

# Charitable Gift Annuity Risk Audit

## Managing Risk in your Gift Annuity Program



Gift annuities are very popular with donors, and ever more charities are offering them. However, issuing them entails risk because payments are a general obligation of the charity. If reserves are not prudently invested and sound policies are not followed, a charity might realize a minimal benefit from an annuity or even lose money.

That is why it can make sense to arrange an audit of your gift annuities to determine what actions should be taken to minimize risk and assure the profitability of your program.

### A **Charitable Gift Annuity Risk Audit** from PG Calc typically includes:

- Demographic analysis of existing gift annuities and how they compare with annuities issued by other charities.
- Identification of gift annuities at risk of exhaustion, using both constant net return and Monte Carlo models.
- Projected balances (residua) of existing gift annuities, again using the two models.
- Analysis of current annuity obligations and reserves to determine the amount by which reserves exceed the present value of annuity obligations.
- Determination of whether the organization is in compliance with state regulations and recommended actions if the organization is not.
- Comparison of actual reserves with the reserve requirements of regulated states where the charity is registered.
- Projected year-by-year cash flows (positive and negative), taking into consideration expected terminations of annuities with positive balances and annuities that may exhaust their reserves prior to termination of the obligation.
- Review of total fees charged to the fund, and recommendations regarding any changes.
- Review of the current investment of gift annuity reserves with comments on how the organization's practice compares with that of other charities.
- Review of policies pertaining to minimum ages of annuitants, minimum contributions, and types of property accepted, along with recommendations regarding any changes.
- An assessment of the total profitability of the program, based on distributions from annuities that have already terminated, any initial expenditures of a portion of the contributions, and projected balances of existing annuities.
- An examination of reinsurance as an option for certain or all of the organization's gift annuities.

The **Charitable Gift Annuity Risk Audit** culminates in a written report typically consisting of numeric, graphical, and narrative analyses pertaining to the items listed above, projected outcomes based on different assumptions, recommendations on how to deal with any problem annuities identified, and how to handle the payments associated with any exhausted annuity.

PG Calc is recognized as having exceptional expertise with gift annuities, as evidenced in part by our publication of the most comprehensive resource on the subject, *Charitable Gift Annuities: The Complete Resource Manual*.

