

## Assumptions Underlying Suggested Gift Annuity Rates

Following is a summary of the major assumptions on which the suggested rates from January 1, 2012 to the present are based.

**Target Residuum.** Since 1955 the ACGA has targeted a residuum (the amount realized by the charity upon termination of an annuity) of 50% of the original contribution for the gift annuity. The new rate schedules retain the 50% target residuum, and continue the requirement first applied for the July 2011 rate schedules that the present value (PV) of the residuum be at least 20% of the original contribution for the annuity.

The 20% minimum PV requirement has the effect of reducing rates for annuitants age 58 and under. It is designed to help charities realize a minimum value from gifts whose residua will not be realized for many years. Rates for younger annuitants (ages 5 to 49) were reduced as necessary to comply with the 10% minimum charitable deduction required under IRC Sec. 514 (c)(5) (A) using the 1.4% CFMR for November 2011. Particularly in low interest rate environments, charities should perform their own deduction calculations and lower their annuity rates if necessary to meet the 10% minimum deduction requirement.

**Mortality Assumptions.** The National Association of Insurance Commissioners (NAIC) has recommended the use of a new mortality table for annuities issued after January 1, 2015. Known as the 2012 Individual Annuity Reserving Table (2012 IAR), the new table is designed to

reflect annuitant mortality more accurately over time. ACGA commissioned a study by The Hay Group in December 2014 to determine what set of assumptions provided the best "fit" for the 2012 IAR with the ACGA Gift Annuitant Mortality Study completed in 2010. The Hay Group determined the new "best fit" assumption was a 50-50 blend of the 2012 IAR male and female mortality with no age setback. (See further discussion below.)

**Expense Assumption.** Annual expenses for investment and administration are assumed to be 1.0% of the fair market value of gift annuity reserves.

**Investment Return Assumption.** The gross annual expected return on immediate payment and deferred payment gift annuity reserves is 4.25%. Both immediate and deferred payment annuity calculations use a net compounding rate of 3.25% (4.25% minus 1% assumed annual expenses).

**Payment Assumption.** Annual payments are made in quarterly installments at the end of each period.

The rates for the oldest ages are somewhat lower than the rates that would follow from the above assumptions. Single life rates are capped at 9.0% for annuitants age 90 and above. Single life rates for annuitants between ages 81 and 89 are graduated downward from the rate cap. Two life rates are graduated downward in a similar way.

would be 1.032510.25 or 1.387948. To determine the deferred gift annuity rate, this factor is multiplied by the immediate gift annuity rate, now in effect, for the nearest age of the annuitant at the time payments begin. In this example, the deferred gift annuity rate would be 1.387948 times 4.7%, or 6.5% (rounded to the nearest tenth of a percent).

The compounding rate during the deferral period is simply the assumed net return (total assumed return of 4.25% less 1.0% for expenses). The compounding rate applies to the entire compounding period, whatever its length. (At times in the past, the compounding rate for periods in excess of 20 years was less than the compounding rate for the first 20 years of the deferral period.)

In New York and New Jersey, it is sometimes necessary to apply a slightly lower compounding rate when the deferral period is relatively long in order not to exceed those states' maximum allowable deferred gift annuity rates. The ACGA website contains information about New York and New Jersey requirements.

## Procedure for Calculating Suggested Deferred Gift Annuity Rates

1. Determine the annuity starting date, which is:
  - One year before the first payment, if payments are made annually.
  - Six months before the first payment, if payments are made semi-annually.
  - Three months before the first payment, if payments are made quarterly.
  - One month before the first payment, if payments are made monthly.
2. Determine the number of whole and fractional years from the date of the contribution to the annuity starting date (the deferral period). Express the fractional year as a decimal of four numbers.
3. For a deferral period of any length, use the following formula to determine the compound interest factor:  
 $F = 1.0325^d$ , where  
F is the compound interest factor and  
d is the deferral period  
Example: If the period between the contribution date and the annuity starting date is 14.5760 years, the compound interest factor would be  $1.0325^{14.576} = 1.593902$
4. Multiply the compound interest factor (F) by the immediate gift annuity rate for the nearest age or ages of a person or persons at the annuity starting date.  
Example: If the sole annuitant will be nearest age 65 on the annuity starting date and the compound interest factor is 1.593902, the deferred gift annuity rate would be 1.593902 times 4.7%, or 7.5% (rounded to the nearest tenth of a percent).

Comments:

More complete information about suggested charitable gift annuity rates may be found in the 2012 Rates Report available on the ACGA website at [www.acga-web.org](http://www.acga-web.org).

## Note to Charities Issuing Deferred Gift Annuities in New York & New Jersey

Through December of 2014, the following compound interest factors during the deferral period noted will satisfy the requirements of New York and New Jersey:

For all deferral periods:

Single-life and two-life annuities, whatever the gender of the annuitants, a compound interest factor of 3.25%.

Information about the maximum compound interest factors for these two states are posted on the ACGA website. See [www.acga-web.org](http://www.acga-web.org).

\*New York and New Jersey are the two states known at this time that may require different interest factors for deferred gift annuities with longer deferral periods.

# SUGGESTED CHARITABLE GIFT ANNUITY RATES

Approved by the  
American Council on Gift Annuities  
November 7, 2011  
Effective January 1, 2012  
Reconfirmed November 6, 2017



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ON GIFT ANNUITIES  
*Promoting Responsible Philanthropy*

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## Additional Assumption for Deferred Payment Gift Annuities

The annual compound interest rate credited during the deferral period for deferred payment gift annuities is 3.25% (the same investment return assumption as for immediate payment gift annuities after subtracting the 1.0% expense assumption). In other words, each dollar contributed for a deferred gift annuity is presumed to grow at an annual compound interest rate of 3.25% between the date of contribution and the annuity starting date.

If payments will be made at the end of the period, which is usually the case, the annuity starting date would be at the beginning of the first period for which a payment is made. For example, if payments will be made quarterly, and the first payment will be made on September 30, 2017, the annuity starting date would be July 1, 2017. If payments will be made semi-annually, the annuity starting date in this case would be April 1, 2017.

Assuming that the annuitant would be nearest age 65 on the annuity starting date, and that the period between the contribution date and the annuity starting date is 10.25 years, the compound interest factor

# SINGLE LIFE

Age	Rate
5-10	2
11-15	2.1
16-19	2.2
20-23	2.3
24-26	2.4
27-29	2.5
30-32	2.6
33-34	2.7
35-36	2.8
37-38	2.9
39-40	3
41-42	3.1
43	3.2
44-45	3.3
46	3.4
47	3.5
48-49	3.6
50	3.7
51-52	3.8
53-54	3.9
55	4
56-57	4.1
58	4.2
59	4.3
60-61	4.4
62-63	4.5

Age	Rate
64	4.6
65	4.7
66-67	4.8
68	4.9
69	5
70	5.1
71	5.3
72	5.4
73	5.5
74	5.7
75	5.8
76	6
77	6.2
78	6.4
79	6.6
80	6.8
81	7
82	7.2
83	7.4
84	7.6
85	7.8
86	8
87	8.2
88	8.4
89	8.7
90 and over	9

## NOTES:

1. The rates are for ages at the nearest birthday.
2. For immediate gift annuities, these rates will result in a charitable deduction of more than 10% if the CFMR is 1.4% or higher, whatever the payment frequency. If the CFMR is less than 1.4%, the deduction will be less than 10% when annuitants are below certain ages.
3. For deferred gift annuities with longer deferral periods, the rates may not pass the 10% test when the CFMR is low.
4. To avoid adverse tax consequences, the charity should reduce the gift annuity rate to whatever level is necessary to generate a charitable deduction in excess of 10%.

Younger Age	Older Age	Rate
5	5-95+	1.8
6	6-95+	1.8
7	7-95+	1.8
8	8-95+	1.8
9	9-95+	1.8
10	10-95+	1.8
11	11-95+	1.9
12	12-95+	1.9
13	13-95+	1.9
14	14-95+	1.9
15	15-95+	1.9
16	16-95+	2
17	17-95+	2
18	18-95+	2
19	19-95+	2
20	20-95+	2.1
21	21-95+	2.1
22	22-95+	2.1
23	23-95+	2.1
24	24-95+	2.1
25	25-95+	2.2
26	26-95+	2.2
27	27-95+	2.2
28	28-95+	2.2
29	29-95+	2.3
30	30-95+	2.3
31	31-95+	2.3
32	32-95+	2.3
33	33-95+	2.4
34	34-95+	2.4
35	35-95+	2.4
36	36-95+	2.5
37	37-95+	2.5
38	38-95+	2.5
39	39-95+	2.6
40	40-95+	2.6
41	41-95+	2.7
42	42-95+	2.7
43	43-95+	2.8
44	44-95+	2.8
45	45-95+	2.9
46	46-95+	2.9
47	47-50	3
47	51-95+	3.1
48	48	3
48	49-95+	3.1
49	49-51	3.1

Younger Age	Older Age	Rate
49	52-95+	3.2
50	50	3.1
50	51-53	3.2
50	54-95+	3.3
51	51-52	3.2
51	53-55	3.3
51	56-95+	3.4
52	52-54	3.3
52	55-95+	3.4
53	53-55	3.4
53	56-58	3.5
53	59-95+	3.6
54	54	3.4
54	55-57	3.5
54	58-95+	3.6
55	55	3.5
55	56-58	3.6
55	59-61	3.7
55	62-95+	3.8
56	56-57	3.6
56	58-59	3.7
56	60-62	3.8
56	63-95+	3.9
57	57-58	3.7
57	59-63	3.8
57	64-95+	3.9
58	58-61	3.8
58	62-65	3.9
58	66-95+	4
59	59-60	3.8
59	61-63	3.9
59	64-68	4
59	69-95+	4.1
60	60-62	3.9
60	63-66	4
60	67-70	4.1
60	71-95+	4.2
61	61	3.9
61	62-64	4
61	65-68	4.1
61	69-95+	4.2
62	62-63	4
62	64-66	4.1
62	67-69	4.2
62	70-95+	4.3
63	63-64	4.1
63	65-67	4.2

Younger Age	Older Age	Rate
63	68-95+	4.3
64	64-66	4.2
64	67-70	4.3
64	71-95+	4.4
65	65	4.2
65	66-68	4.3
65	69-72	4.4
65	73-95+	4.5
66	66-67	4.3
66	68-71	4.4
66	72-75	4.5
66	76-95+	4.6
67	67-69	4.4
67	70-73	4.5
67	74-95+	4.6
68	68	4.4
68	69-71	4.5
68	72-75	4.6
68	76-95+	4.7
69	69-70	4.5
69	71-73	4.6
69	74-76	4.7
69	77-95+	4.8
70	70-71	4.6
70	72-74	4.7
70	75-78	4.8
70	79-95+	4.9
71	71-73	4.7
71	74-75	4.8
71	76-79	4.9
71	80-82	5
71	83-95+	5.1
72	72	4.7
72	73-74	4.8
72	75-76	4.9
72	77-79	5
72	80-83	5.1
72	84-95+	5.2
73	73	4.8
73	74-75	4.9
73	76-77	5
73	78-80	5.1
73	81-83	5.2
73	84-95+	5.3
74	74	4.9
74	75-76	5
74	77-78	5.1

Younger Age	Older Age	Rate
74	79-80	5.2
74	81-83	5.3
74	84-87	5.4
74	88-95+	5.5
75	75	5
75	76-77	5.1
75	78	5.2
75	79-81	5.3
75	82-83	5.4
75	84-86	5.5
75	87-95+	5.6
76	76-77	5.2
76	78-79	5.3
76	80-81	5.4
76	82-83	5.5
76	84-85	5.6
76	86-88	5.7
76	89-95+	5.8
77	77-78	5.3
77	79	5.4
77	80-81	5.5
77	82-83	5.6
77	84-85	5.7
77	86-87	5.8
77	88-91	5.9
77	92-95+	6
78	78	5.4
78	79	5.5
78	80-81	5.6
78	82-83	5.7
78	84	5.8
78	85-86	5.9
78	87-89	6
78	90-92	6.1
78	93-95+	6.2
79	79-80	5.6
79	81	5.7
79	82	5.8
79	83-84	5.9
79	85-86	6
79	87-88	6.1
79	89-90	6.2
79	91-93	6.3
79	94-95+	6.4
80	80	5.7
80	81	5.8
80	82	5.9

Younger Age	Older Age	Rate
80	83-84	6
80	85	6.1
80	86-87	6.2
80	88-89	6.3
80	90-91	6.4
80	92-93	6.5
80	94-95+	6.6
81	81	5.9
81	82	6
81	83	6.1
81	84-85	6.2
81	86	6.3
81	87-88	6.4
81	89	6.5
81	90-91	6.6
81	92-94	6.7
81	95+	6.8
82	82	6.1
82	83	6.2
82	84	6.3
82	85-86	6.4
82	87	6.5
82	88	6.6
82	89-90	6.7
82	91	6.8
82	92-93	6.9
82	94-95+	7
83	83	6.3
83	84	6.4
83	85	6.5
83	86	6.6
83	87	6.7
83	88-89	6.8
83	90	6.9
83	91	7
83	92-93	7.1
83	94-95+	7.2
84	84	6.5
84	85	6.6
84	86	6.7
84	87	6.8
84	88	6.9
84	89	7
84	90	7.1
84	91	7.2
84	92-93	7.3
84	94-95+	7.4

Younger Age	Older Age	Rate
85	85	6.7
85	86	6.9
85	87	7
85	88	7.1
85	89	7.2
85	90	7.3
85	91	7.4
85	92	7.5
85	93-95+	7.6
86	86	7
86	87	7.1
86	88	7.3
86	89	7.4
86	90	7.5
86	91	7.6
86	92	7.7
86	93-95+	7.8
87	87	7.3
87	88	7.4
87	89	7.5
87	90	7.7
87	91	7.8
87	92	7.9
87	93-95+	8
88	88	7.6
88	89	7.7
88	90	7.9
88	91	8
88	92	8.1
88	93-95+	8.2
89	89	7.9
89	90	8
89	91	8.2
89	92	8.3
89	93-95+	8.5
90	90	8.2
90	91	8.4
90	92	8.5
90	93	8.7
90	94-95+	8.8
91	91	8.6
91	92	8.7
91	93-95+	8.8
92	92-95+	8.8
93	93-95+	8.8
94	94-95+	8.8
95	95+	8.8