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Planned Giving News

FOURTH QUARTER 2006

CHARITABLE GIFT ANNUITIES FUNDED WITH REAL ESTATE

By Bruce White

Traditional charitable gift annuity funding with appreciated stocks and cash continues, but an often overlooked source of these donations is real estate. As we know, many potential donors have a high percentage of their net worth in real estate, both residential and commercial, but rarely do they use these assets to fund a charitable gift annuity. Charities may want to develop policies on real estate donations funding charitable gift annuities in order to encourage gifts that benefit both the donors and the charities themselves.

In our recent experience, donors are finding real estate funding of a charitable gift annuity more attractive than in the past. Donors are seeing real estate investment returns decline or stabilize and do not perceive the bubble in prices returning soon. Donors may want to lock in the current prices and convert their real estate investments to a predictable income flow and the deferral of capital gains that charitable gift annuities offer.

Many older donors own expensive homes that have significant costs to maintain. Often, they feel burdened by the maintenance effort, and have little income to pay for these expenses. They may wish to simplify their lives by moving to a more modest and comfortable home or apartment as they age. A gift annuity funded by their home could be one way to solve these problems.

DEVELOPING A POLICY

There are several ways for the charity to mitigate the risk of accepting real estate as funding for gift annuities:

1. Deferral of the annuity payments for one or two years to give ample time to market the real estate. Since payments would begin well after the sale, the risk to the charity is reduced.
2. Obtain at least two licensed property appraisals (one supplied by the donor) and use the average or lowest appraisal.
3. Base the annuity payment on the agreed-on value of the real estate less 10-15% for the estimated costs of environmental assessments, sale, and transfer. Obviously the donor must have a clear understanding of the reasons for these reductions. This discount can be used as an outright gift to the charity as in a bargain sale.
4. Some state regulations may not allow the holding of real estate in the charitable gift annuity investment pool to meet state reserve requirements. Accepting the property into the charity's general funds or endowment and moving an acceptable asset into

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...AN OFTEN OVERLOOKED SOURCE [OF FUNDING FOR A CHARITABLE GIFT ANNUITY] IS REAL ESTATE.

FINANCIAL ADVISORS—FRIEND OR FOE OF THE CHARITY'S PLANNED GIVING PROFESSIONALS?

By Jim Fox

There is a broad-based and growing movement among financial advisors to absorb many of the functions of the traditional Planned Giving Professional. Many are incorporating into their practice the development of charitable giving strategies for their clients. The reasons for this include wanting to deepen and broaden their influence over their wealthy client base, hoping to retain assets under their supervision and, in some cases, satisfy their personal commitment to philanthropic organizations.

In an effort to support this trend, organizations are gearing up resource

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the fund can solve this problem. This does not change anything for the donor.

5. If the real estate has a mortgage not over five years old or if the owner has not held the property over five years, the charity may be subject to unrelated business income tax on property income and any capital gain [IRC 514(c)(2)(B)]. Policies should restrict gifts with these obligations.
6. As with any real estate transaction, the donor should provide proof of title, title insurance, or an attorney's title opinion.
7. Communication with donors, as with all planned gifts, must be clear. Owner-occupied real estate already enjoys some capital gains exclusion. In addition, there are emotional attachments to a primary residence that is shared by the donor and their offspring.
8. As with any gift of appreciated property, it is imperative that there are no arranged sales prior to the transfer of the real estate to the charity.
9. Both the donor and charity should seek legal counsel regarding these typically larger and potentially more complicated gifts.

Let's conclude with an example. Current supporters of your charity, John and Jane Doe (both age 75), are considering a charitable gift annuity. Their home of 30 years has an appraised value of $1,000,000 and no mortgage. After consulting with their attorney, children, and the planned giving staff of your charity, they agree to move forward with the charitable gift annuity.

A one-year deferred gift annuity paying $56,950 per year to John and Jane for their lives (based on the current ACGA rates) is funded with $850,000 of the home's value. The remaining $150,000 of the home's value is considered an outright gift to the charity. John and Jane receive charitable tax deductions of $150,000 for the outright gift and another $362,559 for the establishment of the deferred charitable gift annuity (based on the December 2006 IRS discount rate of 5.8%).

Since the charity is subject to state regulations regarding the investment of gift annuity assets, it books the real estate into an unrestricted fund and puts $850,000 in approved assets into the gift annuity fund pool. The unrestricted pool sells the property and accrues any profit or loss on the transaction after expenses.

In this situation both parties benefit. The charity receives real property worth $1,000,000 while agreeing to pay a lifetime deferred annuity with a present value of $487,441 (based on current IRS actuarial estimates and a 5.8% discount rate). The donors receive an annual income of $56,950 and charitable deductions totaling $512,559 while supporting their favorite charity. §

...DONORS ARE FINDING REAL ESTATE FUNDING OF A CHARITABLE GIFT ANNUITY MORE ATTRACTIVE THAN IN THE PAST.

MANY [FINANCIAL ADVISORS] ARE INCORPORATING INTO THEIR PRACTICE THE DEVELOPMENT OF CHARITABLE GIVING STRATEGIES FOR THEIR CLIENTS.

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centers and other tools to assist advisors. The International Association of Advisors in Philanthropy was organized in 2005 and counts around 200 members. The Financial Planners Association, with 28,500 members, is developing an interactive website devoted to philanthropic giving. It is expected to be operating this year. What is driving much of this effort is the recognition that most advisors are not experienced in the fine points of deferred gifts.

Does this represent a serious competitive challenge? In many ways the answer is a resounding yes! Fee-based advisors, whether they are Investment Counselors or Financial Planners, represent an enormous base of individual wealth. Even if their client has geography or mission in common with your institution, this new focus by the advisor could easily mean another charity could be introduced to someone who should be *your* prospective donor.

Could this be turned to an opportunity for the Planned Giving expert? The answer, we believe, is yes. Advisors need help. This can be of an educational nature or as a personal support and assistance resource. The next issue of our newsletter will share our perspective as Investment Counselors and how we would react to several outreach approaches by Planned Giving specialists. §

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