

# The "Daily Plan-It"™

ESTATE & BUSINESS LAW GROUP, P.C.

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## ***Are Your Clients' Charitable Annuities At Risk Due to the Shaky Economy?***

As the jagged ripple of our economic situation continues to influence every aspect of our lives, a recent [Wall Street Journal](#) article on Gift Annuities caught my eye.

The article, "Donors Find Gift Annuities Can Stop Giving," (<http://tinyurl.com/pmrgmw>), reviews how the market's turmoil has sapped some charities' ability to pay out promised yields.

This is an issue that we had anticipated coming to the surface, and the article does a great job of explaining just how quickly and powerfully the current economic climate is affecting charitable giving.

### **Charities Have Portfolios, Too**

Larger charities that are capable of doing gift annuities usually have some form of endowment.

Consequently, this puts them in a similar position as that of a commercial for-profit insurance company. The charities may feel the squeeze as their portfolios drop, but their commitment to provide stays the same.

The financial pressure on them is obvious.

Gift Annuities are typically backed by the charities. Donors make tax-deductible contributions to the charity, and in exchange, they receive regular payments for the rest of their lives. Generally, about half of the initial gift remains with the charity after the donor's death.

A souring economy has prompted charities to turn to insurance companies to back up their obligations after they watched their reserve funds decline.

### **Are All Charities in Trouble?**

No. It really depends on the charity. The National Heritage Foundation, which was featured in the WSJ article, would be an example of a charity that is clearly in trouble. It declared bankruptcy in January and stopped making payments to many of its donors.

Just because a charity has a heart and is devoted to its mission, that does not mean it will always be there to make regular payments to your client.

Due diligence is the critical component.

One of the reasons we often recommend that clients consider a Charitable Remainder Trust (CRT) is to keep them in control of the investment and the income during life.

While a CRT can be more complicated than a Gift Annuity, as advisors we know that the money will be there when the client needs it.

### **Questions to Ask Any Charity Offering Gift Annuities:**

- How much of my client's gift will go toward charitable work?
- How will the charity invest the gifts?
- Has the charity ever had trouble making annuity payments?
- What is the state of the charity's reserve fund?
- Does the charity "reinsure" annuity contracts with insurance companies?

I hope that this article is helpful to you and your clients. As always, if you have a question or concern about a specific case, please contact our office.

## **Workshop Schedule**

**The Truth about Estate Planning**  
Usually Tuesday nights, 7:00 pm  
(Please call for current dates)



**IRA Preservation Planning**  
*Learn how to properly protect your IRAs and what the IRA Preservation Trust can do!*  
(Please call for current dates)

*On February 8, 2006, President Bush signed into law the Deficit Reduction Act of 2005 (DRA 2005), which included the most sweeping changes to [Medicaid](#) laws ever enacted.*

**Medicaid Planning Workshop**  
*The new Medicaid laws and some of the planning options that are still available, even in light of these sweeping changes.*  
Usually Tuesday nights, 7:00 pm  
(Please call for current dates)

**Registration:** Contact Mary Lang at (847) 367-4460  
<http://eblawgroup.com>

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We invite you also to direct your clients to  
[http://eblawgroup.com/FAQ\\_medicaid.htm](http://eblawgroup.com/FAQ_medicaid.htm)  
for more information on Medicaid Planning.