

**Rates Effective January 1, 2003 - June 30, 2003**

Approved by the American Council on Gift Annuities October 16, 2002

- Single Life - ACGA Suggested Gift Annuity Rates
- Two Life - ACGA Suggested Gift Annuity Rates
- Deferred Payment Gift Annuity Factors (All states except New York & New Jersey)
- Deferred Payment Gift Annuity Factors (For New York & New Jersey Only)
- Assumptions & Comments for ACGA rates

**SINGLE LIFE**

| <b>Age</b> | <b>Rate</b> | <b>Age</b> | <b>Rate</b> |
|------------|-------------|------------|-------------|
| 0-1        | 3.7%        | 55         | 5.8%        |
| 2-5        | 3.8         | 56         | 5.8         |
| 6-12       | 3.9         | 57         | 5.8         |
| 13-19      | 4.0         | 58         | 5.9         |
| 20         | 4.0         | 59         | 5.9         |
| 21         | 4.1         | 60         | 6.0         |
| 22         | 4.1         | 61         | 6.0         |
| 23         | 4.1         | 62         | 6.1         |
| 24         | 4.1         | 63         | 6.1         |
| 25         | 4.1         | 64         | 6.2         |
| 26         | 4.2         | 65         | 6.3         |
| 27         | 4.2         | 66         | 6.3         |
| 28         | 4.2         | 67         | 6.4         |
| 29         | 4.3         | 68         | 6.5         |
| 30         | 4.3         | 69         | 6.6         |
| 31         | 4.3         | 70         | 6.7         |
| 32         | 4.4         | 71         | 6.8         |
| 33         | 4.4         | 72         | 6.9         |
| 34         | 4.4         | 73         | 7.0         |
| 35         | 4.5         | 74         | 7.2         |
| 36         | 4.5         | 75         | 7.3         |
| 37         | 4.6         | 76         | 7.5         |

|    |     |             |      |
|----|-----|-------------|------|
| 38 | 4.6 | 77          | 7.6  |
| 39 | 4.7 | 78          | 7.8  |
| 40 | 4.7 | 79          | 8.0  |
| 41 | 4.8 | 80          | 8.3  |
| 42 | 4.8 | 81          | 8.5  |
| 43 | 4.9 | 82          | 8.8  |
| 44 | 5.0 | 83          | 9.1  |
| 45 | 5.0 | 84          | 9.4  |
| 46 | 5.1 | 85          | 9.7  |
| 47 | 5.2 | 86          | 10.1 |
| 48 | 5.3 | 87          | 10.4 |
| 49 | 5.4 | 88          | 10.8 |
| 50 | 5.5 | 89          | 11.2 |
| 51 | 5.5 | 90 and over | 11.5 |
| 52 | 5.6 |             |      |
| 53 | 5.7 |             |      |
| 54 | 5.7 |             |      |

**WARNING:** These annuity rates, for both immediate and deferred annuities and for both single life and two lives, should not be used if the gift portion, based on IRS tables and the applicable discount rate, is not more than 10% of the amount paid for the annuity.

**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 CMFR is 4.0% or higher, whatever the payment frequency. If the CMFR falls below 4.0%, rates at certain young ages may have to be reduced to meet the 10% deduction requirement.

## Two Lives - Joint and Survivor

| Younger Age | Older Age | Rate | Younger Age | Older Age | Rate | Younger Age | Older Age | Rate |
|-------------|-----------|------|-------------|-----------|------|-------------|-----------|------|
| 0-5         | All       | 3.6% |             |           |      |             |           |      |
| 6-12        | 6+        | 3.7  | 72          | 72-74     | 6.3% | 83          | 83        | 7.7% |
| 13-19       | 13+       | 3.8  | 72          | 75-77     | 6.4  | 83          | 84-85     | 7.8  |
| 20          | 20+       | 3.8  | 72          | 78-80     | 6.5  | 83          | 86        | 7.9  |
| 21          | 21+       | 3.8  | 72          | 81-83     | 6.6  | 83          | 87        | 8.0  |
| 22          | 22+       | 3.8  | 72          | 84+       | 6.7  | 83          | 88        | 8.1  |
| 23          | 23+       | 3.9  | 73          | 73        | 6.3  | 83          | 89        | 8.2  |
| 24          | 24+       | 3.9  | 73          | 74-75     | 6.4  | 83          | 90-91     | 8.3  |
| 25          | 25+       | 3.9  | 73          | 76-78     | 6.5  | 83          | 92        | 8.4  |
| 26          | 26+       | 3.9  | 73          | 79-80     | 6.6  | 83          | 93-94     | 8.5  |
| 27          | 27+       | 3.9  | 73          | 81-84     | 6.7  | 83          | 95+       | 8.6  |
| 28          | 28+       | 3.9  | 73          | 85+       | 6.8  | 84          | 84        | 7.9  |
| 29          | 29+       | 4.0  | 74          | 74        | 6.4  | 84          | 85        | 8.0  |
| 30          | 30+       | 4.0  | 74          | 75-76     | 6.5  | 84          | 86        | 8.1  |
| 31          | 31+       | 4.0  | 74          | 77-79     | 6.6  | 84          | 87        | 8.2  |
| 32          | 32+       | 4.0  | 74          | 80-81     | 6.7  | 84          | 88        | 8.3  |
| 33          | 33+       | 4.1  | 74          | 82-84     | 6.8  | 84          | 89-90     | 8.4  |
| 34          | 34+       | 4.1  | 74          | 85-88     | 6.9  | 84          | 91        | 8.5  |
| 35          | 35+       | 4.1  | 74          | 89+       | 7.0  | 84          | 92        | 8.6  |
| 36          | 36+       | 4.1  | 75          | 75        | 6.5  | 84          | 93-94     | 8.7  |
| 37          | 37+       | 4.2  | 75          | 76-77     | 6.6  | 84          | 95+       | 8.8  |
| 38          | 38+       | 4.2  | 75          | 78-79     | 6.7  | 85          | 85        | 8.1  |
| 39          | 39+       | 4.2  | 75          | 80-82     | 6.8  | 85          | 86        | 8.2  |
| 40          | 40+       | 4.3  | 75          | 83-84     | 6.9  | 85          | 87        | 8.3  |
| 41          | 41+       | 4.3  | 75          | 85-87     | 7.0  | 85          | 88        | 8.4  |
| 42          | 42+       | 4.3  | 75          | 88+       | 7.1  | 85          | 89        | 8.5  |
| 43          | 43+       | 4.4  | 76          | 76        | 6.6  | 85          | 90        | 8.6  |
| 44          | 44+       | 4.4  | 76          | 77-78     | 6.7  | 85          | 91        | 8.7  |
|             |           |      | 76          | 79-80     | 6.8  | 85          | 92        | 8.8  |

|    |       |     |    |       |     |    |     |     |
|----|-------|-----|----|-------|-----|----|-----|-----|
| 45 | 45+   | 4.5 | 76 | 81-82 | 6.9 | 85 | 93  | 8.9 |
| 46 | 46+   | 4.5 | 76 | 83-84 | 7.0 | 85 | 94+ | 9.0 |
| 47 | 47+   | 4.6 | 76 | 85-87 | 7.1 | 86 | 86  | 8.3 |
| 48 | 48+   | 4.6 | 76 | 88-90 | 7.2 | 86 | 87  | 8.4 |
| 49 | 49+   | 4.7 | 76 | 91+   | 7.3 | 86 | 88  | 8.6 |
| 50 | 50+   | 4.7 | 77 | 77    | 6.7 | 86 | 89  | 8.7 |
| 51 | 51+   | 4.8 | 77 | 78    | 6.8 | 86 | 90  | 8.8 |
| 52 | 52+   | 4.9 | 77 | 79-80 | 6.9 | 86 | 91  | 8.9 |
| 53 | 53+   | 4.9 | 77 | 81-82 | 7.0 | 86 | 92  | 9.0 |
| 54 | 54    | 5.0 | 77 | 83-84 | 7.1 | 86 | 93  | 9.1 |
| 54 | 55+   | 5.1 | 77 | 85-86 | 7.2 | 86 | 94  | 9.2 |
| 55 | 55+   | 5.1 | 77 | 87-89 | 7.3 | 86 | 95+ | 9.3 |
| 56 | 56-57 | 5.2 | 77 | 90+   | 7.4 | 87 | 87  | 8.6 |
| 56 | 58+   | 5.3 | 78 | 78-79 | 6.9 | 87 | 88  | 8.7 |
| 57 | 57-58 | 5.3 | 78 | 80-81 | 7.0 | 87 | 89  | 8.8 |
| 57 | 59+   | 5.4 | 78 | 82    | 7.1 | 87 | 90  | 9.0 |
| 58 | 58-59 | 5.4 | 78 | 83-84 | 7.2 | 87 | 91  | 9.1 |
| 58 | 60+   | 5.5 | 78 | 85-86 | 7.3 | 87 | 92  | 9.2 |
| 59 | 59-60 | 5.5 | 78 | 87-88 | 7.4 | 87 | 93  | 9.3 |
| 59 | 61+   | 5.6 | 78 | 89-91 | 7.5 | 87 | 94  | 9.4 |
| 60 | 60-65 | 5.6 | 78 | 92+   | 7.6 | 87 | 95+ | 9.5 |
| 60 | 66+   | 5.7 | 79 | 79    | 7.0 | 88 | 88  | 8.9 |
| 61 | 61-64 | 5.7 | 79 | 80-81 | 7.1 | 88 | 89  | 9.0 |
| 61 | 65+   | 5.8 | 79 | 82    | 7.2 | 88 | 90  | 9.1 |
| 62 | 62-63 | 5.7 | 79 | 83-84 | 7.3 | 88 | 91  | 9.3 |
| 62 | 64-69 | 5.8 | 79 | 85-86 | 7.4 | 88 | 92  | 9.4 |
| 62 | 70+   | 5.9 | 79 | 87-88 | 7.5 | 88 | 93  | 9.5 |
| 63 | 63-67 | 5.8 | 79 | 89-90 | 7.6 | 88 | 94  | 9.6 |
| 63 | 68+   | 5.9 | 79 | 91-93 | 7.7 | 88 | 95+ | 9.8 |
| 64 | 64-66 | 5.8 | 79 | 94+   | 7.8 | 89 | 89  | 9.2 |
| 64 | 67-71 | 5.9 | 80 | 80    | 7.1 | 89 | 90  | 9.3 |
| 64 | 72+   | 6.0 | 80 | 81    | 7.2 | 89 | 91  | 9.5 |

|    |       |     |    |       |     |           |     |      |
|----|-------|-----|----|-------|-----|-----------|-----|------|
| 65 | 65    | 5.8 | 80 | 82    | 7.3 | 89        | 92  | 9.6  |
| 65 | 66-69 | 5.9 | 80 | 83-84 | 7.4 | 89        | 93  | 9.8  |
| 65 | 70-74 | 6.0 | 80 | 85    | 7.5 | 89        | 94  | 9.9  |
| 65 | 75+   | 6.1 | 80 | 86-87 | 7.6 | 89        | 95+ | 10.0 |
| 66 | 66-68 | 5.9 | 80 | 88-89 | 7.7 | 90        | 90  | 9.5  |
| 66 | 69-72 | 6.0 | 80 | 90-91 | 7.8 | 90        | 91  | 9.7  |
| 66 | 73+   | 6.1 | 80 | 92-94 | 7.9 | 90        | 92  | 9.8  |
| 67 | 67    | 5.9 | 80 | 95+   | 8.0 | 90        | 93  | 10.0 |
| 67 | 68-71 | 6.0 | 81 | 81    | 7.3 | 90        | 94  | 10.1 |
| 67 | 72-75 | 6.1 | 81 | 82    | 7.4 | 90        | 95+ | 10.3 |
| 67 | 76+   | 6.2 | 81 | 83-84 | 7.5 | 91        | 91  | 9.8  |
| 68 | 68-69 | 6.0 | 81 | 85    | 7.6 | 91        | 92  | 10.0 |
| 68 | 70-73 | 6.1 | 81 | 86    | 7.7 | 91        | 93  | 10.2 |
| 68 | 74-77 | 6.2 | 81 | 87-88 | 7.8 | 91        | 94  | 10.4 |
| 68 | 78+   | 6.3 | 81 | 89-90 | 7.9 | 91        | 95+ | 10.5 |
| 69 | 69-72 | 6.1 | 81 | 91-92 | 8.0 | 92        | 92  | 10.2 |
| 69 | 73-75 | 6.2 | 81 | 93-94 | 8.1 | 92        | 93  | 10.4 |
| 69 | 76-79 | 6.3 | 81 | 95+   | 8.2 | 92        | 94  | 10.6 |
| 69 | 80+   | 6.4 | 82 | 82    | 7.5 | 92        | 95+ | 10.8 |
| 70 | 70    | 6.1 | 82 | 83-84 | 7.6 | 93        | 93  | 10.6 |
| 70 | 71-74 | 6.2 | 82 | 85    | 7.7 | 93        | 94  | 10.8 |
| 70 | 75-77 | 6.3 | 82 | 86    | 7.8 | 93        | 95+ | 11.0 |
| 70 | 78-81 | 6.4 | 82 | 87    | 7.9 | 94        | 94  | 11.0 |
| 70 | 82+   | 6.5 | 82 | 88-89 | 8.0 | 94        | 95+ | 11.3 |
| 71 | 71-72 | 6.2 | 82 | 90    | 8.1 | 95 & over | 95+ | 11.3 |
| 71 | 73-75 | 6.3 | 82 | 91-92 | 8.2 |           |     |      |
| 71 | 76-78 | 6.4 | 82 | 93-94 | 8.3 |           |     |      |
| 71 | 79-82 | 6.5 | 82 | 95+   | 8.4 |           |     |      |
| 71 | 83+   | 6.6 |    |       |     |           |     |      |

## Deferred Payment Gift Annuity Factors

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. If the deferral period is 20 years or less, use the following formula to determine the compound interest factor:

$F = 1.0525^d$ , 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 11.5760 years, the compound interest factor would be  $1.0525^{11.5760} = 1.8082$

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 1.8082, the deferred gift annuity rate would be  $1.8082 \times 6.3\% = 11.4\%$  (rounded to the nearest tenth of a percent).

5. For deferral periods of more than 20 years, the procedure for calculating the compound interest factor is somewhat more complex. That is because the compound interest rate decreases for periods longer than 20 years. The compound interest rates are:

|              |   |       |
|--------------|---|-------|
| 1 - 20 years | - | 5.25% |
| 20+ years    | - | 5.00% |

Example: If the deferral period is 28.7050 years, follow this procedure:

$$1.0525^{20} = 2.7825$$

$$1.05^{8.7050} \times 2.7825 = 4.2550$$

Each calculation is rounded to a decimal of four numbers.

## **Comments:**

- The annuity starting date for purposes of calculating the deferred gift annuity rate will be the same as the annuity starting date for calculating the charitable deduction, if payments are at the end of the period (which is usually the case). This was not true with the pre-July 1, 2001 methodology.
- An annuitant is credited with compound interest for the entire period from the date of contribution to the annuity starting date. Under the pre-July, 2001 methodology, compound interest was credited only for the number of whole years between the two dates.

## **Deferred Payment Gift Annuity Factors for New York and New Jersey \***

If the deferral period does not exceed 20 years, you may follow the same procedure as for all other states.

Even if the deferral period is more than 20 years, you may be able to use the same procedure as for all other states, now that the compound interest factor has been reduced. However, the ACGA actuary is currently making these calculations, and this statement will be updated and modified when those calculations are finished.

\* 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.

## **Assumptions Underlying the Suggested ACGA Gift Annuity Rates**

1. The residuum (percentage of contribution remaining for the charity at the termination of an annuity) will be 50%.
2. Life expectancies are based on the Annuity 2000 Tables, assuming all annuitants are female and are one and one-half years younger than their actual ages.
3. Projections of increased life expectancies since the publication of the Annuity 2000 Tables are factored into rate calculations.
4. Annual expenses for investment of gift annuity reserves and administration of gift annuities are assumed to be 1% of reserves.
5. The total return on gift annuity reserves is 6.25%. However, the total return for single-life and two-life annuities for annuitants under age 53, and for single-life annuities for annuitants over age 86 is lower than 6.25%. The total return, net of expenses, is 5.25% except for the ages noted where it is lower.
6. The compound interest factor for deferred gift annuities during the deferral period is 5.25% for the first 20 years and 5% thereafter.

## **Comments - ACGA Board Approves Reduction in Gift Annuity Rates**

At a special meeting on October 16, 2002, the Board of the American Council on Gift Annuities approved a reduction in suggested gift annuity rates, effective January 1, 2003.

The effective date is deferred until the first of the year to give software vendors, publications companies, and charities time to incorporate the new rates in their programs and literature. Some charities, concerned about the current rates, may choose to implement the reduction immediately.

Ordinarily, the ACGA Board acts on rates at its spring meeting, and any changes become effective on July 1. However, for the reasons stated below, the Board has decided to act now and recommend reductions in gift annuity rates effective the first of the year.

Although the ACGA Board will conduct its normal review in the spring and could recommend a further adjustment in rates, it is anticipated that there will not be a rate adjustment on July 1 unless economic conditions significantly change in the meantime.

### **Reasons for Reduction in Rates**

1. Based on the September CMFR of 4.6% and the October CMFR of 4.2%, the charitable deduction will not be more than 10% when the current ACGA immediate and deferred rates are offered to annuitants:

- younger than the low 60s, in the case of immediate two-life annuities,
- younger than the mid 50s, in the case of immediate one-life annuities, and
- when the current ACGA rates are used for deferred annuities with longer deferral periods.

2. Since the current ACGA rates were determined last spring, the yield on the 10-year Treasury bond has decreased from 5.25% to approximately 3.75%, and many economists are predicting only single-digit returns on stocks for the next five years or so.

3. Also, since the current ACGA rates were determined last spring, commercial annuity rates have decreased by approximately the same percentage that the ACGA rates are being reduced.

4. Based on the ACGA's mortality study, and, consequently setting female ages back by 1.5 years rather than 1.0 years, many of the current rates are .1% to .2% higher than the rates that would follow from the stated assumptions. The ACGA Board decided at the April meeting not to subject charities and vendors to a lot of inconvenience for only a slight adjustment. Meanwhile, as mentioned, interest rates have dropped precipitously, and if the rates were recalculated using the same assumptions and benchmarks as before, they would be significantly lower.

5. If charities continue offering the current ACGA rates for new annuities, the residuum in many instances will be well below 50%. Furthermore, the risk of losing money on gift annuities will increase.

6. Except for some adjustments at ages below 60, the current ACGA rates pre-date 9/11/01 and don't reflect the significant changes in economic conditions that have occurred in the past year.



## **Observations**

Even though the rates will be lower, they should continue to be attractive to donors because interest rates on fixed-income investments have also gone down. For instance, the ACGA rate for a 70-year-old will decrease from 7.2% to 6.7%, but in the course of the year the 10-year Treasury bond has decreased from 5.25% to approximately 3.75%, and the 5-year-CD at many banks has decreased from about 4.6% to less than 4.0%.

The assumed total return underlying the current rates is based on a portfolio consisting of (1) 35% equities using the average annual return over the past 100 years (10%), (2) 60% 10-year Treasury bonds using current yields (5.25% in the spring of 2002), and (3) 5% cash using the 90-day Treasury bill rate (1.75% in the spring of 2002). The weighted average return of such a portfolio is 6.75% (5.75% net of expenses, which are assumed to be 100 basis points).

The assumed total return underlying the proposed rates is 6.25% (5.25% net of expenses). The reduction results from using 4.5% as the yield on the 10-year Treasury. This is slightly above the average yield on 10-year Treasuries sold during the year. No change was made in the assumed return on equities.

For ages 53 - 86, the rates for single-life, immediate annuities follow from the stated assumptions. For ages above 86 and below 53, they are lower than the rates that would follow from these assumptions. Rates for ages above 86 are lower because the rates are graded up to the cap. Note that the cap on single-life rates has been reduced from 12% to 11.5%.

Rates for ages below 53, in the case of both one-life and two-life immediate annuities, are lower than the rates that would follow from the stated assumptions in order to result in a charitable deduction of more than 10%. The proposed rates for immediate annuities pass the 10% test for all ages and all payment frequencies using a CMFR of 4.0% or higher. For ages 53 and above, the rates for two-life immediate annuities follow from the stated assumptions.

## **The Importance of an Actuarially-Sound Industry Standard**

It is essential that charities operate their gift annuity programs so that they can fulfill commitments to annuitants and preserve a meaningful residuum for their charitable work. They are more likely to meet both objectives and minimize their risk if their gift annuity rates do not exceed the maximum rates suggested by the ACGA. It is also in the best interest of the charitable community if donors are encouraged to make decisions based on the charities they want to support rather than on which charities offer the highest rates.