



THE MISSISSIPPI BAPTIST FOUNDATION

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## The Grace of Giving: Windows of Opportunity...Showers of Blessing

**W**riting to the church in Corinth, the apostle Paul admonished the Corinthian Christians to consider financial stewardship equal in importance to the many other areas or purposeful Christian living. *To this end he stated, "But just as you excel in everything – in faith, in speech, in knowledge, in complete earnestness and in your love for us – see that you also excel in this grace of giving...Now finish the work, so that your eager willingness to do it may be matched by your completion of it...For if the willingness is there, the gift is acceptable according to what one has, not according to what one does not have" (2 Corinthians 8:7, 10-12).* Perhaps Paul sought to remind the church at Corinth the truths presented in Malachi 3:8-10 that no one can outgive God who honors faithfulness by throwing open the windows of heaven and pouring out showers of blessing.

As I near the completion of my fourth year as the Executive Director of the Mississippi Baptist Foundation, I am reminded again and again how the Lord is working in the lives of His people in the area

of personal finances and giving. Regularly, inquiries come to the Foundation about the establishment of an endowment for scholarships or missions, the benefits of a life-income arrangement, or for information regarding the use of a Last Will and Testament for impacting the Kingdom. What I have learned from visiting with folks about their stewardship and estate-planning goals is that the Foundation has the unique privilege and responsibility to be a resource to help individuals excel in the grace of giving by identifying "windows of opportunity" through which showers of blessing may be experienced in their lives. One of these windows of opportunity is a charitable gift annuity. This edition of *Foundation News* seeks to highlight the special features of this unique life-income arrangement.



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# Charitable Gift Annuities: A Window to a Lasting Legacy

**B**ecause Webster's dictionary defines a gift as "something voluntarily transferred by one person to another without compensation" and an annuity "a sum of money payable yearly or at some other regular intervals," the combined term "gift annuity" might be construed as an oxymoron. In other words, how can something that is transferred voluntarily without compensation offer an annual income? Just what is a gift annuity?

Good questions! Here is how a charitable gift annuity works. A charitable gift annuity is an agreement between an individual and a qualified charitable organization such as the MBF. Within the agreement, an exchange is made between the donor and the charity whereby the donor offers cash or non-cash assets (stocks, mutual funds, etc.) and the donor receives a guaranteed fixed income each year for life. At the death of the donor(s), the funds remaining in the corpus of the gift annuity are available for the charity selected by the donor. When established through the Mississippi Baptist Foundation, a charitable gift annuity becomes an extraordinary way to increase annual income, receive favorable tax treatment, and excel in the grace of giving by leaving a lasting legacy for Baptist ministries of the donor's choosing.



## THE ADVANTAGES OF A GIFT ANNUITY MAY BE SUMMARIZED AS FOLLOWS:

- **Income for Life** — The donor receives a guaranteed fixed income for life with payout rates for one or two people.
- **Tax Deduction** — A large part of the donor's transfer is deductible as a charitable gift.
- **Tax-free Income** — Not only does the donor receive a tax deduction for establishing the gift annuity and an income for life, but a portion of the annual payments are tax-free also. Thus, the real percentage yield is higher than the stated distribution rate.
- **Capital Gains Savings** — The potential impact of capital gains tax for appreciated assets such as stocks is minimized when the donor funds the gift annuity by transferring securities to the charity.
- **Flexibility** — The donor may choose the frequency of their payments. While payments are often made on a quarterly basis, payments also can be made monthly, semi-annually, or annually. In addition to the various payment frequency options, one person or two-person annuities may be selected. Furthermore, cash or non-cash assets may be utilized to establish the gift annuity. Cash gifts are the most beneficial in terms of tax-free income while gifts of securities (stocks) allow the donor to reduce their capital gains taxes.
- **Personal Satisfaction** — The donor has the satisfaction of knowing that their generosity will continue to make a lasting impact even after the Lord calls them to "higher" service with Him.

## CDs into Gift Annuities

One source of retirement income for many people is the interest earned on Certificates of Deposit issued by a bank. Current interest rates at some of the large banks in Mississippi range from 1.75%-3.0% for six months to 2.25%-4.5% for five-year CDs. In a low interest rate environment, CDs may actually deliver negative yields when taxes and inflation are taken into consideration. If you have CDs near maturity, you may want to convert the CD funds into a charitable gift annuity. Not only does a gift annuity offer a higher distribution percentage than the current CD rates, but donor receives a portion of the income on a tax-free basis. In addition, a partial charitable deduction is allowed for income tax purposes.

**EXAMPLE:** Mary is a 75-year old widow who uses CDs to supplement her Social Security income. She has a \$10,000 CD scheduled to mature in a few days and she thinks that her bank will renew the CD for 5 years at 4%. Thus, she will receive \$400 per year for the next five years. After factoring in taxes and the rate of inflation, Mary determined that the real rate of return for her money is near 0%.

Mary has been thinking about leaving at least \$10,000 in her will to benefit missions through the International Mission Board and the Cooperative Program. After reading about the benefits of a charitable gift annuity, Mary recognized that her current financial needs and her charitable goals for the future can be realized through a gift annuity.

For a gift of \$10,000, Mary will receive an annual income of \$710 (7.1%) of which \$489.90 will be tax free. Since Mary is in a 25% income tax bracket, the tax-free component of the income stream increases the rate of return to nearly 9% on a taxable equivalent basis! In other words, Mary would need to receive approximately 9% on a CD or other taxable alternative to realize the same return offered through a gift annuity. In addition to the increased income available through a gift annuity, Mary will benefit from a charitable deduction for income tax purposes in the amount of \$3,929.20.

Beyond the financial advantages that a gift annuity can provide, perhaps the greatest benefit that Mary will receive from establishing a charitable gift annuity is the joy of knowing that her gift will impact the Kingdom beyond her lifetime. When her CD matured, Mary utilized the services of the Mississippi Baptist Foundation for assistance with a gift annuity.

## Bethel and Sara Ferguson



Bethel and Sara Ferguson have shared their lives with each other and their love for the Lord together for nearly 65 years. Because of his love for Sara, Bethel wanted to ensure that she would have adequate financial support for her lifetime should he predecease her. Following the recommendation of his accountant, Bethel called the Mississippi Baptist Foundation in the Fall of 2004 to inquire about gift annuities. The result of that phone conversation and subsequent visits with Foundation staff was a series of gift annuities over the next three years that offer tax advantages for the Fergusons, a monthly income stream for Sara's lifetime, and the satisfaction of knowing that the eventual "Bethel and Sara W. Ferguson Memorial Fund" will provide perpetual resources for Baptist causes. By opening the windows of opportunity offered through the Foundation, Bethel and Sara are receiving showers of blessing as they excel in the grace of giving.

## How Are Gift Annuity Rates Determined?

The gift annuity rate is an actuarial calculation based on the life expectancy of a donor, assumed rates of investment returns over the donor's life expectancy, and the anticipated residual dollars available for charity at the end of the donor's life. Each qualified charitable

organization determines the appropriate rate for a particular gift based on a combination of these factors. For the purposes of illustration, however, the distribution rates published as a guideline by the American Council on Gift Annuities (ACGA) are presented in this newsletter.

## Benefits of a \$10,000 Charitable Gift Annuity

Donor's Age	Distribution Percentage	Guaranteed Annual Income	Tax-Free Income	Taxable Income	Charitable Deduction
90+	11.30%	\$ 1,130.00	\$ 913.04	\$ 216.96	\$ 5,526.90
85	9.50%	\$ 950.00	\$ 739.10	\$ 210.90	\$ 4,974.40
80	8.00%	\$ 800.00	\$ 582.40	\$ 217.60	\$ 4,527.90
75	7.10%	\$ 710.00	\$ 489.90	\$ 220.10	\$ 3,929.20
70	6.50%	\$ 650.00	\$ 421.20	\$ 228.80	\$ 3,299.90
65	6.00%	\$ 600.00	\$ 364.80	\$ 235.20	\$ 2,742.20
60	5.70%	\$ 570.00	\$ 327.18	\$ 248.82	\$ 2,112.40

## Save Twice with Gifts of Securities

Securities (stocks, mutual funds, etc.) that have increased in value since the time they were acquired may provide special advantages when given to fund a gift annuity. Suppose stock that you acquired a few years ago for \$6,000 has increased in value by \$4,000 and now has a market value of \$10,000. If you decided to sell the stock, a tax burden on the entire \$4,000 gain would result. If, however, you transferred the

stock to establish a gift annuity, a portion of the capital gains taxes can be avoided. Suppose your charitable deduction was 40% of the \$10,000 you gave. You would avoid tax on 40% of the \$4,000 gain and the remaining capital gain could be reported on a prorated basis over your life expectancy. Thus, making a gift of appreciated securities offers both income tax and capital gains tax savings which is twice as nice!

The relationship between Virginia Williams and the Mississippi Baptist Foundation began in 1993 when Virginia's husband, Rev. Thomas Williams, established a Charitable Remainder Unitrust through the Foundation. This trust provides income for Virginia during her lifetime and then will provide financial support for seminaries and new church starts. Later, in 2002, Rev. Williams established a scholarship fund for ministerial students with the Foundation.

Virginia's ongoing relationship with and confidence in the Foundation's ministry prompted her to establish an additional life-income arrangement in the form of a gift annuity. Virginia funded this new account through a gift of stock that had appreciated in value. By transferring this



appreciated asset to the MBF, Virginia not only was able to minimize the potential impact of capital gains taxes, but she also received a charitable deduction for income tax purposes. Additionally, the tax-free portion of the annual income means that Virginia will enjoy a taxable equivalent rate of return much higher than CDs currently offer. By partnering with the Mississippi Baptist Foundation as a "laborer together with God," a window of opportunity was opened for Virginia Williams through which she can experience showers of blessing as she continues to excel in the grace of giving.

For more information on the windows of opportunity available through Mississippi Baptist Foundation, please call 601-292-3210 or [dhall@mbcb.org](mailto:dhall@mbcb.org).