



Charitable Gift Annuity

*Guaranteed
Payments for Life*

A charitable gift is something you give to an organization you believe in and wish to support. An annuity is a fixed sum of money that is paid to you each year. Put them together and you have a charitable gift annuity: “the gift that pays you back.”


That’s how a 75-year-old individual can make a substantial gift to a charity and actually increase her cash flow. She funds her gift annuity with \$25,000 from a GIC and receives guaranteed annuity payments that are significantly higher than the interest she has been receiving from her GIC. What’s more, in her case, those payments are largely tax-free!

The gift annuity is an arrangement under which you make a contribution to a charity or church and receive, in turn, guaranteed payments for life. It’s a way of giving that allows you to make a substantial gift to a charity or church even though you may need ongoing income from your assets.

Some Canadian charities and churches have been issuing gift annuities for many years. They invest the donated assets and use the earnings—and the capital, if necessary—to make the annuity payments. Whatever portion of the donated assets remains at the death of the donor or other beneficiary is used for charitable purposes. These charities are said to self-insure their gift annuities.

However, most charities and churches in Canada do not self-insure their gift annuities. Instead, they reinsure their gift annuities. This means that they use a portion of the donation to purchase an annuity from a commercial insurance company that pays the amount promised to the donor.

The church or charity retains the balance of the donation and can either use it now or let it grow in an endowment for a number of years. If it is invested in the endowment, by the end of the donor’s life it will often have reached or exceeded the value of the original donation. Then it can be continued as a perpetual endowment in the donor’s name.



The Canada Revenue Agency has recently stated that the implications for the donor are the same whether the charity self-insures or reinsures. The tax benefits are explained below.

ESTABLISHING A GIFT ANNUITY

To establish a gift annuity, you and a representative of the charity sign an agreement specifying the beneficiaries, annual payment amount, starting date and frequency of the payments. The agreement may also specify the purpose for which your gift will be used.

Gift annuity donors generally name themselves as annuity income beneficiaries, individually or as a couple, although a relative or friend could be named as well. A gift annuity may be established for a specified term of years instead of one or two lives, although this is rarely done.

You might want to contribute surplus cash in a hedging account or money market fund, or a maturing GIC or bond. Payments from a gift annuity will usually exceed the interest you are receiving, resulting in increased cash flow. In any case, do bear in mind that your gift annuity agreement is irrevocable and the principal cannot be returned. Therefore, you should always retain sufficient capital to meet unforeseen needs.

GIFT ANNUITY RATES

The amount of the annual payments will depend on the amount transferred, the age(s) of the beneficiary(ies) or annuity term, and the annuity rate schedule in effect at the time of the gift. Once the annuity is established, the payments will remain fixed, regardless of changes in the economy.

This makes the gift annuity especially attractive to older donors who like the security of fixed, guaranteed payments. The annuity agreement will also specify how often payments are to be made and when they are to begin. Those who wish may have the payments made directly to their bank account.

The older the beneficiary(ies) when the contribution for a gift annuity is made, the higher the payments will be. For example, a 75-year-old donor who contributes \$10,000 would receive larger payments than a 65-year-old donor who contributes \$10,000. This is because the 75-year-old donor has a shorter life expectancy, and payments will probably be made over fewer years.

The annuity rates charities pay to donors of various ages periodically change depending on economic conditions. Generally, if interest rates rise, gift annuity rates will be increased; and, if interest rates fall, gift annuity rates will be decreased. The annuity rates offered by insurance companies fluctuate in the same manner. Of course, the rate in effect when you fund your gift annuity will remain constant for the balance of your life. Once begun, your payments will neither increase nor decrease.

You may complete and return the form at the back of this booklet, and we will send you a financial illustration showing the annuity amount you would receive, based on our current gift annuity rate schedule and your current age. It is likely that the gift annuity payments will be well above the interest you are currently earning on your investments. If you are concerned because declining interest rates have reduced your own income, a gift annuity could be just the thing to restore your cash flow to the level you want.

TAX BENEFITS OF A GIFT ANNUITY

The most notable tax benefit of a gift annuity is that the annuity payments will be largely or entirely tax-free. This means that your annuity payments have significantly more purchasing power than an equal amount of taxable income. Furthermore, tax-free annuity payments will not cause a reduction of Old Age Security (OAS) payments through the “clawback” tax. The amount of the tax-free portion depends on the rates in effect and on the age(s) of the annuitant(s) at the time the annuity is established.

Consider the following examples, keeping in mind that the annuity rates cited are not necessarily the ones paid by our organization at

the present time. These are illustrative rates to demonstrate the tax benefits.

Example: Jim and Susan H., ages 75 and 73, contribute \$50,000 to charity for a gift annuity, naming themselves as the beneficiaries. As long as either of them lives, they will receive payments of \$3,350 per year (an annuity rate of 6.7%). Of this amount, 69.2 percent (\$2,318) will be tax-free. They also receive a donation receipt of \$12,420 in the year they make their gift, generating additional tax savings.

In some situations, older donors will receive a donation receipt and fully tax-free income.

Example: Candice B., who is 86 years old, contributes \$20,000 to charity for a gift annuity. Her annuity rate is 10.7 percent, so she receives fixed, guaranteed payments of \$2,140 per year as long as she lives, entirely tax-free. She also receives a donation receipt for \$5,059. Because her marginal federal/provincial tax bracket is 46 percent, this can yield a tax credit of as much as \$2,327 in the year of her gift, reducing the “net cost” of her annuity to \$17,673 (\$20,000 - \$2,327).

FREQUENTLY ASKED QUESTIONS

1. Will my payments continue if I live beyond my life expectancy?

Yes. Your payments are guaranteed no matter how long you live.

2. I would like payments to continue to my spouse if I die first. Is that possible?

Yes. Married persons typically provide for payments to be made over both of their lives. When the first spouse dies, the payments continue at the same level to the survivor.

3. Can a beneficiary receive payments for a term of years rather than for life?

Yes. You could specify that payments be made to you or another beneficiary for a certain period of time—10 or 15 years, for example. The amount of the payments will decrease as the length of the period is extended.

4. Can I name someone other than my spouse as a second beneficiary? Yes. For example, you could have the payments made to yourself and then to a sister or brother if that person survives you.

5. Can I name someone other than myself as the beneficiary from the very beginning? Yes. You could create a gift annuity to provide additional support for an aged parent, or for a sister or brother who needs financial assistance. However, if you name a spouse as the beneficiary, any taxable income paid to him or her may be attributed to you for taxation purposes.


6. Does the number of beneficiaries affect the annuity rate? Yes. Having two beneficiaries, rather than one, will reduce the size of the payments. For instance, the annuity rate for one beneficiary, age 70, will be higher than the annuity rate for two beneficiaries, both age 70. That is because their joint life expectancy is longer than the life expectancy of either of them alone.

7. What is the minimum amount required to establish a gift annuity? That depends on the policy of the particular charity or church. Some organizations require a minimum contribution of \$10,000. Contact an organization to see what their minimum is.

8. What kind of assets can I contribute for a gift annuity? Almost all contributions consist of cash, though many charities also accept listed securities.

9. How does the church benefit from my gift annuity? If the church self-insures your gift annuity, it will use for charitable purposes the portion of your contribution that remains at the end of the beneficiary's(ies') life (lives). This could be more or less than your original contribution.

If the church reinsures your gift annuity, it can spend or invest the portion of your contribution that remains after purchasing an annuity from an insurance company that covers the payment obligation. When this remaining portion is invested in the church's endowment, it often equals or exceeds the original contribution by the



end of the life (lives) of the beneficiary(ies). Thus, charities that self-insure and charities that reinsure often realize similar benefits.

10. Can I direct the use of my gift? Most charities permit you to designate the use of the funds they realize, after taking into account the annuity obligation, subject to their guidelines. If your contribution is large enough, it may also be possible to establish an endowment named for you and/or other family members.

STEPS TO FUND A GIFT ANNUITY

If you are considering a charitable gift annuity with Siloam Mission, simply detach and return the form on the following page. You will need to indicate the approximate amount of your intended contribution and the age(s) of the beneficiary(ies). Alternatively, you may call our office, and we would be pleased to answer your questions, send you more information, or schedule a meeting with you.

There is no charge and no obligation to you. We are pleased to offer these services to people who are simply exploring whether or not a gift annuity is appropriate for them. After receiving from us a financial illustration that shows the size of your payments and explains the tax benefits, we would encourage you to discuss it with your own financial and legal advisors.

If you decide to contribute for an annuity, we will prepare an agreement to be signed by both you and Siloam Mission, receive your contribution, and take any other necessary steps to complete the transaction.

Gift annuities are becoming increasingly popular in Canada. Through them, people can simultaneously make a gift and provide for their future financial security. Contact us for more information.

All examples are current as of September 2006 and are subject to change.

I WOULD LIKE MORE INFORMATION!

Please send me more information about:

A charitable gift annuity Other ways of giving

Name: _____

Address: _____

City: _____ Province: _____

Postal Code: _____ Phone: _____

Email: _____

1. I am interested in an illustration for: one life two lives

2. The illustration should be for a contribution of \$_____.

3. Names and birth dates of both beneficiaries:

First Beneficiary:

Name: _____

Address: _____

City: _____ Province: _____

Postal Code: _____ Date of Birth: _____

Second Beneficiary:

Name: _____

Address: _____

City: _____ Province: _____

Postal Code: _____ Date of Birth: _____

Please detach and return this form to the address on the back.



About Siloam Mission

As a Christian humanitarian agency, Siloam Mission is a connecting point between the compassionate and Winnipeg's less fortunate.



Siloam Mission alleviates the hardships of poverty and homelessness as Mission staff, volunteers and donors provide free meals, shelter, clothing and support services.



The Mission assists in transitioning homeless and disadvantaged people to more self-sufficient and healthier lifestyles by providing referral services, life-skill development, education upgrading and employment training opportunities.



Financial Planning

The information in this booklet does not constitute legal or financial advice and should not be relied upon as a substitute for professional advice. You should always seek professional legal, estate planning, and financial advice before deciding on a course of action.



If you would like information on other methods of planned giving, please contact us and we would be glad to assist you in whatever way we can.



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