

Analysis of the New ACGA Annuity Rates

On November 18, 2011, the American Council on Gift Annuities (ACGA) announced new suggested maximum gift annuity rates to replace the rates that became effective on July 1, 2011. The new rates will apply to gift annuities established on or after January 1, 2012, although a charity may follow the new rates immediately if it wishes.

The new suggested maximum rates are significantly lower than the ones they replace. Importantly, the new rates for immediate payment annuities ensure a contribution value of at least 10% of the funding amount at all ages down to an IRS discount rate of 1.4% (as compared to 3.0% under the July 1, 2011 rates). This change will greatly reduce the need for gift planners to offer donors an annuity rate that is less than the ACGA's standard maximum rate in order to make the contribution value greater than 10%.

[ACGA Suggested Annuity Rates, Effective January 1, 2012](#)

Assumptions Underlying the New Annuity Rates

The ACGA has made the assumptions listed below in determining the schedule of suggested maximum annuity rates that will go into effect on 1/1/2012. Only items 5, 6, and 7 differ from the assumptions used to determine the rates that went into effect on 7/1/2011.

1. The residuum realized by the charity upon termination of an annuity is 50 percent of the gift amount.
2. The present value of the residuum must be at least 20% of the gift amount.
3. All annuitants are assumed to be female and one year younger than their actual ages. The suggested rates use the Annuity 2000 Mortality Tables. The rates also incorporate projections for increasing life expectancies (improvements in mortality) using a scale supplied by the ACGA's actuary.
4. Annual expenses for investment and administration are 1.0% of the fair market value of gift annuity reserves.
5. The total annual return on gift annuity reserves is 4.25% percent (down from 5.00%).
6. The rates for younger single-life ages (5 – 49) are somewhat lower than the rates that would follow from the first five assumptions to ensure that all immediate payment gift annuities have a contribution value that is at least 10% of the funding amount for an IRS discount rate of 1.4% (down from 3.0%).
7. The rates for the oldest ages (81 and above) are somewhat lower than the rates that would follow from the first five assumptions. One-life rates are capped at 9.0% at age 90 (down from 9.8%) and the rates from 81 to 89 are graduated downward from that cap.

Immediate Payment Annuity Rates Will Decrease Significantly at All Ages

For typical annuitant ages, 70 – 87, the new single-life rates will be 0.6% - 0.7% *lower* than the rates they replace. They will be 0.8% lower for annuitant ages over 87 and 0.4% - 0.7% for annuitant ages 50 to 69. Two-life annuity rates are 0.7% - 0.8% *lower* at most joint ages throughout the schedule, culminating in a cap of 8.8% at the highest ages, down from 9.6% under the current table.

The figures in the table below give you a sense of how the new rates and resulting charitable deductions will differ from the current rates and deductions over the range of most common annuitant ages. They are based on a \$10,000 immediate payment gift annuity that makes payments at the end of each quarter, and a November 2011 IRS discount rate of 1.4%.

Comparison of New and Old ACGA Rates

Annuitant Age(s)	Old Annuity	Old Deduction	New Annuity	New Deduction
65	\$530	\$1,893	\$470	\$2,811
75	\$650	\$3,484	\$580	\$4,186

85	\$840	\$5,112	\$780	\$5,461
65/65	\$470	\$956*	\$420	\$1,918
75/75	\$570	\$2,457	\$500	\$3,384
85/85	\$740	\$4,045	\$670	\$4,608

* This deduction is less than 10% of the funding amount. The annuity would need to be reduced below the standard ACGA rate for two 65 year-olds of 4.7% in order to meet the 10% deduction requirement.

Deferred Gift Annuity Rates Will Decrease Even More Than Immediate Annuity Rates

The ACGA has reduced the compound interest factor for deferred gift annuity (DGA) rates from 4.00% to 3.25% for all deferral periods. This means that the deferred annuity rate will increase 0.75% less per year of deferral under the new recommendations than under the current ones. As a result of this reduction, *the longer the deferral period, the greater will be the difference between the old DGA rates and the new ones.*

The figures in the table below show how the ACGA recommended rate for a DGA deferred 5, 10, or 15 years will change under the new schedule. The annuity amounts are based on a \$10,000 funding amount.

New DGA Rates vs. Old DGA Rates

Annuitant Age at Gift	Years of Deferral	Old Annuity	New Annuity
60	5	\$640	\$550
60	10	\$850	\$700
60	15	\$1,160	\$930

Despite the decrease in deferred annuity rates, the gap between the ACGA's deferred interest factor of 3.25% and the prevailing IRS discount rate of 1.4% makes it possible for a deferred annuity that follows the ACGA's suggested maximum rate to have a charitable value of 10% or less when the IRS discount rate is 1.4%. Our tests indicate that this issue arises for one or two 55 year-olds who defer for ten years, for example. If you run a deferred gift annuity calculation that fails the 10% test, solutions include lowering the annuity rate below the ACGA rate or lengthening the deferral period until the deduction exceeds 10%. PG Calc's *Planned Giving Manager (PGM)* software can decrease the annuity rate for you automatically, but be sure to disclose the reduction to your donor.

Deferred Annuity Rates for NJ and NY

The ACGA has not issued new deferred interest factors for use in New Jersey and New York. It is looking into whether this will be necessary. That said, our interpretation is that the new 3.25% deferred interest factor is equal to or less than the interest factors currently dictated by New Jersey and New York for determining maximum allowable gift annuity rates. Consequently, we expect that the new ACGA rates for deferred gift annuities will, in all cases, comply with the current maximum rate limitations in New Jersey and New York without modification.

What If the IRS Discount Rate Dips Below 1.4%?

The present value of a gift annuity's payments must be less than 90% of the value of the property contributed in order for the arrangement to qualify as a charitable gift annuity. As a practical matter, this means the charitable deduction must be more than 10% of the value of the property contributed. A charity that issues a charitable gift annuity that does not pass this 10% test may incur adverse tax consequences. The new ACGA rates are designed to yield a deduction of more than 10% for all immediate payment gift annuities when the IRS discount rate is 1.4% or greater. The IRS discount rate for November is 1.4%. It has never been lower.

Even at an IRS discount rate of 1.0%, the new rates for immediate payment annuities will result in deductions of more than 10% for single-life annuitants who are 54 or older, and for joint-life annuitants who are both 61 or older. These ages are well below the age range of the typical immediate payment gift annuity beneficiary.

Note that *Planned Giving Manager* issues a warning whenever it computes a gift annuity deduction of 10% or less. If you find yourself in this situation, the solution is to reduce the annuity rate enough so that

the deduction exceeds 10%. Click the Yes button at the bottom of the *PGM* warning message to have *PGM* perform this adjustment for you.

Using the New ACGA Rates in Planned Giving Manager

PGM 6.5a, released on November <date>, includes the new ACGA rate tables. Once you have installed this updated version, *PGM* will continue to pick gift annuity rates from your current gift annuity rate table. If you wish to use the new rates at any time prior to January 1, 2012:

1. Open Customize – Gift Annuity Rate Tables in the *PGM* Menu Bar.
2. Select "ACGA Rates Effective 1/1/2012," then click Done. *PGM* will now set default annuity rates using the new ACGA rate table.
3. To continue to use the new rates in subsequent *PGM* sessions, open File – Save Configuration, then click Save.

Regardless of the gift annuity rate table you have selected in *PGM*, you will be prompted to choose a gift annuity rate table the first time you launch it on or after January 1, 2012. "ACGA Rates Effective 1/1/2012" will be the default choice, unless you use a custom gift annuity rate table, in which case your custom table will be the default choice. At this time, click the rate table you wish to use going forward, and then click Done. *PGM* will save this configuration change for you automatically.

Conclusion

The ACGA suggested maximum annuity rates for immediate payment gift annuities will decrease significantly at all ages. ACGA suggested maximum annuity rates for deferred gift annuities will also decrease substantially. The longer the deferral period, the more dramatic will be the decrease, primarily because the interest factor for the deferral of payments will decrease from 4.0% to 3.25%. Despite these declines in annuity rates, gift annuities will continue to be an attractive gift vehicle for donors who wish to support your organization's mission, but are also interested in receiving fixed payments for life.