant (male or female) will receive a return on investment of 5.5 percent; the yield would be 5.7 percent for a 60-year-old donor. The amount required to generate a given annuity can be computed by dividing the desired annual payment by the percentage. In this example, for a 55-year-old annuitant to receive an annuity of $1,200 a year, you would divide $1,200 by 5.5% and arrive at a donation of $21,818.18.

WHY CHARITIES USE AMERICAN COUNCIL ON GIFT ANNUITIES UNIFORM RATES?

As noted above, almost all charities follow the deliberately conservative American Council on Gift Annuities Uniform Rates – but none are bound to do so. The Council publishes and updates separate tables of rates for single life and joint life Charitable Gift Annuity contracts from time to time. Built into the tables is an actuarial assumption that 50% of the value of the donor's initial gift will be left at the end of the annuitant's life expectancy for the charity.

Charities use the uniform rates – or use them as a baseline to determine their own – to assure that the annuity will not exhaust the funds, and will leave the charity with a significant benefit at the annuitant's death. (This should generally be the result, except in the case of an exceptionally long-lived annuitant.) They also use the Council's rates to relieve themselves of the cost of hiring an actuary, and ACGA's rates have credibility with state insurance departments.

Use of the Council's rates also helps to dampen the incentive for rate competition (real or perceived) among charities (but most donors who acquire CGAs want to benefit a specific charity and are not necessarily shopping for the "best" rate of return. Planners should, however, inform clients that not all charities limit themselves to the uniform rates and some offer rates significantly more attractive (and a few offer less attractive ones) than are found in the Council's rate tables. But clients should also be told that there is a trade-off: If the client donor obtains a higher annuity rate (than the uniform rate) and receives a higher annuity for his/her donation, a lesser residual amount (or remainder interest) will pass to the charity. Consequently, this translates into a lower charitable income tax deduction.

Also note that some charities will raise or lower the rates from the suggested uniform rates to reflect more recent (or prevailing) investment yields or their own actual investment performance. Likewise, a charity may choose a lower rate than that suggested by the Council to build in a safety cushion for contingencies, such as investment losses, or lower than expected returns, or in case a given annuitant far outlives his/her actuarial life expectancy.

COMPUTATION OF INCOME TAX DEDUCTION

CGAs are particularly appealing at a time of rising interest rates because, as noted below, higher interest rates translate into considerably larger deductions. Technically, a donor's deduction (approximately 40 to 60 percent of the value of the gifted property, and subject to the usual charitable limitation plus the 5-year carry forward rules) is based on tables of factors found in IRS Publication 1457, Actuarial Values, Book Aleph.

These valuation tables provide factors based on a range of interest rates from 4 to 22 percent (and are built into commercially available software programs and on the so-called Section 7520 rate which is published by the IRS monthly. Note the Section 7520 rate for the month of the transaction, or the rate for either of the two preceding months, may be used – so there is a great deal of flexibility. Generally, the highest of the three months' rates will be used since it produces the highest charitable deduction (a higher interest rate reduces the actuarial value of the annuity and, thereby, increases the value of the charity's remainder interest). By waiting until the time of each month (between the 18th and 22nd) when the IRS releases the Section 7250 rates, it is possible to have a four-month choice.

The charity's development department generally calculates the deduction while the accounting, investing, and issuing of annuity checks is often performed by an independent third-party administrator which may also handle investment of the reserves.

GENERAL FORMAT OF CHARITABLE GIFT ANNUITY

Generally, a donor makes a cash gift, is named life annuitant, and usually receives the first payment from the charity shortly after signing the annuity agreement. But only creativity and the charity's willingness to vary from a standard format prevent numerous variations on this theme.
For instance, the annuity can be for the joint lives of the donor and his or her spouse, or even the lives of multiple annuitants. Funds paid to the charity can be from the donor alone or from husband and wife as joint donors. The donor(s) can choose as annuitant someone other than either the donor or the donor's spouse. For example, a family member or friend can be named as annuitant.

Payments can commence immediately upon the execution of the agreement or can be deferred for a specified term of years (the Internal Revenue Code sets no specific limits). The selection of a deferred annuity is usually made when a donor-annuitant does not need the income currently (and wants to defer payments until he or she is in a lower income tax bracket), or to obtain a larger monthly payment (at an older age).

The annuity can be paid on an annual, semiannual, quarterly, monthly, or more frequent basis.
Each modification from the standard format will have tax implications. For instance, the longer the annuitant must wait for payments to begin, the larger the donor's charitable income tax deduction.

The charity must acknowledge the donor's contribution in a written "quid pro quo" statement which (1) indicates the amount of cash and/or value of property contributed, (2) states that the charity has provided something in return (the annuity), (3) informs the donor that his/her charitable deduction is limited to the amount of cash and/or value of property contributed in excess of the value of the annuity, and (4) provides a good faith estimate of the value of the donor's contribution based on the maximum possible non-charitable value of the annuity.

EXAMPLE:

A CGA typically works like this:

Harry, age 77, wants to both make a meaningful contribution to the United Cerebral Palsy (UCP) Association and obtain a steady and fixed stream of income for himself. He presently owns 1,000 shares of common stock worth $50 a share, with a cost basis of $10 per share. The stock is currently yielding 1.5% annually. He transfers the stock to UCP in return for its promise to pay him a lifetime annuity of 7.5 percent – slightly higher than the current 7.4 percent suggested rate from the American Council on Gift Annuities.

Upon receipt of each month's payments, Harry's annuity will be taxed as follows: a portion will be taxable as capital gain, a portion as ordinary income, and a portion will be considered a tax-free recovery of capital investment. He paid $10,000 for the stock worth $50,000 on the date of its contribution, so the $40,000 appreciation will be taxed ratably as capital gain.

Briefly, the breakdown of Harry's monthly annuity is as follows:

Monthly Payment at 7.5%	$ 3,750
Capital Gain Portion	1,557
Ordinary Income Portion	1,804
Non- taxable Return of Capital	389
Immediate Charitable Income Tax Deduction:	$19,841

TAX IMPLICATIONS OF ANNUITY PAYMENTS

- As noted above, each annuity payment (assuming a contribution of long-term capital gain property) will be allocated into separate parts for tax reporting purposes. A portion of each payment will be taxed as ordinary income, a portion as capital gain (assuming the donor contributed appreciated property) and the remaining portion will be received income tax free as a recovery of the donor's investment in the contract, i.e., a tax free return of capital. After the investment in the contract is fully recovered, the full amount of all payments received is taxable as ordinary income. The charity or its designated administrator is required to send each annuitant an IRS Form 1099R reflecting the allocation of the payments among taxable income, capital gains if any, and nontaxable return of capital.
- *Contribution of Cash Only:* When the donor has contributed cash only, the computation of the

taxation of payments from a CGA is relatively simple (i.e., it is based on an "exclusion ratio" as in a commercial annuity).

There are five steps:

1. Find the "expected return multiple" (from income tax regulations).
2. Multiply the expected return multiple by the annual payment to find expected return
3. Divide the taxpayer's investment in the contract by the expected return to compute the ratio of each payment that is excludable
4. Multiply the annual payment by the exclusion ratio to find the amount of each payment that is excludable
5. Subtract the excludable amount from the annual payment to arrive at the taxable amount of each year's annuity payment

For example, a donor annuitant (age 63) contributes $320,990 in cash to a charity for an annual annuity of $24,000. Her life expectancy can be found in the "expected-return multiple" tables in the income tax regulations under IRC Section 72. (There are various unisex tables for one life and for other situations.) The multiple (24.2 years) is multiplied by the payment ($24,000) to determine the expected return. Technically, an adjustment would be made to the multiple if payments are other than monthly. In this case, the multiple is reduced slightly to 23.7 (to adjust for the fact that payments are annual rather than monthly), and produces an expected return of $568,800 (23.7 x $24,000).

The investment in the contract ($320,990) is then divided by the expected return ($568,800) to derive the exclusion ratio of 56.4 percent; that is, the portion of each payment that can be excluded from income. So, of each $24,000 payment, $13,536 ($24,000 x 0.564) would be tax-free as recovery of her cost (i.e., her cash contribution) and the balance, $10,464 ($24,000 - $13,536) would be taxable. After the donor recovers her entire investment in the contract, each subsequent annuity payment is 100% taxable

- *Contribution of Appreciated Property:* To do the computations where the donor has contributed appreciated property, the basic principles are the same but the math is more complicated – since such transactions are considered both gifts and "bargain sales" of the property. This requires the donor's cost (adjusted basis) to be allocated between the gift element and the sale element. Therefore, the donor would realize some long-term capital gain on the "sale" portion, but would never recognize gain on the "gift" portion. Nor would there be an alternative minimum tax imposed on the gift portion of the transaction.

- *Allocation of Long-Term Gain:* Long term gain (or loss) is allocated proportionately to the charitable (gift) and annuity (sale) interests. The gain (or loss) on the gift portion is not recognized for income tax purposes. But the gain (or loss) on the annuity portion is reportable – ratably over the expected annuity payment period as noted directly below.

- *Treatment of Gain:* If certain requirements are met, the gain determined under the bargain sale rules does not have to be reported in full in the year the annuity is purchased. It can be reported in equal increments over the life expectancy of the donor. In other words, the gain that is recognized is spread equally and reported over a period equal to the expected return multiple, i.e., over the period payments are (actuarially) expected to be received.

  WARNING: The ability to defer and spread out the gain over actuarial life expectancy applies only if the annuity cannot be assigned or cannot be assigned to anyone other than the issuing charity, AND the transferor (or the transferor and a designated survivor or survivors) is (are) the only annuitant(s). Gain is immediately reportable in all other circumstances!

- *Allocation of Gain:* The allocation of gain is based on the same expected return multiple used to determine the tax-free portion of each payment. Following the above example of a 63-year-old donor with a 24.2 year life expectancy (23.7 adjusted for annual payment), the total gain (if the contribution was in the form of appreciated property and not cash) would be divided by the same multiple to arrive at the amount of each payment that would be capital gain. Any balance of each payment would be ordinary income. When the annuitant has recovered his/her entire investment in the contract, all future payments would be entirely ordinary income.

  Death prior to that full recovery of investment would result in an income tax deduction of the un-recovered balance on the decedent annuitant's final income tax return.

  If the donor relinquishes the annuity (i.e. makes a gift of it) to the charity that issued it, no gain is recognized.

WHICH CHARITIES OFFER GIFT ANNUITIES?

The major issuers of CGAs are religious groups and private colleges and universities. But many national health, environmental, and social services organizations are also issuing CGAs. According to Charitable Planning guru Conrad Teitell, more than half of the charities currently issuing gift annuities started doing so within the last 10 years!

DONOR'S INCOME TAX DEDUCTION

As I noted above, the client donor will be allowed a current charitable income tax deduction based on the amount by which the cost of the annuity exceeds its present value. In other words, a donor is entitled to an immediate income tax deduction for the actuarial value of the remainder interest, i.e., the value of the property transferred to the charity less the net present value of the payments to the annuitant (or annuitants) based on the life expectancy of the annuitant (or the joint life expectancy of the annuitants).

The charity will typically provide the donor with a letter summarizing the amount of the charitable deduction and the income tax treatment of the payments.

DONOR'S DEATH PRIOR TO LIFE EXPECTANCY

If a donor annuitant dies before his/her actuarial life expectancy, a deduction – in the amount of the annuity payments not received which accrues to the benefit of the charity – may be taken on his or her final income tax return.

GIFT TAX ISSUES

There is no taxable gift issue when a donor makes a gift to charity in return for an annuity for which he or she is the sole annuitant. Of course, there is a gift to a qualified charity – which generates a gift tax deduction that will offset (within limits) the gift dollar for dollar. Likewise, when a husband and wife make a charitable gift of jointly owned asset(s), and in return the charity provides them with a joint annuity, typically no taxable gift will have been made.

In either case, a gift tax return must be filed but, again, the gift to charity and any gift from one spouse to the other usually will be offset by the gift tax charitable and marital deductions. Almost all gifts for charitable gift annuities should be reported (even though they are not subject to any gift tax) on IRS form 709. (Certain notification of large gifts is required by IRS.)

BEWARE: If a donor contributes property to a charity and someone other than the donor and/or the donor's spouse is named as annuitant or joint annuitant, the donor will have made a gift equal to the actuarial value of the (other non-contributing) annuitant's interest. The current annual gift tax exclusion ($11,000, and $12,000 in 2006) should apply if the donor and/or the other annuitant share immediately in the annuity payments. But if the annuitant must wait for his/her interest, no annual exclusion would be allowed. (A gift tax marital deduction is allowed if the other annuitant is the donor's spouse. If the spouse is not a U.S. Citizen, then the gift tax exclusion is limited to $117,000 in 2005, indexed for inflation (will increase to $120,000 in 2006).
NOTE: It may be possible to avoid "completing" the gift – and therefore avoid gift tax liability – if

the donor retains the right to revoke the interest of the (non spouse) annuitant.

ESTATE TAX IMPLICATIONS

At the death of a donor annuitant, the annuity ceases and only the unconsumed untaxed annuity payments already received or receivable at death will be includable in his/her gross estate. But if continuing annuity payments are payable to a non-contributing joint annuitant, then the present value of the annuity payable to the survivor annuitant will be included in the donor's gross estate.

Of course, if that non-contributing annuitant is the donor's surviving spouse – who is also a U.S. citizen, the future payments will qualify for the estate tax marital deduction. However, if the non-contributing annuitant is not the donor's surviving spouse or is not a U.S. citizen, the present value of future payments to the surviving annuitant would be treated as a taxable transfer.

In either case, amount passing to a qualified charity, i.e., the excess of what was donated over the annuities payable, should qualify for the estate tax charitable deduction.

GENERATION-SKIPPING TRANSFER TAX (GSTT) IMPLICATIONS

If the transferor names as an annuitant a skip person, who is more than one generation below the transferor in the transferor's family, or an unrelated person (e.g., a godchild) 37.5 years younger than the transferor, there may be GSTT issues.

EXEMPTION OF CHARITABLE GIFT ANNUITIES FROM FEDERAL ANTITRUST AND SECURITY LAWS

Under the Philanthropy Protection Act (H.R. 2519) and The Charitable Gift Annuity Antitrust Relief Act of 1995 (H.R. 2525), gift annuities issued by tax-exempt organizations are exempt from federal antitrust and securities laws. These two laws assure that all charitable gift annuities are exempt from most provisions of the federal antitrust and securities laws. (NOTE: The exemptions do not extend to the antifraud provisions). The protection extends to legal, accounting, actuarial, and other counsel and advisors who help institute establish or maintain charitable gift annuities.

STATE LAW ISSUES

State law must be considered. Some states encourage CGAs while others impose significant regulatory barriers, or even prohibit charitable gift annuities. **It is essential to check current state law.**

State laws are concerned with two issues, first the protection of the interests of the annuitants and second the protection of the organizations that issue CGAs. Charities offering CGAs must comply with the applicable laws and rules of each state in which the annuitants live. In the case of states with highly restrictive regulations, this may mean the charities may have to invest more of their reserves in bonds and cash equivalents rather than stocks – which in turn may lower investment returns.

TAX CONSEQUENCES TO THE CHARITY OF A CHARITABLE GIFT ANNUITY

Typically, there are no adverse tax consequences to the charity for offering or setting up a CGA.

But if a charity accepts mortgaged property, there are potential problems pertaining to unrelated debt-financed income.

The second potential problem deals with a prohibition against a charity engaging in "commercial type insurance." Technically, a charity will lose its tax-exempt status if a "substantial portion of its activities is comprised of providing "commercial-type insurance." Aside from the potential loss of tax-exempt status, a charity may be taxed as if it were a commercial insurance company.

Fortunately, this is not a problem in most cases. To fall outside the scope of this possibly serious problem, four requirements must be met, none of which is difficult or onerous to meet:

First, the value of the annuity must be less than 90 percent of the value of the property the charity receives. Using the rates suggested by the American Council on Gift Annuities assures passing this test.

Second, the annuity must be payable over the life of one or two individuals alive at the time the annuity is issued. Typically, this does not pose a problem. But note, this prevents a charity from issuing an annuity that runs for a term of years or for the lives of more than two individuals.

Third, the annuity cannot either (a) guarantee a minimum amount of payments, or (b) specify a maximum number of payments.

Fourth, the annuity cannot provide for any upward or downward adjustment in payments based on the actual income received from the contributed (or any other) property.

CHARITY'S GIFT ACCEPTANCE POLICY

Although there are few tax barriers to the types of property a charity can accept in return for a CGA, there are practical considerations. It is important that a charity has a written checklist of considerations and thresholds that must be met before it accepts a gift. These generally include (a) the minimum size of the gift; (b) the types of property that it will accept, and will not accept; (c) the size of the reserve, if any, that will be set aside to assure payment of annuities; and (d) the charity's policy on reinsurance, i.e., will the charity purchase a commercial annuity to assure its ability to meet its promises?

REINSURING THE CHARITABLE GIFT ANNUITY

As noted above, a charity can reinsure its obligation under the CGA through purchase from a commercial insurance company of a commercial annuity. Of course, this purchase and ownership does not relieve the charity of its obligation to make the promised payments – should the commercial insurer fail to make payments as due. This means the charity must continually monitor the financial soundness of the insurer.

SUGGESTED CHARITABLE GIFT ANNUITY RATES Approved by the American Council on Gift Annuities May 5, 2004 Effective July 1, 2004

SINGLE LIFE

Age	Rate	Age	Rate
0-1	3.7%	54	5.5%
2-5	3.8	55	5.5
6-12	3.9	56	5.6
13-19	4.0	57	5.6
20	4.0	58	5.7
21	4.1	59	5.7
22	4.1	60	5.7
23	4.1	61	5.8
24	4.1	62	5.9
25	4.1	63	5.9
26	4.2	64	6.0
27	4.2	65	6.0
28	4.2	66	6.1
29	4.3	67	6.2
30	4.3	68	6.3
31	4.3	69	6.4
32	4.4	70	6.5
33	4.4	71	6.6
34	4.4	72	6.7
35	4.5	73	6.8
36	4.5	74	6.9
37	4.6	75	7.1
38	4.6	76	7.2
39	4.7	77	7.4
40	4.7	78	7.6
41	4.8	79	7.8
42	4.8	80	8.0
43	4.9	81	8.3
44	5.0	82	8.5
45	5.0	83	8.8
46	5.1	84	9.2
47	5.2	85	9.5
48	5.2	86	9.9
49	5.3	87	10.2
50	5.3	88	10.6
51	5.4	89	11.0
52	5.4	90 and over	11.3
53	5.5		

NOTES:

1. The rates are for ages at the nearest birthday.
2. For immediate gift annuities, these rates will result in a charitable deduction of more than 10% if the CMFR is 4.0% or higher, whatever the payment frequency. If the CMFR is less than 4.0%, the deduction will be less than 10% when annuitants are below certain ages.
3. For deferred gift annuities with longer deferral periods, the rates may not pass the 10% test when the CMFR is low.
4. To avoid adverse tax consequences, the charity should reduce the gift annuity rate to whatever level is necessary to generate a charitable deduction in excess of 10%.

Prudential Financial

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www.trustcounselors.org

Planned Gift Application

(08312011)

Name of Donor

Name of Joint Donor

Date of Birth

Date of Birth

Social Security Number

Social Security Number

Address, City, State, Zip

Phone (Home) **(Office)** **Email**

Annuitant / Beneficiary (If not Donor)

Date of Birth

Joint Annuitant / Beneficiary (If not Donor)

Date of Birth

Desired Distributions

Start Date

Immediate Deferred

Monthly ($15,000 min.) Quarterly (Standard) Semi-Annual Annual

Term of Years, if applicab**le**

Years Deferred, if applicable

Type of Planned Gift

CGA DEFERRED CGA CRAT ChIBS STANDARD Unitrust NET INCOME Unitrust NIMCRUT

Additional Comments:

Amount of Gift **Cost Basis of Gift** Type or Source of Gift

Sponsoring Foundation Account

Account Number

Advisor's Name **Phone** Email

Suitability Information:

Donor's Income Net Worth Tax Rate

Occupation Relationship to Foundation

Donor/Annuitant Date Joint Donor/Annuitant **Date**

Witness **Witness**

Make Checks Payable to "Trust Counselors Network, Inc." and Mail to the Address Above

Philanthropy and the Financial Advisor

Three Reasons Why Advisors Do Charitable Planning and Four Reasons Why They Don't!

Secret Ingredients for Successful Charitable Planning, A Special Section On How to Market the Most Popular Planned Gift!

When financial advisors think about Philanthropy as a business opportunity, it is like the national debt: everyone talks about it, but nobody does anything about it. That surely isn't true of all planners, but I believe it is true for most. Philanthropy and charitable planning are held out as an important part of the work that financial advisors can perform for their clients. Why is it that, when it comes time to promote these things, advisors don't seem to do a very good job of it?

"It is more fun for us as advisors to work with families who have a passion for doing good things in their community, if they have their whole family involved in their philanthropy it is even better, because we become accepted as a part of the family."
George P. Brown PhD

The fact is, philanthropy and charitable planning is almost the antithesis of financial planning. After all, what is the client thinking about when they do financial planning? Aren't they thinking of themselves and their families? So isn't that where the financial advisor concentrates effort - - on the needs, wants and desires of the individual and the family? Isn't it true that philanthropy is designed for the benefit of other people who are outside of the family?

If a client reacts in surprise when you start to talk about charitable planning, it is probably for good reason. You have never expressed to them that you are involved in philanthropy. Maybe that's because your aren't. If you were, they would surely have heard about it, because you would not have been able to hide your passion for what you do. We don't use the word "passion" lightly. You will see why.

It is fair to say that many advisors do address the charitable issues of families from time to time, but they don't make a career out of it, and they don't generate much of their income from charitable planning. That's almost reason enough for ignoring it. Why spend time on something that doesn't generate revenue?

Before we go further, it is important to address some common misperceptions regarding charities, especially local or small charities. This is important because these organizations are in serious need of funding and support and constitute a potential client relationship for you.

Let's look at these perceptions, and score yourself, *True or False*:

Charities are inefficient and should be run more like a "for-profit" business.
TRUE
FALSE

Charities don't pay well enough to attract quality personnel.
TRUE
FALSE

Charities don't know how to sell or market their services.
TRUE
FALSE

Long range planning is not something that charities do well.
TRUE
FALSE

Serving on a Board is a great way to generate sales prospects.
TRUE
FALSE

Charities don't raise funds well or promote themselves well to the public.
TRUE
FALSE

Charities are not supposed to generate a profit.
TRUE
FALSE

"I never underestimate the talents of the people who are running a local charity. I have learned that running a charity is, in fact, a very different job than running a business, and it takes a different mind-set. There is a lot to learn from them."
Kevin Brown CEO

The fact is, no matter how you answer, you are probably right, from your own perspective. Surely, some of these statements can apply to a charity, but they can apply to a business as well. Don't ever assume that a local charity is weak in these areas until you know it for a fact. They will admit it soon enough if it is true. Most charities have great people, and excellent boards to support them. And yes, they all need to raise more funds. The lesson is, get to know the local charities, especially the ones who do things that might be of interest to you. Call them, or better yet, go visit them. There is not one charity that doesn't want to tell you their story.

Suppose you are interested in learning how to generate revenue from charitable planning. Let's assume that you even know some advisors and clients who could benefit from your coaching them to do better and to do more with their charitable dollars. Would those people look at you as being qualified?

Let's use some analogies:
Let's say that you wanted to learn to fly an airplane. Would you want a flight instructor who has just read a book on how to teach someone to fly, or do you want a person who is fully certified and has a passion for flying, and is willing to get into the airplane with you? There are probably more of you out there who are golfers. Here again, do you want a golf pro who is into the game?

PASSION

So what is the common characteristic here? The answer is the word "passion". Funk & Wagnall's International Dictionary has 10 ways to define "passion":

pas•sion: **1.** An intense or overpowering emotion **2.** An eager outreaching of mind toward some special object, as art, travel, etc.; fervid devotion. **3.** Ardent affection for one of the opposite sex. **4** through **10** are a bunch of other colorful emotions that we have all had from time to time.

The point is, if you are not passionate about something, your client will know it right off. But if you are, they will know that, too. If your client is passionate about something, and they see that you are passionate about something, they will love you. That is because they love to work with other people who are passionate.

While passion is the main ingredient, it won't rise without the yeast of commitment. People can see your passion. But they can also see your commitment. In other words, they can see that you talk the talk, but they can also see if you walk the walk.

We estimate that only about 3% of the financial advisors out there are involved in charitable planning in a sincerely serious fashion about which they are very passionate. They may be passionate about golf or sports, which is fine and usually makes for some good conversation.

Here is what many successful charitable planning advisors say: "I can help a successful person become more financially successful. But I don't get very excited about helping someone accumulate enough money to buy another yacht. What moves me is helping another person accumulate enough money so they can make life better for others. That makes me a facilitator for good, and my life is meaningful. I feel like I am an important part of what they do."

Now here you might say, "Well, I'm not sure I agree with you, I may not have a passion but I have done quite a few charitable remainder trusts, and some foundations for my clients, so I am doing charitable planning already". Sure you are. What you are saying is "I know how to use a hammer and a saw to build a house". That means you know how to use some of the tools to perform charitable planning. But what kind of house are you building, and who does it serve? A craftsman is not an architect.

The question is do you catch the dream?

"Passion and Commitment are essential in the world of philanthropy." George P. Brown PhD

"Working with the executive leadership and the boards of local charities is an entirely unique channel to reach motivated high net worth families. The rewards are often intagible but gratifying, and the business relationships are built on trust and unity of purpose." George P. Brown, PhD

TEST YOURSELF

Here are some test questions and you can score points for each "yes" answer:

Do you regularly volunteer some of your time for charitable activities? . . . 1 Point

Do you volunteer to raise funds for any cause? . . . . 2 Points

Do you serve on the board of a charity in your community? . . . . 3 Points

Do you serve in some capacity at your religious institution? . . . . 4 Points

Do you or members of your family have Charitable Gift Annuities? . . . . . 5 Points

Do you have your own Charitable Trust? . . . . 6 Points

Do you help your clients with Charitable Gift Annuities? . . . . 7 Points

Do you help your clients with Charitable Trusts? . . . . 8 Points

Do you have your own Foundation? . . . . 9 Points

Do you help other people set up their own Foundations? . . . . 10 Points

RESULTS:

If your score is **under 20 points,** then charitable planning may not be for you.

If your score is **over 40 points,** you are well on your way, and you should pursue adding charitable planning to your practice in a bigger way.

CHARITABLE PLANNING: Should You Become More Involved?

YES	Here are the reasons why you *should:*
	1. You will find new ways to serve clients, especially higher-end clients with an emotionally gratifying service.
	2. You will establish a much stronger and more satisfying relationship with your clients that extends to their families.
	3. You will find a new source of revenue that often can come close to equaling or even exceeding your current income.
NO	**Here are the reasons why you *should not*:**
	1. Charitable planning can be very time consuming and especially fruitless if the case is small or the motivation is purely tax avoidance.
	2. The learning process can be a long one if you don't have the right resources.
	3. There are perils that arise with improper design and poor administration.
	4. You could subject yourself unnecessarily to litigation if you become involved in "tainted" activities.

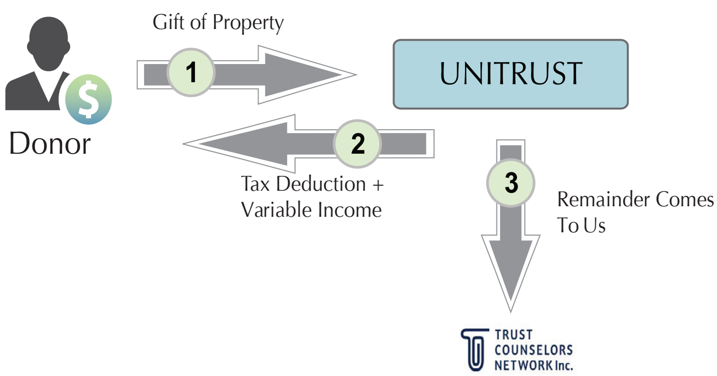
When you make a positive decision, there are essentially three major factors that you must deal with:

- Educate yourself on all the significant charitable planning tools
- Assemble the right team to support you.
- Create your own Foundation if you want to experience the joy of philanthropy.

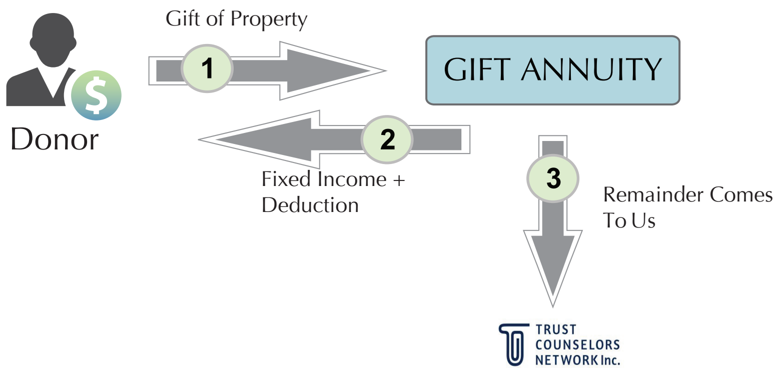
Education: (What do you need to know?)

The area of knowledge that covers Charitable Planning is usually referred to as "Planned Giving". This involves the use of such tools as:

Charitable Remainder Trusts (CRT) – there are different kinds of CRT's. There are Charitable Remainder Annuity Trusts, and there are Charitable Remainder Unitrusts. Among Unitrusts there are Net Income Trusts and Net Income with Makeup Provisions, just to name two variations.

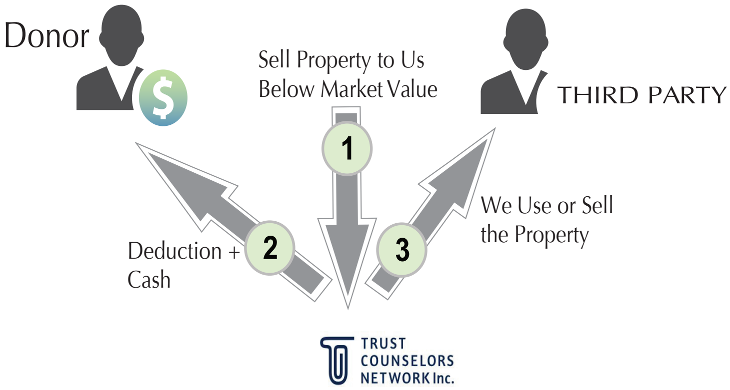


Charitable Gift Annuities (CGA) – there are immediate CGA's and Deferred CGA's, to name a couple of variations.



Charitable Lead Trusts (CLT) – where the charity receives income for a period of time and then the principal is left to heirs or returned to the grantor.

Charitable Bargain Sales (CBS) – there are bargain sales and then there are installment bargain sales **(ChIBS)**, which can also have a deferred commencement date.



Pooled Income Funds (PIF) – which can look like conventional mutual fund portfolios or can be used by the charity to finance the purchase of real estate or serve other immediate needs.

Foundations – which can be either public foundations or private foundations. The rules are considerably different, including the tax deductions limits for donations. There is a special version of foundations that are created under the wing of an existing public foundation, called a Field of Interest Foundation (FOIF), which permits operating like an independent foundation, but all the administration is done by the sponsoring public foundation.

Limited Liability Companies (LLC) – can be used in a number of ways, and include the relatively new concept called "Low-profit Limited Liability Company" (L3C).

Donor Advised Funds (DAF) – some people consider these to be included in the role of planned giving because a donor can take a charitable donation tax deduction when putting money into a DAF.We won't go into the distinctions of this type of CRT. I refer you to our charitable and planned giving planning web site (www.trustcounselors.org) to do more research on these.

Form Your Support Team of Expert Talent:

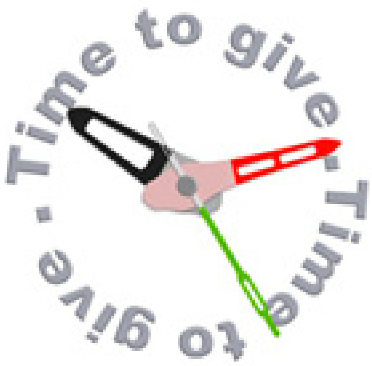
- Estate Planning Attorney – you will need at least one attorney, but it doesn't hurt to have a relationship with several, including some in states like Nevada, if you need Nevada Law. You need to make sure you have an attorney who knows charitable trusts and Special Needs Trusts.
- Certified Public Accountant – In addition to the normally expected skills, you want to be sure that the accountant is experienced with Charitable Remainder Trusts and Foundations. You are also likely to have the accountant set up the recordkeeping functions for LLC's, since they may be used along with CRT's and foundations.

- Trust Company – if you are in the securities business you will want to work with a trust company that will allow you to continue to manage money that is placed in trust. If you are in the insurance business the same will be true with regard to the purchase of insurance policies inside ILIT's, which are customarily used as "Wealth Replacement Trusts". The trust company must be adept at administration of CRT's and CGA's. They must also understand the rules regarding investing for charitable trusts and charitable foundations, with particular regard to unrelated business taxable income.
- Charitable Foundation Administrator – if it becomes necessary you may need to find an administrator for a number of charitable tools. Usually an experienced trust company or outside administration company can administer Donor Advised Funds, CRT's, CGA's, ChIBS, Foundations and possibly L3C's, including any tax reporting required.

"As with any other 'niche market', the nature and volume of revenue you generate through charitable planning is what you make of it. If I position myself properly, that my job is to help the charity achieve its goals through planned giving, I find that the people go out of their way to make sure that my services are recognized with meaningful compensation."
George P. Brown PhD

Generating Revenue:

So you ask yourself: How do I generate revenue from Charitable Planning? Why should I work hard to learn how all of these things work?



This is a "fee for service" business. There are opportunities for product sales and/or gaining investments under advisement or management. This money is sticky, meaning you will probably have it under management for a lifetime. If you work with high-end clients, your income will be greater than if you are working with moderate-income individuals. If you tie into local charities, some will need your services more than others. Some will be better connected than others. One thing is for sure, they all need money, now and forever. That means they need cash donations and donations that they will receive in the future.

Fees for fund-raising vary, and depending upon what you do, you may have to register as a fund-raiser in your state. If you are just doing planned giving, then you can charge a consulting fee. There are ways to do this that are in conformance with the various laws, and you must be sure that you know what they are. What we recommend is that you offer fund-raising services through your own foundation, so you can more easily remain in conformance with regulations.

As a financial advisor, there is almost always an abundance of funds to manage through chartable trusts, gift annuities and foundation accounts. It seems the advisor fees are around 1% of the assets under management or advisement. If you are a typical charitable consultant, let's assume your Charitable Trusts might be for $350,000, your Gift Annuities average $100,000 and your foundation relationships might be $300,000. It is not unusual to have a family relationship that has all of these, which could total $750,000 or more. That means, just from investment management you might generate $7,500 per year in fee revenue. With 20 such families that would total $150,000 per year.

Consulting fees would be in addition, and although they vary, they might amount to 5% of the funds involved in the creation of trusts, gift annuities and foundations. For each $1 million involved, from 3 to 5 cases, the consulting fees could be $50,000. It is not unreasonable to expect up to 6 or 10 cases a year with fees ranging from $100,000 to $200,000. One top advisor we know earned $1.2 million in one year, all-in fees, from just three major cases. Some advisors have more than $30 million in charitable assets.

Marketing the Most Popular Planned Gift – Charitable Gift Annuities

There is a "heavy user" market among purchasers of charitable gift annuities. These are predominantly single or widowed women in the 75 to 90-age bracket. They will buy one or more charitable gift annuities each year as routinely as you and I buy groceries at the food market. You don't need to convince these people of the advantages of a gift annuity. They have come to depend upon them to minimize their income taxes and provide cash flow to put bread on the table. If I had to guess at the amount of each annuity, I would guess $50,000 each.

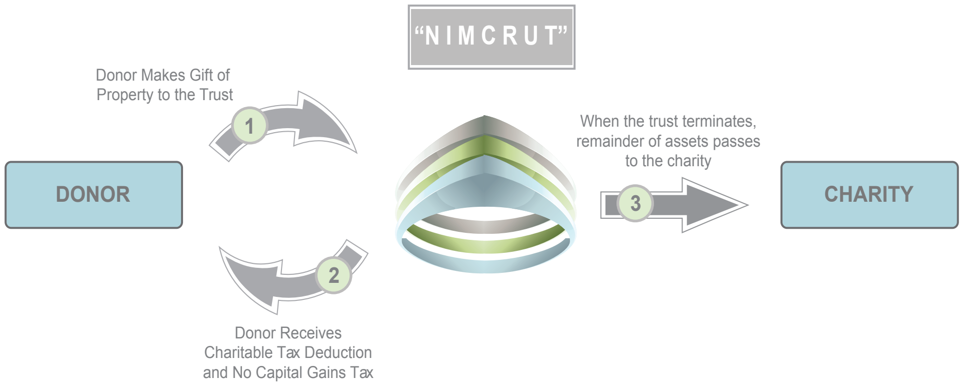
Pay Close Attention to Single or Widowed Women Within the 75-90 Age Bracket.

That may not be an attractive value for you, but it is meaningful to a charity. And if you have 40 or 50 people doing that each year, you have a meaningful amount of new money coming in. Furthermore, it helps you to spread your net by having these donor/clients refer their friends and relatives to you. It won't be unusual to open a lot of gift annuities amounting to $250,000 or $500,000, with a first time client.

In addition, the folks in the lower range of that 75 – 90 age bracket are very likely to have received a significant inheritance from a deceased parent or other relative. They know better than to keep several hundred thousand dollars in a money market account or CD earning 1% when they can earn a tax favored 5% or more. And their gross income may be $100,000 or more, and they really like the whopping tax deductions they get.

Gift annuities are usually for amounts under $1,000,000, but we have seen some for much more. The charitable remainder trust is more likely to be your recommendation when you are dealing with amounts over $500,000. There is more flexibility in design and your client may have certain ideas and objectives that can be best met by something like a "net income with makeup provision charitable remainder unitrust" **(NIMCRUT)**.

We won't go into the distinctions of this type of CRT. I refer you to our charitable and planned giving web site (www.trustcounselors.org) to do more research on these.



Become the Planned Giving Department:

The secret in all of this is to learn how to market planned giving effectively. There are many ways, but the one I favor is for you to become a "Planned Giving Department". You can do this for yourself, and for your own charitable foundation that you set up. You can multiply your effort by offering to become the planned giving department for other organizations. That is what we do. With your help, the following kinds of organizations can benefit from having their own planned giving department, which you would operate for them.

CHURCHES	CHARITIES	MINISTRIES
HOSPITALS	SCHOOLS	SENIOR CENTERS
CHILD CARE	FOUNDATIONS	LAW FIRMS
ACCOUNTANTS	WEALTH MGRS	LIFE AGENCIES
P & C AGENCIES	FIRE DEPTS	POLICE DEPTS
NURSING HOMES	ADULT COMMUNITIES	COLLEGES
UNIVERSITIES	LIBRARIES	CLINICS

Planned Giving is a professional career. Most major charities, including Universities and Hospitals, have a staff that employs professionally trained planned giving officers. The best of them raise millions of dollars for their institutions.

But there are more than a million smaller registered charitable organizations that don't have a planned giving department. These are organizations that you can serve as their planned giving department. There are also thousands of law firms and financial services firms that don't have a planned giving department.

Add to that the thousands of small ministries sponsored by local churches. The fact is, almost everywhere you turn, and there is an opportunity to set up a planned giving department.

In other papers we have written about how you can establish your own Trust Department. This was in regard to how you can establish a new function for your own firm, or for other firms, including law firms, wealth management firms, family offices, insurance agencies and even local community banks. Setting up a planned giving department has similar goals and objectives:

- Serve the clients better by helping them with their estate planning and charitable planning needs.

- Capturing more assets under advisement to build endowments and achieve capital and operational objectives.

With all due respect to the wonderful experts in trust companies and charitable institutions and Universities, there is an immeasurable need for these services that is going un-met, and un-served. There will never be enough talented people available for planned giving. Some of you see this need in your community and do something about it. We need to help local charities and foundations raise funds to help people learn how to support themselves.

Your "planned giving department", even if it is only you, can help by showing people how the tools of planned giving work. This includes the simple and basic product of the trade, the charitable gift annuity. It also includes charitable remainder trusts and pooled income funds. We'll talk a little about these later.

How to Effectively Market Planned Giving

For now, let's explore **two different approaches** to marketing planned giving. Professionals will tell you that there are many more ways.

- **First**, if the institution you choose to work with is large enough and holds an influential position in the community, you can conduct estate planning and charitable planning workshops sponsored by the institution. You can invite the public, and perhaps a prominent attorney to share the platform with you. You should also invite as attendees other lawyers and financial advisors as well as the prospective donors from the Institutions donor list. You should be able to make appointments with many of the attendees for a free, no-obligation one-hour consultation meeting. You should be able to take it from there.

- **Second**, if the community charity is not that prominent to sponsor a public seminar, you need to take a more personal approach. This is how we see it done:

Sit down with the leader of the organization. It won't work if you don't do this critical first step. Show the leader how a simple thing like a gift annuity works. Personalize this with an illustration of a gift annuity for him or her based upon his or her age. Then show how the charity gets an immediate benefit on every gift annuity they open, and how they benefit further down the road with a more significantly larger amount.

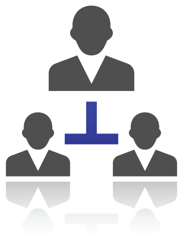
"I have basically two ideas for you as an advisor that will make you unique. I offer law firms and charities to be their 'out-sourced' planned giving department. I also offer law firms to be their 'out-sourced Trust Department.' Depending on your particular situation, you can also do this for some wealth management firms and family offices."
Kevin C. Brown CEO

Prior to starting this process, you need to establish some ground rules with the charity. The charity must acknowledge that there will be some individuals who really like the idea of a gift annuity for themselves, but that they would also like to benefit another charity for some of the remainder interest. You can tell them that this can be done, that the ultimate benefit can be shared among several charities. So eliminate that issue as an obstacle.

Next step is for you and the leader to meet with the head of the charity's development committee. Show the gift annuity to that person based on that person's age. Then meet individually with each member of the development committee. Make the same presentation to the key employees of the charity.

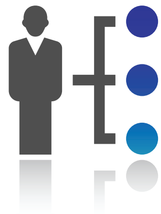
Now you can make a presentation to the board of Trustees, as a group and give them feedback on how the development committee and the key employees reacted to their individual presentations.

Finally, you must meet with each board member with a personalized presentation. This serves a dual purpose: you want to educate them, but you also want them to think about other people who might benefit from the use of a charitable gift annuity. It is very important that they can see how the gift annuity would work for them so they will be better able to speak to others that they may know.



Many board members have their own charities, and you need an agreement that you will be able to work with those other charities in a similar way, but that you will give first preference to the charity that is sponsoring this activity.

You must also reach an understanding in regard to how the gift annuity will be funded, and how much the charity will take from the donated amount up front. Your choices for funding depend upon your personal resources and how the charity feels about the topic. You have to decide if you are going to re-insure the gift annuities with commercial immediate annuities. You may offer that as an option, since the charity gives away the remainder interest to the insurance carrier. You could also fund the gift annuity with single premium deferred annuities, or with a balanced portfolio of equity and fixed income mutual funds.. An argument could be made for all these options, and you could decide on a case-by-case basis.



It is very important for you to know if there are any board members who would like to have a say about those choices. If so, that person is better to have as an ally rather than as an obstacle, so you need to meet with that person.

"The family or business that establishes a foundation as the centerpiece for their collective giving will derive the greatest amount of satisfaction from their program of philanthropy."
George P. Brown, PhD

Finally you need to agree upon who will be used to administer the charitable gift annuity program, and who will be used as trustee for any charitable remainder trusts that are developed in the process. You will also have to determine what kind of support you require in the way of training and marketing.

When you have reached agreement on these matters you can then expose planned giving to all of the stakeholders related to the charity, as we described earlier. You will invariably talk to people who like the idea, but it is evident that a charitable remainder trust would suit them much better. What a great opportunity to show them a proposal, which will probably result in a significant planned gift.

What great fun you will have showing these people how charitable planned gifts actually work. You will become the "go to" person for these gifts. While we are not going to get into all the kinds of business relationships that can develop from this effort, rest assured, you will be meeting the kind of people who will have a common interest with you, who want to help build the organization and are often the kind of people that most advisors desire to have as clients. And at the same time, you are serving a worthwhile purpose. What can be better than that?

There is information available that provides more details on all the various tools for planned giving. No single white paper can do that justice. For more details on the various tools for planned giving, visit our affiliate website, **www.trustcounselors.org/plannedgiving**.

FREE CONSULTATION AND EVALUATION

We offer a free consultation by phone to help you evaluate whether planned giving will help you generate more high quality client relationships. Call us at **(800) 822-6711** or drop us an email at **gbrown@summittrust.com** to schedule a time to talk.

Where can you find a complete Platform that has what you need?

Because you will need several disciplines to support you, there is no one-place to find all your support. However, There is one place where you can obtain much of the administrative support you need for a successful charitable planning practice. The Trust Counselors Network, Inc. has a comprehensive platform. Established in 1991, the Trust Counselors Network, Inc. (TCN) is a public 501(c)3 Educational Foundation.

TCN provides marketing and administration services. Many professional advisors are associated and are referred to as trust counselors. TCN provides a facility for planned giving on the TCN web site. You may also form a foundation for your clients, which can range from a donor-advised-fund to a full operating foundation. No special licenses are required.

Charitable Planning and Administration is Summit Trust Company's strong suit. We believe no other trust company has the experience in designing and administering charitable trusts and foundations. For more information visit our two web sites: www.summittrust.com and www.trustcounselors.org

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Charitable Gift Annuities - Overview

•*Simple Contract between a Charity and a Donor*

•*Gift of Money or Property – for a Guaranteed Lifetime Income Stream*

•*Gift = Overpayment based on Commercially available SPIA*

•*Irrevocable / Illiquid / No Refund*

•*Payouts determined by American Council on Gift Annuities – www.acga-web.org*

•*Mortality Based – Higher Payout for Older Ages*

•*Single Life – Joint Life*

•*Immediate – Deferred*

•*Cannot Offer in NY, NJ, CA, WA*

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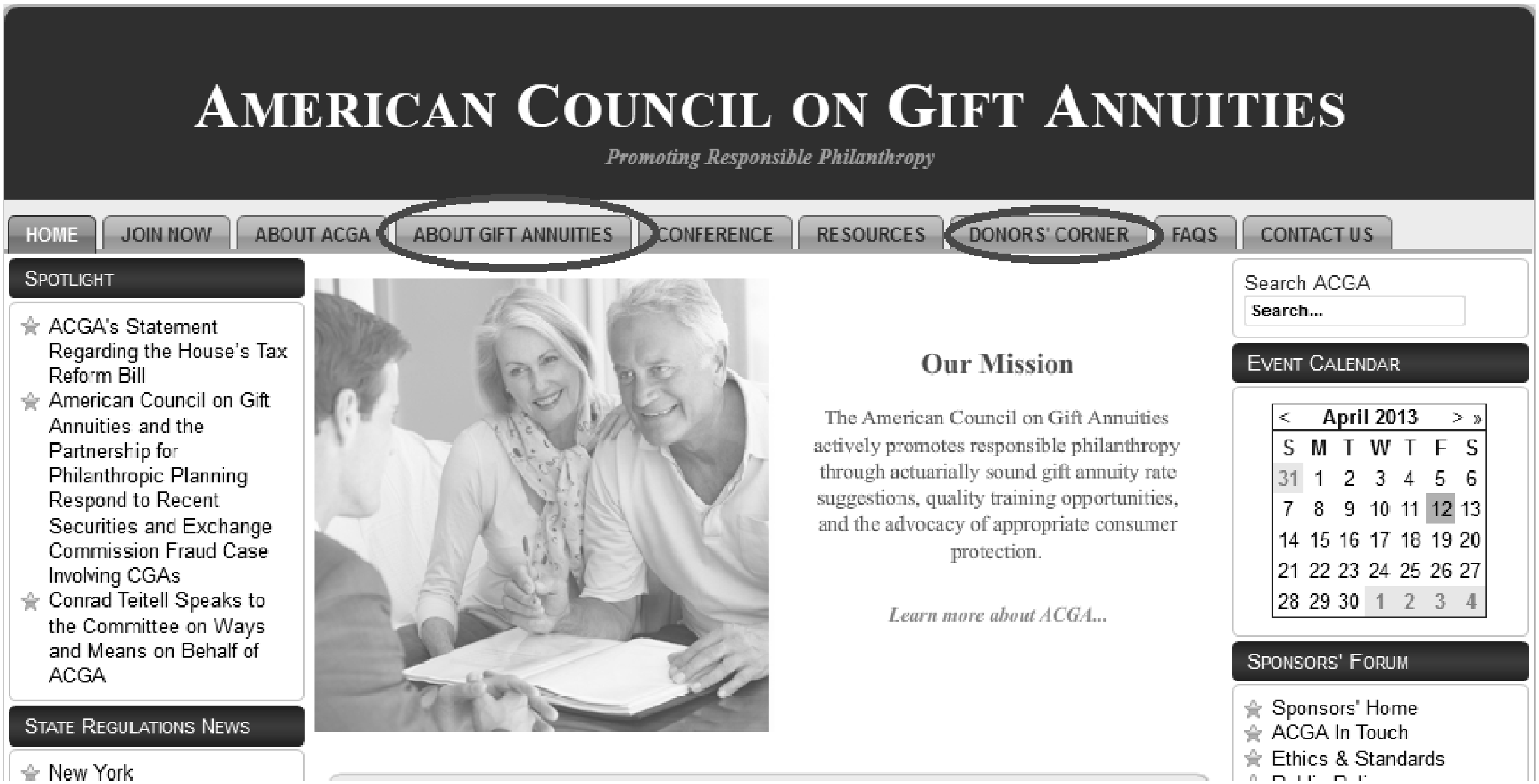

www.acga-web.org

2013 ACGA Single Life Payout Rates

Age	Rate		Age	Rate		Age	Rate
10-May	2		50	3.7		73	5.5
15-Nov	2.1		51-52	3.8		74	5.7
16-19	2.2		53-54	3.9		75	5.8
20-23	2.3		55	4		76	6
24-26	2.4		56-57	4.1		77	6.2
27-29	2.5		58	4.2		78	6.4
30-32	2.6		59	4.3		79	6.6
33-34	2.7		60-61	4.4		80	6.8
35-36	2.8		62-63	4.5		81	7
37-38	2.9		64	4.6		82	7.2
39-40	3		65	4.7		83	7.4
41-42	3.1		66-67	4.8		84	7.6
43	3.2		68	4.9		85	7.8
44-45	3.3		69	5		86	8
46	3.4		70	5.1		87	8.2
47	3.5		71	5.3		88	8.4
48-49	3.6		72	5.4		89	8.7
						90+	9

Example

June is 72, and wants to move $100,000 into a CGA

Annual Income: $5,400

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2013 ACGA Two-Life Suggested Payout Rates

Younger Age	Older Age	Rate	Younger Age	Older Age	Rate	Younger Age	Older Age	Rate
5	5-95+	1.8	64	64-66	4.2	80	80	5.7
6	6-95+	1.8	64	67-70	4.3	80	81	5.8
7	7-95+	1.8	64	71-95+	4.4	80	82	5.9
8	8-95+	1.8	65	65	4.2	80	83-84	6
9	9-95+	1.8	65	66-68	4.3	80	85	6.1
10	10-95+	1.8	65	69-72	4.4	80	86-87	6.2
11	11-95+	1.9	65	73-95+	4.5	80	88-89	6.3
12	12-95+	1.9	66	66-67	4.3	80	90-91	6.4
13	13-95+	1.9	66	68-71	4.4	80	92-93	6.5
14	14-95+	1.9	66	72-75	4.5	80	94-95+	6.6
15	15-95+	1.9	66	76-95+	4.6	81	81	5.9
16	16-95+	2	67	67-69	4.4	81	82	6
17	17-95+	2	67	70-73	4.5	81	83	6.1
18	18-95+	2	67	74-95+	4.6	81	84-85	6.2
19	19-95+	2	68	68	4.4	81	86	6.3
20	20-95+	2.1	68	69-71	4.5	81	87-88	6.4
21	21-95+	2.1	68	72-75	4.6	81	89	6.5
22	22-95+	2.1	68	76-95+	4.7	81	90-91	6.6
23	23-95+	2.1	69	69-70	4.5	81	92-94	6.7
24	24-95+	2.1	69	71-73	4.6	81	95+	6.8
25	25-95+	2.2	69	74-76	4.7	82	82	6.1
26	26-95+	2.2	69	77-95+	4.8	82	83	6.2
27	27-95+	2.2	70	70-71	4.6	82	84	6.3
28	28-95+	2.2	70	72-74	4.7	82	85-86	6.4
29	29-95+	2.3	70	75-78	4.8	82	87	6.5
30	30-95+	2.3	70	79-95+	4.9	82	88	6.6

Example

John is 73, June is 69, and they want to move $100,000 into a CGA

Annual Income: $4,600

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Tax Deduction

Calculated Tax Deduction (IRS Section: 7520)

Usually 30-50% of Gift
(Younger = Less, Older = More)

Deduction Limitations
(30-50% of Income)

Five-Year Carry-Forward

Careful about Tax Advice

Taxation of Income

$100,000 Gift = $5,400 Annual Income

Life Expectancy = 12 Years

Part of $5,400 Return of principal – tax-free

Part of $5,400 Ordinary Income – taxable

If funded with appreciated assets – part of $5,400 taxed as capital gain (spreads Cap Gain tax liability)

100% of $5,400 taxed as ordinary income after Life Expectancy

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What's in it for the Donor?

- Gift to Charity
- Guaranteed Lifetime Income Stream *(monthly, quarterly, annually)*
- Substantial Tax Deduction
- Tax-Favored Income
- Higher Income than Other Fixed Investments
- Defer Capital Gain Taxes
- Income Can be used to Purchase Life Insurance (asset replacement)
- Can Name another as Annuitant

- Irrevocable
- Can't change beneficiary
- Can't Split Beneficiaries
- No Inflation factor
- No refund (Premature Death)

(Death prior to L/E creates and additional tax deduction)

What's in it for the Charity?

- *Very Attractive/Effective*
- *Raises HUGE dollars*
- *One of few options that "give back"*

- *Unrealized gift until death – "Residuum"*
- *Costly to Setup and Maintain*
- *Regulatory Risk*
- *Investment Risk*
- *Mortality Risk*
- *Risk to General Assets of Charity*

Example - Charitable Gift Annuity - $100,000 Gift						
Age	TCN Admin Expenses	Investment Principal	Investment Rate of Ret	Investment Earnings	Income Payout	End Bal/ Residuum
70	$10,000	$90,000	4.0%	$3,600	$5,100	$88,500
71	$350	$88,150	4.0%	$3,526	$5,100	$86,576
72	$350	$86,226	4.0%	$3,449	$5,100	$84,575
73	$350	$84,225	4.0%	$3,369	$5,100	$82,494
74	$350	$82,144	4.0%	$3,286	$5,100	$80,330
75	$350	$79,980	4.0%	$3,199	$5,100	$78,079
76	$350	$77,729	4.0%	$3,109	$5,100	$75,738
77	$350	$75,388	4.0%	$3,016	$5,100	$73,304
78	$350	$72,954	4.0%	$2,918	$5,100	$70,772
79	$350	$70,422	4.0%	$2,817	$5,100	$68,139
80	$350	$67,789	4.0%	$2,712	$5,100	$65,400
81	$350	$65,050	4.0%	$2,602	$5,100	$62,552
82	$350	$62,202	4.0%	$2,488	$5,100	$59,590
83	$350	$59,240	4.0%	$2,370	$5,100	$56,510
84	$350	$56,160	4.0%	$2,246	$5,100	$53,306
85	$350	$52,956	4.0%	$2,118	$5,100	$49,975
86	$350	$49,625	4.0%	$1,985	$5,100	$46,510
87	$350	$46,160	4.0%	$1,846	$5,100	$42,906
88	$350	$42,556	4.0%	$1,702	$5,100	$39,158
89	$350	$38,808	4.0%	$1,552	$5,100	$35,261
90	$350	$34,911	4.0%	$1,396	$5,100	$31,207
91	$350	$30,857	4.0%	$1,234	$5,100	$26,991
92	$350	$26,641	4.0%	$1,066	$5,100	$22,607
93	$350	$22,257	4.0%	$890	$5,100	$18,047
94	$350	$17,697	4.0%	$708	$5,100	$13,305
95	$350	$12,955	4.0%	$518	$5,100	$8,373
96	$350	$8,023	4.0%	$321	$5,100	$3,244
97	$350	$2,894	4.0%	$116	$5,100	($2,090)
98	$350	($2,440)	4.0%	($98)	$5,100	($7,638)
99	$350	($7,988)	4.0%	($320)	$5,100	($13,407)
100	$350	($13,757)	4.0%	($550)	$5,100	($19,407)

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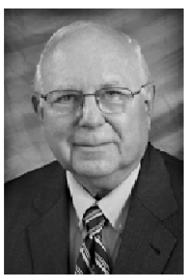
Our "Private Label" CGA Alternative

Kevin Brown



George Brown

BROWN WEALTH STRATEGIES, INC.

SUMMIT
TRUST COMPANY

TRUST
COUNSELORS
NETWORK Inc.

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Our "Private Label" CGA Alternative

•TCN Exists to Offer Private Label CGA to Other Charities

•Operating since 1991

•$15+ million in CGA Assets under Management/Administration

•IRS Form 990 Available online

•Commissionable to us – 5% (Average $50,000 X 5% = $2,500)

•Split-Beneficiaries

•Revocable (changeable) Beneficiary

•Re-Insure Option

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Our "Private Label" CGA Alternative

Huge Advantage No. 1

Change Beneficiaries

Split Beneficiaries

Huge Advantage No. 2

Reinsure

(Shift Payment Risk, Create Upfront Charitable Gift – "presiduum"

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Our "Private Label" CGA Alternative

- *Reinsuring a CGA requires the cooperation of the donor*
- *The initial gift - Trust Counselor's Network.*
- *TCN purchases competitive SPIA to cover guaranteed income stream.*
- *TCN "holds back" sufficient funds to pay us – administer CGA*
- *Remainder is remitted to Charity UP FRONT*
- *Donor's Tax Deduction based on "traditional" CGA*

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Re-Insured CGA	Male – Single Life Age 70	Female – Single Life, Age 70	Two-Life Payout Ages 70 &70
Gift Amount	$100,000	$100,000	$100,000
AGCA Payout Rate	5.1%	5.1%	4.6%
Annual Annuity Income	$5,100	$5,100	$4,600
TCN Cost of SPIA	($65,471)	($73,560)	($72,847)
SPIA Commission to TCN (2%)	$1,309	$1,471	$1,457
10% Retained by TCN - Expenses	($10,000)	($10,000)	($10,000)
Charitable Gift	$25,838	$17,911	$18,610
Charity's presiduum (%)	25.8%	17.9%	18.6%
Charity's presiduum (%) – 60 y/o	17.7%	14.3%	17.3%
Charity's presiduum (%) – 80 y/o	41.1%	35.9%	27.5%

"Projected" Residuum of 50% - Completely "at-risk"
Presiduum 15-40% - Upfront – Risk-free
Can be Medically Underwritten

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Example - Charitable Gift Annuity - $100,000 Gift						
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Charity with In-House CGA

Mortality Risk

Investment Risk

Cost/Compliance

Residuum Only

Outsource to Us!!!!!

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All Charities are Candidates – even those with in-house CGA's

"Do you offer a CGA – or other type of giving option that "gives back?"

"Do you have a "love-hate" relationship with your CGA?"

"Is your CGA Costly to Sell and Administer?"

"Is the organization comfortable with the idea of end-of-life value only from your CGA?"

"Have investments ever underperformed to the extent you had to consume principal at an alarming rate just to make payments?"

"Have you ever had an annuitant live so long you go upside-down on the annuity?"

"Would you ever consider outsourcing any of your CGAs in order to 1) shift all cost and risk, and 2) create a guaranteed upfront gift?"

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Making a Difference

What Age Range do CGA's work best for?

What Age Range does Life Insurance Work best for?

Do CGA Payouts go up or down for joint-life annuities?

Does IUL Income go up or down on Survivorship Policies?