


PG Calc YOUR PARTNER IN PLANNED GIVING SUCCESS

Understanding Your Gift Annuity Program

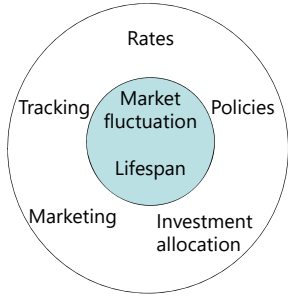


Date: May 23, 2019
 Time: 1:00 – 2:30 Eastern
 Presenter: Edie Matulka
 Senior Consultant
 PG Calc

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Control v. Don't Control



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Embrace Consistency



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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

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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

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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)


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Risks to the Charity

Individual annuity



Program-wide



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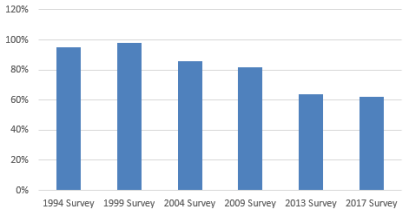
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Comparison of Median Residuum

Based on ACGA Survey results

Mean % Residuum



Year	Mean % Residuum
1994 Survey	~95%
1999 Survey	~98%
2004 Survey	~85%
2009 Survey	~80%
2013 Survey	~65%
2017 Survey	~60%

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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+

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"Discriminatory Rating Practice"

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

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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

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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

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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


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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



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Maximum Contribution?



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Investment Returns

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ACGA Investment Assumptions

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

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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)

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Allocation Considerations

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

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Expenses

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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




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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)




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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)




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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)

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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)

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Tracking Individual Market Values

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

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Tracking Individual Market Values



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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

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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

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Reinsurance



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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

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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


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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




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Questions?



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Still Have a Question?

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