Assumptions Underlying the Suggested Gift Annuity Rates Effective July 1, 2007 through June 30, 2008

Following is a summary of the assumptions on which the July 1, 2007 rates are based.

1. The residuum realized by the charity upon termination of an annuity is 50 percent.

2. Life expectancies are based on the Annuity 2000 Mortality Tables for female lives with a two-year setback in ages. This is a departure from the 2005 assumption which used a 1 ½-year setback. The rates also incorporate projections for increasing life expectancies.

3. Annual expenses for investment and administration are one percent of the fair market value of gift annuity reserves.

4. The total annual return on gift annuity reserves is 6.25% percent.

5. The rates for the youngest and oldest ages are somewhat lower than the rates that would follow from the first four assumptions.

Additional Assumption for Deferred Gift Annuities

The annual compound interest rate credited during the deferral period for deferred payment gift annuities is 5.25%. In other words, each dollar contributed for a deferred gift annuity is presumed to grow at an annual compound interest rate of 5.25% 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 quarterly, and the first payment will be made on September 30, 2014, the annuity starting date would be July 1, 2014. If payments will be made semi-annually, the annuity starting date in this case would be April 1, 2014.

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 would be $1.0525^{10.25}$ or 1.6896. 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 1.6896 x 6.0 percent, which equals 10.1 percent (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 6.25% less one percent for expenses). The compounding rate applies to the entire compounding period, whatever its length. 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 two states, 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 at any given time.