Annuity for a Home

In theory, providing a donor with a gift annuity for a remainder interest in a home seems a classic win-win situation: the annuitant receives fixed payments for life; the charity receives a valuable property upon the annuitant's death. In reality, there are many troublesome "what ifs" to this arrangement. What if the property declines in value? What if the donor lives far beyond his or her life expectancy? What if the donor and charity find their tenant-to-landlord relationship less than agreeable? These are some of the reasons charities either refuse to use their annuity program for remainder interests in homes or do so only with very old donors with prime properties. The following example puts aside these dark thoughts and provides an idealized case:

> **A donor, 83, has seen the value of his home rise to $500,000 over the years, but has a hard time meeting monthly living expenses. He feels he is in a gold mine but without a pick. His favorite charity informs him that they will pay him an annuity of $26,858 for the rest of his life in return for his home going to the charity upon his death. He signs the annuity contract, retains the right to live in his home for life, and receives a charitable income tax deduction of $191,000. He also signs an agreement that clearly states he must maintain the property, pay property taxes and continue to take care of other routine expenses. According to IRS actuarial tables, his life expectancy is 7.9 years. Coincidentally, he dies according to that schedule. The property, now worth $650,000, is sold by the charity and the proceeds placed in its endowment.**