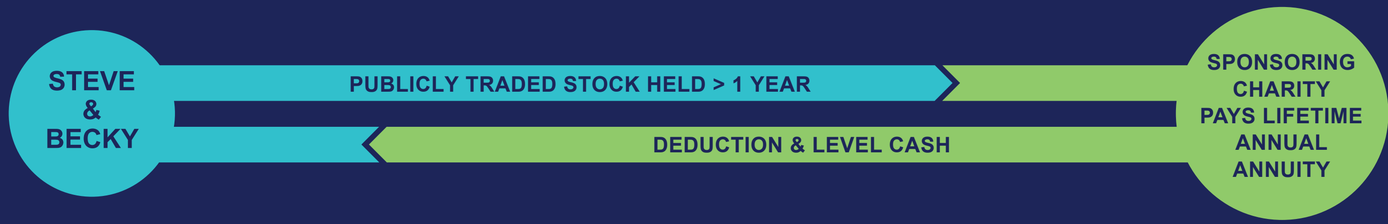
Steve & Becky Schmidt

Increasing Future Cash Flow



Steve and Becky Schmidt (both age 70) own a publicly-traded stock valued at $100,000 with a $25,000 cost basis. The stock currently pays a 1% dividend but the Schmidts don't need the income. More importantly, they are concerned about market fluctuations and want to make sure the stock can produce a cash flow in the future if their IRA runs out.

If the Schmidts sold the stock, they would have to pay $14,437 in capital gain tax on the appreciation. However, by contributing the stock to a charity in exchange for a deferred charitable gift annuity (DCGA), the charity will hold the stock or invest the sales proceeds in return for agreeing to pay the Schmidts a level cash flow of $10,200 each year for the rest of their lives starting in 14 years. The charity, as a non-tax paying entity, can sell the stock without incurring a tax liability and invest the entire proceeds from the sale of the stock in a diversified portfolio of stocks and bonds. In addition, the Schmidts will receive a $61,966 income tax deduction this year.

Steve & Becky's DCGA allows them to save a substantial amount in immediate capital gain taxes, diversify their portfolio, take advantage of the ability to receive a future lifetime cash flow based on all the value of their stock, and receive a substantially increased future lifetime cash flow that is level and dependable. However, the Schmidts are most pleased that they have shifted all investment risk to the charity while creating a legacy by leaving money to a charity that will support causes that are meaningful to them.

Benefits of Schmidt CGA*

Income Tax Deduction	$61,966
Before-Tax Lifetime Cash Flow	$71,400
Future Charitable Benefit	$148,714
Capital Gain Tax Savings	$14,437

Key Features of a CGA:

- CGAs pay a level cash flow to the annuitant so they are well-suited for people who desire a continuous, predictable cash flow.
- CGAs can never accept additional contributions after the initial funding. However, since CGAs are so easy to create, many people create multiple CGAs to approximate an additional contribution.
- CGA payments are tax-advantaged through the annuitant's life expectancy. After that, all payments are taxed as ordinary income.
- Investment risk is shifted to the charity. There fore, investment performance and program expenses do not change the annuity payout.
- Most charities that issue CGAs use the recommended rates published by the American Council on Gift Annuities.
- Immediate CGAs must make a payment to the annuitant each year. Deferred CGAs start the annuity payment in a future year.

Assumptions:

- Marginal Federal and state income tax rate of 31.6%.
- Marginal Federal and state capital gain tax rate of 19.25%.
- 4.25% investment return (only affects the charity's interest).
- Some charities reinsure their CGAs.
- CMFR = 2.2%.
- Not all charities are eligible and/or registered to issue CGAs.CGAs are subject to state and federal regulation. Deduction may be limited. Consult a tax advisor. *Based on a 9-year life expectancy

This example is hypothetical and for educational use only. The situations, tax rates or return numbers do not represent any actual clients or investments. There is no assurance that the rates depicted can or will be achieved. Actual results will vary. Please consult with legal and tax counsel about the suitability.

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