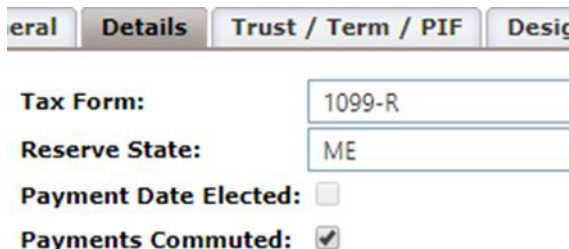Gift Annuity Reserve or FASB Calculations for
Commuted Payment Gift Annuities

A Commuted Payment Gift Annuity is a deferred gift annuity that permits the annuitant (not the donor) to choose to compress, or commute, a lifetime of payments into a few years, typically 4 or 5. This arrangement is also known as a College Tuition Gift Annuity. The election to commute may be made by the legal guardian of a minor child when gift is established or at a later date. If the election to commute is not made, the gift will perform like a Deferred Gift Annuity, and make payments for the life of the annuitant. This is generally not the intended outcome.

GiftWrap recognizes a gift as a Commuted Payment Gift Annuity (CPGA) when it has a Gift Type of *CGA* (*Charitable Gift Annuity)* and a Subtype of *C* (*Commuted).* While the Subtype indicates the option to commute, in order to commute the payments, the annuitant must sign a legal document. Once that document is signed, the payments are commuted and you must indicate that in GiftWrap by selecting the checkbox "Payments Commuted".

CPGA Calculations in GiftWrap. Performing State Reserve and FASB calculations for commuted payment gift annuities (CPGAs) whose payments have been commuted previously presented special challenges and sometimes manual adjustments, but as of the GiftWrap update released on May 31, 2019, *special calculations are no longer necessary for commuted payment gift annuities.*

You must determine whether the annuitant has exercised the option to commute the gift annuity payments. The Details tab on the Gift Information screen has a checkbox labeled *Payments Commuted*. The checkbox should be blank if the annuitant has not yet opted to commute payments and checked if the annuitant has opted to commute payments.

CPGA gift information <u>prior</u> to the commutation of payments

Prior to the annuitant commuting the payments, the CPGA is a deferred charitable gift annuity that is scheduled to make payments for the life of the annuitant(s). As such, the reserve for a commuted payment annuity that is not yet commuted will be computed the same way as a deferred gift annuity.

For the reserve calculation to be correct, make sure that the annuity rate (payout %) entered for the gift is the deferred annuity rate shown in the annuity contract prior to commutation. This is the rate that is imported when the new gift record is calculated and the gift information is imported into GiftWrap from a file created in Planned Giving Manager.

CPGA gift information <u>after</u> the commutation of payments

When the annuitant elects to commute the payments as specified in the gift annuity agreement, the Payments Commuted checkbox must be checked in GiftWrap. In addition, you must correctly populate the following fields:

Payout % on the general tab must be changed from the original deferred rate to the actual rate for the commuted payment schedule. To determine the payout rate, divide the annual payment amount by the gift amount and enter the result as a percentage in the payout field. Do not round down – use up to 8 decimal points.

For example, a CPGA established in 2005 for a 3-year-old and deferred for 15 years:
        Payout rate if *not* commuted: 7.2%
        Payout rate if commuted for 4 years: 40.5150%

Term End Date on the "Trust/Term/PIF" tab. It must contain the date of the last commuted payment.

Preparing the State Reserve Report or the FASB Liability Report

You may now produce State Reserves or FASB Liabilities for all your gift annuities, including CPGAs that have not been commuted as well as those that have been commuted, in a single report.

To do so, you must be sure to check the *Calculate commuted CGAs based on Term End Date (if payments have been commuted)* checkbox on the State Reserve or FASB Liability report interface. (This checkbox will be selected by default.)

Calculate commuted CGAs based on Term End Date
(if payments have been commuted):   ☑

On your State Reserve or FASB Liability report, you will see an indication of "commuted" for each gift whose payments have been commuted.

Other Helpful Tips:
To find all CPGAs in your GiftWrap database, produce a Gift Summary and choose Gift Type CGA and Subtype "Commuted".

To further filter the report only for gifts that have NOT been commuted, use this filter:
    gift.paymentscommuted = 0

To further filter the report only for gifts that HAVE been commuted, use this filter:

    gift.paymentscommuted = 1

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