

Some life-income gifts can produce variable income that might serve as a hedge against inflation. Others can offer you the assurance of steady, fixed income. You might delay receiving payments until some later time in life when you will need income more. It may even be possible to set up payments that vary according to your needs at any particular time.

The chances are that you may not need or want all of these options. And indeed, no one type of life-income gift can deliver them all. With many choices, how do you go about choosing the life-income gift that is right for you? Perhaps taking a look at what the following hypothetical friends of Washington National Cathedral have done will help you decide on the best course of action.

Increase Your Income with a Charitable Gift Annuity

Profile: *Doris T is 79 years old and a widow. Most of her investment assets are cash or fixed-income investments, and she depends on the income they produce to supplement her retirement income.*

When some came due recently, imagine how thrilled I was to learn that I could make a gift to the Cathedral in return for a **charitable gift annuity** and actually increase my annual cash flow. I was able to get only about 4% on my CDs, but based on the \$50,000 I contributed for my gift annuity, I am getting payments equal to 7.8% of that amount, or \$3,900. Better still, more than \$2,700 of that is tax-free for the balance of my life expectancy. That makes my payments worth even more.

The gift also allowed me to take an income-tax deduction of almost \$23,000. Since I am in the 25% federal income-tax bracket, this saved me more than \$5,700 in taxes.

Analysis: By “replacing” some of her investments in CDs with a charitable gift annuity, Doris was able to increase her return substantially. And because she planned to use cash to fund her gift annuity, a maximum amount of the annual payment is treated as a tax-free return of principal, further increasing the after-tax value of her gift annuity payments.

Doris's Story: I wanted to make a meaningful gift to the Cathedral, but I felt I needed all the income my assets were producing. In fact, a little additional income would be nice.

At my age, a sure, reliable income is more important to me than the possibility of a big gain on investments. As such, I have a significant portion of my assets invested in CDs. As you know, returns on CDs just aren't what they were a few years ago.



Donovan Marks

Avoid Capital-Gain Tax

Create Income That Can Grow

Profile: *Ted and Mary N, both aged 67, have recently retired. They have a number of stock investments that have appreciated but pay no dividends. Now that they are retired, they would like to increase their annual cash flow.*

Ted and Mary's Story: About five years ago we bought shares in a company we believed had a great future. It turns out that we were right, and now the stock is worth five times the \$50,000 we paid for it. When we retired, we talked about selling it and reinvesting the proceeds to produce income since it pays no dividends. We were discouraged to find out that \$30,000 of our \$250,000 selling price would go to pay capital-gain tax.

We have always wanted to make a significant gift to the Cathedral, so we decided to talk with their planned giving staff to see if they had any ideas that could help us. When we found out that we could avoid the capital-gain tax on the initial transfer of the stock to a **charitable remainder unitrust**, it sounded really good to us.

Since the unitrust is tax-exempt, it can sell the stock and not owe any tax. This means the entire \$250,000 value of the stock will stay at work for us, producing another source of cash flow.

The unitrust also sounded good to us because our income will grow if the value of the trust increases. At 67, we plan to live a long time. We decided on a 6% unitrust payment.

The first year the trust will pay us \$15,000; but if the trust is able to obtain an average total return of 8%, our distribution will be almost \$20,000 fifteen years from now. We also get to deduct more than \$78,500, which is saving us almost \$26,000 in taxes.

Analysis: Ted and Mary found themselves in a classic “locked in” position in their investment. They wanted to convert the value of the investment to a source of income but faced heavy capital-gain tax if they did so.

One of the most attractive features of the charitable remainder unitrust is that the payment is based on the value of the trust as it changes from year to year. If the value goes up, so do your payments. This is especially important to relatively young donors like Ted and Mary. As they discovered, choosing a relatively low unitrust percentage enables the trust to grow faster, thereby increasing the size of payments in later years.

A Major Deduction and a Tax-Free Return

Profile: *Bill R, aged 75, sold his very successful business several years ago and retired. Thanks to the proceeds of the sale and good investments, Bill is quite comfortable. He has a number of investments, including a portfolio of tax-free bonds.*

Bill's Story: I was quite attracted to the prospect of receiving a significant income-tax deduction, sharing my success with Washington National Cathedral, and maintaining my current lifestyle. However, I did not want to increase my taxable income in the process.

After talking with the staff at the Cathedral, I decided to put \$200,000 worth of my tax-exempt bonds into a **charitable remainder annuity trust**. Since the bonds were paying 5%, I decided to reserve a 5% interest for myself in the annuity trust. Because of the way the annuity trust works, the tax-exempt interest from the bonds is passed on to me and retains its tax-exempt character.

This plan maintained my previous income level without increasing my taxable income. In addition, I was able to take a deduction of more than \$117,000 and save about \$41,000 in taxes in my 35% tax bracket.

Analysis: Much like a charitable gift annuity, a charitable remainder annuity trust is a way to create a source of fixed income. *There is one unique feature of charitable remainder trusts:* their distributions retain the same character in the hands of the beneficiaries as they had in the hands of the trust, which means that it is possible to receive tax-free distributions, depending on the mix of assets in the trust. **Note:** A charitable remainder trust is required to distribute any taxable income and capital gain it might have before distributing tax-free income and tax-free return of principal.

We Can Help You Choose

We understand that picking the right life-income plan for yourself can be a challenging task. Please feel free to call on us if we can answer any questions or if you would like us to meet with you to discuss your situation.

In addition, to help you with your planning, we would like you to have copies of our latest booklets, ***The Charitable Gift Annuity: Guaranteed Payments for Life*** and ***Charitable Remainder Trusts: Gift Plans of Choice***. Simply return the enclosed reply card. Or if you prefer, contact the Planned Giving Office at (202) 537-5787.

You should consult your attorney about the applicability to your own situation of the legal principles contained herein.

Many Blessings *continued from page 1*

Having been so blessed in her time of need, Betsey wanted to provide that support to others. This desire took her first to a position with a hospice and finally into work in the ministry, serving a congregation. Neither of these experiences was daunting to Betsey, who says, “The Good Lord prepares us in this chapter of our lives for what we will experience in the next chapter.”

Though now retired, Betsey still wishes to give back. Two years ago she and her husband decided to designate annuities to the Cathedral and to her husband's alma mater. According to Betsey, these gifts were not just to the organizations, but to her family as well. “We wished this to be a statement to our children, representing our belief in the importance of faith and education in forming a life.”



Donovan Marks

Principles of Stewardship

When newly installed Dean Samuel T. Lloyd III arrived on the Cathedral Close in early February, he brought with him some deeply held beliefs about the principles that undergird Christian stewardship. In recent months, my colleagues and I in the Department of Membership and Development have learned more about these beliefs. We know he believes that giving should reflect the abundance in our lives, rather than a sense of obligation. We know he believes, too, that glad-hearted generosity springs directly from our recognition of, and gratitude for, the many God-given blessings in our lives. It is a pleasure to share with you below Dean Lloyd's "Principles of Stewardship."



Donovan Marks

Jane Kolson

Everything we have is a gift. Our life, our talents and abilities, the opportunities we've received, and the material comforts of living in the world's most prosperous nation.

We are stewards; we do not own anything. Everything we have is on loan to us, entrusted by God. Our challenge is to use wisely that which we call "ours."

Money is a major factor in the quality of our lives. Money can get in the way of our becoming peaceful and joyful human beings by cutting us off from others and from God.

We live in a consumerist society. We need help to be generous. We are held hostage by our fears and anxieties and must help one another to trust in God and recognize the abundance in our lives.

People will give when they believe there is a great mission. They will gladly give their time, talent, and treasure to missions that are making a difference in the world around them and spreading the reality of God's love.

The traditional Christian response to God's abundance is the 10% tithe. This calls for us to give proportionally from our gross income in gratitude for our lives.

Let us go forth as glad-hearted stewards of God's many gifts!

The Cathedral Founders' Society

The **Cathedral Founders' Society** is an honorary society of friends who have chosen to support the life and work of Washington National Cathedral through bequests, trusts, or other deferred gifts. In gratitude for their generosity, the Cathedral awards Society members special recognition, including a worship service in their honor each year and a lapel pin in the design of the Cathedral's shield, the crossed keys and sword. ♦ If you have already remembered the Cathedral in your estate plans, we invite you to notify us in writing, so that we might extend our thanks and welcome you into the Founders' Society. You may, if you wish, become an anonymous member. ♦ If you would like to learn more about this opportunity to support the Cathedral, please return the attached reply card or call our office.



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