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A Win-Win RETIREMENT

Charitable gift annuities let you reward your favorite charities while you're alive—and receive a small income stream in return.

BY ELIZABETH WILLIAMS

Here's a question you don't often hear: "How many of you have ever received money back from the charity you donate to?"

When Walt Mozdzer asks that question at workshops on charitable donations, no hands go up. But Mozdzer, a certified financial planner at Syverson Strege and Company, in West Des Moines, Iowa, explains that's what happens when you set up a charitable gift annuity (CGA).

The concept is relatively simple. You donate assets or cash now to your charity; they pay you an income stream on that donation, and the charitable organization gets to keep the remainder of the gift after you die.

IS A CGA RIGHT FOR YOU? It's a tool that best fits retired benefactors older than 62 who want to leave a legacy to their colleges, local hospitals, religious organizations or even medical research like the American Heart Association or American Cancer Society. Cash, stock or non-cash assets like grain can be used. With the recent farmland boom, many more of those potential benefactors could be retired farmers and landowners.

What does the charity get out of the arrangement? An irrevocable cash gift sometime in the future. And unless you live a lot longer than the mortality tables predict, the charitable organization winds up with about half of the money after you die. If, however, the money you donated runs out before you die, then the charitable organization is still obligated to pay you your income, using its own funds, as necessary.

Another incentive is that the donor receives a higher income stream in monthly, quarterly or annual payments than he could get from a bank's certificate of deposit or a treasury bill.

Currently, a single 62-year-old could get a 5% payout rate guaranteed for his lifetime. The rate is mainly determined by your age. The older you are, the higher the



PHOTO: ELIZABETH WILLIAMS

Certified financial planner Walt Mozdzer recommends charitable gift annuities for retirees older than 62 seeking a higher return than what bank CDs offer today.

payout percentage. The downside is the applicable rate is locked in for the life of the annuity, which is until you die. So, if interest rates rocket higher, you're stuck with your guaranteed rate. That's why advisers recommend charitable gift annuities as part of a balanced retirement program.

Many retired landowners who are receiving high cash rents look at bank CDs with yields less than 2% and are frustrated at how low they are. "You can double or triple that number with a charitable gift annuity and be philanthropic, too," Mozdzer notes.

In addition to a higher rate, there are several tax advantages.

If you donate grain or low-basis corporate stock, the income tax or capital gains tax on those assets can be deferred. The gain is prorated over the life expectancy of the donor. Some clients use stock that came through their parents' estate 20 years ago and has an extremely low cost basis, Mozdzer says.

Plus, you get an immediate tax deduction for your gift to the charity (although not the entire face amount because you do receive income from the annuity), and a portion of the income earned each year could be tax-free.

A TRULY PERSONAL INVESTMENT.

Blanche Koenig retired to Fort Myers, Fla., but her roots are in Iowa. She is setting up a CGA for Cornell College, in Mt. Vernon, Iowa.

"I mainly wanted to give something to Cornell in memory of my husband, Gerald, who graduated from Cornell, as did our two daughters," Koenig explains. "You can spend money on a tombstone in a cemetery to remember your loved one, but tombstones don't help many people."

“You can spend money on a tombstone ... but tombstones don't help many people.”

—BLANCHE KOENIG

Koenig, who is 81 years old, was familiar with various ways to donate to charities. She says her financial adviser pointed out the "win-win" for Koenig and Cornell. "I get a tax advantage and a quarterly income, at a higher rate than other current investments, and the payments will continue during my lifetime. Also, Cornell College gets a [future] donation in memory of my husband," Koenig says.

The process of setting up a CGA is quite straightforward, says Ed Beckwith, partner with BakerHostetler in Washington, DC, and secretary of the board of the National 4-H Council.

"Short of a direct gift, a CGA is one of the simplest ways a person can support a charitable activity in his or her community," Beckwith says. "And the side benefit is the donor secures a reliable, regular rate of return on the contribution."

GET STARTED. Applications only take minutes to fill out, and as soon as the application is processed, the annuity may begin. However, the charity must have a CGA program in place. Most large charitable organizations, such as land-grant universities and major charities, do have CGA programs, Beckwith notes.

"Generally, the charitable gift annuity works best

for donations in the \$15,000 to \$100,000 range," Mozdzer advises. A smaller donation isn't worth setting up an annuity, and a larger donation might be better served through a charitable remainder trust, which requires professional assistance to set up but offers more flexibility.

For example, if an 83-year-old donated \$25,000 to a charitable organization via a CGA, the annuity rate would be 7.4% paid quarterly, with an immediate charitable tax deduction of \$12,760. The annual annuity amount would be \$1,850, of which \$1,569 is tax-free and \$281 is ordinary income. The donor who set the charitable gift annuity up on Feb. 5, 2013, would receive his first pro-rated quarterly payment on March 31, 2013.

Economics may favor CGAs, but the true benefit may be intangible, says Sue McEntee, of the West Des Moines-based Charitable Giving Resource Center. "You get to enjoy the benefits of making the gift while you're alive."

More than 900 nonprofits offer charitable gift annuities. Go to the American Council of Gift Annuities for a complete list at acga-web.org.

To figure your own rate of return and tax benefits, visit bit.ly/V4tco4.



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