SOUTHWEST INITIATIVE FOUNDATION
15 3rd Avenue NW
Hutchinson, MN 55350

In Conclusion

Income is the ultimate determinant of retirement lifestyle. So, in a period of extremely low investment yields, it makes sense to "buy a little retirement income" via the charitable gift annuity.

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gift may be a good option. Then, as each quarterly check is received, the donor can choose to endorse it and gift it back or utilize it personally as needed.

Donors are secured by years of regular income payments and fulfilled in the knowledge of their ultimate generosity.

THE CHARITABLE ALTERNATIVE

This publication is provided as a service for finance, tax and estate planning professionals by:

Southwest Initiative Foundation
15 3rd Avenue NW
Hutchinson, MN 55350
www.swifoundation.org

MISSION:
To be a catalyst, facilitating opportunities for economic and social growth by developing and challenging leaders to build on the region's assets.

GIVING:
Donors see the Foundation as a single connection that, in its role as a community foundation, advances and enriches individuals, businesses and communities throughout the region—stimulating unlimited possibilities.

In addition to outright gifts, Southwest Initiative Foundation welcomes deferred gifts through wills, life insurance, charitable gift annuities and charitable trusts.

SERVICE AREA:
From Ortonville to Jackson, Hutchinson to Luverne, the Foundation serves more than 150 communities in its rural southwest Minnesota region.

Southwest Initiative Foundation is an Equal Opportunity Provider.

SOUTHWEST INITIATIVE FOUNDATION

THE CHARITABLE ALTERNATIVE
Winter 2013 Edition

One Connection. Unlimited Possibilities.
SOUTHWEST INITIATIVE FOUNDATION

Creative estate planning techniques using charitable alternatives to achieve your clients' financial objectives

Rethinking the Retirement Portfolio In Light of Mounting Bond Losses

***Wall Street Journal*, July 2013**

> "Feds policy of low interest rates to stimulate the economy may be coming to an end."
>
> Bill Gross, "Pimco's $285 Billion Total Return Bond Fund has lost 3.65% in June alone after investors pulled $1.3 billion out in May."

Couple these bond losses with a highly volatile equities market, where the thought of rising borrowing costs triggered a 750 point drop in the Dow in the early weeks of July, and many an investor is looking for a safe place to hide.

How about a one- or two-year CD that offers over 5 percent annual yield? Just kidding—it doesn't exist!

For your middle-aged clients, the answer is diversify, diversify, diversify. It's total return that counts and leads to the ongoing growth in their retirement accounts.

For the senior client, already at retirement or semi-retirement, the answer is tougher. Whether you call it **yield or cashflow or investment income,** this monthly return determines lifestyle.

And, most individuals without a defined benefit pension plan simply have accumulated a hunk of capital in a 401k or a 403b or some other defined contribution plan which is at the mercy of historically low yields.

That $720,000 balance in your client's 401k plan at 1 percent totals $600 per month.

Small wonder so many 70+ individuals continue to work.

Annuity Anyone?

Fixed, Lifetime Income by Contract

Here's a logical answer to low bank and treasury yields for seniors. However, there is much misunderstanding and skepticism regarding annuities.

Let's try to clear the air here.

To simplify, we are referring to a "fixed-payment, immediate annuity." With this arrangement, the client pays a lump-sum of cash to the issuer, in exchange for a regular, fixed payout each year.

These amounts are typically paid quarterly.

No, the amounts are not variable. Your client knows exactly what to expect—for example, $12,600 per year or $3,150 per quarter.

Yes, the payments begin immediately with this plan. As you know, there are plans that defer the start of payments to a later date or age. But here, we are talking about an immediate annuity.

Important Characteristics of Annuities

1. Age-Based Payout
The older your client is, the higher the payout. This follows the premise that lifetime income rates are based on life expectancy at the time of purchase.

To give an example, a Southwest Initaitive Foundation Charitable Gift Annuity currently pays 5.1 percent annually to an individual who begins at age 70. If that individual started at age 76, the payout would be 6 percent annually.

2. No Liquidity - Funds Committed
It is important for your senior clients to know that money placed in this plan is not available for emergencies. So, it would be foolish for a client to place all of his/her funds in one of these plans. Like most portfolio holdings, some funds placed in an annuity can provide a dependable base income to compliment other investments and cash reserves.

3. No Growth
When we said fixed, we meant fixed. No hedge for future inflation. Again, other diversified holdings are required to meet your client's need to grow the estate.

4. No Inheritance
Typically, these age-based plans provide lifetime income to the client and/or their spouse but not beyond that. So, this part of the estate is consumed over the client's lifetime and not available to future generations.

5. No Excitement - No Ulcers
Perhaps you've heard the old joke about annuities saying the two greatest causes of premature death for retirees are stress/worry and over-eating/weight. An annuity cures them both. Dependable, fixed lifetime income eliminates worry and the size of that income eliminates any possibility of over-eating.

The Sensible Case for Annuities

A "Floor" of Income for the Diversified Retiree

No liquidity, no growth, no inheritance…good grief! Why bother? Well, an ounce of annuity is worth a pound of today's treasuries or CDs.

Let's go back to that 76-year-old retiree trying to live off today's "safe money" yields. At three-quarters of 1 percent or even with a five-year ladder of treasuries, the average yield is slightly over 1 percent.

On the other hand, this retiree could place $200,000 in a Southwest Initiative Foundation Charitable Gift Annuity and secure $12,000 per year or $3,000 per quarter for the rest of his/her life.

While many of these plans are funded with cash from a maturing CD or bank account, it is important to note that they **can be funded by a transfer of appreciated stock to Southwest Initiative Foundation.** With the stock market at all time highs, here's a chance to take profits without immediate taxation.

Consider this: if the stock is held long-term (one year and one day), the full market value will count for the annuity, even though our client's basis (what he/she paid for it) may be 50 percent of that figure.

What about taxing the capital gain? A fraction of that gain will be taxed each year over the annuitant's life expectancy. It's like installment sale treatment and, as you know, securities don't qualify for installment sale treatment.

Looking for a way to cash out that Netflix, Celgene, Priceline, Cisco, Starbucks, Costco, Amgen, and others? **Annuitize it!**

Common Experiences Facilitating a Gift Annuity

1. The "Test Drive"
Because the decision to "lock up" assets for a lifetime is daunting, donors contribute to a small annuity, often about $10,000. After several quarters of receiving regular checks, they come back in.

2. The "Second Annuity"
This is funded by a satisfied, confident donor and is often more substantial than the first. Often, the donor will identify some specific designation through an organization like Southwest Initiative Foundation to receive the remainder in the family name.

3. The "Third Annuity"
Many individuals do eight or 10 of these plans. Each time they are older and the payout is larger, and they're surer of liquidity needs and what they can afford to "tie up."

Occasionally, a person is motivated to make a large donation from a modest pocketbook. In such cases, contributing the sum via a Gift Annuity as opposed to an outright

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For additional planned giving resources and ideas, visit *www.swifoundation.org/plannedgiving.*