

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

Date: April 25, 2024
Time: 1:00 – 2:00 Eastern
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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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PG Calc YOUR PARTNER IN PLANNED GIVING SUCCESS **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?

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PG Calc YOUR PARTNER IN PLANNED GIVING SUCCESS **Put Another Way...**

“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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PG Calc YOUR PARTNER IN PLANNED GIVING SUCCESS **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
- **Commutated gift annuities (College Planning Gift Annuities)**
Compress a life's worth of payments into a few years

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PG Calc YOUR PARTNER IN PLANNED GIVING SUCCESS **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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PG Calc YOUR PARTNER IN PLANNED GIVING SUCCESS **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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PG Calc YOUR PARTNER IN PLANNED GIVING SUCCESS **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%

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PG Calc YOUR PARTNER IN PLANNED GIVING SUCCESS **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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PG Calc YOUR PARTNER IN PLANNED GIVING SUCCESS **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%

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- 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 Complement 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

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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

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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.

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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

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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?



Click the Q&A icon at the bottom of your screen.

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Still Have a Question?

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