



PG Calc Incorporated  
Your partner in planned giving<sup>SM</sup>

## Tips for Getting Started in Gift Annuities

Starting a gift annuity program is a big topic. Below, we touch on a few of the questions we hear most often. At the end of this document, we include a resource list with web links to helpful sites. For more information on these or other topics, please give PG Calc a call at 888-497-4970 and ask for Tina Yelle or Jeffrey Frye. PG Calc can help in any of these areas with advice, software, services, or through referral to one of our partner service providers.

*I just don't know where to start. What are the major components of starting a gift annuity program?*

There are two big categories.

### *Part One: Stuff you do just once*

1. Determine if a gift annuity program is right for your organization.
2. Create internal support and evaluate risk.
3. Complete state registration(s) as needed and set program policies.
4. Decide how asset management and planned gift administration will be handled.

### *Part Two: Stuff you do every year*

5. Find prospects and close gifts.
6. Track donors, annuitants, and gifts.
7. Make annuity payments.
8. Meet annual reporting and compliance requirements.

### *Part Three: Resources*

#### **Part One: Stuff you do just once**

##### **1) Determine if a gift annuity program is right for your organization.**

An organization generally commits to a gift annuity program after research and planning is presented to the Board for approval. Planning may be done by a Board or staff member, volunteer, or consultant. Some organizations wait until all components of the program have been decided before issuing their first annuity. Others close their first gift, then create their gift administration plan. Most charities do some planning to get started and work out the rest later.

Are you ready? While the following are not requirements, they are often key factors for success.

- A track record of fundraising.
- Full-time paid development staff.
- A sizable constituency with good planned gift donor potential.
- A willingness to direct development resources to deferred giving. Gift annuities are *not* the answer for immediate cash needs.
- A commitment to market your program. Any planned giving program has certain overhead costs, and it is generally not cost-effective to run one that has just a few gifts.
- An endowment.

## **2) Create internal support and evaluate risk.**

In order to gain critical internal support for a gift annuity program, your governing body must understand and accept the risks. By law, gift annuities are guaranteed by the assets of your organization. If your gift annuity fund becomes exhausted, payments to annuitants must still be made from your organization's general resources. Undertaking this liability is a serious commitment by the charity and should not be undertaken lightly. That said, fear of risk should not deter an otherwise well-qualified organization from issuing gift annuities. Understanding the risk is the best way to dispel fear.

The ACGA rates are designed to produce an average residuum of 50% of the original funding amount. Rates are already adjusted to compensate for the longer life expectancy associated with annuitants. In surveys conducted by the ACGA in 1994, 1999, and 2004, charities reported average remainders of 94%, 97%, 85% respectively – consistently higher than the predicted 50%.

## **3) Complete state registration(s) as needed and set program policies.**

Gift Annuities are regulated by the states. At this time, 28 states require some sort of filing, and twelve states require reserves, annual reports, and/or detailed applications. Some states exempt gift annuities from regulation but require notification that charities intend to issue gift annuities. Some states require the charity to meet statutory criteria, such as years in operation and minimum asset requirements. Some are "silent." Some don't require notification until your gift annuity program reaches a certain size. Depending on the states in which you plan to issue gift annuities, you may be required to register in one state, a few, all, or none before you can issue gift annuities. You must:

- Figure out which state rules apply to your organization.
- Complete and submit the application(s), if required.

You will also need to establish policy guidelines, such as:

- What is our minimum age for annuitants?
- What is our minimum gift amount?
- Will we accept deferred annuities?
- Will we accept gifts of real estate to fund annuities? (if allowed by state regulations)
- What rates will we offer?

These tasks can be accomplished by staff and board members, legal counsel, or consultants. Working with an expert, such as PG Calc's west coast Division [Planned Giving Services](#), may be a better approach than reinventing the wheel through staff research.

For information on your state, contact your state insurance commissioner or visit the ACGA web site: <http://www.acga-web.org/regs.html>

## **4) Decide how asset management and planned gift administration will be handled.**

Investment management and gift administration of planned giving programs are two entirely different areas of expertise. Major financial institutions offer both of these services to charities with large programs, but may have relationship minimums of \$500,000 or more that put their services out of reach for start-up programs. Your local bank or brokerage firm can manage your gift annuity assets, but may not have the experience to provide quality gift administration.

Don't insist on receiving bundled services at the risk of getting lackluster results in one or both areas. PG Calc has created a model for efficient 3-way partnerships with PG Calc, charities, and asset managers. We provide gift administration services, communicating with our charity clients on donor and gift information, and we work directly with their asset managers to coordinate cash flow to meet payment obligations. We can even provide guidance to your asset manager on the unique aspects of managing charitable gift annuity assets.

*Some points to remember when selecting an asset manager:*

- Performance: Average investment results will provide you with roughly half of the original annuity funding amount upon the death of the annuitant, after adjusting for inflation. With a diversified and well-balanced investment approach, you may see final gift values of 85% or more of the original amounts. Poor investment performance could drive your program under and force the use of other assets to satisfy payment obligations.
- State requirements: Some states apply specific investment restrictions to gift annuity assets. Your asset manager will need to become familiar with these requirements so that it can manage your program in a manner that complies with state regulations. You may be able to commingle gift annuity assets with your endowment.
- Cost: The fees for investing gift annuity assets should not be significantly larger than those for managing endowment funds. Aside from a few exceptions due to state requirements, the assets typically can be managed in a single pool using a total-return strategy.
- Responsiveness: Managing a gift annuity program requires timely coordination of donors' gifts, managing adequate cash flow to cover scheduled payment obligations, and the periodic liquidation of assets as each individual gift annuity terminates.

## ***Part Two: Stuff you do every year***

### **5) Find prospects and close gifts.**

- a) Don't keep it secret – market your program
  - b) Market to the right prospects
  - c) Close gifts with traditional fundraising techniques
- a) Once you're committed to a gift annuity program, it makes sense to market it. The one-time-only tasks and many ongoing costs are almost the same for five gifts or for fifty, but the return on your organization's investment of time and resources is drastically different. Include planned giving in all your marketing communications and on your web site. You may need outside resources to develop or implement a marketing plan. Adding GiftCalcs, PG Calc's planned gift calculator, on your web page is a good way to educate and identify prospects. PG Calc clients are welcome to reproduce any of our presentations and diagrams in your marketing materials – just give us credit in the fine print.
  - b) Now, who is your target market? In Step One, you determined that your constituency had good potential for a gift annuity program. Now it's a good idea to learn the profile of a gift annuity prospect, and target your marketing efforts appropriately. For instance, did you know that your best major gifts donors may not be good gift annuity prospects?

*"Many charities promote charitable gift annuities to the wrong prospects. Improve your results by knowing who to approach."* Lawrence C. Henze, J.D., Managing Director, Blackbaud Analytics

For some organizations, an analysis of their constituent databases to identify gift annuity donors is a good investment. PG Calc recommends [Blackbaud Analytics](http://analytics.blackbaud.com) for its sophisticated approach and because it's the only company with a statistically valid planned giving model. Visit <http://analytics.blackbaud.com>

- c) Closing gifts can be done by staff or Board members, volunteers, consultants, or other service providers. But eventually, closing a gift comes down to a one-on-one conversation with your donor, whether in person or on the phone. For this reason, most charities rely on development staff members to close planned gifts. Like all fundraising, the personal relationship with the donor is crucial. You will not close gifts on the technical merits of the gift annuity but rather on the donor's commitment to your charitable mission. If you can convince

a donor of the merit of your cause, you already have the most important tool you need to close gift annuities.

Fortunately, it is not difficult to learn the basics of gift annuities. The concepts are simple, and when you work with PG Calc, you always have expert advice when you need it, with unlimited access to experienced gift planners on our Client Services staff. We'll talk you through your first gifts and check your gift plans before you show them to the donors. Even our software provides a safety net by issuing warning messages or preventing you from modeling an illegal gift. Our electronic and print newsletters keep you up-to-date with tax and regulatory news.

## **6) Track donors, annuitants, and gifts.**

It's obvious that you need to track your gift annuities, but it's not as obvious how many times the information you track will be needed for different purposes. Failure to track the right information and to share it may result in data duplication in multiple systems, incomplete data, and reliance on spreadsheets or outside consultants for required reports. It's also useful to be aware that outsourcing gift administration rarely eliminates the need for internal tracking and reporting entirely.

- a) Who needs information?
  - b) What information is needed?
  - c) How will information be shared?
- a) A sound approach is to start by identifying who will need access to gift annuity data. This list will usually include the Development, Planned Giving, Accounting/Business and Finance/Treasurer's offices. The person who oversees outside service providers and asset managers should be included.

A good working relationship among the Development, Accounting and Finance offices and a shared understanding of requirements is a key factor in a successful gift annuity program. The time and effort taken initially to build that relationship will be rewarded many times over.

- b) Continue with a cross-departmental review of the annual reporting requirements and make sure all the right data will be available when needed. The value of tracking some information may not be apparent on day one, but relegating details to the paper file can result in a stressful scramble at year end. For example, if the Business Office will issue 1099-R tax forms for annuitants, social security numbers need to be tracked. If the Finance Office will need to calculate gift liabilities for the annual financial statement, payment timing and frequency need to be tracked.
- c) Next decide how the information will be made available. One approach is to track all your gift annuity data in one primary database which addresses the needs of all departments and make it accessible on the network with appropriate security. PG Calc's GiftWrap software is ideal in this situation. GiftWrap not only stores comprehensive information, it uses the data to provide reporting and perform calculations.

However, there are some common objections to using a database specifically designed for gift annuities:

*I already have a donor database and don't want to duplicate information.*

This is a valid concern and some organizations opt to track their gift annuities in their regular fundraising database. Initially, tracking all gifts in the system designed for fundraising tasks works for Development. But it is not ideal for Finance and Accounting. Generally, fundraising databases do not store all the data that turns out to be needed sooner or later. The unhappy results may include:

- Difficulty fulfilling requests for information from other departments
- Reliance on paper files for details
- Evolution of secondary databases in other departments

- Reliance on spreadsheets for reporting
- Retyping data into Word for Board reports
- Late or incorrect tax forms to annuitants

*We outsource gift administration so we don't need to track gifts internally.*

This idea is very appealing, but may not turn out to be true. Charities often need more information than the service provider offers, such as:

- Management reports
- Expectancies
- Cash flow projections
- FASB 116/117 liability reports
- Market values
- Gift annuity reserve reports for all states

*Our Accounting Office has its own software.*

Accounting staff initially prefers to use existing software to produce payments and tax forms for gift annuities. However, accounting software may not produce reports needed by other departments, so duplication of information tends to occur. A better alternative is to store all gift data in one system and use simple upload files to send data to accounting software to produce payments or generate general ledger entries using accounting software. With this approach, using a single system like GiftWrap ensures that all reports, payments and tax forms are using the same source data.

In summary, when deciding how to track gift annuities, consider the long terms needs of all departments, not just Development. Making sure that complete data is accurately tracked from the beginning and readily available to all departments can save your organization a great deal of time, vexation, and expense in the years ahead.

For information on integrating GiftWrap with your other software systems, call Tina Yelle at 888-497-4970.

## **7) Make annuity payments.**

Think “*stewardship*”. Research has shown that donors who make planned gifts develop stronger relationships with the charity and are more likely to make additional gifts. Annuity payments are your organization’s opportunity to contact donors regularly and to create positive impressions. Regardless of who processes the payments, make sure payments are accurate and timely.

## **8) Annual reporting and compliance.**

Running a gift annuity program brings with it many obligations. Among them are a variety of annual reporting requirements. Chief among these are:

- Filing of an annual statement if required by the state(s) in which your charity issues gift annuities.
- Computation of reserve requirements that satisfy the requirements of all the regulating states in which your charity issues gift annuities.
- Computation of liabilities that satisfy the requirements of the Financial Accounting Standards Board. These liabilities must be included in your charity’s annual financial statement.
- Provision of a complete and accurate 1099-R tax form to each active annuitant and submission of similar tax information to the IRS.

*Annual statements:*

Known as annual statements, annual reports, or annual filing, these are annual statements of gift annuity activity and are required by a number of states. The statement varies from state to state, but

typically includes some general information about your charity and your annuity program, specific information on how your gift annuity assets are invested, and details on your gift annuity activity during the year (beginning balance, new gift annuities, terminated gift annuities, ending balance), and an actuarial component.

#### *Reserve reports:*

Some regulating states require charities issuing gift annuities in their states to maintain a minimum reserve to finance their annuities. In order to prove the adequacy of its reserves, the charity must compute and report the minimum reserve required by each gift annuity in a manner that satisfies the state's requirements. States that currently require reporting of minimum annuity reserves include Arkansas, California, Florida, Maryland, New Jersey, New York, Oregon, Washington, and Wisconsin.

Click here for more information on the annuity reserve reporting requirements of the regulating states: <http://www.pgcalc.com/oldtips/tip200404.htm>

#### *FASB liabilities:*

The Financial Accounting Standards Board (FASB) develops and promotes accounting guidelines for use by accountants, auditors, and other financial professionals. FASB statements 116 and 117 describe how non-profit organizations should report their finances, including how they should report their planned gifts. In particular, they instruct charities to compute the liability represented by each of their planned gifts and to include these liabilities in their annual financial statement.

Click here for a two-part article that explains FASB accounting requirements for planned gifts in detail: [http://www.pgcalc.com/pdf/PGTEFR\\_article1.pdf](http://www.pgcalc.com/pdf/PGTEFR_article1.pdf); [http://www.pgcalc.com/pdf/PGTEFR\\_article2.pdf](http://www.pgcalc.com/pdf/PGTEFR_article2.pdf).

#### *Tax reporting to your annuitants and the IRS:*

Your charity must track the taxation of each annuity and properly report it to the annuitant each year on Form 1099-R. Your charity must also report this same tax information to the IRS. If your charity has 250 or more annuitants, it must report this tax information to the IRS in a computer file that conforms to IRS specifications.

PG Calc can help you fulfill all of these requirements. The annual obligations described above may seem intimidating, but they don't have to be. PG Calc provides software and services that will help you fulfill all of them.

### **Part Three: Resources**

For someone starting a gift annuity program for the first time, the "to do" list may seem overwhelming, but not for PG Calc. We've "*been there, done that.*" PG Calc has software, services, consulting, and training that cover just about everything. For the few aspects of gift annuities that we don't address, we can connect you with leading specialists.

- **American Council on Gift Annuities:** Visit: <http://www.acga-web.org> for a wealth of information on charitable gift annuities.
- **2004 Survey of Charitable Gift Annuities:** Information on mean remainders, donor profiles and more. To order visit <http://www.acga-web.org/orderform05.pdf>
- **Initial Filing and setting policy:** PG Calc recommends our west coast Division [Planned Giving Services](#) for initial state registration and policy setting. Planned Giving Services President Frank Minton is one of the country's top authorities on charitable gift annuities, and the current president of the American Council on Gift Annuities.
- **Charitable Gift Annuities: The Complete Resource Manual:** No gift annuity program should be without this definitive reference: <http://www.pgcalc.com/software/resourcemanual.htm>

- **PowerPoint presentations:** PowerPoint presentations on a variety of topics are available through PG Calc for Board and staff education, starting at \$200.
- **Prospect education:** [GiftCalcs](#), PG Calc's inexpensive web-based planned gift calculator, allows qualified planned gift prospects to identify themselves and take the first steps in educating themselves about gift annuity benefits.
- **Reserve reports:** PG Calc can produce [an annuity reserve report](#) for you to satisfy any and all of the regulating states. Just send us the gift annuity data we need and we take care of the rest. Alternatively, you can purchase [GiftWrap](#), our planned gift administration software. GiftWrap can produce the annuity reserve report you need with just a few keystrokes.
- **FASB liabilities:** PG Calc can produce [a FASB liability report](#) for you. As with reserve reports, just send us the gift annuity data we need and we take care of the rest. Alternatively, you can purchase GiftWrap. GiftWrap can produce the FASB liability report you need with just a few keystrokes.
- **Annual State Reports:** PG Calc can prepare your annual state report.

For more information on these or other topics, please give PG Calc a call at **888-497-4970** and ask for Tina Yelle or Jeffrey Frye. PG Calc can help in any of these areas with advice, software, services, or through referral to one of our partner service providers.

*Want to know more?*

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