



WHAT YOUR ADMINISTRATOR CAN DO FOR YOU

PG CALC WEBINAR

SEPTEMBER 27, 2018

© All rights reserved

Presented by:

Gary Pforzheimer, President
PG Calc
129 Mt. Auburn St.
Cambridge, MA 02138
888-497-4970
gary@pgcalc.com

I. Introduction

Fundraisers are good at managing relationships, with a focus on keeping their donors happy. But there's an often-overlooked team member who is key to reaching that goal – the gift administrator. Whether in-house or outsourced, the multitude of tasks your gift administrator performs are critical to maintaining the satisfaction of your donors. In this paper, I'll demystify what goes on in the administration of life income gifts and what it takes to manage best this important relationship.

The voice of this paper assumes a charity fundraiser is "you," and the administrator is written about in the third person, regardless of whether that function is performed by the charity's business office or contracted outside.

II. Who are all the players anyway?

A. Custodian

Custodians hold your assets. They don't make investment decisions. Instead, they are the organization that maintains the list of your holdings, clearing trades, collecting interest and dividends, and pricing your assets from time to time. They send you statements, either on paper or electronically, and can assist others in the administration of gifts through electronic feeds of raw transactions.

B. Trustee

The trustee of a trust (it's important to note that few Gift Annuity assets are held in trust), is the entity charged with the health and welfare of the trust. In the planned giving world trustees have a similar role as with non-charitable trusts, which is why many charitable trusts are trustee by trust companies and banks who know just what to do because they may have hundreds or thousands of trusts in their care. Trustees sign tax returns and, in general, hire the other people who do work for the trust.

Charities can serve as their own trustees for charitable trusts (including pooled income funds) but these days many don't. And especially with new programs, promising your board that you won't be the trustee is often the only way to get new planned giving efforts off the ground.

C. Investment Manager

Investments rarely grow on their own. Sometimes the investment management is performed by a CFO or Treasurer or a board committee. More routinely, professionals are hired that may or may not work for the firm that is the trustee or custodian. Their job is to oversee the holdings and recommend trades (executed by the custodian), to keep the proper asset allocation (often prescribed by the charity's investment policy statement).

Some points to remember when selecting an investment manager:

1. *Performance:* Average investment results will provide you with roughly half of the original annuity funding amount upon the death of the annuitant, after adjusting for inflation. With a diversified and well-balanced investment approach, you may see final gift values of 85% or more of the original amounts. Poor investment performance could drive your program under and force the use of assets outside your gift annuity investment pool to satisfy payment obligations. For unitrusts, the better the investment return the greater the income in future years as well as the larger the remainder for you.
2. *State requirements:* Some states apply specific investment restrictions to gift annuity assets. Your investment manager will need to become familiar with these requirements so that it can manage your program in a manner that complies with state regulations. You may be able to commingle planned giving assets with your endowment. State trust law applies to charitable trusts.
3. *Cost:* The fees for investing gift annuity assets should not be significantly larger than those for managing endowment funds. Aside from a few exceptions due to state requirements, the assets typically can be managed in a single pool using a total-return strategy.
4. *Responsiveness:* Managing a gift annuity program requires timely coordination of donors' gifts, managing adequate cash flow to cover scheduled payment obligations, and the periodic liquidation of assets as each individual gift annuity terminates. Managing the assets of a CRT involves much the same work, often with some oversight by or reporting to the donor(s) as well as the trustee.

D. Administrator

The primary goals of the administrator are the proper keeping of records, paying participants of life income arrangements, and many other compliance activities. Most of this paper focuses on these requirements.

E. Tax Preparer

Often but not always done by the administrator, the tax preparing entity files taxes with the appropriate regulatory agencies and with the participants by the required filing deadlines. For CGAs, this is the annual 1099-R form for each annuitant (note that a donor, when not also the annuitant, would not receive a 1099-R). Charities (or more typically administrators on their behalf) file the same information, usually electronically, with the IRS.

For charitable trusts, the forms are longer but serve the same purpose. Signed by the trustee, Form 5227 is prepared each March or so for the IRS and the Form K-1 in it is sent to each beneficiary. Tax preparers are at the mercy of the custodians, and sometimes the investment managers, to receive the correct characterization of income earned by the trust during the years. The “7-tier system” of income or reconciliation of the distributable net income for a net income unitrust or pooled income fund are concepts tax preparers wrestle with at year-end.

Form 1099-R for CGAs is due on January 31 to donors. Form K-1 for CRTs and PIF is not due by law on that date and while tax preparers try to have those forms done as soon as possible it's very often February or March before all the information is available to complete the return. Be patient, catch flak from your donors for your preparer, and be sure to give them any changes of address or deaths before the process starts so they don't have to revise the forms after you get them!

F. State Registration Annual Filer

For gift annuities only, there is an additional player who files annually with states' insurance commissioners as required. Some regulating states require charities issuing gift annuities in their states to maintain a minimum reserve to finance their annuities. In order to prove the adequacy of its reserves, the charity must compute and report the minimum reserve required by each gift annuity in a manner that satisfies the state's requirements. States that currently require reporting of minimum annuity reserves include Arkansas, California, Florida, Maryland, New Jersey, New York, Oregon, and Washington.

Sometimes there is a quarterback (inside or outside the charity) that causes reserve statements to be produced (often by the administrator), and financial calculations performed using the custody statements, and compiles this information with other interrogatories to come up with the final document. This service can be invaluable for a charity that thinks they have outsourced everything and then it's February 27th and they remember New York State has a firm deadline the next day!!

III. What are the main tasks of an administrator?

A. Maintain an accurate database

Charitable gift annuities (CGAs) are governed by a contract between the charity and the donor. The charity is responsible for making payments to one or two beneficiaries (the annuitant(s) over their remaining lives. The first and most basic requirement of administering CGAs is to house the relevant information pertaining to the gift arrangement – the amount and date of the gift, payout rate, payment frequency and timing, annuitant name, address, social security number, etc. -- in a secure and reliable database.

B. Process new gifts, terminations, and data changes

Because gift annuities can and frequently do go on for decades, the maintenance of data is the foundation upon which all other administration is built. If the essential data is not maintained correctly, no other aspect of the administration can succeed.

Your administrator will have a process for entering new gifts and terminations. It might be a spreadsheet or a checklist but somewhere in your communication expectations should be set. When administrators are using PG Calc's *GiftWrap* and the charity uses *Planned Giving Manager*, the charity can send .inp files created in *PGM* to relieve data entry for the administrator. Whether this is done or not, some data sheet containing complete and accurate information is essential. If your administrator has a standard of service of a certain amount of time for entry and confirmation of each gift, hold them to it, but don't hold onto your gift data until the last minute. Many administrators will confirm the data from your gift and they can alert you to discrepancies between your data sheet or donor application and the final calculations and/or agreement. Thank them for finding that, even if it's awkward to go back to your donor!

Terminations require similar care, including fessing up to the exact date of death if it's in the past. The decision on whether to recall funds from an estate or spouse cashing checks while not being a successor beneficiary is on the charity, but the implementation of it is on the administrator. Pass the information back freely and you'll get the final 1099-R right.

C. Send payments out

CGAs pay a fixed amount according to the contract, and they make payments on a monthly, quarterly, semi-annual or annual basis. Ideally, the charity establishes consistent policies regarding payment dates that help facilitate the efficient handling of payments down the line – for example, many charities offer payments only on the last day of the month, or on the first day of the month. This allows the charity to anticipate the flow of payments over each month; in turn, the investment manager can plan for cash needs on a consistent and predictable schedule.

It is critical, of course, to send the right amount to the right person in the right place at the right time . . . every time! Take great care that details described in the gift agreement, such as payment amount and schedule, are recorded correctly in a database for purposes of producing payments. It is also essential to be vigilant about the accuracy of the name and contact information of the individuals who receive payments. If your organization's donor database is the database of record for name and contact information, for example, your administrator responsible for producing planned gift payments and tax forms needs to have reliable procedures for obtaining changes in name and contact information from this database in a timely manner.

The administrator should reconcile the account monthly to identify checks not cashed; after a certain amount of time, the charity should reissue payments to annuitants in conjunction with some type of communication with the annuitant. Multiple uncashed checks for one beneficiary indicate the possibility of relocation or death and should be investigated within a reasonable amount of time.

D. Send tax forms out

Tax reporting requirements for CGAs are straightforward -- the charity (or its administrator) must provide a Form 1099-R for each annuitant upon the

conclusion of each calendar year. Form 1099-Rs for CGAs must be produced and mailed by January 31 with no exceptions. The aggregate reporting of 1099 information for all gift annuitants must be sent to the IRS by the end of March; depending on the number of annuitants, this may be done either with paper copies or by electronic means.

E. Complete compliance reports

Charities have a responsibility, to their donors and to the public in general, to report consistently and on a regular basis the charitable contributions received and the assets maintained. Each charitable gift annuity consists of a charitable gift component and a non-charitable component; the latter represents a liability on the part of the charity to a specific individual. Charities typically follow the specifications of the Financial Accounting Standards Board (FASB) to compute the estimated present value of the total future liability for each CGA.

A number of states require reserve calculations and information reporting for charitable gift annuities on an annual basis. California, New Jersey, New York, and Washington are some of the more familiar examples, but there are several more. We will cover this reporting and compliance in greater detail in the second part of this presentation, but it is significant to note that the process is one of the major components of gift annuity administration for many charities.

Technically, there is no requirement to maintain individual market values for gift annuities – the underlying assets for a charity’s gift annuity program are usually held in one or a small number of investment portfolio accounts. Furthermore, the payment obligations are not tied in any way to market values; but charities are increasingly recognizing the benefits of determining the individual market values for each annuity on a frequent and ongoing basis. There may be internal interest in knowing these values for purposes of future resource planning and reporting back to donors; but more importantly, upon the death of an annuitant -- unless there is a successor annuitant -- the charity will need to know the ending market value of the specific gift annuity; the remainder value or “residuum” is the amount that the charity removes from the investment account and allocates for use as intended by the donor.

IV. What are the characteristics of an excellent administrator?

A. Be an extension of your brand

Remember, good administration and stewardship lead to repeat gifts for a charity. Sometimes, it's the small things that are said or done when an administrator has contact with a charity's donor that make all the difference. Is the administrator able to use your logo on their check or is it from their financial institution? Can the administrator give you enough information so that you can speak with authority and accuracy when you talk with your donor? These small things add up.

B. Perform all tasks accurately and on time

It goes without saying, but bears repeating: accuracy is critical! Timeliness is an extension of accuracy and both need to be right. There's an old expression that you can have something done right, on time, or cheaply. Don't ever settle for ambiguity in the first two...

C. Communicate excellently

Good administrators are good communicators. For some situations, a monthly (or weekly) call to stay on the same page is essential. Staying on top of outstanding issues (such as a data request to the charity, report back from the administration) is vital. Establish channels of (secure) communication protocols for email and phones. Who should be copied on what things and are vacation and other schedules clearly known? While all administrators know that quarter-end is busy season and not typical time off, it's always best for the other side to know when a substitute is on call. Set communications expectations and meet them.

D. Know the compliance responsibilities

Administrators are supposed to know what compliance requirements are and perform them on behalf of the charity. For most charities the experience of going through the routine teaches them enough to understand the cadence of the work and their role in the information needed. But administrators need to stay on top of the changes and guide the charities through the process for excellent results.

E. Use proven and constantly improving processes and checklists

Administrators who don't standardize their routines are doomed to fail. Checklists and workflows ensure that nothing slips through the cracks. If it's good enough for airline pilots, construction managers, and orthopedic surgeons who use sharpies to remember which knee to replace then it should be good enough for the critical role of administering planned gifts. Hyperbole aside, it's no accident that professions with routine tasks are the ones who document them best and don't rely on simply remembering all the steps. What about new hires and substitutes? Checklists and processes finely honed also improve communications within an administrator's shop and with the charity.

F. Have appropriate security concerns and considerations for your data

These days everyone is concerned about data safety. As an administrator, you may be under contractual obligation to treat the donor information with the same care as other information at your institution. That's a good start – especially when the administrator is a financial institution governed by the Comptroller of the Currency and bound by ever-increasing regulations. But don't forget that charities consider their donor list – just the existence of first and last names of their most precious resource – to be as important to keep from prying eyes as the typical list of things such as social security number and bank accounts. Show the charity you get this early and often and don't be sloppy with data exchange, especially through email. Ironically, if your machine is secure on your end, receiving a fax is one of the safest ways to move information without putting it in the mail.

G. Verify and clarify

Check it once. Check it again. If you get something right 99% of the time, 1% inaccuracy is not good enough. That would mean that for a check run of 500 that 5 people would receive the wrong payments (or the same for tax forms). But if a second person reviews the work of the first, and his/her accuracy rate is also 99% then there is only a 1 in 10,000 chance of a mistake getting through.

H. Lead the process

Administrators should take control of the processes that are entrusted to them. While many charities have experts and some of them have fundraisers who have overseen administration at multiple places, it is still the role of the administrator to set the processes, perform the work, and stay on top of it.

There can be exceptions to an administrator's usual routine, relative to other charities, to accommodate specific requests, but the administrator needs to own that too.

V. It takes two to tango

A. Provide accurate information on time

Since this is the standard for which you hold your administrators, hold yourself to this same requirement as well. Administrators can only work with the information that charities give them. "Good information in, good information out" should be the mantra of all charity administrator pairs.

B. Be responsive to requests

Even when routine data flow is happening, there are still times when your administrator has a question or isn't able to proceed without your input. Give it to them quickly and accurately the first time.

C. Provide backup personnel for absences

Just as you should require that your administrator not operate with a single point of contact, charities should be sure to have available people for their administrators.

D. Be an educated consumer of these services

This is not to say you should do an RFP every two years, but it does make sense to keep up with changes in the field of administrators. It just makes the relationship stronger. Even if your top-level requirements don't change from year to year (pay income on time, do tax filings and compliance), you should be aware of best practices in the industry and push your administrator to stay with the times.

E. Pay your bills on time

It's common courtesy to treat your vendors well. Some administrators are paid through monthly fee draws from the principal account so that's not a problem. But if your administrator is keeping your annuitants paid on time it's nice to return the favor.

VI. Pitfalls and horror stories

A. Return from the dead

Read the obituary. Read it carefully. George Sr. died and he was the donor. But George Jr. was the beneficiary so when the charity sent over the obit and told the administrator to stop the annuity, they did so without a lot of careful review. Verify and clarify! What sources are trusted ones for death notification? What is the role of the administrator versus the charity in confirming a death? How do you handle a grieving family when you get it wrong?

B. That's just wrong!

You have a CRUT that pays quarterly. Not so unusual? But what about when the administrator revalued the CRUT each quarter, instead of each year, to adjust the payment checks... Shouldn't a charity have noticed this error?

There are many other stories of administrators paying a CGA donor quarterly (the most typical payment schedule) and setting them up in a remittance system that way, even though they're supposed to be paid annually. And what about when it's the annual amount paid 4 times per year? Then it really doesn't match the 1099-R and something is seriously wrong!

How about treating the proceeds of the sale of stock (or sales of anything) as the market value for a CGA (or CRAT)? The rule is to use the mean market value of the stocks on the date of gift or the appraised value if the property is not sold on a public exchange. All of these things happen before a sale which may be higher or lower than the gift amount, and the cost of selling (brokerage or other fees) are similarly not relevant to the starting amount of the market value and hence the payout.

C. Afraid to call a donor's family

It's hard for a development professional at a charity to call the family of a deceased donor – but it's got to be done and it doesn't make sense to rely on the administrator to do it. The longer you wait, the more money may need to be recovered. One charity stalled and waited more than a year and it was a mess to clear up.

D. Oops, I forgot about this gift until now

Yes, year-end can be busy. But don't take an annuity at the end of the year without pro-rating the first quarterly payment into March. And don't delay telling your administrator until mid-January for late-year gift you don't shift the first check into the following year when the December check should have been mailed and the 1099-Rs are on their way to the post office.

Charity literally said this almost a year into the contract. Donor asked about payment and was told "oops." Never say "oops." Never get into a situation where "oops" is the best thing you can say!

E. I didn't think I needed to tell you that

Second beneficiary dies and charity doesn't tell the administrator – this affects the reserves as well as FASB numbers and leads to problems when the first beneficiary dies.

That the gift was concurrent and not consecutive; and charity didn't do the agreement right because they had all been the other way and why was that important?

Wife got the gift annuity in the divorce; the corollary is wife was cut out of the annuity with revocation language exercised during lifetime, but no one told the administrator.

VII. Conclusion

Good gift administration makes for repeat gifts. Whether that administrator gets a paycheck with your institution's logo on it, or whether the individuals who perform this work are hired by a third party, this mantra needs to be front and center. And the way that the charity works with the administrator can either accentuate this relationship or harm it and make it impossible for even the best of administrators to help you thrive. If you work for a charity, be the best partner you can be. If you are an administrator do your job right, every time, and celebrate that partnership.

**APPENDIX A:
STEPS FOR ESTABLISHING AN ANNUITY FOR ADMINISTRATION**

Once an annuity has been completed the gift must be prepared for administration. This will be in cooperation with the gift annuity administrator selected by the charity. Below is a list of steps required to set up a gift annuity for administration:

- CGA Application completed by donor, copy sent to administrator
- Calculations & Confirmation received from administrator
- CGA Agreement signed by financial office and copies sent to donor & mailed to administrator
- Tax Acknowledgement, Disclosure Statement, IRS election statement (if needed), & PG Thank You sent to donor
- Calculations and Agreement saved as Word File and attached to donor record in Charity donor database
- Gift Entry Form & Acknowledgement Letter info (with administrator confirmation) submitted to Gift Processing
- Code Donor's record as Legacy Society – Life-Income Gift with date and other available details allowed. If using PG Calc's *GiftWrap*, all information can be automatically uploaded
- Thank You mailed—a letter welcoming the donor to the Legacy Society should be mailed if the donor is a new life-income donor and does not meet the giving threshold for a President's letter. If CGA meets minimum threshold, PG Office should be sure that the President's letter references a welcome to the Legacy Society.

**APPENDIX B:
GIFT ANNUITY APPLICATION**

I hereby apply for a Charitable Gift Annuity Agreement as follows:

Donor(s) (Enter both names if property is jointly-owned or community property; otherwise enter one name)

Name _____ Name _____

Date of birth _____ Date of birth _____

Address _____

City _____ State _____ ZIP _____ City _____ State _____ ZIP _____

Daytime phone (___) _____

Daytime phone (___) _____

Annuitants

Check one:

One annuitant; Name: _____

Two annuitants, joint-and-survivorship (payments to both jointly, continuing to the survivor)

Two successive annuitants (payments to one, then to the survivor)

If annuitant(s) is(are) other than the donor(s), complete the following:

First annuitant _____ Date of birth _____

Street address _____

City _____ State _____ ZIP _____

Relationship to donor(s) _____

Second annuitant _____ Date of birth _____

Street address _____

City _____ State _____ ZIP _____

Relationship to donor(s) _____

Note: If donor is not the annuitant or if securities are not jointly owned by donors or community property, the total reportable capital gain tax will be due in the year of the gift.

What Your Administrator Can Do For You

Contribution

Cash: \$_____ and/or:

Securities (include details if known; otherwise, estimate fair market value and indicate the cost basis)

Description _____

Cost basis _____ Estimated fair market value: \$_____

Other Property:

Description _____

Cost basis _____ Estimated fair market value: \$_____

Total estimated value of all assets contributed: \$_____

Annuity type:

Will payment of the annuity be immediate or deferred? Immediate payment. Deferred payment.

If deferred, check and complete either (a) or (b) below:

(a) Payments are to begin on this specific date: _____.

(b) Payments may begin on _____ in any year during the period _____ and _____.
(indicate month/day) (1st possible year) (last possible year)

Payment frequency. Check one:

Monthly Quarterly Semi-annually Annually

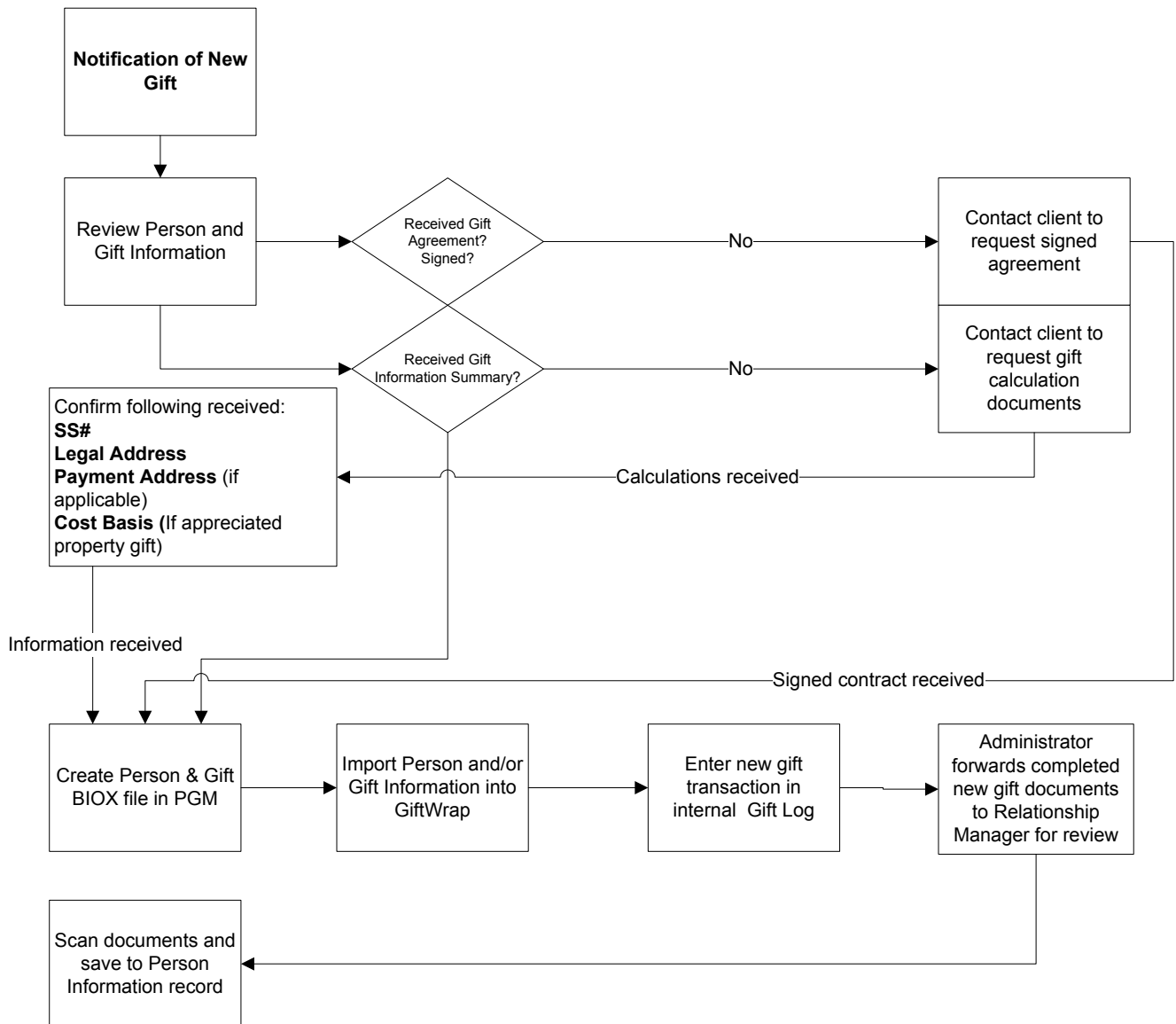
Purpose:

Indicate the purpose to which gift is to be directed. Undesignated contributions will be used for general purposes.

Additional contact person

Please provide the name, address, and phone number of a relative, attorney or business acquaintance with whom Charity may communicate with about the annuitant(s) if Charity is unable to contact the annuitant(s).

Gift Flow Diagram



Gift Annuity Termination Flow Diagram

