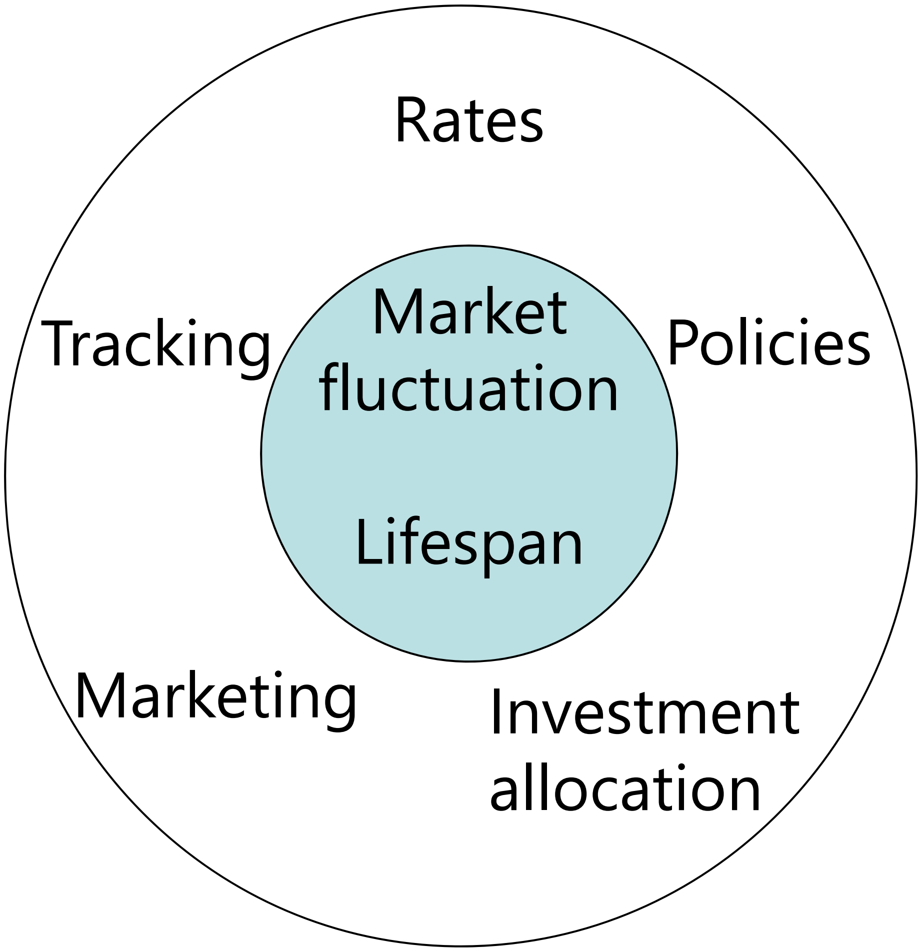
YOUR PARTNER IN PLANNED GIVING SUCCESS

Understanding Your Gift Annuity Program

Date:	May 23, 2019
Time:	1:00 – 2:30 Eastern
Presenter:	Edie Matulka Senior Consultant PG Calc

Control v. Don't Control



Embrace Consistency

Charitable Gift Annuity

- Donor irrevocably transfers cash or property to charity
- Charity pays fixed amount to one or two annuitants for life
- Unlimited obligation of charity
- What remains at death ("residuum") goes to the charity

Gift Annuity Charitable Deduction

Example: Ms. Palmer, age 74, $100,000 cash donation, 5.7% annuity, 2000CM table, 2.8% discount rate

Present value of annuity	Gift value (deduction)
A $54,214	**B** $45,786

Gift Annuity Liability – Varying Calculations

Example: Ms. Palmer, age 74, $100,000 cash donation, 5.7% annuity

	Liability
Gift calculation (present value)	$54,214
FASB (2000CM/3.6%)	$51,350
FASB (Ann2000/3.6%/6%)	$64,704/$54,034
NY reserve (2012 IAR/3.75%)	$69,860 (+ $18,513 surplus)

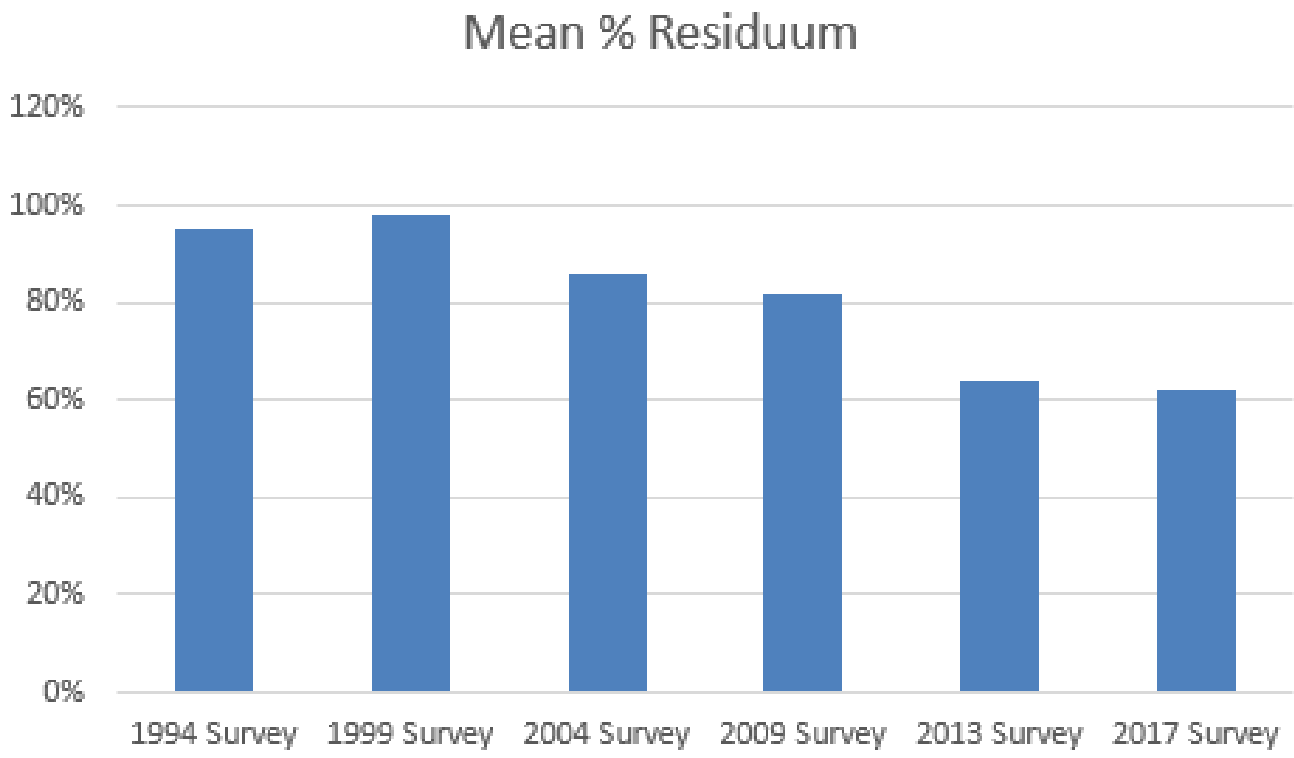
Risks to the Charity

Individual annuity

Program-wide

Comparison of Median Residuum

Based on ACGA Survey results



Grading a Gift Annuity Program

Residua as a % of Contribution	Grade
10% or less	F
11% - 30%	D
31% - 49%	C
50% - 60%	B
60% - 80%	A
Over 80%	A+

"Discriminatory Rating Practice"

Age	Rate
74	6.1
75	6.2
76	~~6.4~~ 6.7
77	6.6
78	6.8
79	7.1
80	7.3

Offering Higher Than ACGA Rates

- Competing for or wooing the donor
- Compliance in some states requires filing rate schedule and adherence
- Increases amount required to maintain reserve in regulated states
- Different schedule: assumptions to support

ACGA Rate Assumptions

- 50% residuum, 20% present value
- Mortality (2012 IAR table)
- Total return of 4.75%
- Expenses 1.0%
- Full contribution invested

Age	2000 CM	2012 IAR
85F	6.2	9.3
85M	6.2	8.2
65F	17.7	25.7
65M	17.7	24.1

Offering Higher Than ACGA Rates

Age(s)	Rate	Liability	NY reserve	Extra payment	Life expectancy
85	8.3	$438,543	$606,868 ($767,688)		
85	8.5	$449,110	$623,540 ($788,778)	$2,000/yr	6.2/9.3(F)
85/85	7.3	$525,810	$669,845 ($847,354)		
85/85	7.5	$540,215	$688,197 ($870,569)	$2,000/yr	8.6/11.8
65	5.1	$632,036	$806,752 ($1,020,541)		
65	5.3	$656,822	$838,390 ($1,060,563)	$2,000/yr	17.7/25.7(F)
65/65	4.5	$682,333	$800,805 ($1,013,018)		
65/65	4.7	$712,659	$836,396 ($1,058,041)	2,000/yr	22.8/30.1

Policies

How Young?

How Much?

Policies – Minimum Age

- Average age = 79
- Most common minimum = 65
  - ✓ 55 or 60 higher combined %
  - ✓ no minimum = 18%
- Deferred = 10 years younger than immediate
- Two life = both meet minimum

Policies – Too Young

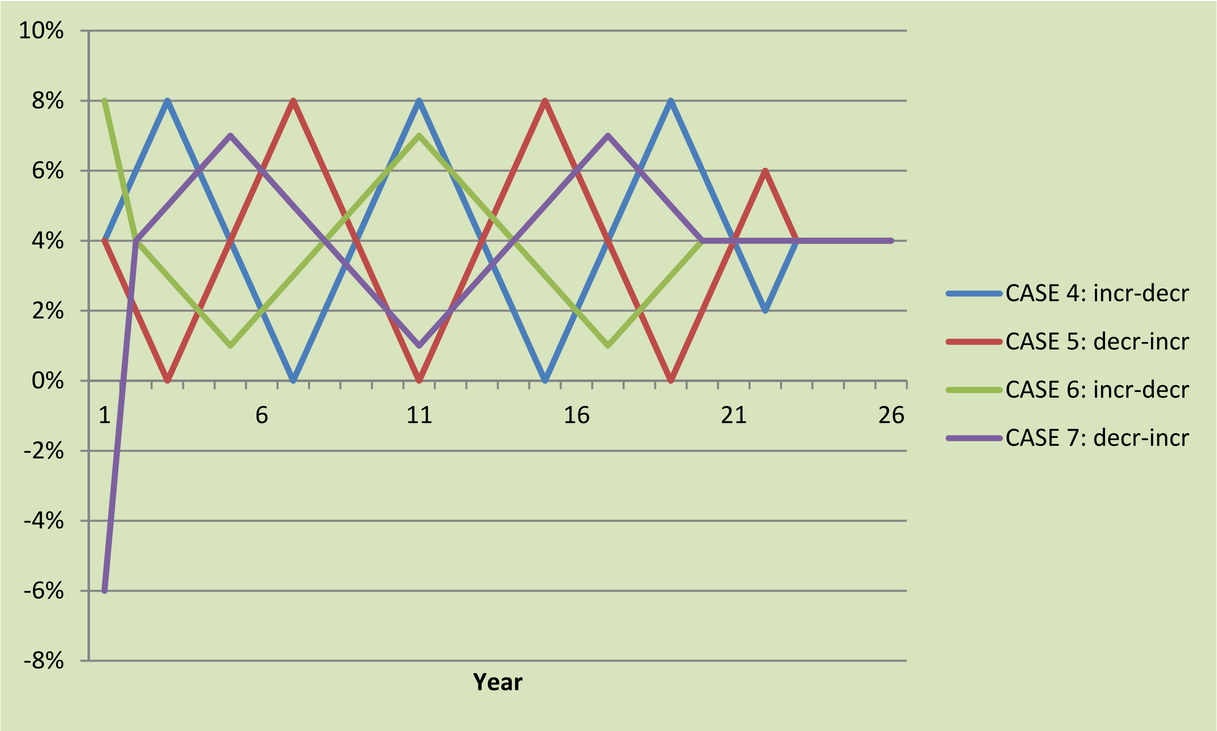
- Lower present value
  - ✓ $15k residuum = $6,180 w/ 30 year life exp.
  - ✓ $10k residuum = $7,441 w/ 10 year life exp.
- Worsen an underperforming annuity
  - ✓ Increase likelihood of going underwater
  - ✓ More out of pocket payments/admin costs

Policies – Contribution Amount

- $10,000 or higher = 72%
  - ✓ 13% are $25k or higher
- Consider present value
  - ✓ $2,500 residuum in 10 years = pv $1,860
  - ✓ $5,000 residuum in 10 years = pv $3,720

Maximum Contribution?

Investment Returns



ACGA Investment Assumptions

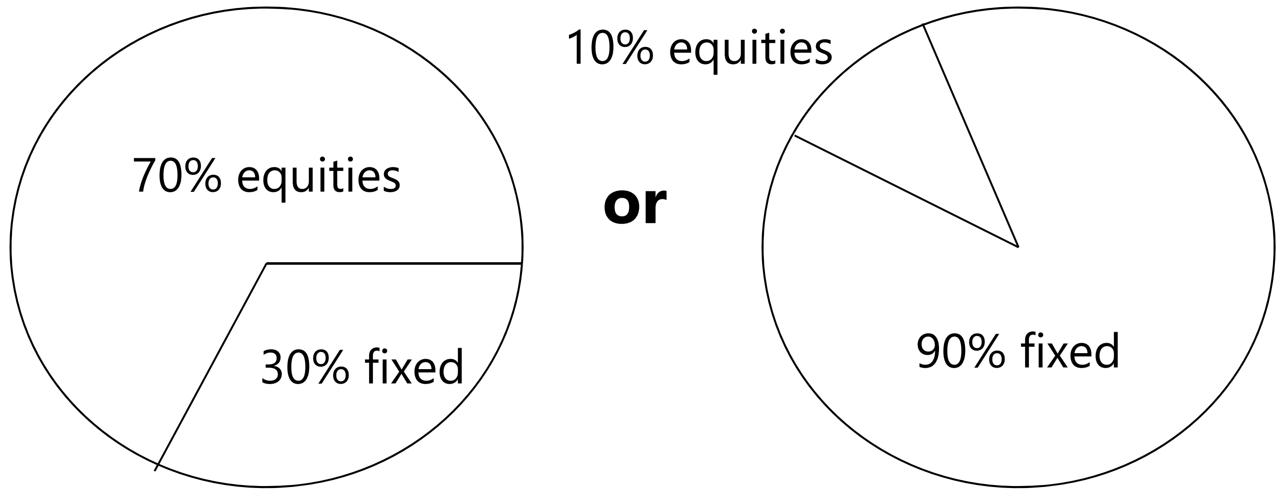
- Total return of 4.75%
  - ✓ 55% 10-year Treasury Notes
  - ✓ 40% equities
  - ✓ 5% cash
- Expenses 1.0%
- Full contribution invested

State Investment Limitations

- Stock: 50% of required reserves
- Mutual funds: no more than 10% in any one fund (FL); part of stock limit (CA)
- Corporate bonds: part of stock limit (CA)
- Real estate: not permitted (CA); 5% limit (FL)

Allocation Considerations

- Fixed nature and length of obligations
- *Different from your endowment!*
- Risk tolerance
- Imprudent?



Expenses

Investment and Administration 1%

Internal fee .75%

Combined fee 1.75%


Dabble

Marketing

- Consistency is key
  - ✓ Have an overall strategy
  - ✓ Look for what works with your donors
- Can't predict the right time to issue
- Pulling back can "lock in" losses
- Post-recession: rates lower, market rebound

Example 1

- Gift specifics: $1M; Oct 2010; age 91
- Annuity rate: 8.8% (ACGA 9.5%)
- Result: $642,715 residua
- Control: annuity rate (~$56k less in payments)
- No control: market (did well); lifespan (~ 4 years longer than expected)

Example 2

- Gift specifics: $1.014M; July 2007; age 84
- Annuity rate: 9.9% (ACGA 9.2%)
- Result: current market value $41,194
- Control: annuity rate (~$84k in “extra” payments so far)
- No control: market (big post-gift drop); lifespan (~ 2 years past expected)

Example 3

- Gift specifics: $1.15M; May 2005; age 77
- Annuity rate: 7.9% (ACGA 7.4%)
- Result: $530,738 residua
- Control: annuity rate (~$78k more in payments)
- No control: market (good, bad, great); lifespan (~ 12 years past expected)

Example 4

- Gift specifics: $1.022M; Nov 1995; age 76
- Annuity rate: 8.0% (ACGA 7.9%)
- Result: current market value $(4,873)
- Control: annuity rate (~$24k in "extra" payments so far)
- No control: market (good, bad, repeat); lifespan (~12 years past expected)

Tracking Individual Market Values

- Payment obligation fixed, why track?
  - ✓ Restricted purpose
  - ✓ Accurate withdrawal at termination
  - ✓ Monitoring profitability of program

Tracking Individual Market Values

Tracking Individual Market Values

- Without Individual Values:
  - ✓ State reserve amount
  - ✓ Periodic withdrawals of excess
- Disconnected from actual circumstances
- Too much or too little
- Affects perception of health of program

Tracking Individual Market Values

- State reserves are not a substitute for tracking:
  - ✓ Residua could still be disappointing
  - ✓ May lose sight of "early" withdrawals
  - ✓ Over-emphasis on exceeding reserve requirement

Reinsurance

Reinsurance

- Reinsure all or a portion of large annuities.
  - ✓ Concentration risk
- Reinsure problem annuities
  - ✓ Minimize further loss
- Reinsure all annuities
  - ✓ Risk averse; current need; donor reassurance

Reinsurance - Disadvantages

- May realize more from self-insuring
  - ✓ Annuitant dies prior to or at life expectancy
  - ✓ Investment returns good
- Donor disappointment
  - ✓ Highlights and fixes the gift portion v. contributed amount

Closing Thoughts

- Understand how decisions affect outcomes
- Monitor consistently – in good times and bad
- Keep eye on things you can control; will help you weather things you can't control

Questions?

Still Have a Question?

Contact: Edie Matulka

Email: ematulka@pgcalc.com