Assumptions Underlying Suggested Gift Annuity Rates

Following is a summary of the major assumptions on which the suggested rates 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 residuum 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 Annuity 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 and deferred payment and deferred payment gift annuity reserves is 4.0%. 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.

**Additional Assumption for Deferred Payment Gift Annuities**

The annual compounding rate credited during the deferral period for deferred payment gift annuities is 3.25% (the same investment return assumption as for immediate payment gifts). For all deferral periods:

\[
F = 1.0325^d, \quad d \text{ is the deferral period.}
\]

Express the fractional year as a decimal of four numbers.

For a deferral period of any length, use the following formula to determine the compound interest factor:

\[
F = 1.0325^d = 1.593902
\]

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.

**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:
   \[
   F = 1.0325^d = 1.593902
   \]
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).

**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 annuitant, 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.

*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.*
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%.