

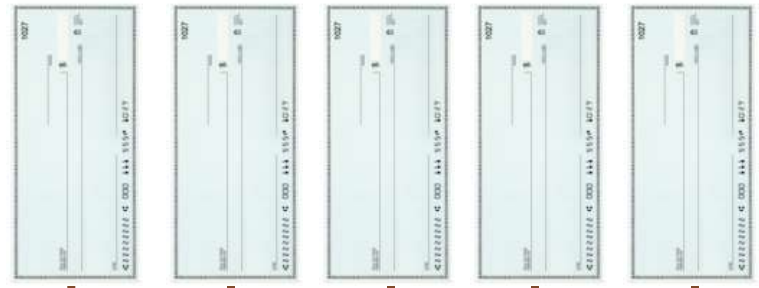
Charitable Gift Annuities



An initial gift
is exchanged
for lifetime
income



2010



2011 2012 2013 2014 2015 ...

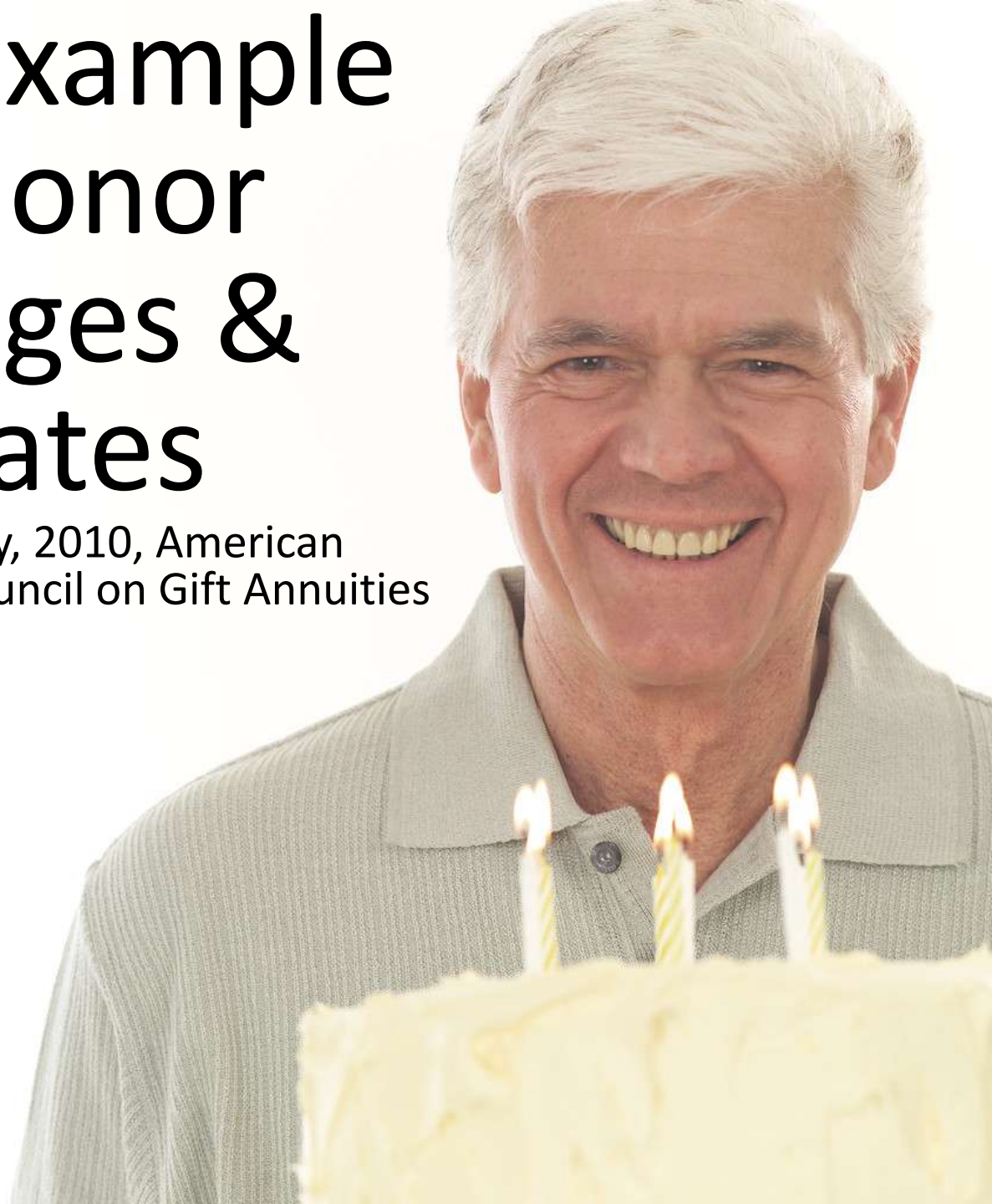


Death

30	3.7%
40	4.1%
45	4.4%
50	4.8%
55	5.0%
60	5.2%
65	5.5%
70	5.8%
75	6.4%
80	7.2%
85	8.1%
90+	9.5%

Example donor ages & rates

July, 2010, American
Council on Gift Annuities



Donor age 55, gives \$100,000 in stock and the charity pays \$5,000 per year for life

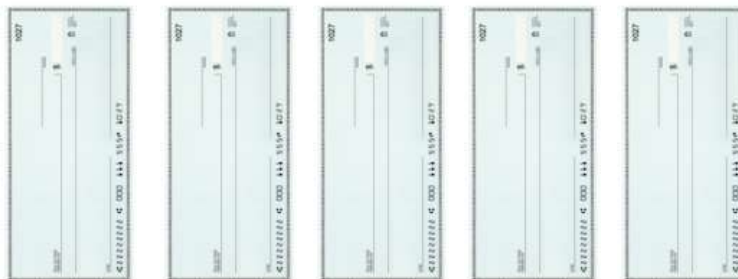
Initial Gift



Annual Payments



ACGA suggested
rates leave about
half of initial gift
for charity at
death



...



2010

2011 2012 2013 2014 2015

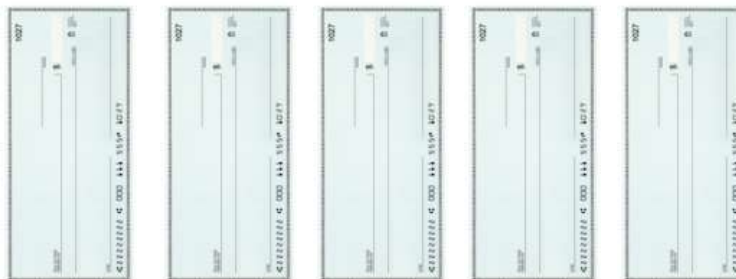
...

Death

IRS requires
present value
of charitable
share >10%



2010



...



2011 2012 2013 2014 2015

...

Death



Charitable gift annuity measurements

App. \$15 billion total

Avg. annuitant age 78

Avg. duration 14 years

Avg. size \$60,000

Min. size \$5,000-\$10,000



**Why
would a
donor
want to
use a gift
annuity?**

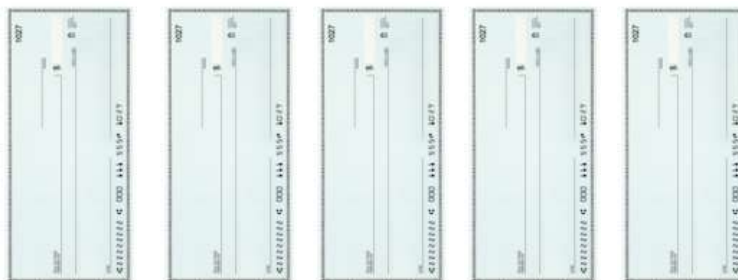


I want to make
a large gift, but
I am afraid I
will **outlive my
assets** and be
left with no
income





**Lifetime
income
prevents the
donor from
giving “too
much”**



...



...

Death

2011 2012 2013 2014 2015

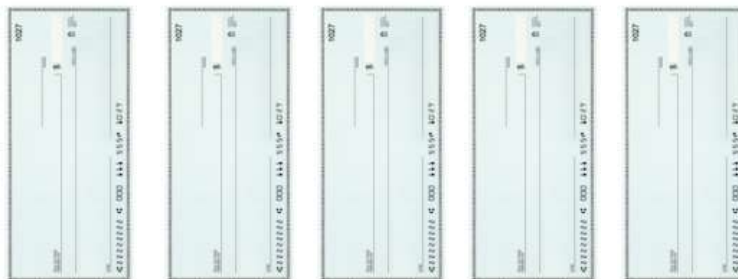
2010

I am leaving an estate
gift, but would like an
immediate tax
deduction and
income





If estate gift
is already
desired, CGA
adds current
deduction &
income



...



2011 2012 2013 2014 2015 ...

Death

2010

**I want income
that won't
change**

(CRUT or PIF)

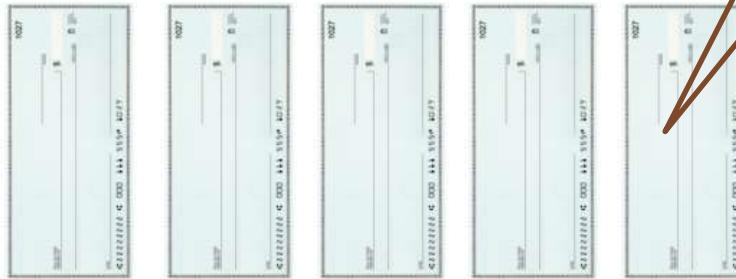
**or
run out**

(CRAT)





**Payments are
a fixed
obligation of
the charity,
regardless of
market events**



...



...

Death

2011 2012 2013 2014 2015



2010

Charitable gift annuity use has increased due to market volatility

A charitable remainder annuity trust backed by donor's initial investment



A charitable gift annuity backed by all assets of a large charitable institution

Yale University



American Red Cross

I want a simple
way to give a small
amount but still get
income and a tax
deduction



Charitable Gift Annuity

Simple & Cheap

- No donor costs for setup or administration
- Minimum investment amount \$5,000 to \$10,000



Charitable Remainder Trust

Flexible & Expensive

- \$4,000-\$12,000 setup with \$1,000-\$5,000 annual administration
- Minimum feasible investment amount \$50,000 - \$100,000



**I want to make a gift
and get income,
but I want to
see the
impact of my
gift while I
am alive**

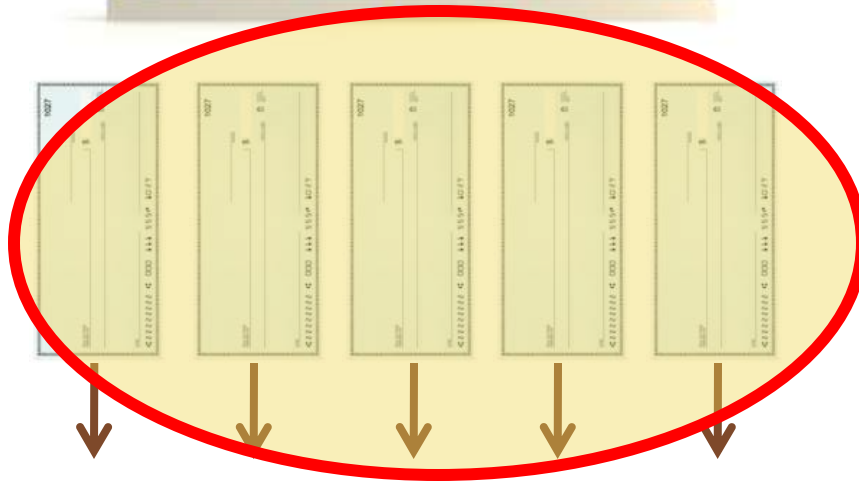




A few charities immediately use the net gift [gift - value of expected payments]



-



= Net Gift

2010



...



2011

2012

2013

2014

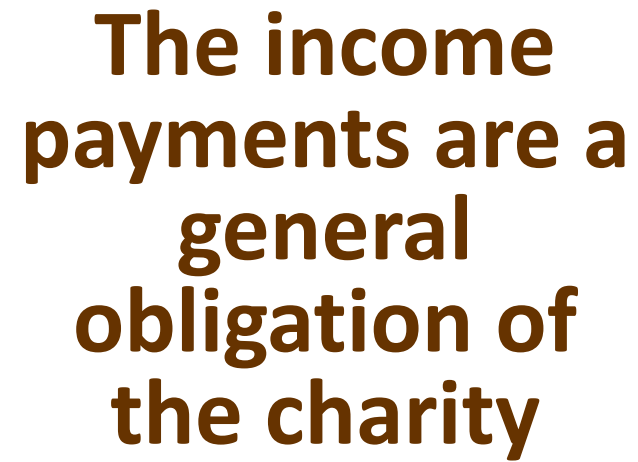
2015

...

Death



**What are the risks of a charitable
gift annuity for the donor?**



2011 2012 2013 2014 2015 ...





**If the charity
dies, the donor
payments may
cease**



...



2011

2012

2013

2014

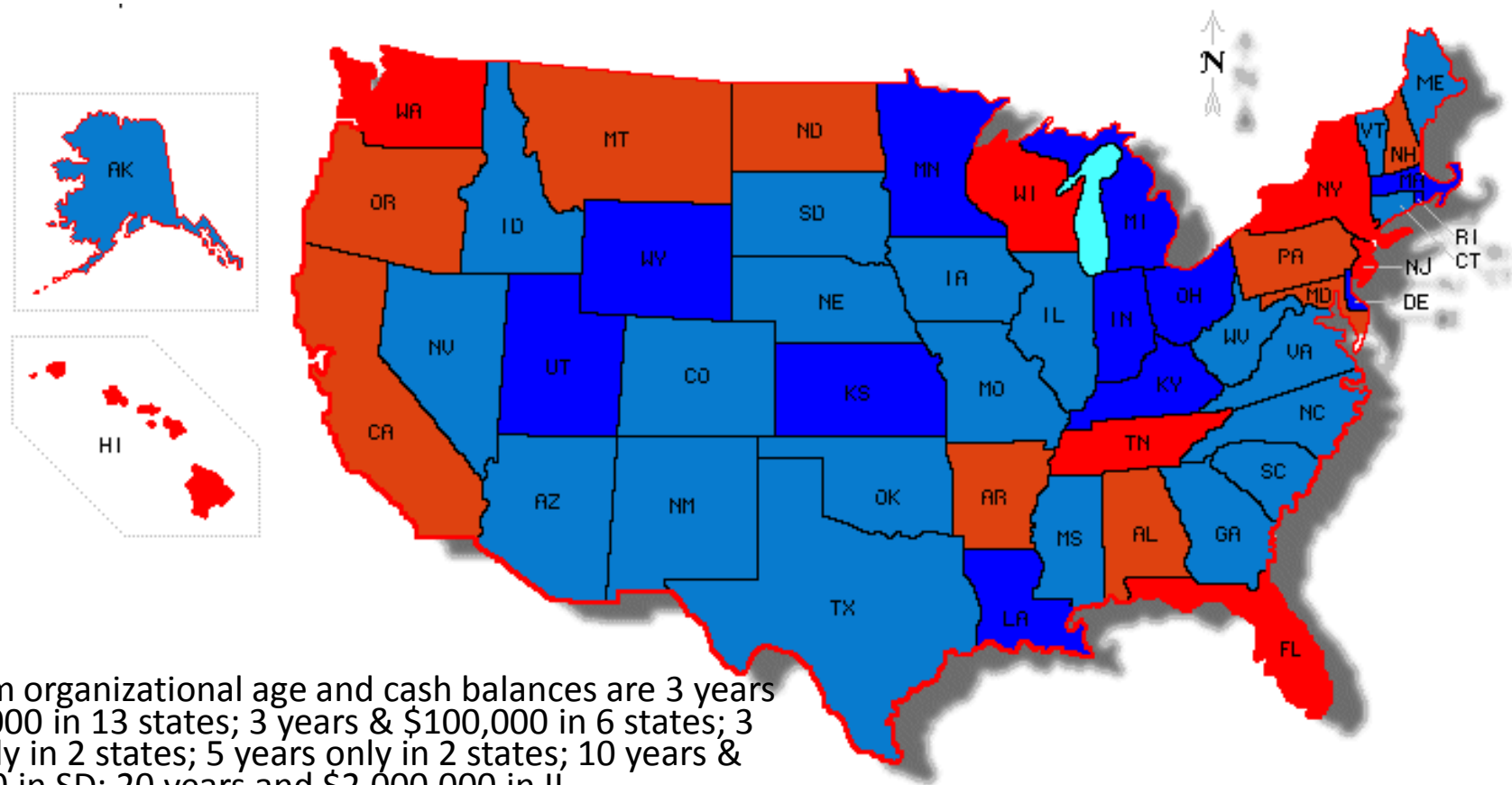
2015

...

Death

States with Charitable Gift Annuity Reserve Requirements

- - None (min age/cash)
- - None
- - Reserve Required
- - Reserve & Surplus



Minimum organizational age and cash balances are 3 years & \$300,000 in 13 states; 3 years & \$100,000 in 6 states; 3 years only in 2 states; 5 years only in 2 states; 10 years & \$500,000 in SD; 20 years and \$2,000,000 in IL

Oct, 2010: See information at <http://www.acga-web.org/regs/regsoverview.html>



**IRS 990s show
charity's
financial health**



...



...

Death

2011 2012 2013 2014 2015



2010



The payments
are for life, not
for term of
years



...



2011

2012

2013

2014

2015

...

Death

2010



**No refunds for
early death**



2011



Death



2012



2013



2014



2015

...

**What other kinds of
charitable gift
annuities are there?**



Charitable gift annuity for two lives



2011



2012



2013(death 1)



2014



2015

...



death #2

2010

Younger Age Older Age Rate

50	50+	4.2
60	60-61	4.9
60	62+	5.0
80	82	6.4
80	83-84	6.5
80	85-86	6.6
80	87-88	6.7
80	89-90	6.8
80	91-93	6.9
80	94+	7.0

Example donor ages and rates

July, 2010, American Council on Gift Annuities



Deferred gift annuity: Each year the donor waits, the remaining payment size increases



2010



2011



2012



2013



2014



2015

...



Death

ACGA suggests
4.5% compound
annual increase in
remaining
payment size



2010



...



2011

2012

2013

2014

2015

...

Death

**Donor could leave
all to charity but
always keep
emergency right to
income by
perpetual deferral**



2010



2011



2012



2013



2014



2015

...

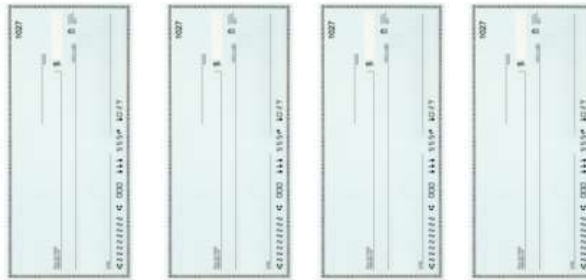


...

Death



**Donor could gift
remaining
annuity if
income was no
longer needed**



2011

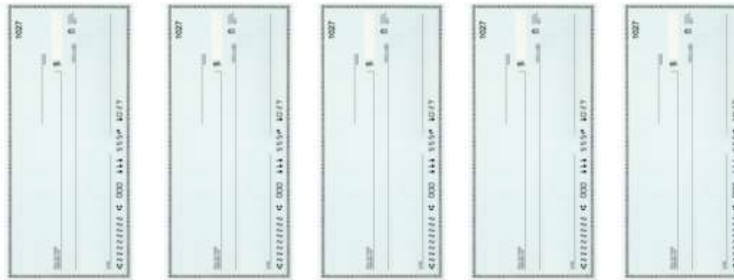
2012

2013

2014

2015

**Donor can
name a
different
person as the
annuitant**



...



2011 2012 2013 2014 2015

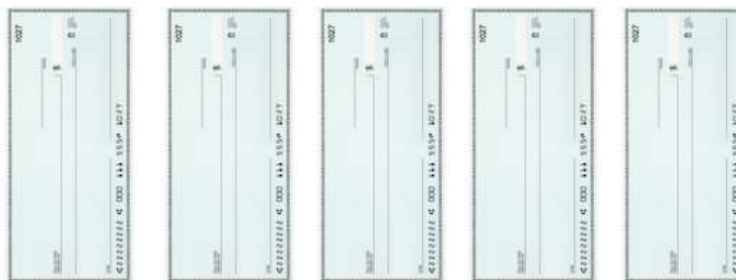
... Death of annuitant

2010



**Donor can name
grandchild as life
annuitant with
first payment to
start at age 18
(+ option to
trade for lump
sum tuition
payment)**

PLR 200233023



...



2015 2016 2017 2018 2015

...

Death

2010

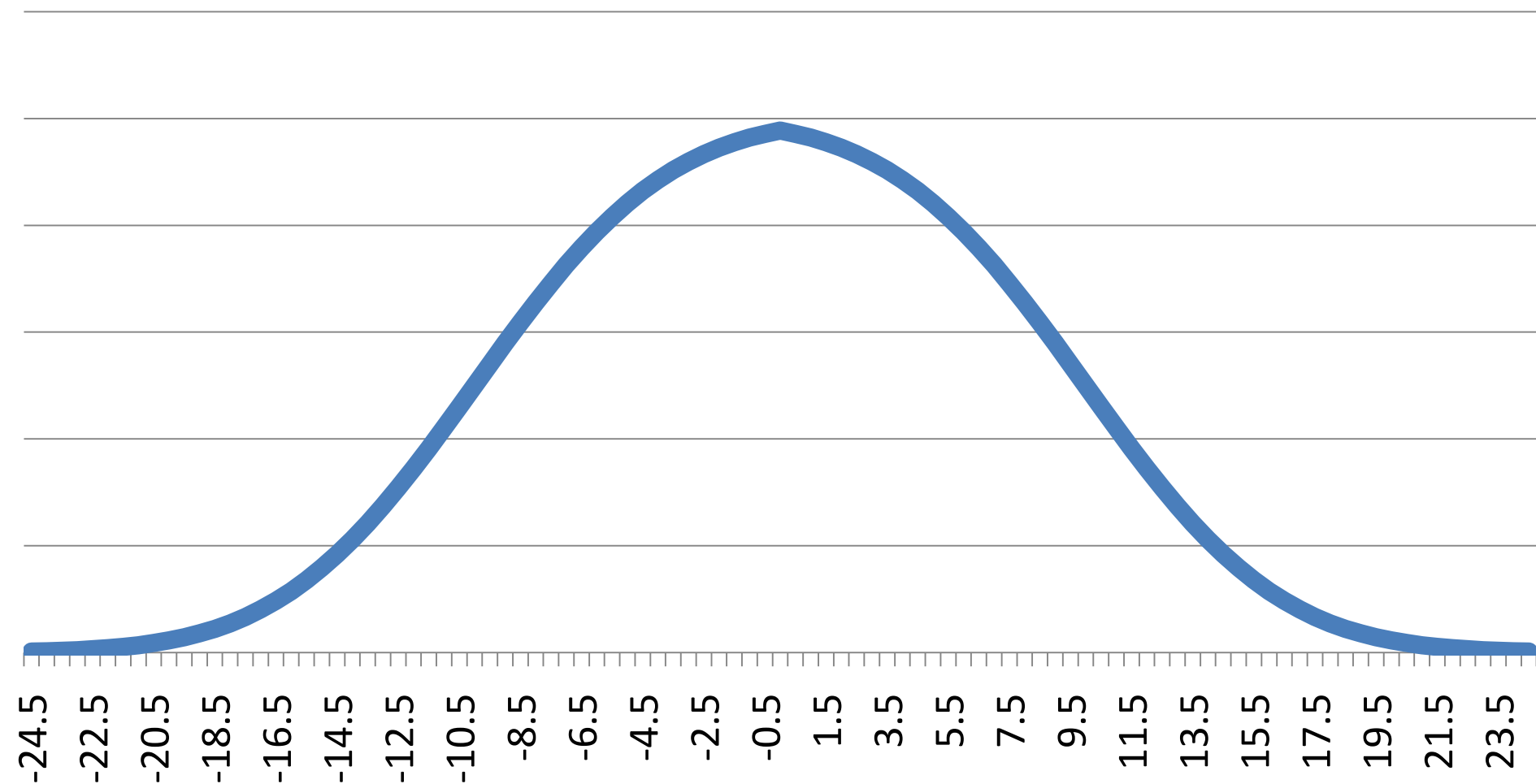


**What are the risks for charities
issuing charitable gift annuities?**

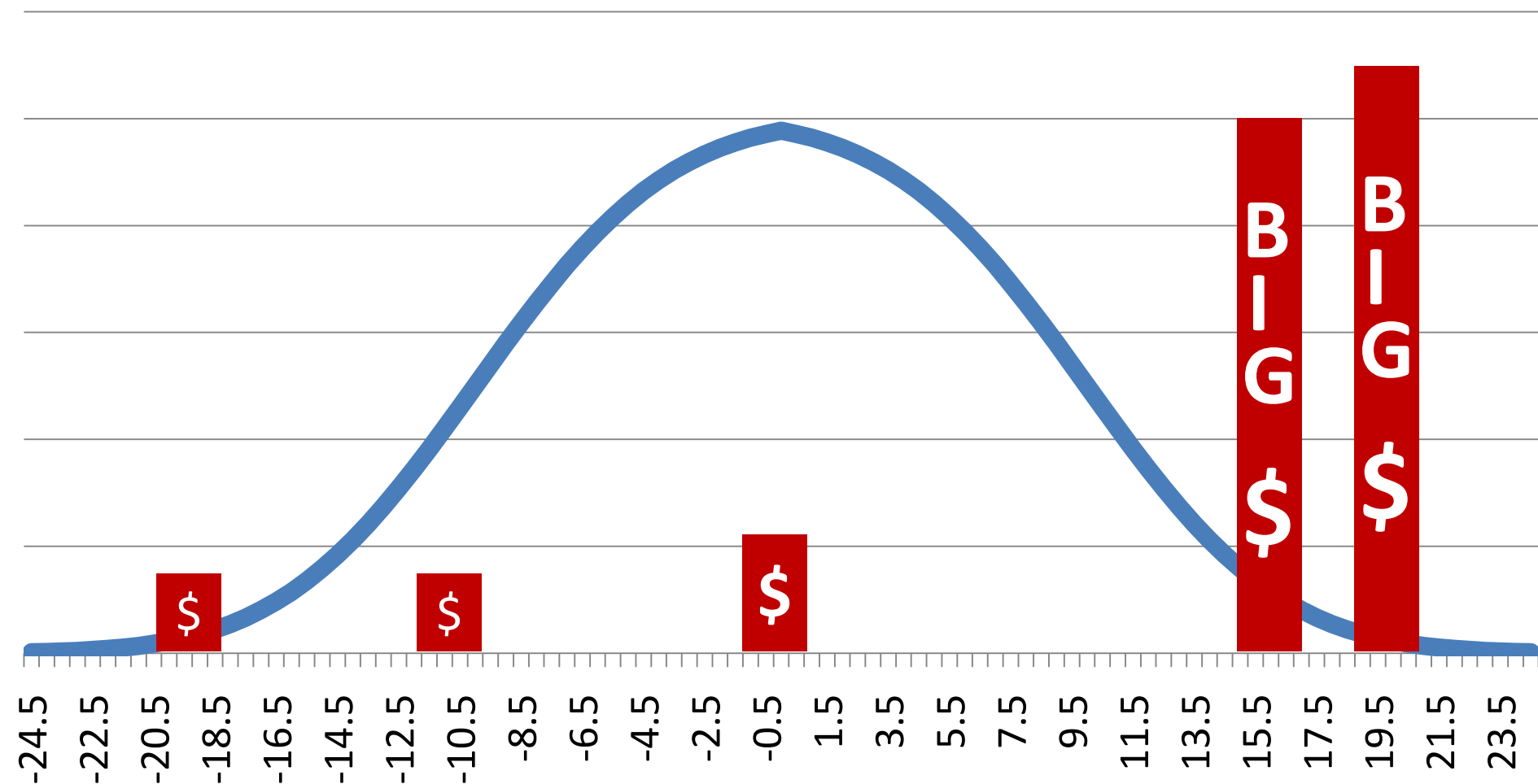
**The
annuitant
might live
too long**



One person living too long in a large pool of similar sized annuities is not a problem, because others will probably die early



Many charities have a small pool or a pool with a few very large annuities, creating a greater risk of an overall imbalance



Risk Question

Why is an annuity for an 80 year old riskier for the charity than one for a 40 year old?



What is the chance the charity could make twice as many payments as expected?

80 year old female payout is based upon life expectancy of about 9 years.

40 year old female payout is based upon a life expectancy of about 42 years.



Risky practices: Using actuarial value of gift up front

- No room for error in annuitant longevity
- IRS tables do not consider self-selection (i.e., sick people do not buy annuities)



Risky practices: Giving all to a restricted account at death



Where do funds come from for those with long lives who exhaust their initial gift?

As charities move away from secure, fixed income investments of appropriate duration, investment risk increases



Reinsurance exactly matches income to liability



**Charities can reinsure all or selectively
offset the risk of very large annuities**

Financial advisors and gift annuities

- Managing gift annuity asset pools for nonprofit organizations
- Selling commercial annuities as reinsurance
- General advice to current clients or a nonprofit's donors





Charitable gift annuities exempt from securities regulation except

- If sales commissions paid
- May not apply where marketed primarily as investment, comparing “yields” or “returns” with CDs and other investments

Charitable Gift Annuities



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About the Author

Russell James, J.D., Ph.D., CFP® is an Associate Professor and the Director of Graduate Studies in Charitable Planning in the Division of Personal Financial Planning at Texas Tech University. He graduated, *cum laude*, from the University of Missouri School of Law where he was a member of the Missouri Law Review. While in law school he received the United Missouri Bank Award for Most Outstanding Work in Gift and Estate Taxation and Planning and the American Jurisprudence Award for Most Outstanding Work in Federal Income Taxation. After graduation, he worked as the Director of Planned Giving for Central Christian College, Moberly, Missouri for six years and also built a successful law practice limited to estate and gift planning. He later served as president of the college for more than five years, where he had direct and supervisory responsibility for all fundraising. Dr. James received his Ph.D. in Consumer & Family Economics from the University of Missouri where his dissertation was on the topic of charitable giving. Dr. James has over 100 publications in print or in press in academic journals, conference proceedings, professional periodicals, and books. He writes regularly for *Advancing Philanthropy*, the magazine of the Association of Fundraising Professionals. He has presented his research in the U.S. and across the world including as an invited speaker in Ireland, Scotland, England, The Netherlands, Spain, Germany, and South Korea. ([click here for complete CV](#))



Me (about 5 years ago)



Lecturing in Germany. 75 extra students showed up. I thought it was for me until I found out there was free beer afterwards.



At Giving Korea 2010. I didn't notice until later the projector was shining on my head (inter-cultural height problems).