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Gift Planning in a World of Higher Interest Rates

Date: February 23, 2023
Time: 1:00 – 2:00 Eastern
Presenter: Bill Laskin
 VP, Product Management
 PG Calc

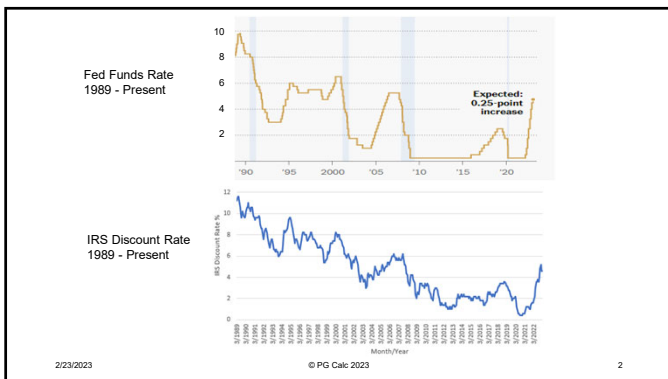
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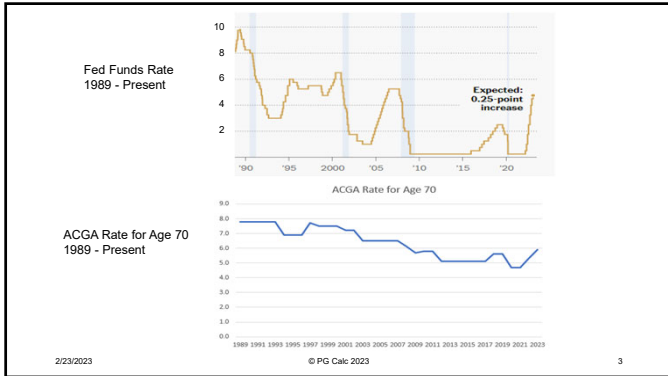
- What's happened with interest rates?
- Effects on gift annuities
- Effects on charitable remainder trusts
- Effects on retained life estates
- Effects on charitable lead trusts
- Effects on pooled income funds
- Where do interest rates appear to be headed?
- Marketing implications
- FASB liabilities and valuing bequest intentions

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Effects on Gift Annuities

Higher IRS discount rate means . . .

- Higher charitable deduction
- Lower tax-free portion

Higher interest rates means . . .

- Two increases in ACA rates in last year
 - 0.4% - 0.6% increase, effective 7/1/2022
 - 0.6% - 0.7% increase, effective 1/1/2023

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Effects on Gift Annuities

\$10,000 CGA, paying quarterly at end of period

Age(s)	February 2022 Annuity	February 2023 Annuity	February 2022 Deduction (1.6% AFR)	February 2023 Deduction (4.6% AFR)	February 2022 Tax-Free	February 2023 Tax-Free
65	\$420	\$540	\$3,705	\$3,863	\$316	\$308
75	\$540	\$660	\$4,663	\$4,646	\$430	\$432
85	\$760	\$870	\$5,617	\$5,589	\$644	\$649
65/65	\$380	\$470	\$2,854	\$3,539	\$287	\$259
75/75	\$460	\$580	\$4,011	\$3,973	\$365	\$368
85/85	\$650	\$770	\$4,823	\$4,711	\$545	\$557

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Effects on Gift Annuities

\$10,000 DGA, paying quarterly at end of period

Age at Gift	Years of Deferral	February 2022 Annuity	February 2023 Annuity	February 2022 Deduction (1.6% AFR)	February 2023 Deduction (4.6% AFR)
60	5	\$480	\$660	\$3,705	\$4,377
60	10	\$610	\$890	\$4,502	\$5,266
60	15	\$810	\$1,220	\$5,350	\$6,284

Two sources of annuity increase

- Base rate is higher
- Interest factor increased from 2.75% to 4.25%

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Effects on Gift Annuities

Summary of effects of higher interest rates on gift annuities

- ACGA rates significantly higher for CGAs, even more so for DGAs
- Deductions for CGAs about the same despite higher ACGA rates
- Deductions for DGAs actually higher despite higher ACGA rates
 - The longer the deferral, the greater the effect
- Tax-free portion decreased

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Effects on CRATs

- Deduction affected similarly to CGAs . . . substantially higher than 12 months ago
- Comparison of deduction for 5% CRAT paying quarterly

Age(s)	February 2022 Deduction % (1.6% AFR)	February 2023 Deduction % (4.6% AFR)
65	29%	43%
65/65	13%	31%

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Effects on CRATs

- CRAT much less likely to fail 5% probability of corpus exhaustion test
 - In Feb. 2022: 1 bene had to be 74+, 2 benes 76+/76+
 - In Feb. 2023: 1 bene must be 45+, 2 benes 46+/46+
- Less need for Rev. Proc. 2016-42 provision
 - Cancels 5% probability test
 - CRAT terminates if corpus becomes < 10% of funding amount + interest

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Effects on CRUTs

- Very minor effect on deduction
- Comparison of deduction for 5% CRUT paying quarterly

Age(s)	February 2022 Deduction % (1.6% AFR)	February 2023 Deduction % (4.6% AFR)	5% CRAT February 2022 Deduction % (1.6% AFR)	5% CRAT February 2023 Deduction % (4.6% AFR)
65	44.8%	45.4%	29%	43%
65/65	33.6%	34.3%	13%	31%

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Effects on Pooled Income Funds

Pooled income funds have been dying out for over 20 years, but . . .

- Valuation rate adjusts yearly, not monthly
 - Valuation rate for young funds (< 3 years old) is just 2.2% in 2023
 - Valuation rate for old funds could be even lower than 2.2% in 2023
 - Next year valuation rate for young funds likely to be about 4.0%

Age(s)	Deduction (2.2% Valuation Rate)	Deduction (4.0% Valuation Rate)
65	69%	53%
65/65	62%	43%

- Higher payout rate more attractive to donors; principal preservation attractive to charity

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Effects on Retained Life Estates

- Higher IRS discount rate means lower deduction

Value = 1/3 land, 2/3 buildings; useful life = 45 years, salvage value = 1/4 value of buildings

Age(s)	Deduction (1.6% AFR)	Deduction (4.6% AFR)
65	62%	41%
65/65	53%	29%
75	75%	57%
75/75	67%	45%

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Effects on Charitable Lead Trusts

- Higher IRS discount rate means lower deduction
 - As with CRTs, CLAT deduction affected far more than CLUT deduction

Age(s)	Deduction % 5% Payout (1.6% AFR)	Deduction % 5% payout (4.6% AFR)	Payout % for 100% Deduction (1.6% AFR)	Payout % for 100% Deduction (4.6% AFR)
20-Year CLAT	85%	64%	5.8822%	7.7544%
20-Year CLUT	63.6%	62.4%	n/a	n/a

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What Might the Future Hold?

- Federal Reserve has slowed Fed Funds Rate increases
 - 7 increases, 3/2022 – 12/2022 totaling 4.5%
 - Latest increase was just .25% (1/2023)
 - Expectation is 1-2 more .25% increases in next few months
 - Inflation down from 9% to 6%, but getting to 2% target will take time
- Speculation: mid-term bond yields likely to level off in first half of 2023, stay at higher level for rest of year or longer
- IRS discount rate likely to remain in 5% range for 2023, perhaps longer

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Marketing Implications

- Largely stay the course
 - Keep eyes open for CRAT prospects. Consider adding a donor story about a CRAT gift to website or newsletter.
 - In CLAT discussions, raise possibility of choosing payout % that doesn't produce 100% deduction.
 - Consider increased role for PIF. No marketing = no gifts.

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FASB Liabilities and Valuing Bequest Intentions

Inflation Rate (%)

Date	Inflation Rate (%)
12/1/1990	5.5
5/1/1992	3.5
10/1/1993	3.0
3/1/1995	3.0
8/1/1996	3.5
1/1/1998	2.5
6/1/1999	3.5
11/1/2000	3.5
4/1/2002	2.5
9/1/2003	3.0
2/1/2005	3.5
7/1/2006	3.0
12/1/2007	3.5
5/1/2009	0.5
10/1/2010	3.5
3/1/2012	3.0
8/1/2013	2.5
1/1/2015	1.5
6/1/2016	0.5
11/1/2017	2.5
4/1/2019	2.0
9/1/2020	1.5
2/1/2022	7.5

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FASB Liabilities and Valuing Bequest Intentions

- FASB Liabilities
 - A long-term calculation
 - Don't revise interest rate because of short-term fluctuations
 - Recommend using 2012 IAR mortality table
- Valuing bequest intentions
 - A long-term calculation
 - Don't revise interest rate because of short-term fluctuations; an equity issue
 - Recommend using 2012 IAR mortality table

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To ask a question click the Q&A button at the bottom

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PG Calc YOUR PARTNER IN PLANNED GIVING SUCCESS **Still Have a Question?**

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