

The Charitable Gift Annuity: A Creative Way to Give and Receive

In our last issue of the *GW Planned Giving Report*, we provided you with year-end strategies to help you leverage tax laws to your advantage, while making a charitable gift to GW. Now we want to focus on a particular type of planned gift: charitable gift annuities. These are especially user-friendly ways to make a gift — and a difference — to GW.

Because of their attractive payout rates, charitable gift annuities have become a mainstay among planned giving options. When you establish a gift annuity, you receive both a fixed lifetime income — partly tax-free — and a charitable deduction that can create immediate tax savings. At the same time, you have an opportunity to make a larger gift to GW than otherwise might be possible.

Charitable Gift Annuity Rates — Single Life Annuitant

Age	Rate*
65	6.0%
70	6.5
75	7.1
80	8.0
85	9.5
90	11.3

* Rates effective as of July 1, 2003.

Edward M. Felegy, BA '58

A Commitment to Education and the Arts



EDWARD M. FELEGY

Edward M. Felegy was only 20 when he completed his studies in foreign affairs at GW's School of Government — now the Elliott School of International Affairs. Intending to pursue a career as a diplomat, he planned to take the Foreign Service Exam once he reached 21, the minimum age for the test. While in a holding pattern, he took a job teaching with GW friends in the nearby Prince George's County, Maryland, school system.

Felegy did take the exam, but by then, service to the local community had eclipsed his original goal. After spending four years in the classroom, he moved into administration, eventually rising to Superintendent of Schools for Prince George's County. Along the way he earned a master's in education at the University of Maryland.

"I've often thought about how my GW experience was relevant to my career," he says. "If you look at the school system's considerable budget, and the fact that I had 14,000 employees, you can see I was part of quite a large governmental organization. And a lot of political science was involved!" he adds, smiling.

One hallmark of Felegy's approach is his commitment to opportunities for teachers. "You need to nurture that staff, and if you are going through tight budgetary times, you should give up things — but not the programs and definitely not the people."

A commitment to teaching goes to the heart of Felegy's recent contribution to GW. When he learned of the urgent need for endowed chairs at the University, Felegy chose to support a chair honoring former Elliott School dean and renowned China scholar Harry Harding. Felegy's gift is in the form of a charitable gift annuity, an option that, he says, "is a good strategy because it produces continuing income for the contributor, and produces tax

A commitment to teaching goes to the heart of Felegy's recent contribution to GW.

Continued on page 2

FELEGY continued from page 1

advantages not only in the year you make the contribution, but in the future.”

In recalling his years at GW, Felegy notes that diplomatic skills he acquired as an undergrad — along with persuasiveness honed as a member of the University’s debating team — prepared him to meet dramatic challenges in his career. These included desegregation, changes in county demographics, and budget crises. “At one point we closed 65 schools, more than most school systems even contemplate having in the first place. And desegregation meant transferring about 33,000 students mid-year. We carried that off and then maintained an integrated school system,” he recalls.

But the most heartfelt accomplishment of this opera aficionado has been his work to protect instruction in the arts for the children of Prince George’s County. Pressured to save money by cutting those programs, Felegy held firm: “I knew that if we gave them up, we wouldn’t get them back.” At the 1995 Helen Hayes Awards, *The Washington Post* recognized Felegy with the Award for Distinguished Community Service for “his tireless efforts to include the arts in every student’s experience.”

This passionate educator is delighted to make a personally meaningful gift to his alma mater. “The fact that I have maintained contact with my GW friends for half a century says something about the quality of our time as undergraduates,” he says. “I have made other contributions over the years, and made some recognition of the University in my will, but I was especially pleased to take the opportunity to help get this particular endowed chair underway.”

An Effective Way to Help Plan for the Future — Yours and Ours

While tax and financial benefits should never be the sole reason for making a gift, it’s helpful to examine them first. That’s particularly so with the charitable gift annuity, because it offers a number of financial advantages, which we explain in detail in the following sections.

Creating Reliable Income

The charitable gift annuity provides guaranteed, stable income — an important consideration for those who want to avoid the risk of a volatile stock market and uncertain economy.

Here’s how it works. In exchange for a gift of cash or appreciated property (usually securities), GW agrees to pay you a fixed income for the rest of your life. The rates are based on the age of the recipient — or annuitant — when you create the annuity. The older the annuitant, the higher the rates. Please note that rates will be slightly

lower should you decide to include a second annuitant. As you review the rates, keep in mind that they are fixed for the rest of your and/or your annuitant’s life, regardless of whether the market moves up or down.

Taking a Tax Deduction

If you decide to create a charitable gift annuity, in many cases, you may take a portion of the gift as an income tax deduction in the same year you arrange your planned gift.

In fact, the tax deduction lowers the actual cost of the gift. (Since a gift annuity is part gift and part annuity, your tax deduction is based on the charitable portion.) Thus, when you factor in the deduction, your effective rate of return is even higher than our listed rates. We’ll be happy to provide you with your effective rate of return when you explore the benefits of GW’s gift annuity program.

Creative Planning Opportunities with Charitable Gift Annuities

A gift annuity should never be established for financial and tax considerations alone. However, if you have a sincere desire to support GW’s mission while enjoying considerable financial and tax benefits, the charitable gift annuity is hard to beat. Consider the three examples below — all effective ways to make use of charitable gift annuities to plan for the future in today’s ever-changing economy.

U.S. Savings Bonds: Energizing an Idle Asset

Among some of the most widely held assets are U.S. savings bonds. If you, like many others, have them in

your portfolio, you may be surprised to discover how much they are worth today. At the same time, you may be surprised to learn that some of them stopped earning interest years ago. Yet, if you cash in those bonds, you will pay significant income taxes on the accumulated interest.

Often, donors ask if they can give these bonds to the University outright, avoiding any tax liability resulting from redemption. Unfortunately, U.S. Treasury regulations severely restrict lifetime transfers of U.S. savings bonds without taxes being realized. Thus, such bonds cannot be transferred directly to charitable organizations

during the donor's lifetime.

When you use bonds to create a gift annuity, however, you can convert them into a fixed income stream.

Example: Peter Barker, age 80, has a box full of U.S. savings bonds accumulated over many years. After talking with his bank, Peter discovers their value is \$30,000 — but they have stopped earning interest. If he cashes in the bonds, he will be taxed on about \$20,000 of interest. In the back of his mind, Peter has been considering making a significant gift to GW. Now he wonders if he can use the savings bonds to make his gift.

In fact, Peter can use a charitable gift annuity to “re-energize” his bonds. First, he cashes in the bonds. Then, with the proceeds, he establishes a charitable gift annuity with GW. Based on his age, this annuity pays Peter \$2,400 every year for life, a rate of 8 percent.

Moreover, part of each payment is tax-free until he reaches his life expectancy.

While Peter is taxed on the bonds' accumulated interest upon redemption, his gift annuity provides him with a charitable deduction of a bit more than \$15,100 in the year of his gift.* This deduction largely offsets his tax liability.

With his gift, Peter has accomplished three objectives: (1) He has made a significant charitable gift to GW; (2) he has converted an “idle

asset” into an income stream; and (3) he has diminished his current tax liability with a charitable deduction.

A Charitable Solution to Maturing CDs

Another popular investment is the certificate of deposit, or CD, which offers a secure, fixed income. Like many of GW's alumni and friends, you may possess CDs purchased years ago when they generated a healthy return. If those certificates are nearing maturity, you may face a lower return if you roll them over into new CDs. Also, you may simply be looking for other types of secure investments.

Here again, charitable gift annuities are an attractive option if you want the fixed return of a CD and, at the same time, want to make a significant charitable gift. By using the proceeds from your CDs to create a charitable gift annuity at GW, you will ensure fixed-income payments backed by GW's assets (not just the cash or property you transfer to us). These payments are locked in for the life (lives) of you and/or your beneficiary, not just for a term of years, as with a CD.

Also, since a charitable gift annuity is in part a charitable gift, you receive a tax deduction. And, part of your annual return may be tax-free or taxed as long-term capital gain (depending on

Planned Giving Q and A

Jane Kolson, GW's assistant vice president for planned giving, answers questions about charitable gift annuities.



I established a charitable gift annuity with GW several years ago.

May I create another one, and how will this affect my income?

Yes, many of our alumni and friends have established multiple charitable gift annuities at the University. One helpful technique is “laddering” your gift annuities. By locking in different fixed rates over time, you improve the payment amounts you receive, somewhat like investors using the technique of dollar cost averaging. Remember, payment rates increase with age and are locked in when the gift annuity is set up.

I just turned 50. May I use a charitable gift annuity to help me plan for retirement?

Yes. Although you must be 55 years of age or older to receive income from a charitable gift annuity, you may create one at an earlier age and defer receiving payments until age 55 or older. This can be especially helpful if you anticipate having unusually high income in a given year and are already contributing the maximum amount allowable to your retirement plan. On page 4, you can read how one donor, Dr. Jones, created a deferred annuity. Or, please call us and we will explain in fuller detail.

* All charitable deduction illustrations based on a discount rate of 5.6% and a quarterly payout.

The Heritage Society

An honorary society of alumni and friends, the Heritage Society recognizes individuals who have chosen to support the educational mission of The George Washington University through a bequest intention, charitable gift annuity, charitable trust, or other planned giving arrangement. In gratitude for their thoughtful generosity, the University acknowledges Society members in publications and through special events, including an annual luncheon in their honor held each May. If you have already remembered the University in your estate plan, we invite you to notify us, so that we might extend our thanks and welcome you into the Heritage Society. To learn more about planned giving arrangements that provide tax benefits while also creating a legacy at GW, please return the enclosed reply card or call our office at 202-994-9523.

what assets you use to fund your annuity). Of course, you also have the satisfaction of knowing your contribution supports GW's academic mission.

Example: Some years ago, Ruth Andrews, age 70, placed \$25,000 in a certificate of deposit. Now that the CD is nearing maturity, Ruth wonders about the comparable loss of income if she were to reinvest in another CD. On the other hand, she likes the idea of a charitable gift annuity, since it provides a fixed income and also gives her the opportunity to make a significant contribution to GW.

When her CD matures, Ruth plans to contribute \$25,000 to the University. At her age, the annuity will yield 6.5 percent annually — or \$1,625 each year — for the rest of her life. Part of

this income will be tax-free until she reaches her life expectancy. And she will receive an income tax deduction of nearly \$10,495 in the year she makes the gift.* Ruth increases her income, enjoys a substantial tax deduction, and makes a meaningful contribution.

Timing Your Payments — Immediate or Deferred

The charitable gift annuity has always been attractive to donors who are enjoying their retirement years. But the gift annuity is not strictly for retired individuals. More and more donors in their fifties and early sixties are using what is called the deferred gift annuity to help build a more secure retirement.

* All charitable deduction illustrations based on a discount rate of 5.6% and a quarterly payout.

The deferred gift annuity works like the regular gift annuity, except that payments are postponed to a later time, usually the time of retirement. By deferring the payments, the donor is entitled to both a higher charitable deduction on taxes and higher fixed annual payments. Thus, the donor often can get a tax deduction during a high-income year, then receive payments later, at a higher payout rate, when he or she is likely to be in a lower income tax bracket.

Example: Dr. Jones, age 50, is making the maximum allowable contributions to his retirement plan. To enhance his retirement nest egg, he decides to contribute \$50,000 to fund a deferred gift annuity, which will start payments in 15 years, when he is 65. He receives an income tax charitable deduction of more than \$24,000 to help offset a high-income year; and, when he turns 65, will receive \$6,100 per year for the rest of his life. He is happy to make this arrangement, which will ultimately benefit both himself and GW.

Making Your Gift Count

Among GW supporters, charitable gift annuities are becoming very popular. A thoughtful and creative way to further your philanthropic goals, they enable you to do a good deed for yourself as well as the University. Or look at it this way: When you make a gift, you want it to count. And, when you need income, you want income you can rely on. With a charitable gift annuity you get both.

More About How You Can Benefit

This newsletter contains just a few ideas about the planning that can be done with charitable gift annuities. To learn more, send for our booklet, *Planning with Gift Annuities — How to Do More for Yourself and Charity*. It's easy to read and answers frequently asked questions posed by donors.

We also invite you to call or e-mail us with any specific questions, such as:

- Should you use cash or appreciated stock to set up your gift annuity?
- Is it possible to use other assets?
- What is the minimum transfer to establish your gift annuity?
- What programs at GW can benefit from your support?

If you would like to receive more information about this popular life income gift plan, simply return the enclosed reply card or contact Jane Kolson, assistant vice president for advancement, at 202-994-9523 or jkolson@gwu.edu. Please feel free to contact us at your convenience and with no obligation whatsoever.

THE GEORGE WASHINGTON UNIVERSITY
WASHINGTON DC

The Planned Giving Report

A publication of GW's Office of Advancement

This newsletter provides general information and examples for discussion purposes. Please consult with your attorney or other financial advisor to evaluate the applicability to your unique tax and financial circumstances.

For more information, please contact:

Jane Kolson

Office of Advancement

The George Washington University

Washington, DC 20052

Telephone: 202-994-9523/800-789-2611

E-mail: jkolson@gwu.edu