Legacy Gifts **BULLETIN**
METROPOLITAN STATE UNIVERSITY FOUNDATION
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Prepared for the Benefit of the Friends of Metropolitan State University

Planning for the Future with Charitable Gift Annuities

If we summarized 2020 in one word, we would propose this one: uncertainty. For some, it is the uncertainty of work. For others, the uncertainty of the financial markets. And for all of us, the uncertainty of the COVID-19 virus and its spread throughout the world.

Amid this uncertainty, we're also hopeful. We've seen the camaraderie built by this shared experience. We're inspired by people fighting for racial and social justice at this unique moment in our community. And we've cheered for students who reached their goal of graduation, even if the ceremony was virtual.

Perhaps one of your goals is to make an impactful gift to Metropolitan State University, but in doing so, you must consider the unusual circumstances of 2020. In this environment, you may be concerned that a cash gift now could leave you short of future income. If you are a regular reader of *Legacy Bulletin*, you know by now that there are many ways that donors can achieve their charitable interests while maintaining adequate future income to meet their individual or family needs.

Often we can suggest options that might increase spendable income for donors. Which brings us to the topic of this edition of the *Legacy Bulletin*: A charitable gift annuity is often the simplest and most realistic option for making a significant charitable contribution while maintaining future financial security. (Please note: It is important not to confuse commercial annuities with the benefits of charitable gift annuities. These two investment instruments are very different. Please consult your professional advisor for more information.)

If you have a desire to make an outright gift to Metropolitan State University but are reluctant to give up an income-earning asset from your investment portfolio, a charitable gift annuity could be the perfect solution to achieving your goals.

What is a Charitable Gift Annuity?

The concept of the charitable gift annuity in America dates to 1843, when a Boston merchant donated a gift of money to the American Bible Society in exchange for a flow of income. Today, the concept includes valuable tax benefits for donors. In addition to the financial advantages you may receive, you will also benefit from knowing your investment in Metropolitan State University secures the future of the university as it meets the needs of its students and the Twin Cities.

A charitable gift annuity is a simple agreement whereby a donor makes an irrevocable gift to Metropolitan State University Foundation and, in return, receives a regular flow of income for as long as they live. Metropolitan State University Foundation will pay you a fixed-income regularly (monthly, quarterly, semi-annually, or annually) for your lifetime, based on the amount of the gift, your age, and according to the rate offered at the time the annuity begins.

You can also set up the charitable gift annuity to pay income to someone who survives you for the rest of their lifetime. The age of the person you add as the second life to your charitable gift annuity also affects the fixed-income payments. Metropolitan State University Foundation, like many other institutions, uses the rates suggested by the American Council on Gift Annuities.

After you pass, or at the time of the second person's death in joint and survivorship annuities, the portion of the gift that remains becomes available for the work of Metropolitan State University.

The plan allows you to make a substantial gift without losing the benefit of the income the capital is earning. In fact, when the tax advantages are considered, many donors find their net return is higher through a gift annuity.

Benefits of a Gift Annuity

Besides the satisfaction of making a major investment in the future of Metropolitan State University, you will also enjoy:

Guaranteed annual income.
An annual payment guaranteed for life and backed up by all the assets of Metropolitan State University Foundation.

Immediate charitable deduction.
A charitable deduction for Federal income tax purposes in the year the gift is made to establish the annuity. Since you will be receiving lifetime income, the deduction is less than the full amount of the gift, determined according to IRS tables.

Reduced annual Federal income taxes.
A portion of the income you receive each year from the annuity is exempt from Federal income taxes. (Federal tables specify this tax-free portion as a return of principal.) Your age at the time you make the gift determines the amount of the reduction.

Reduced capital gains taxes.
This occurs when long-term appreciated assets such as securities or real estate are used to fund the annuity. The amount of the capital gains tax is less than it would be if the same property were sold and the proceeds donated to Metropolitan State University Foundation. Also, the capital gains tax may be paid over a period of years if certain conditions are met.

Freedom from the worries of investment management.
Metropolitan State University Foundation's registered financial advisors and managers invest the funds and monitor them closely.

Reduced estate tax liability.
Removing the amount given to Metropolitan State University Foundation from your taxable estate may result in lower estate taxes and reduced probate costs.

Supporting an institution you care about.
Above all, creating a charitable gift annuity enables you to receive the satisfaction of making a substantial impact on our mission while retaining a desired flow of income during your lifetime.

An Example of a Charitable Gift Annuity

Here is a hypothetical example of the implications of a charitable gift annuity:

Mr. Green, age 70, wishes to make a gift of $50,000 to Metropolitan State University. His estate is not large, and he has determined that he needs the income from investing the $50,000 in the market. Mr. Green agrees to irrevocably transfer $50,000 to Metropolitan State University Foundation in exchange for a charitable gift annuity. In return, the Foundation agrees to pay him an annual annuity equal to 4.7% of the principal amount at the time of the gift. Mr. Green will receive $2,350 per year, in semi-annual installments, for the rest of his lifetime.

Depending on the type of asset contributed, a portion of Mr. Green's payment may be taxable to him as a combination of ordinary income and long-term capital gain. Still, a significant portion will be tax-free return of principal. Each of the next 15 years' payments of $2,350 will contain $2,007 of tax-free income and $343 of ordinary income. All income will be ordinary after 15.8 years, his projected life expectancy.

If Mr. Green was married he could have set up the charitable gift annuity for two lives, his and his spouse's. In that case, Mr. Green and his spouse would receive guaranteed income for both of their lives, regardless of who died first. In a survivorship charitable gift annuity, his spouse's age would have also been factored into the return, income, and tax deduction calculations. As its name implies, a charitable gift annuity is part charitable gift and part purchase of an annuity contract. The gift portion of Mr. Green's transfer is deductible for income tax purposes. Based on the information above, his charitable deduction would be $18,282.

The tax rules limit the amount of charitable deduction Mr. Green may claim each year. This limit will vary based on his income and the type of asset contributed. We encourage you to discuss these rules with your professional advisor before making your gift. We would be happy to run multiple illustration options.

How a Charitable Gift Annuity May Apply to You

Here is a table showing other ages, the current annuity rate, the amount of the charitable deduction, and the tax-free portion of the annual income for a one-life annuity of $50,000:

For a Charitable Gift Annuity of $50,000				
Age of Donor	Rate of Return	Annual Income	Tax Free Portion of Annual Income	Amount of Charitable Deduction in Year of Gift
50	3.3%	$1,650	$ 1,353	$ 5,466
55	3.7%	1,850	1,524	6,715
60	3.9%	1,950	1,619	11,151
65	4.2%	2,100	1,764	15,089
70	4.7%	2,350	2,007	18,282
75	5.4%	2,700	2,330	21,329
80	6.5%	3,250	2,837	23,622
85	7.6%	3,800	3,424	27,066
90	8.6%	4,300	3,926	31,147

Note: (1) The above rates of return are based on Uniform Gift Annuity Rates as adopted by the American Council on Gift Annuities. (2) All tax calculations in this newsletter reflect an Applicable Federal Rate (AFR) of 0.6%, as of June 2020; these Federal interest rates change each month. The annuity is paid in semi-annual installments.

How to Defer Additional Income For Retirement (The Deferred Payment Gift Annuity)

If you have adequate current income, but want to provide for more future income, there is a variation of the charitable gift annuity called the deferred payment gift annuity. Such an arrangement works like this:

You irrevocably transfer cash or long-term appreciated assets to Metropolitan State University Foundation, specifying that the guaranteed annual income payments begin at some specific future date (usually, upon your retirement). The income tax charitable deduction is claimed now, in the year the agreement is made. The rate of return to which the donor may be entitled may be considerably higher than if the donor began taking payments immediately.

Here is an example:

> Ms. Kindly is an executive with a large corporation, earning a substantial annual income that places her in the 37% income tax bracket. She does not need additional income now but knows that she will need more income after she retires, when she is no longer earning a large salary. She is 58 and will retire in 8 years, at age 66.
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> She gives $100,000 in cash to Metropolitan State University Foundation in exchange for a deferred payment gift annuity that will pay her an annual income of $6,000, payable in equal installments every six months, beginning when she is 66 years old. A portion of this income, $1,638, will be taxable, and the remaining $4,362 is tax-free, based on current tables.
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> This year, she is entitled to claim a charitable deduction of $17,087 on her Federal income taxes. Because she is in the 37% tax bracket, she saves $4,362 in Federal income taxes this year. If she cannot claim the total deduction this year, she can carry forward the remainder over the next five years.

What Impact Will My Gift Make?

A charitable gift annuity can be an opportunity to both meet your income needs and make a meaningful impact with a gift to Metropolitan State University. The State of Minnesota and tuition do not cover all university expenses so we rely on contributions to continue to provide a world-class education.

- Your gift of $50,000 or more can establish an endowed scholarship in your name, helping a student achieve their education goals and ensuring your legacy
- A gift to the Metro Fund provides support for the areas of greatest need at the university, recently this has included providing emergency assistance to students during the pandemic and awarding scholarships
- Program funds—Give to any of the university's seven colleges and support the discipline most important to you

When contemplating any planned gift, you should always consult your own legal and financial advisors to help you determine if such a gift is appropriate for your goals.

If we can help in any way, please contact us. There is no obligation. The information shared or questions asked will be held in the strictest confidence.

How the Funds Are Used by Metropolitan State University Foundation

When you create a charitable gift annuity with Metropolitan State University Foundation, the principal of the contribution received in exchange for the charitable gift annuity will be held for the remainder of your life and any surviving beneficiary. This will ensure we can make your annual income payments. Upon the death of the last survivor of the annuity agreement, the principal becomes available for use by Metropolitan State University. When we set up the charitable gift annuity, we will work with you to understand your wishes for how the principal will be used. For example, your gift could support the Metro Fund, establish a scholarship, or benefit your major's program, among other possibilities.

We would be pleased to visit with you about a charitable gift annuity or send you specific proposals appropriate to your interests. If we can help, please contact us by returning the enclosed card or contacting us by email or phone. You can find more information on planned giving on our website at metrostate.edu/give/planned-giving. We will hold any information shared or any questions asked in the strictest confidence.

Rachel Hughes, Development Officer
rachel.hughes@metrostate.edu
612-499-8754

Metropolitan State University
700 East Seventh Street
Founders Hall, Room 148
Saint Paul, MN 55106

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