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A Surprisingly Flexible Way to Give: Three Flavors of Deferred Gift Annuity

Date: April 25, 2024

Time: 1:00 – 2:00 Eastern

Presenter: Kara Morin

**Director of Client Services
PG Calc**



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What You'll Learn Today

- Deferred Gift Basics
- Compound Interest - The 8th Wonder of the World
- Gift Annuities As Supplemental Retirement Plans
 - ✓ Deferred Gift Annuity
 - ✓ Flexible Gift Annuity
 - ✓ Commuted Gift Annuity
 - College planning gift annuity vs the Retirement bridge gift annuity
- Additional Areas of Flexibility
- Gift Policy Considerations



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Deferred Gift Annuity Basics

- Donor makes irrevocable gift to charity in exchange for annuity payments for life.
- Annuity payments begin at least one year from the date of gift.
- Deferring payments allows the gift to grow through compound interest.
- This growth allows the charity to offer a higher annuity rate.
- The longer the deferral period, the higher the annuity rate.

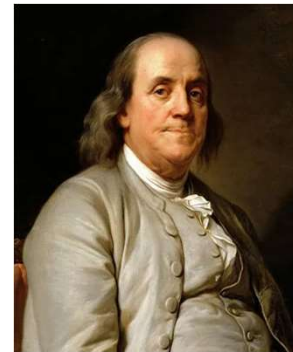


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Compound Interest is...

What happens when you earn an investment return (or interest) not on just your original investment, but also on accumulated investment returns (or interest) you receive over time?

“Money makes money.
And the money that money makes,
Makes money.”
- *Benjamin Franklin*



- If you're using the ACGA January 2024 recommended rates, the annual rate of compounding is 4.75%



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Three Flavors

- Deferred gift annuities
Deduction now, income starts later on a specific date
- Flexible deferred gift annuities
Deduction now, start date can be one of range of dates
- Commuted gift annuities (College Planning Gift Annuities)
Compress a life's worth of payments into a few years



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Deferred Gift Annuity (DGA)

- Deferral to a specific point in time.
- This point is fixed in the contract.
- In certain unusual situations the donor may request a change to the deferral period. However, *they cannot change the value of the annuity.*



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Timing Matters with a DGA

- Donor age 69 (DOB = 5/5/1955)
- Deferral to 3/31/2027
- If Date of Gift is 2/1/2024, the annuity rate is 7.6% and the deduction \$45,992
- If Date of Gift is 3/1/2024, the annuity rate is 7.5% and the deduction \$43,532
- Why? Rate depends on annuitant age and length of deferral period



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DGAs Can Be Flexible (if Necessary)

- Donor, age 69 (DOB 5/5/1955), established 2-life DGA for self and spouse, also age 69 (DOB 4/4/1955)
- Spouse passes away during the deferral period (2/1/2026) and widower requests early payment on 3/31/2026
- Original DGA had a payout rate of 6.5% (annuity of \$6,500) beginning on 3/31/2027, and an investment in contract of \$62,354
- New DGA cannot exceed this benefit, new payout cannot exceed 5.9575%

Flexible Gift Annuities

- Donor makes irrevocable gift to charity in exchange for annuity payments for life.
- Donor can choose from a range of annuity start dates, beginning at least one year from the date of gift.
- Deduction is limited to the annuity with the least remainder value for the charity (usually the first possible election date)
- “The longer you wait, the higher the rate.”



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Flexible from the Beginning

- Donor, age 69 (DOB 5/5/1955), establishes a 2-life DGA for self and spouse, also age 69 (DOB 4/4/1955), can elect deferral of 1-10 years

Elective Start Date	Ages at Start Date	Annuity Rate
3/31/2025	70 70	5.7%
3/31/2026	71 71	6.1%
3/31/2027	72 72	6.5%
3/31/2028	73 73	7.1%
3/31/2029	74 74	7.5%
3/31/2030	75 75	8.1%
3/31/2031	76 76	8.8%
3/31/2032	77 77	9.4%
3/31/2033	78 78	9.9%
3/31/2034	79 79	10.7%

Commuted Gift Annuity

- A DGA that allows the lifetime annuity to be converted to payments of equivalent value paid in equal sums over a period of years
- Sometimes called the College Plan Annuity
- For example:
 - ✓ Grandparents funded a \$100,000 annuity on 3/31/2000 to celebrate the birth of their first grandchild that January
 - ✓ Deferred payments to when child will be age 18
 - ✓ DGA has a lifetime payout of 12.7%
 - ✓ Commuted into 4 equal payments, designed to pay tuition, each payment is \$41,828
 - ✓ To protect charity and annuitant, letter commuting annuity should be sent to charity soon after DGA is created.



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Commuted Gift Annuity

Retirement Bridge Commuted Gift Annuity

- Donor, age 60
- Plans to retire at age 70 and wants to avoid touching 401k until RMD is required at age 73
- Initial deferral period is 10 years, DGA rate is 7%
- Commuted into 3 years, annuity is \$24,141



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Deferred Gift Annuities Compliment Your Donor's Retirement Plan

- No contribution limit
- Produces fixed income vs. variable
- Donor can use non-cash assets
- There is no legally required beginning date or RMD
- Blended tiers of income
- Annuity is not based on underlying principal of gift
- Mediates “longevity risk” of retirement plans



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Retirement Plan Contribution Limits 2024

Plan Type	Under 50 Limit	Over 50 Limit
401(k), 403(b), etc.	\$23,000	+\$7,500
IRA, Roth IRA	\$7,000	+\$1,000



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Limits on Combining Retirement Plans 2024

Tax Filing Status	Roth Phase Out
Singles/Heads of Household	\$141,000 to \$161,000
Married Filing Jointly	\$230,000 to \$240,000
Married Filing Single Return	\$0 - \$10,000

Limits on Combining Retirement Plans

IRA Contributor's Tax Filing Status	Retirement Plan Coverage	Traditional IRA Deduction Phase Out
Single	Workplace Plan	\$77,000 and \$87,000
Married Filing Jointly	Workplace Plan	\$123,000 and \$143,000
Married Filing Jointly	Spouse Has a Workplace Plan	\$230,000 and \$240,000
Married Filing Single Return	Workplace Plan	\$0 and \$10,000

DGAs Mediate Longevity Risk

- **Longevity risk** is the risk of a retiree outliving his or her retirement benefits.
- The Society of Actuaries estimates there's a 50% chance that one member of an American couple, currently age 65, will live until age 93.
- A DGA can be part of a donor's plan to create a stream of income they can't outlast.

Stepped Annuity

- Single large DGA paired with smaller DGAs or FGAs
- Allows for keeping pace with inflation
- Donor, age 60, establishes initial 10-year DGA at 7%
 - ✓ Smaller DGAs established with deferral periods 12, 14, 16, 18, 20 are designed to keep fixed income at pace with inflation
- Donor, age 60, who is unsure when they want payments to start or increase, establishes initial FGA
 - ✓ Smaller FGAs established at same time
 - ✓ Donor chooses later when to start payments from each FGA

Deferred Gift Annuities & Gift Policy

- Are DGAs allowed at your organization?
- What is the right gift minimum for a DGA at your organization?
- Is there a maximum rate you're willing to offer? A maximum deferral period?
- Will you allow a donor to defer an annuity beyond their predicted life expectancy?
- Should the FGA trigger date be the date of the primary donor's death?
- How will you check in with the FGA annuitants on the choice of election?
- How much time does your charity give an annuitant to notify you of an election date?
- For a Commuted Gift Annuity, how do you handle the commutation declaration?



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Questions?



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Still Have a Question?

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