New IRS Mortality Table Has Small Effect on Deductions

On April 30, 2009 the IRS announced Table 2000CM, a new mortality table for use in valuing "annuities, life estates, remainders, and reversions." Such valuations affect charitable deduction computations for most planned gifts, including gift annuities, charitable remainder trusts, retained life estates, and charitable lead trusts. Table 2000CM, which is based on data from the 2000 U.S. Census, replaces Table 90CM, which has been in use for the past 10 years and is based on data from the 1990 U.S. Census.

The IRS's announcement did not come as a surprise. Section 7520 of the Internal Revenue Code states that "such tables shall be revised not less frequently than once each 10 years . . . to take into account the most recent mortality experience available as of the time of the revision." The last time the IRS revised these tables was, you guessed it, April 30, 1999.

What is a mortality table?

A mortality table is not a life expectancy table. Rather, a mortality table such as the new Table 2000CM shows the number of survivors at each age given a specific starting population. In the case of Table 2000CM, the table shows the number of survivors at each age from 0 to 110, given a starting population of 100,000. For example, at age 80 there are 50,819 survivors and at age 90 there are 18,472 survivors. In comparison, its predecessor Table 90CM shows 47,084 survivors at age 80 and 17,046 at age 90.

What this means is that Table 2000CM predicts that more people out of an original population of 100,000 will survive to reach each age than Table 90CM predicts. This pattern holds true except at very old ages of 102 and higher, where Table 90CM predicts more survivors than Table 2000CM. That is, at most starting ages, Table 2000CM predicts that people will live longer than Table 90CM predicts. Consequently, deductions are lower under Table 2000CM than under Table 90CM, except for beneficiaries who are very old at the time of the gift.

Note that there is also a mortality table named Annuity 2000, which is required by certain states for the computation of minimum gift annuity reserves and is used by the ACGA in developing its schedule of suggested maximum annuity rates. This is *not* the same table as 2000CM. Annuity 2000 is a gender-biased mortality table – females live longer than males -- created by the insurance industry based on survivor data for people who buy annuities rather than the entire U.S. population. Annuity 2000 predicts substantially more survivors (substantially longer lives) than Table 2000CM at every age for both males and females.

Effect on deduction amounts is minor

The difference in number of survivors at each age between Table 2000CM and Table 90CM is small. Consequently, the adoption of Table 2000CM causes only minor changes in charitable deduction computations for planned gifts.

What's more, the difference in number of survivors between the two tables narrows with increasing age and actually crosses over at ages 102 and older. The result is that the older the beneficiaries at the time of gift, the less difference the new mortality table makes to the deduction amount.

The table below compares deduction amounts for different life income gifts and different beneficiary ages at the time of the gift under Table 2000CM and Table 90CM, based on a $100,000 gift and quarterly payments where applicable (the retained life estate also assumes a $25,000 non-depreciable portion, $10,000 salvage value, and 45 year estimated useful life).

Effect of 2000CM Mortality Table on Planned Gift Deductions

	Age 70	**Age 80**	**Age 90**
5% CRAT			
90CM/2.4% AFR	$43,714	$63,513	$79,380
2000CM/2.4% AFR	$42,492	$63,388	$79,414
% Change	-2.80%	-0.20%	+0.04%
90CM/2.2% AFR	$42,942	$63,110	$79,237
5% CRUT			
90CM/2.4% AFR	$53,294	$67,914	$80,886

2000CM/2.4% AFR	$52,363	$67,803	$80,898
% Change	-1.75%	-0.16%	+0.01%
90CM/2.2% AFR	$53,257	$67,885	$80,866
90CM/5.2% payout	$52,094	$66,944	$80,233
CGA	payout=5.7%	payout=7.1%	payout=9.5%
90CM/2.4% AFR	$35,437	$48,183	$60,822
2000CM/2.4% AFR	$34,049	$48,008	$60,887
% Change	-3.92%	-0.36%	+0.11%
90CM/2.2% AFR	$34,378	$47,606	$60,550
RLE			
90CM/2.4% AFR	$59,829	$73,452	$84,696
2000CM/2.4% AFR	$58,988	$73,361	$84,715
% Change	-1.41%	-0.12%	+0.02%
90CM/2.6% AFR	$58,507	$72,426	$84,032
3% PIF			
90CM	$67,968	$79,047	$88,015
2000CM	$67,291	$78,976	$88,032
% Change	-1.00%	-0.09%	+0.02%

Observations:

1. The change in deduction under Table 2000CM is small. The largest change across five gift types and the typical span of beneficiary ages is just 3.92%.
2. The change in deduction becomes smaller as beneficiary ages increase, becoming just tenths or even hundredths of a percent at ages 80 and 90.
3. At age 90, deductions are actually larger under Table 2000CM than under Table 90CM, although just barely. For ages over 90, this difference increases (a gift annuity for a 95 year-old earns a 2% greater deduction under Table 2000CM than under Table 90CM, for example).
4. Deductions for gift annuities (CGA) and charitable remainder annuity trusts (CRAT) are affected more than deductions for other gift types. This is not surprising, as fixed payment plan deductions are also affected more by changes in the IRS discount rate. Although not illustrated in the table above, the deduction changes for CGAs and CRATs are identical when their payout rates match.
5. For CGAs, CRATs, and retained life estates (RLEs), a 0.2% change in the monthly IRS discount rate -- and a change of at least this size has occurred in 10 of the last 12 months -- has more effect on the deduction than does the change in mortality tables. While this pattern does not hold for charitable remainder unitrust (CRUT) deductions, which are affected only slightly by changes in the IRS discount rate, a 0.2% change in CRUT *payout rate* does affect the deduction more than does the change in mortality tables. (Compare the first and last lines for each gift type in the table above.)
6. The new mortality table affects only gifts with terms based on lives. It does not affect gifts that will last for a fixed number of years.

Effective date and transition rules

The new table is effective for planned gifts made on or after May 1, 2009. However, similar to the past, transition rules allow donors who make a planned gift in May 2009 or June 2009 to use either Table 90CM or Table 2000CM to compute their deduction *if* they also elect to use either the May 2009 or June 2009 IRS discount rate in the calculation. If a donor makes a gift in May or June, but elects to use April's IRS discount rate, he or she *must* use Table 90CM in the deduction calculation. (The IRS discount rate for March and May is the same 2.4%, so there is no reason for a donor in May to elect the March rate. April's rate is 2.6%) As of July 1, 2009, donors must use Table 2000CM in all deduction calculations, even if they elect to use the IRS discount rate from May or June in the calculation.

Effect on taxation of deferred gift annuities that have not yet commenced payments
The taxation of deferred gift annuity payments depends on the present value of the annuity on the date of gift (the investment in contract) and the annuitant's expected return (the sum of the payments the annuitant is expected to receive over his or her life expectancy). The expected return element of these calculations must be determined using the expected return multiple table in force as of the annuity starting date*. However, this table is not affected by the adoption of Table 2000CM. It has been based on the same 1983 Basic mortality table since 1986 and adoption of Table 2000CM for computing planned gift deductions does not change this. Consequently, the adoption of Table 2000CM does not create a need to recompute the taxation of payments for existing deferred gift annuities regardless of their annuity starting dates.

You will need to re-determine the taxation of payments for your existing deferred gift annuities that have not reached their annuity starting dates *only if* the expected return multiple table is updated at some point in the future, there are no grandfathering rules that make the current table available to then existing deferred annuities, and you have deferred gift annuities in force with annuity starting dates after the effective date of the new expected return multiple table.

* *The annuity starting date is the first day of the payment period that ends on the date of the first annuity payment. For example, the annuity starting date is 10/1/2015 for a deferred annuity that pays at the end of each calendar quarter and whose first payment is on 12/31/2015.*

What advice should you give donors?
For donors who wish to maximize their charitable deduction, it will be to their advantage in most cases to elect April's 2.6% IRS discount rate and therefore use Table 90CM. An exception to this rule would be retained life estates (RLE), where using the lowest available IRS discount rate yields the highest deduction. May's 2.4% IRS discount rate coupled with Table 90CM will result in the highest available deduction for an RLE. Although the same logic holds for charitable lead trusts, lead trust terms are almost always for a fixed number of years rather than based on lives, so this situation is highly unlikely to come up in practice.

Some gift annuity donors choose to minimize their current charitable deduction in favor of increased future tax-free payments. This is especially true for donors who do not itemize their deductions, since they derive no tax benefit from their charitable deduction but will enjoy tax benefits by increasing the tax-free portion of their payments. For such donors in May and June of this year only, you can maximize their tax-free cash flow by using May's IRS discount rate and electing the 2000CM mortality table. Should June's IRS discount rate fall to 2.2% or lower, then electing June's rate, along with the 2000CM mortality table, will afford June gift annuity donors the greatest tax-free payments.

Conclusion
The changes in deduction amounts caused by the adoption of the new Table 2000CM mortality table are minor. They approach being negligible for beneficiary ages in the 80 – 90 range. In short, the new table does not change in a meaningful way the tax benefits of making a planned gift.

For prospects who are already considering a planned gift and are interested in maximizing their charitable deduction, there is a small tax advantage to making their gift in May or June while they still can elect to use Table 90CM in their deduction calculation. If you have prospects that match this description, contact them as soon as you can to let them know of this small advantage. They will appreciate the information and you may motivate some of them to complete their gift sooner rather than later.

You might also consider a gift annuity mailing to prospects age 65 - 80, where use of Table 90CM has the greatest positive effect on the deduction. If you would like to include personalized "before" and "after" numbers in your mailing, contact Joe Sabella at 888-497-4970 about our BatchCalcs service or go to www.pgcalc.com/marketing/bcoverview.htm to learn more.