Managing the Financial Liability of a Charitable Gift Annuity Program

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AMERICAN COUNCIL ON GIFT ANNUITIES
Promoting Responsible Philanthropy

Introduction

The American Council on Gift Annuities (ACGA) is a 501(c)(3) public charity established in 1927 to promote responsible philanthropy through actuarially sound charitable gift annuity rate recommendations, quality training opportunities, and consumer protection. The ACGA is supported by nearly 1,000 sponsoring organizations and institutions that are committed to the sound management of development and fundraising—especially charitable gift annuity programs. The ACGA is directed by a volunteer board comprised of professionals active in the field of planned giving and the management of institutional funds.

Managing the Financial Liability of a Charitable Gift Annuity Program
In furtherance of its mission, ACGA presents this white paper and recommendations as a resource for sponsoring organizations, allied professionals, and the broader philanthropic community. The paper is intended to provide a basis for the discussion of best practices in managing the financial liability of charitable gift annuity programs for development and finance staff, as well as board members.

Acknowledgement
This paper was authored at the request of the ACGA by Frank Minton, who is a past chair of the ACGA and a past president of the Partnership for Philanthropic Planning (formerly NCPG).

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The purpose of this paper is to guide charities that already have, or are planning to establish, a charitable gift annuity program and are wondering whether to self-insure their charitable gift annuities, reinsure them, or adopt an unbundling approach to "gift annuities."

After a description of charitable gift annuities, each of these alternatives is explored with reference to current practice, tax implications, regulatory requirements, and advantages and disadvantages. Then the paper concludes with the recommendations of the American Council on Gift Annuities (ACGA).

(**Note**: Hereinafter, the abbreviated term *gift annuity* will be used instead of the longer, formal term *charitable gift annuity*.)

Description of Gift Annuities

A gift annuity is a contract under which a charity, in return for a transfer of cash or other property, agrees to pay a fixed sum of money to one or two individuals for life. If payments begin within the first 12 months following the contribution, the gift annuity is said to be **immediate.** If they begin more than one year following the contribution, the gift annuity is said to be **deferred.**

IRC Sec. 514(c)(5) states that a gift annuity will not be considered commercial insurance, and the charity will not have unrelated business taxable income, if it meets these conditions:

- The obligation to make payments is the sole consideration for the contribution.
- The present value of the annuity is less than 90 percent of the value of property contributed.
- The annuity is payable for the life of one individual or for the lives of two individuals, not for a term of years.
- The annuity contract does not guarantee a minimum number of payments, or specify a maximum number of payments, or provide for an adjustment of the payments.

When these conditions are met, a charitable deduction is allowed for the amount by which the contribution exceeds the present value of the payments. (See Reg. Secs. 1.170A-1(d)(1), 20.2055-2(f), and 25.2522(c)-3(d)).

When cash is contributed, the portion of each annuity payment that represents a return of capital is not taxable income to the annuitant (the person who receives the annuity payments). The capital is presumed to be returned ratably over the life expectancy of the annuitant, or in some cases, over the joint life expectancy of two annuitants. If appreciated property is contributed for a gift annuity, the taxable gain can be ratably reported over life expectancy if the donor is an annuitant. (See below for a discussion of how taxation of payments could depend on the option chosen for operating the program.)

The ACGA periodically suggests maximum gift annuity payment rates, and most charities (96 percent of the respondents to the ACGA's 2013 Survey of Charitable Gift Annuities [hereafter "2013 Survey"]) always or usually follow the suggested rates, though a charity is free to set its own rates provided the present value of the annuity payments is less than 90 percent of the value of the contributed property and it meets any applicable state requirements.

The Charitable Donation Antitrust Immunity Act of 1997 allows charities to offer common payment rates by stating that antitrust laws shall not apply to gift annuities.

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The Philanthropy Protection Act, enacted in 1995, exempts from securities regulation commingled funds in which charities invest trust and gift annuity assets, and it also exempts fundraising representatives from being classified as brokers and dealers. However, the latter exemption does not apply when any person, employee of the charity or otherwise, receives a commission based on the value of donations received. The Act requires a charity issuing gift annuities to disclose to donors written information about gift annuities and the operation of reserves backing them.

Self-Insured Gift Annuities

Description

A gift annuity is **self-insured** when the charity invests the donated asset(s) and uses the earnings on the asset(s), and also the capital if necessary, to make the annuity payments. In the event that all of the donated assets are exhausted prior to the termination of the payment obligation, the charity must use its general funds to make the payments. In other words, a self-insured gift annuity is backed by all of the unencumbered assets of the charity that enters into the contract.

The charity may spend a portion of the contribution immediately provided it retains sufficient reserves to satisfy payment obligations. Most charities, however, keep the entire contribution (increased by earnings and decreased by annuity payments and expenses) in reserve until the death of the sole or surviving annuitant. Then they use the remaining funds for their charitable purposes.

Practice

According to the 2013 Survey, ninety-one percent of participating organizations reported that they self-insure all of their gift annuities.

Tax Implications

Both the charitable deduction and the taxation of annuity payments are based on IRS tables and an IRS discount rate, which is announced monthly per Internal Revenue Code Section 7520. Generally, as the IRS discount rate decreases the charitable deduction will be smaller, but more of the annuity payments will be a tax-free return of capital. Conversely, when the discount rate increases the charitable deduction will be larger, but less of the annuity payments will be tax-free.

When appreciated property is contributed for a gift annuity, the portion of the capital gain allocated to the charitable deduction is not taxed. For example, if the charitable deduction is 35 percent of the value of the contribution, 35 percent of the capital gain will escape taxation. The remainder of the gain will be taxed, but if the donor is an annuitant, the gain can be reported ratably over the life expectancy of the donor, or over the joint life expectancy of spouses when they contribute jointly-owned or community property and are joint and survivor annuitants.

Regulatory Requirements

Most states have enacted legislation regulating gift annuities to some degree. Many states require a charity issuing gift annuities to have been in existence a certain number of years and to have a minimum amount of unrestricted assets. Other states impose additional requirements, which may include obtaining a permit and maintaining a segregated reserve fund with sufficient, actuarially-determined assets to meet outstanding annuity obligations.

All charities self-insuring gift annuities must comply with the regulatory requirements of states in which their donors reside at the time the gift is made.

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Advantages of Self-Insuring Gift Annuities
Self-insurance has two major advantages. The first is simplicity. It is very easy for a donor to grasp the concept: "I give a charity x amount, the charity makes annuity payments to me for life, and the remainder of my gift is used for my stated charitable purpose." Because self-insured gift annuities are uncomplicated, they can be marketed through relatively simple messages. For that reason, individuals who begin with a modest contribution for a self-insured gift annuity often fund additional gift annuities and, in some cases, increase annual giving or arrange some form of legacy gift.

The second advantage is that charities usually realize a greater economic benefit through self-insurance. The gift annuity payment rates suggested by the ACGA are designed with an assumption that at least 50 percent of the original contribution will be left for charitable purposes at the death of the sole or surviving annuitant. However, the actual portion remaining has consistently been higher. The average amount remaining, per the 2013 Survey, was 64 percent. In the previous four ACGA surveys, where terminating annuities had not been as affected by the unusually low returns of the first decade of this century, the amount remaining ranged from 81.6 percent and 97.5 percent. Charities achieved these results because, on average, they achieved better investment results than the conservative return assumption on which the suggested gift annuity payment rates is based. If charities self-insure their gift annuities and realize the kinds of returns they have been averaging, they will have more for charitable purposes than they would through the alternatives discussed below.

Disadvantage of Self-Insuring Gift Annuities
The disadvantage of self-insuring its gift annuities is that the charity is at financial risk. If the return on a contribution is lower than expected and/or an annuitant lives well beyond life expectancy, it is possible for the contribution to be totally exhausted and for the charity to have to dip into general funds to continue the payments. Even if it does not actually lose money on a particular gift annuity, the amount remaining could be lower than expected. The risk is greater for a charity that issues a small number of gift annuities because the longevity of its annuitants could exceed the average life expectancies in the actuarial tables, and because the charity may be unable to achieve economies of scale when investing a modest amount of assets. Charities with a larger number of gift annuities almost always make money on their gift annuity program as a whole, even if they might lose money on a particular gift annuity because of timing of investment returns and annuitant longevity. Actually, the financial risk of any self-insured gift annuity is quite small when a charity follows the conservative gift annuity payment rates suggested by the ACGA.

Administrative Options for Self-insured Gift Annuities
Charities that self-insure gift annuities generally choose one of the following options for administration and investment of reserves. Administration entails sending payments to annuitants, tax information filings to annuitants and the IRS, state reports as required, and accounting to track residua of annuities that are for designated charitable purposes.

- **Option 1: The charity handles both administration and investing in-house.** This is the least expensive procedure, but it should only be attempted by charities that have staff with expertise and time to perform these duties. Software to assist with administration can be purchased from vendors.
- **Option 2: The charity outsources, generally to a financial institution, both investing and administration.** This alternative assures that both duties will be performed by skilled professionals and the charity's gift planning officers can focus on marketing. Although the annual fee for these services depends somewhat on the volume of gift annuities, generally it will be in the range of 1.0 percent of the value of gift annuity reserves.
- **Option 3: The charity outsources investing to a financial institution and does the administration in-house.** The institution might be one already retained by the charity for other purposes, such as investment of endowment

assets. If that is the case, it must make sure that the institution is aware of and invests according to the restrictions of states in which the charity is registered to issue gift annuities. The fee for investing alone will, of course, be less than for both investing and administration.

- **Option 4: The charity divides administration and investing, outsourcing administration to an institution that specializes in this service and investing to a financial institution.** This option would appeal to a charity that likes the investment performance of a firm that does not offer administrative services, and to a charity that prefers the administrative services of a particular firm, even if those services are available from the firm chosen for investing. It would be necessary for the firm handling administration to obtain the necessary information from the firm doing the investing. The combined fees may be in the range of the fee that would be charged by an institution that does both administration and investing.

Partnering with a Charity that Issues Self-Insured Gift Annuities
Some charities, not wanting to assume any of the financial risk or duties associated with self-insured gift annuities, partner with a charity that will issue annuities for its benefit. Certain community foundations and other national charitable foundations will partner with charities that do not wish to be the actual issuer of gift annuities.

Suppose, for instance, that Charity A, for various reasons, does not want to be the issuer of gift annuities, but it would like to accommodate its donors who inquire about making gifts in this manner. Working collaboratively with Foundation B, it arranges for a donor to make the contribution to Foundation B, which has a permit to offer gift annuities in the state where the donor resides. Foundation B issues the gift annuity to the donor, and Foundation B is responsible for making annuity payments, state reports, administration, and investing. While the gift annuity is in force, Foundation B collects a fee from the reserves for this annuity to cover its administrative and investment costs and to reimburse itself for the time it invests and the risk it assumes. It may also have charged an up-front fee, which is a small percentage of the amount contributed for the gift annuity. At the death of the annuitant, or the survivor of two annuitants, Foundation B grants to Charity A all or a portion of the residuum of the annuity contribution. Some foundations grant the entire residuum to the referring charity, while others retain a portion of it. Still others retain the entire residuum in a designated fund and pay annual income to the referring charity. The practices of partnering foundations regarding up-front charges, annual fees, and distribution or retention of the residuum vary.

Charity A is effectively outsourcing gift annuities. It does not actually have a gift annuity program. It refers donors to a foundation that does have a program. This is a very different arrangement from a charity that issues gift annuities and then outsources investing and/or administration.

Reinsured Gift Annuities

Description
As commonly understood, a gift annuity is **reinsured** when a charity receives a contribution and uses a portion of it to purchase from an insurance company a commercial annuity that pays the amount stipulated in the gift annuity agreement. For example, if a charity receives a contribution of $100,000 and promises to pay $6,000 per year to the annuitant, it might purchase a single premium, commercial annuity from an insurance company that would pay $6,000 per year. If the commercial annuity premium cost were $70,000, the charity would have $30,000 remaining for charitable purposes.

The insurance company is obligated to make the payments under the commercial annuity contract executed with the charity, but that fact does not release the charity from ultimate liability. In the event that the insurance company goes bankrupt, the state guarantee association would provide protection to the charity up to a certain limit, but the charity has a contractual obligation to continue payments, even if it has to use its own funds.

Payment of a commission to the insurance agent or broker who handles the reinsurance is not a violation of the Philanthropy Protection Act, for the charity is not paying a commission on the delivery of a gift. The commission paid to the agent or broker is analogous to the commission paid to the person who transacts the sale of securities or real estate donated to a charity.

(**Note**: The term "reinsurance" in the insurance industry refers to one company ceding risk to another company. In the case of gift annuities, the reinsuring company would assume the risk of assuring that payments would be made. However, as generally understood and practiced by charities, reinsurance refers to the charity's purchasing a commercial annuity from an insurance company to cover its obligation.)

Practice

According to the 2013 Survey, 2% of respondents reinsure all their gift annuities. 7% of respondents reinsure some of their gift annuities and self-insure the rest. 91% of respondents do not reinsure any of their gift annuities.

Tax Implications

Provided a charity, in its own discretion, reinsures a gift annuity with no contractual obligation to do so, the charitable deduction and the taxation of payments are unaffected.

Suppose, however, that the charity reinsures pursuant to a gift annuity agreement that requires reinsurance and specifically names the reinsurer. Or suppose that the charity has an agreement with an insurance company obligating it to reinsure all of its gift annuities with that company. In both cases, the charitable deduction will be the amount retained by the charity, and the capital to be ratably returned over the life expectancy of the annuitant(s) will be the premium amount paid to the insurance company. (See Rev. Rul. 72-438 and 84-162 and also PLR 8322068.)

When there is a contractual obligation to reinsure a gift annuity, effectively the donor has made an outright gift and purchased a commercial annuity, and the charity has acted as his or her agent in procuring the commercial annuity. That is why the charitable deduction and taxation of payments are determined differently. However, when the charity simply chooses to reinsure as an investment decision and as a way of assuring the cash to meet its payment obligation, the tax implications are the same as for a self-insured gift annuity.

Regulatory Requirements

Whether a charity self-insures or reinsures gift annuities, it must comply with state regulatory requirements. If a permit is required to issue gift annuities, that permit must be obtained whether the charity will self-insure or reinsure its gift annuities. However, in most states that require a charity to maintain a segregated reserve fund, reinsurance will reduce the amount that needs to be kept in that fund. That is because those states do not require a charity to maintain reserves for a gift annuity that has been reinsured.

Advantages of Reinsuring Gift Annuities

Reinsurance of gift annuities offers three advantages:

- First, financial risk to the charity is essentially eliminated. The charity remains legally obligated to make the payments, and it will have to use its own funds to do so if the insurance company becomes insolvent and sufficient funds are not forthcoming from the guarantee association. Nevertheless, if reinsurance is with a highly rated company, this is very unlikely.

- Second, a portion of the gift is available for immediate use by the charity. That is also true of self-insured gift annuities provided the charity retains enough of the gift to meet state reserve requirements, but charities that self-insure are more likely to keep the entire contribution in reserve until the termination of the gift annuity payment obligation.
- Lastly, donors may feel more secure with reinsurance than with self-insurance if the charity is small and not financially strong.

Disadvantages of Reinsuring Gift Annuities
As noted above, if charities can earn the reasonable returns that most have been averaging, the amount remaining for them upon termination of the annuity payment obligation will generally exceed the future value of the amount retained by the charity in the case of reinsurance. The reverse could be the case when an annuitant lives well beyond life expectancy.

Marketing reinsured gift annuities is more complicated because of injection of a third party (the insurance company) into the mix.

Donors may be disappointed and confused when they learn that the charity retains only a fraction of the contribution. Suppose a donor gives $100,000 for a gift annuity, and the charity advises her that it is using $73,000 to reinsure the obligation and that $27,000 will be used for the designated charitable purpose. Even if the present value of the amount the charity would have realized with a self-insured gift annuity were no greater than $27,000, the donor perceives herself as giving $100,000, a substantial portion of which will eventually be available for charitable purposes.

Unbundled "Gift Annuities"

Description
Some financial services professionals are promoting a plan whereby an individual simultaneously purchases a commercial annuity from an insurance company and makes an outright gift to a charity. The transaction "unbundles" or breaks a "gift annuity" into its component parts and removes the charity from the annuity-payment part of transaction, other than possibly having brought the client to the table.

The transaction mimics a gift annuity in that the annuity payments from the insurance company are the same amount as the payments the annuitant would have received from a self-insured gift annuity funded with the premium cost plus the outright gift. However, it is important to note that the transaction is neither a self-insured nor a reinsured gift annuity, and it should not be represented as such. The only charitable component is an outright gift made by an individual, who, in the same time frame, purchases a commercial annuity through an agent of an insurance company.

Suppose that A, age 75, is willing to make a total transfer of $100,000. If she contributes this amount to a charity for a self-insured gift annuity, she would receive $5,800 per year. Instead of contributing the $100,000 to the charity, she purchases, at a cost of $71,340, directly from an insurance company, a single premium, immediate commercial annuity that will pay her $5,800 per year. At the same time, she makes an outright gift to the charity of $28,660. The charity and the financial services professional collaborate so that A is presented with a package consisting of the commercial annuity purchase and an outright charitable gift. (**Note:** the average premium charged by a sample of 18 insurance companies early in 2015 for a commercial annuity paying $5,800 per year to a female annuitant, age 75, was approximately $71,340. Premiums charged by insurance companies will fluctuate based on interest rates and market conditions, and they are gender-based.)

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Practice
It is not known how many charities are collaborating with the insurance industry in promoting this unbundled approach, but the number appears to be growing.

Tax Implications
The charitable deduction is the same as for any outright gift of an equivalent amount. A donor who makes the outright gift with long-term appreciated securities would receive a charitable deduction equal to their market value and would not be taxed on the capital gain.

No charitable deduction is allowed for the commercial annuity premium cost, which must be paid to the insurance company in cash. A donor, who wishes to fund the entire transaction with appreciated securities, will be taxed on the gain in the portion of the securities that are sold to generate cash for the commercial annuity premium. As with any annuity funded with cash, the portion of the commercial annuity payments that represents a return of capital (premium cost) is tax-free to the annuitant.

Regulatory Requirements
Since the charity is simply receiving an outright gift and is not issuing a gift annuity, it is not subject to any state regulations pertaining to gift annuities. It need only comply with general charitable solicitation laws of the states where it fundraises.

The insurance company and the insurance agent who sells the commercial annuity must, of course, be appropriately licensed.

Advantages of the Unbundled "Gift Annuity"
The promoters of the unbundled approach cite these advantages:

- The charity has money for immediate use.
- The charity has no financial risk, for it is not a party to any agreement where it commits to pay a certain amount for the life expectancy of one or two individuals.
- The charity is not subject to the sometimes onerous state regulatory requirements. It need not obtain permits to issue gift annuities in heavily-regulated states, and it need not maintain any segregated reserve funds.
- The unbundled approach can be particularly appealing to a charity that has a willing gift annuity donor in a given state but does not have enough donors in that state to justify the expense of registration.

Disadvantages of the Unbundled "Gift Annuity"
The charitable deduction and taxation of commercial annuity payments are not determined the same way as a self-insured or discretionally reinsured gift annuity and consequently may not be as attractive to the donor.

A person who wants to contribute appreciated property will be taxed on the gain allocated to the premium cost. Suppose, for example, that this person contributes stock with a value of $100,000 and a cost basis of $20,000, and suppose further that the premium cost of the commercial annuity is $70,000. The donor would be taxed immediately on 70 percent of the gain, or $56,000. If the donor is an annuitant and contributes the securities for a self-insured or discretionally-reinsured gift annuity, there would be no immediate taxation of the gain. The taxable portion of the gain could be ratably reported over the life expectancy of the donor-annuitant.

With the unbundled approach, the gift may not happen. Donors may ask whether a charitable gift is required to purchase a commercial annuity, or whether they could increase commercial annuity payments by eliminating or

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reducing the gift. The answers, of course, are "no" and "yes." Consequently, people may decide to make no gift or a smaller gift.

The charity is essentially out of the loop as far as the commercial annuity is concerned. Thus, the ongoing relationship maintained through the gift annuity payments made over a donor's lifetime is lost.

The value of what the charity receives from a contribution of the entire asset for a self-insured gift annuity is likely to be larger than an outright gift of just a fraction of the asset.

The transaction is not technically a violation of the Philanthropy Protection Act because no gift annuity is involved and the commission being paid to the agent or broker is on a commercial annuity. However, the collaborating charity representative is participating in the promotion and sale of a commercial product. This is a questionable practice for a non-profit organization, and some licensing might be required for the charity representative.

If the unbundling approach were to become widespread, the IRS might change the way of determining the charitable deduction and taxation of payments for charitable gift annuities, effectively eliminating the gift annuity as we know it.

Recommendations

1. The ACGA recommends that charities *not* represent the unbundled approach as a gift annuity and *not* participate in the sale of commercial annuities for the following four reasons:
    - There may be federal and state securities law issues if a charity's employees promote the sale of commercial annuities, for they probably do not have a license to do so. Further, the charity is not licensed as an entity to promote the sale of insurance products or securities.
    - The unbundled approach does not offer the same tax benefits as a gift annuity.
    - The economic benefit may be less than a charity would realize with a self-insured gift annuity.
    - The widespread use of the unbundling approach could jeopardize the future of traditional gift annuities.

    There may be instances when a financial services professional, who is licensed to sell commercial annuities, will have identified a client who is interested both in receiving fixed payments for life and in making a charitable gift. The professional proposes to the client that he or she purchase a single premium, immediate commercial annuity and make an outright gift to the charity the client wishes to support, and the professional may, in fact, refer the client to the charity. The charity should, of course, help the person arrange the outright gift and properly acknowledge the professional who instigated the gift.

    There may be other instances when a charity receives an inquiry about a gift annuity from a person who resides in a state where the charity does not and will not issue gift annuities. The charity might suggest that the inquirer consider making an outright gift and consulting a local insurance agent about a commercial annuity that could provide life payments. The purchase of the commercial annuity would be arranged with the agent without participation of the charity, and the outright gift would be negotiated with the charity.

    These appropriate transactions should be distinguished from a program where a charity and an insurance company or a financial services professional enter into a joint venture to promote outright gifts and the sale of commercial annuities, incorrectly labeling the conjoined outright gift and commercial annuity as a "gift annuity", and using the charity's mailing lists, marketing material, and personnel to support the venture. The ACGA cautions charities about participating in such a program because it is misleading and may have the problems and disadvantages mentioned above.

2. The ACGA takes no position as to whether a charity should reinsure some or all of its gift annuities. It advises a charity to make that decision based on its own situation, considering the advantages and disadvantages cited above.

   There are three alternatives for charities: reinsure none of their gift annuities, reinsure all of them, or reinsure some of them. Those that follow the third alternative might reinsure all or part of a gift annuity above a certain size in order to limit their risk. For example, a charity that ordinarily self-insures gift annuities has reserves for outstanding gift annuities totaling $2 million, and a donor offers $1 million for a gift annuity. Because one-third of its entire gift annuity pool would then depend on the outcome of one gift annuity, the charity might decide to limit its risk by reinsuring the large gift annuity, or perhaps 70 percent of it.

3. The ACGA recommends that charities that self-insure gift annuities (more than 90 percent of those participating in every ACGA survey conducted during the past 20 years) not exceed the rates the ACGA suggests, comply with all applicable state recommendations, and generally follow best practices regarding investment and administration. This is the best way to minimize risk, maximize the financial benefit, and maintain the credibility of gift annuities with regulators and the public at large.

   The best practice regarding investment and administration depend on the capacities of the charity and the size of the gift annuity program, but here are some suggestions:

   - Do not administer gift annuities and invest reserves in-house unless the charity is absolutely certain it has the staff and expertise to make payments on time, perform all administrative tasks, and invest wisely.
   - Try to keep total annual fees for administration and investing at a reasonable level. Fees may necessarily be higher for younger, low-volume programs because of minimum fees, but if they are consistently much higher, the residuum of gift annuities will be diminished. One of the assumptions the ACGA makes when calculating suggested gift annuity rates is that the fees will average 1.0 percent.
   - Periodically review existing arrangements for administration and investing, compare results with those of other charities, and make changes as necessary to meet performance goals.
   - Maintain surplus reserves to back existing annuities. This will ordinarily be achieved if the charity does not spend any portion of the contribution for a gift annuity until the payment obligation has terminated.

   In deciding whether your charity should partner with a foundation that issues gift annuities rather than issuing them itself, take the following things into consideration:

   - This is a practical alternative if (1) you want to make gift annuities available to donors, but your charity is small, not financially strong, and would have a relatively small number of gift annuity donors, (2) your charity would not qualify to issue gift annuities in states where you want to offer them, or (3) you have a very conservative board that would not approve a gift annuity program where the charity bears any financial risk.
   - One major disadvantage of the partnership arrangement is the complexity. The entities involved are your charity, which has the primary relationship with the donor, the foundation which is authorized to issue gift annuities, and a firm or firms retained for administration and investing. Donors may wonder

why, if they want to support your organization, they make their gift to another entity that is unknown to them.

- Another thing to consider before entering into a partnership arrangement is how much the charity is likely to receive from a gift annuity. If the combined fees (up-front and annual) is well above the fee assumed by the ACGA and/or a portion of the residuum is retained by the issuing foundation, the amount received by the charity could be substantially less than if it issued gift annuities itself, and this fact might discourage donors.
- There are two alternatives for those concerned about the risk with self-insured gift annuities. One is to reinsure them. While this alternative does not totally eliminate risk, it certainly minimizes it. The charity is the issuer and retains most of the administrative duties, but it is the only charitable organization dealing with the donor and it maintains control of the process. The other alternative is to partner with a foundation that issues the gift annuities. This eliminates risk as well as all administrative and investment responsibilities, but, as noted, complicates the marketing process and possibly results in less financial benefit to the charity.

As this paper has demonstrated, there are various ways to operate a gift annuity program, and there are advantages and disadvantages to each. A charity should carefully weigh these before deciding on its best course.

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