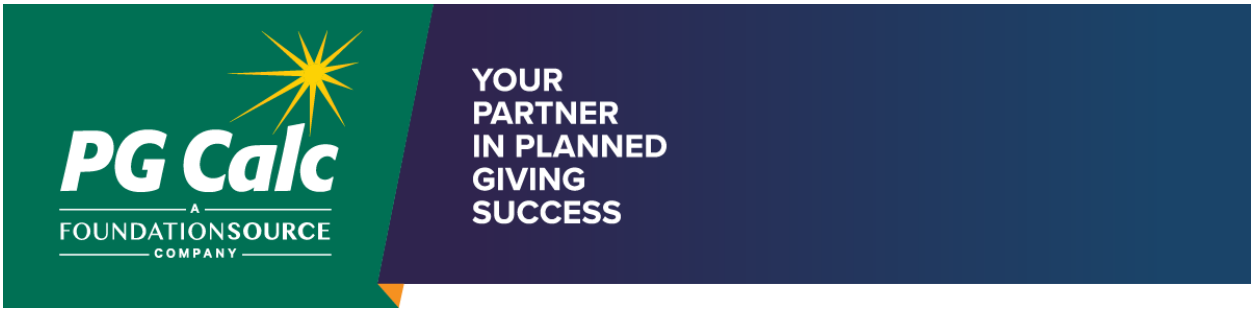

It Was Almost Too Good to be True: A Gift Annuity Program With an Average Residuum Over 100%

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The client called to ask an unusual question: did the "market value" for a recently terminated charitable gift annuity (CGA) appear to be correct? They had received the necessary legal authorization for the voluntary termination of a CGA, and the ending market value – a.k.a. the charitable remainder or residuum – was significantly higher than the original funding amount. They were familiar with the standard belief that gift annuities typically lose value over time, but they asserted that the terminating gift annuities in their program routinely delivered remainder amounts that were well above the original funding amounts. They asked if we would help them to review other gift annuity terminations to see if there was a problem that extended beyond the case at hand.

We say this is unusual because there is so much chatter nowadays about gift annuities that are NOT producing satisfactory returns for the sponsoring organizations. For some time, charities that follow the annuity rates suggested by the American Council on Gift Annuities have judged their programs successful when they produce an average residuum of 50% or more of their original funding amounts. Nevertheless, we hear about many gift annuity programs whose remainder amounts are consistently WELL BELOW 50% of their original funding amounts. At the extreme end of the spectrum, we hear about many "underwater" gift annuities – those examples where all of the original funding money has been depleted, and the sponsoring organization is now making payments out of its own funds. These examples are truly unfortunate – the whole idea of a gift annuity is that *some* of the money will be paid back over time to the donor or their designated beneficiary, and *some* of the money will be left at the end for the charitable organization.

In the situation described above, the specific gift in question was a $250,000 CGA established in August of 2023 by a married couple. Both donors were 86 at the time. Less than three years later, in July of 2026, they decided to relinquish their future income interests in the gift annuity, thereby accelerating the charitable gift. This organization calculates CGA market values on a monthly basis, and it was determined that the final market value – the charitable remainder or residuum – was $294,825 for this particular gift annuity. Not only was the remainder well above the theoretical 50% of the original gift funding amount, but it was also well above *the original gift funding amount*. No wonder the charity was questioning the accuracy!

Before we look more closely, we want to point out that these so-called "market values" are not really market values. That term implies something that is easily quantified and broadly apparent to a community beyond the parties at hand. The market value of a stock, for example, is determined by a public trading exchange, and a share of stock that is worth $25 to a particular buyer is worth $25 to any other buyer. Also, the term market value tends to be more applicable to things that can be transferred, bought, and sold with relative ease, although there are certainly some notable exceptions.

No, what we are calling the "market value" of a long-established charitable gift annuity is really the amount of *remaining gift dollars attributable to that specific gift*. If a gift annuity is funded with $50,000, and we say that the current "market value" is $35,000, we really mean that there is $35,000 left of the original $50,000 of funding amount. We might want to consider using the term "gift dollars remaining" rather than the term "market value" in the future. But for now, we will stick with the term that is familiar and popular.

We agreed to help the client take a closer look at the remainder values for some of its other recent gift annuity terminations. The client uses PG Calc's *GiftWrap*, whose CashTrac Market Values feature allows the sponsoring organization to update the "market values" of its charitable gift annuities with whatever frequency it prefers. This particular organization updates its CGA market values monthly. Here are ALL of the organization's gift annuity terminations over the past three years (in reverse chronological order):

GA Signed Date	Gift Amount	Termination Reason	Termination Date	Value of Final Distribution
8/15/2023	$250,000.00	Relinquish	7/29/2026	$294,825.05
4/28/2008	$25,000.00	Death	3/28/2026	$41,526.28
10/26/2006	$78,034.00	Death	3/28/2026	$162,332.76
9/14/2011	$100,000.00	Death	12/26/2025	$183,676.12
10/21/2004	$25,000.00	Death	10/23/2024	$20,870.35
10/21/2004	$25,000.00	Death	10/23/2024	$20,870.28
11/5/2005	$25,000.00	Death	10/23/2024	$18,816.35
9/14/2007	$25,000.00	Death	10/23/2024	$14,048.01
12/6/2016	$25,000.00	Death	10/23/2024	$28,734.58
5/11/2020	$25,000.00	Death	10/23/2024	$26,046.08
12/2/2003	$20,008.96	Death	11/30/2023	$13,628.64
Totals	**$623,042.96**			**$825,374.50**
				132.47%

These results are striking. While not every gift annuity delivered a remainder amount above its funding amount, as a group they achieved a total remainder value that was nearly one-third greater than their total funding amount. What is going on here? How can this organization be realizing, on average, charitable remainders well over 100% of the original funding amounts? Is there something wrong with ALL of their numbers?

We had a thorough discussion with the client. We reviewed the process by which they receive the monthly aggregate market value information. We also reviewed their process of updating the market values in *GiftWrap*. We couldn't find anything troubling in those reviews. *It appeared to us* that the gift annuity market values had been determined correctly. But we think it's important to comment a little more about this situation.

Running a successful gift annuity program is a long-term process involving multiple considerations. It is important that gift annuities achieve a combination of objectives: providing the vehicles for donors to make charitable contributions while making payments to the donors or other individuals for life. And the charitable organization should end up with charitable remainders that exceed the costs of running the program over the long run. It is a balancing act, and success is not easy. There have to be

thoughtful gift acceptance policies, good investment management, quality gift administration, and sensible accounting practices.

We spend a lot of time trying to figure out why some gift annuity programs are unsuccessful. Perhaps we should spend more time looking at the programs that are *highly successful*. What have these programs done correctly? Did they have outstanding investment management that far exceeded the norm? Are they doing something unusual on the accounting side? Getting to the bottom of what some organizations are doing correctly requires more than a cursory look.

In a future article, we will take a look at how some of the more successful programs are achieving such noteworthy results. It's not rocket science, as they say, but it's also not insignificant. There are distinct differences between successful gift annuity programs and unsuccessful gift annuity programs, and we'll do further exploration to determine some of those key differences. Stay tuned.