Boulder Valley Unitarian Universalist Fellowship
Bringing Love and Reason to Life, Building a Just and Compassionate World

Planned Giving Methods that can Benefit BVUUF and Generate a Lifetime Income for the Donor

Many organizations offer opportunities for donors to make planned gifts that provide an income to the donor or other designated persons for life, with the remaining amount of the invested funds being retained by the organization after the passing of that person or persons. BVUUF on its own could not offer such programs, but it can take advantage of programs administered by our parent organization, the Unitarian Universalist Association (UUA). The purpose of this fact sheet is to provide some basic information on planned giving options that are available to us through the UUA. All of these options can benefit BVUUF (or other UU organizations) upon the death of the person or persons receiving an income (usually the donor or last-surviving spouse).

Planned giving options administered by the UUA

The UUA has three programs that provide a lifetime income to the donor (or other specified person or persons) in return for a gift of some minimum amount. The gift is invested, and upon death, the amount that is left is distributed to BVUUF and any other UU organizations that the donor specifies. The UUA administers these programs at no cost to the Fellowship, even if the UUA is not one of the beneficiaries. Only UU organizations, such as the UUA, UUSC, Starr King School, or any UU congregation can be beneficiaries, not other types of charitable organizations. For example, one could leave 75% to BVUUF, 10% to UUA, 10% to UUSC, and 5% to Starr King School. The portions allocated to particular organizations can be changed with a signed letter. If one were to move and wanted to designate some fraction to one's new congregation, this could be done.

Detailed information on the UUA programs is available on the UUA website. As of this writing, the information can be found by going to the main web page at http://www.uua.org, then through the menus Our Association > Giving & Generosity > Planned Giving. These programs are probably of most interest to those who are retired or approaching retirement. Each option has different income tax benefits. Since the income tax consequences of a Charitable Gift Annuity are rather complicated, a concrete example, with four different options, is given here.

The three UUA programs are:

1. UUA Pooled Income Fund
The donor gives a minimum of $5000 ($10,000 if more than two UU organizations are specified as beneficiaries) and can add to that amount in increments of $1000 or more. The money is invested, and payments are made quarterly, which vary according to the investment performance. There are no guarantees on the amount of income. According to information on the UUA website, the three-year high return rate as of 2014 was 4.07%. A partial tax deduction applies when the funds are given. (It can't be fully deductible since the donor will receive something back.) The payments to the donor are taxed as ordinary income. The amount of the investment left at death goes to the specified UU organizations. It may be larger than the original contribution. The minimum age for income recipients is 60.

2. UUA Charitable Gift Annuity
The donor gives a minimum of $10,000 in return for lifetime quarterly payments. This can be set up for one life or two. The annuitants (persons receiving the income) need not be the same as the donors (they could be a parent, child, etc.) The payout rate depends on the life expectancies of the annuitants, so it increases with the age when the payments start. If the income is not needed immediately, the payments can be deferred, which increases the payout rate. The payout rate is fixed (guaranteed) at the time the annuity is set up. The gift is partially deductible as a charitable contribution in the year in which it is made. The payments are partially tax-free, since they are considered a tax-free return of principal. At some point the payments become fully taxable. The amount left to the beneficiaries at the end depends on how long payments have been made. The payout rate is calculated so that, on the average, about half of the initial gift is left.

Four examples, estimated in July 2014 (All for an initial $50,000 gift):

Example 1: 64-year-old female and 63-year-old male annuitants, immediate payments
Payout rate: 4.1%
Charitable deduction: $13,250
Tax-free portion of payments: 68% until 2040, then all taxable

Example 2: 64-year-old female annuitant, immediate payments
Payout rate: 4.6%
Charitable deduction: $17,101
Tax-free portion of payments: 69% until 2034, then all taxable

Example 3: 64-year-old female and 63-year-old male annuitants, payments deferred 10 years
Payout rate: 6.7%
Charitable deduction: $19,392
Tax-free portion of payments: 52% until 2041, then all taxable

Example 4: 64-year-old female annuitant, payments deferred 10 years
Payout rate: 7.8%
Charitable deduction: $25,884
Tax-free portion of payments: 47% until 2037, then all taxable

3. Charitable Remainder Trust
This option is more flexible than the previous two. The donor can design the terms of the trust, such as who receives the payments and whether the payments are a fixed percentage of the investment or vary with market performance. Due to the increased administrative costs, the minimum gift is $100,000. If the UUA is one of the beneficiaries, they will draw up the initial document and help to set it up. Part of the gift is tax deductible.

Other considerations:

Funding one of these options with appreciated stocks is particularly advantageous because of the partial tax deductibility of the initial investment. One could also consider funding one of these options with the proceeds of an IRA or 401K, provided one meets the requirements to withdraw without a penalty. However, if this is a traditional IRA or 401K, as opposed to a Roth IRA or 401K, there will be some income tax due, because the donation is only partially tax-deductible.

As with any substantial gift, we recommend that you consult your tax professionals.

Note: This information is current as of October, 2014