

Computing Reserves & FASB for Flexible Deferred Gift Annuities

These instructions are written for CGA Reserves but apply equally to FASB.

A Flexible Deferred Gift Annuity is a deferred gift annuity that allows the annuitant to elect a start date from a range of start years established in the agreement. The longer the annuitant waits to start payments, the higher the payout percentage. Charities should contact FDGA annuitants every year to confirm whether they wish to begin receiving payments that year or prefer to wait. Payments *must* begin in the last year in the range. The frequency and the month/day of the first payment (i.e.6/30) is set in the original calculation and should not be changed, or the payment amount may need to be recalculated.

The method for computing liabilities for flexible deferred gift annuities (FGAs) depends on whether or not the annuitant has elected a payment start date.

Payment Date Elected

Once the annuitant has elected a date of first payment, the reserve calculation is the same as it is for a standard deferred gift annuity. GiftWrap can perform this reserve calculation correctly as long as the Payment date elected (First Payment Date) and the applicable annuity rate (Payout %) are entered in the Gift Information screen for the gift.

To indicate whether or not the annuitant of a flexible gift annuity has elected a date of first payment, use the *Payment Date Elected checkbox* on the Gift information screen (in the Details tab) for the gift.

To find all Flexible Deferred CGAs where a payment date has been elected, run a Gift Summary report using the following Custom Filter:

gift.subtypeID=8 and gift.paymentdateelected=1

Payment Date Not Elected

If the annuitant has not elected a date of first payment, the minimum reserve equals the highest reserve calculated among all of the elective combinations of date of first payment and annuity rate. The New York Department of Insurance has made this approach an explicit requirement in its instructions on computing annuity reserves.

To generate a list of Flexible Deferred Gift Annuities where the payment Date Elected has not been selected, run a Gift Summary report using the following Custom Filter:

gift.subtypeID=8 and gift.paymentdateelected=0

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Since GiftWrap applies only one first payment date and payout percent at a time, the way to determine the minimum reserve for a FGA is to compute the reserve based on each potential elective date/rate pair and determine the greatest reserve among the results. In most cases, the earliest date of first payment and corresponding annuity rate will result in the greatest reserve.

After determining the combination that yields the greatest reserve for each FGA enter the selected date of first payment and annuity rate in each the Gift Information screen.

After adjusting these values for the FGAs in GiftWrap, run the reserve report.

Re-evaluate FGAs annually, as the date of first payment and annuity rate with the greatest minimum reserve can change over time.

A Simpler approach

An alternative to computing the liability for each year in the range in order to determine the largest reserve, it is acceptable to compute the liability based on the **NEXT possible start date** with its corresponding payout percentage.

For example, let's say this is the schedule for a FGA *for which no election* has been:

Elective Start Date	Age	Annuity Tax-free Rate		Ordinary	Total Annuity
12/31/2019	67	8.0%	\$1,708.00	\$2,292.00	\$4,000.00
12/31/2020	68	8.5%	\$1,789.25	\$2,460.75	\$4,250.00
12/31/2021	69	9.0%	\$1,872.00	\$2,628.00	\$4,500.00
12/31/2022	70	9.6%	\$1,968.00	\$2,832.00	\$4,800.00
12/31/2023	71	10.2%	\$2,055.30	\$3,044.70	\$5,100.00
12/31/2024	72	10.8%	\$2,154.60	\$3,245.40	\$5,400.00

If your CGA Reserve or FASB Liability Valuation Date is:

Valuation Date:	Start Date to Use:	Rate to Use:
06/30/2020	12/31/2020	8.5%
12/31/2020	12/31/2021	9.0%

You must adjust the First Payment Date and Annuity Rate in GiftWrap. GiftWrap can store for reference the complete flexible schedule in the Flex GA tab in the gift information screen. This section is fully populated when new FGA gifts are loaded into GiftWrap using a file from PGM Anywhere/ PGM. If the data is complete, you can update the payment dates and payout percentages automatically by opening the Compliance Menu, select Reset FDGA Dates/Percentages and enter the appropriate Valuation Date.



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Not relevant to Reserves or FASB, but note that the Taxation Schedule is different for every year in the range and must also be updated in GiftWrap when the election is made.

Contact Client Services at 888-474-2252 or support@pgcalc.com for assistance.