



PGM Anywhere and Charitable Gift Annuities

Dates: January 21 and 22

Time: 1:00 – 3:00 pm ET

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Agenda

1. Housekeeping
2. CGA Basics
3. *PGM Anywhere* Basics
4. Immediate CGA Proposal
5. Immediate CGA Agreement
6. Legacy IRA Act, Agreement and Acknowledgement
7. Deferred CGA Proposal
8. Flexible Deferred CGA Proposal
9. Commuted Payment CGA
10. CGA Termination Calculations



Housekeeping

- We will take turns helping with technical issues and questions – just use the chat feature.
- We will take a short 5-minute break around 2:00 pm
- Please have your camera on.
- Remember, CFRE credit is available. Just ask!



But first, an essential question...

How do you like the weather this week?

- A. It's too damn cold!
- B. It's too damn hot!
- C. It's just right! Lovely weather!



What is a Charitable Gift Annuity?

- A life income gift where:
 - The donor irrevocably transfers cash or property to charity.
 - 1 or 2 annuitants receive income at a fixed rate for their life or lives.
 - After the annuitant(s) have died, the remainder goes to the charity.
- Only a charity can issue a CGA.



A CGA is an unlimited obligation of the charity – it must pay for life even if the gift assets are depleted



Charitable Gift Annuity

- **“Donor(s)”** = owner(s) of the funding asset
- **“Annuitant(s)”** = recipient(s) of the payments
- Usually, donor and annuitant are same but not required to be.





Charitable Gift Annuity - Rates

- Payout rate based on age(s) of annuitant(s)
- The older the annuitant(s), the higher the payout rate
- **Actuarial age:** based on closest birthday (within six months)
- Annuity is same \$ for life. Rate set in stone.
- 7.2% payout x \$10,000 gift amount = \$720 annuity



Charitable Gift Annuity - Rates

- Many charities use the max rates suggested by the American Council on Gift Annuities (ACGA) since 1927
- Rates reviewed annually, and as needed
- Current rates adopted **January 1, 2024** (ACGA2024) and are still in effect

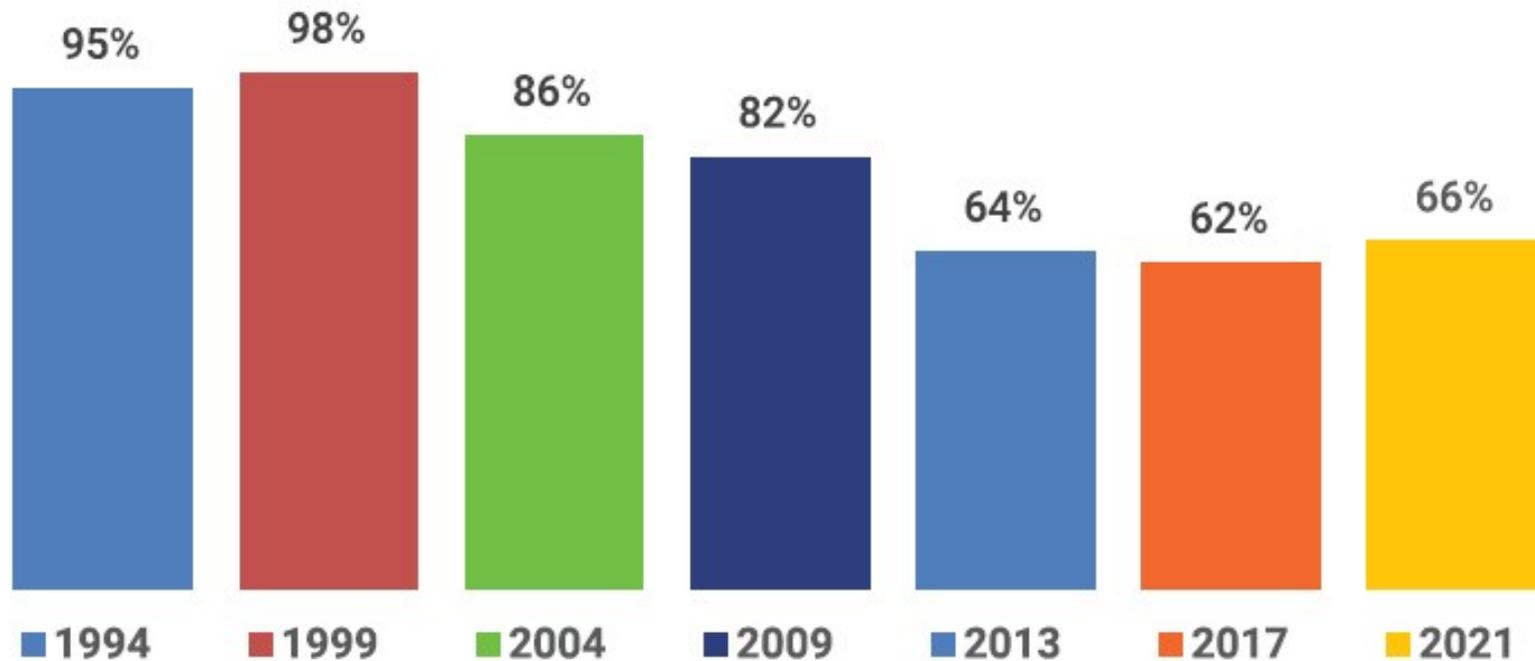


Rates & Target Residuums

- Target residuum with ACGA rates is 50% of gift amount.
- Assumed to experience erosion of principal over time, i.e. "they lose money from the start!"
- ***A \$10,000 gift annuity that leaves a \$5,000 remainder or more is considered a successful CGA.***
- In reality, many charities receive more than 50%.



Comparison of Median Residuum (based on ACGA Survey results)





Charitable Deduction - Overview

- Donor receives a charitable income tax deduction for gift to charity.
- For an outright gift of cash, the deduction is equal to gift amount.
- For an outright gift of long-term appreciated property, the deduction is also equal to the gift amount, and capital gains taxes are avoided.
- For a CGA, ***the deduction is only a portion*** of the total gift amount.



CGA Charitable Deduction

- **Split interest gift** – charitable/non-charitable portions
- Deduction = Gift amount minus the Present value of annuity payments over life (*PGMA Actuarial Chart shows calculations*).
- The *charitable deduction* is the estimated value of the eventual benefit to charity.
- *Deduction is valuable only for donors who file itemized income tax returns.*
- *PGM Anywhere* calculates this for you.



IRS Discount Rate (a/k/a AFR)

- The IRS discount rate is used to determine the charitable deduction for gift annuities and other planned gifts. The rate is the annual rate of return that the IRS assumes the gift assets will earn during the gift term. It is published monthly.
- Can use the rate for the month of the gift, or either of the previous two months. Donor's choice.
- For CGAs, higher IRS Discount Rate = higher charitable deduction and lower tax-free portion of payments.
- Lower IRS Discount Rate = lower charitable deduction and higher tax-free portion of payments.



Taxation of Income Payments

- Annuitants receiving CGA payments will pay taxes on *some or all* of that annual income.
- Taxation is determined by factors such as the donor's life expectancy and the type of asset donated.
 - Cash
 - Appreciated property
 - IRA QCD: all annuity income is taxable



Taxation of Payments: Gift of Cash

- Annuitants receiving CGA income will pay taxes on some or all of that annual income.
- Part of the donation that funded the CGA is a donation to charity, and part is returned over life expectancy. The part returned as income is taxed.
- There may be some tax-free income = return of \$\$ that was already taxed once.
- Balance of payments is ordinary income.



Taxation: Gift of Appreciated Property

- Portion of asset is a gift to charity. Therefore, no capital gain tax is owed on that portion.
- Portion of asset used to “purchase” annuity (life income).
- Cost basis and capital gain allocated to both portions.
- If donor is annuitant, gain attributable to income portion is taxed over life expectancy.



Types of Gift Annuities

- Standard gift annuities
 - Deduction now, income starts with first period
- Deferred gift annuities
 - Deduction now, income starts later - on specific date
- Flexible deferred gift annuities
 - Deduction now, start date can be one of range of dates
- Commuted payment gift annuities
 - Deduction now, condensed payments into term of years



PGM Anywhere

The screenshot shows the top navigation bar of the PG Calc website. On the left is the PG Calc logo with the tagline 'YOUR PARTNER IN PLANNED GIVING SUCCESS'. The navigation bar includes the text 'IRS Discount Rate November 2024: 4.4%' and a 'Client Logins' button circled in purple. Other buttons include 'Pay an Invoice', 'Events', 'Blog', and a search icon. Below the navigation bar is a horizontal menu with items: 'Marketing', 'Gift Illustrations', 'Gift Administration', 'Consulting', 'Insight & Training', 'Client Support', and 'About Us'. The main content area features a large blue and green graphic with the heading 'Everything You Need in Planned Giving' and a 'Contact Us' button. The background of the hero section is a photograph of a city skyline over water.



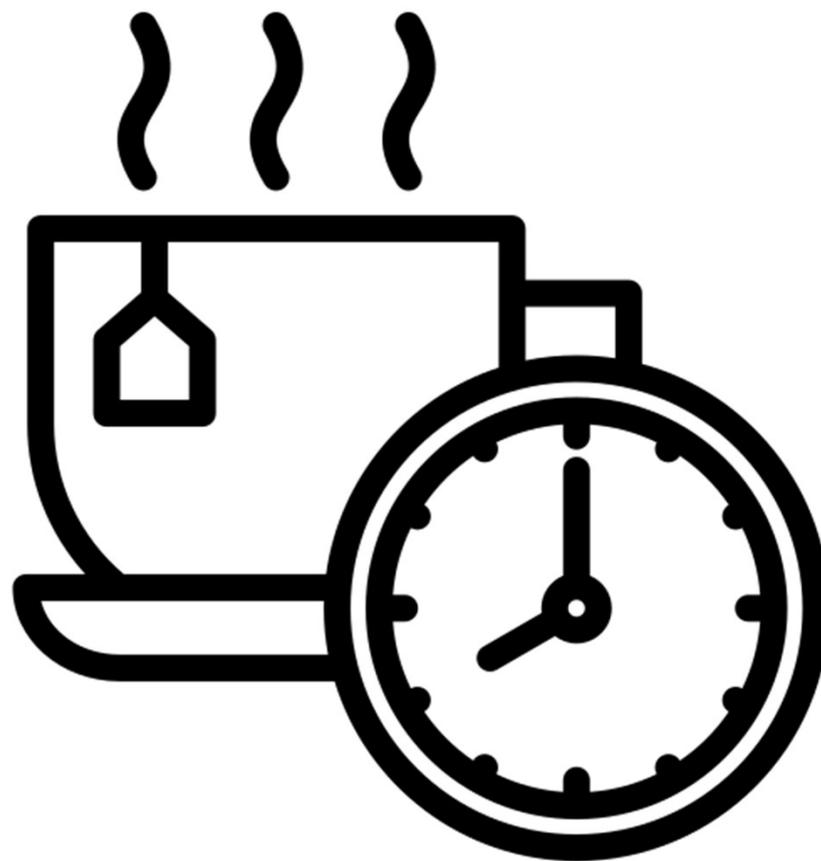
Modeling a Gift Annuity in *PGM Anywhere*

***PGM Anywhere* Basics**

- How to access and log in
- Navigation of main screen
- Brief overview of Tools, Users, Customize, & Help
- New, Open, and Save
- Templates



Break time?





Modeling a Gift Annuity in *PGM Anywhere*

Case One

Clark Kent and Lois Lane, a married couple (both in their 70s), are interested in establishing a life income gift with your organization.

They have asked you to illustrate the benefits and tax consequences of a charitable gift annuity funded with \$25,000 cash.





PGM Anywhere

Facts

Birthdates: 5/23/1951, 6/22/1953

\$25,000 principal value - cash

Use current ACGA rates

Quarterly payments, end of period

Use current discount rate (highest of last 3 months)



Modeling a Gift Annuity Funded with Appreciated Property

Case Two – Part 1

Mr. Kent and Ms. Lane have discussed your proposal with their financial advisor, who counseled them to consider donating securities.

You need to prepare an updated proposal with long term gain property. To do so, you need to know the fair market value and the cost basis of the stock.

Obtaining the cost basis from the donors can be a difficult process, but it is essential.



Modeling a Gift Annuity Funded with Appreciated Property

Facts

Dates of birth: 5/23/1951, 6/22/1953

Long term gain property

Securities: \$50,000 principal value, \$25,000 cost basis

If cost basis is unknown, and donors are unable (or unwilling) to provide estimated cost basis, you must assume zero; it is the only safe number to use!

Use the current discount rate (highest of the last 3 months)



Preparing a Final Illustration and Gift Annuity Agreement

Case Two – Part 2

You receive the securities in your charity's brokerage account a week later, and it is valued at \$48,878. Your donors have told you that they would like to make up the difference in cash. They mail a check for \$1,122 on the same day.

Now it's time to prepare a set of final calculations, a gift annuity agreement and acknowledgement letter for Mr. Kent and Ms. Lane.



Multiple Property Types

Facts

Dates of birth: 5/23/1951, 6/22/1953

Long term gain property + cash

Securities: \$48,878 principal value, \$23,292 cost basis

Cash: \$1,122

IRS rate: donors would like the highest possible charitable deduction, and so we will use the highest discount rate available.



But first, an essential question...

Does pineapple belong on pizza?

- A. Yes
- B. No
- C. Undecided





What is a QCD (Qualified Charitable Distribution)?

- Direct transfer of funds from donor's traditional IRA to charity.
- Tax-free transfer. Amount transferred to charity is excluded from donor's taxable income.
- No charitable deduction.
- \$111,000 annual limit for 2026.
- A donor must be at least age 70½.
- QCD can count towards a donor's required minimum distribution (RMD).
- Pre-2023, QCD only for outright gifts.



'Legacy IRA' Legislation

As part of the Secure 2.0 Act, it became possible for a donor can make a one-time tax-free Qualified Charitable Distribution (QCD) from their IRA in exchange for a charitable gift annuity or charitable remainder trust. A donor may make “**Legacy IRA**” gifts in a single tax year only, subject to certain limitations.



Legacy IRA to fund life income gift

- A donor can give up to certain amount, across one or more gifts, at one or more charities. Limit is \$55,000 for 2026. Adjusted for inflation each year.
- The total amount distributed for life income gifts counts toward the annual \$111,000 limit for QCDs.
- A donor can fund life income gifts using QCDs **in only one tax year** during their lifetime.
- All QCD CGA annuity payments are taxed as ordinary income.



Legacy IRA (continued)

- The payout amount must be at least 5%.
- A donor can name themselves and/or a spouse to receive payments – but not other people.
- A donor cannot create a deferred annuity, but the legislation does allow for a CGA with annual payments beginning one year from the date of the distribution.

You can model a Legacy IRA in *PGM Anywhere!*

This legislation creates opportunities for many different giving conversations.



Modeling the Legacy IRA

Case Three

Bruce Banner (a/k/a the Hulk) has asked to see what a calculation of giving his IRA assets to fund a gift annuity would look like.

He is 75 and would like you to model a \$30,000 gift.





Deferred Gift Annuities

Definition

A deferred gift annuity is a simple contractual arrangement between the donor(s) and the charity.

In exchange for an irrevocable gift of cash, securities, or other assets, the charity agrees to pay one or two annuitants a fixed sum each year for life, with payments starting at least one full year after the date of gift.

The longer you wait the higher the rate.



Deferred Gift Annuity Rate Calculation

- Base rate: Immediate gift annuity rate, now in effect, for the nearest age(s) of the annuitant(s) at the time payments begin
- Annual compounding rate: 4.75%
- Deferral period: Time between the date of gift and the annuity starting date
- Deferred rate = Base payout rate x $1.0475^{\text{Deferral period}}$



Modeling Deferred Gift Annuities

Case Four

Peter Parker and Mary Jane Watson are interested in supporting your organization through a life income arrangement using cash. Because of the limits on contributions to their retirement plans, they are interested in a way to increase retirement income.





Modeling Deferred Gift Annuities

Case Four (continued)

Mr. Parker and Ms. Watson are relatively young (early 60s). They do not need additional income right now but plan on retiring in the next few years.

They have asked you if there are any gift plans that could begin paying them income in the future.



Retirement Contribution Limits (2026)

Plan Type	Under 50 Limit	Over 50 Limit
401(k), 403(b), etc.	\$24,500	+\$8,000
IRA, Roth IRA	\$7,500	+\$1,100



Modeling Deferred Gift Annuities

Facts

Use current discount rate (highest of last 3 months)

Use dates of birth: 3/31/1963, 4/5/1964

Date of first payment: 3/31/2030

Assumptions

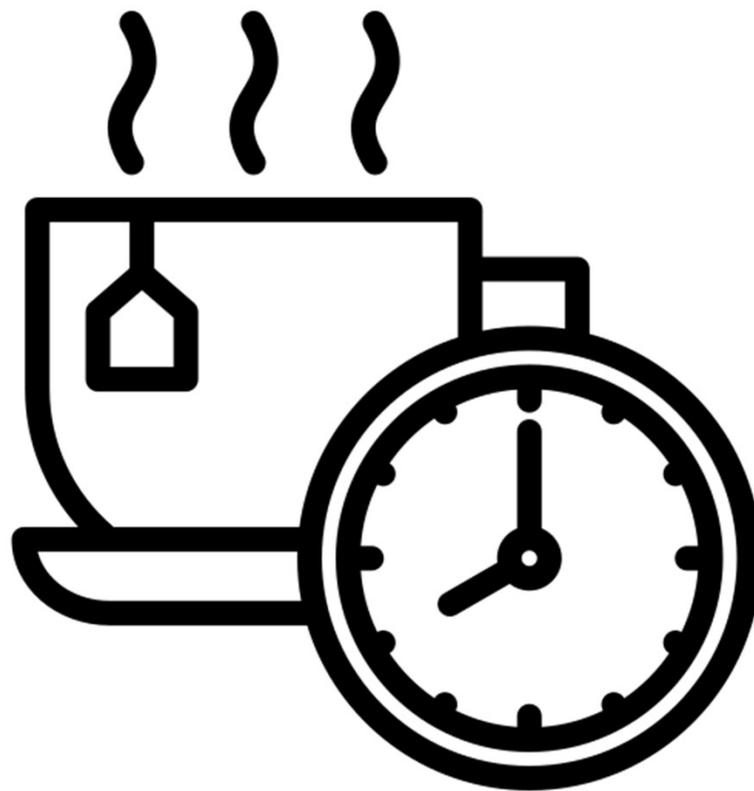
Deferred Charitable Gift Annuity

Quarterly payments

\$100,000 principal value - cash



Break time!





Flexible Deferred Gift Annuities

Definition

A flexible gift annuity is a simple contract between the donor and the charity.

In exchange for an irrevocable gift of cash, securities, or other assets, the charity agrees to pay one or two annuitants a fixed sum each year for life, with payments starting at least one year after the gift. The annuitants may elect to start receiving payments on any one of a range of dates. Recommended, March 31 of any year from 2030 - 2035.



Modeling Flexible Deferred Gift Annuities

Case Five

Diana Prince and Steve Trevor are interested in supporting your organization through a life income gift arrangement using cash. They would like additional income during their retirement years but are not sure when their exact retirement dates will be.





Modeling Flexible Deferred Gift Annuities

Case Five (continued)

Ms. Prince and Mr. Trevor are in their late 60s and do not need additional income right now.

They have asked you if there are any gift plans that could provide flexibility regarding when they start to receive income.



Modeling Flexible Deferred Gift Annuities

Facts

Use current discount rate (highest of last 3 months)

Use dates of birth: 2/15/1959, 3/15/1960

Possible deferral dates: 3/31/2029 – 3/31/2038

Possible start date to enter: 3/31/2029

Assumptions

Flexible Deferred Charitable Gift Annuity

Quarterly payments

\$50,000 principal value - cash



Commuted Payment Gift Annuities

Definition

A commuted payment gift annuity is a simple contract between the donor and the charity.

In exchange for an irrevocable gift of cash, securities, or other assets, the charity agrees to pay one or two annuitants a fixed sum each year for life, with payments starting at least one year after the gift. Annuitants may elect to exchange the lifetime payments for payments over a term of years.



Modeling Commuted Payment Gift Annuities

Case Six

Mrs. Margaret O'Brien is in her late 70s and does not need any income. However, she would like to set up a stream of payments for her granddaughter during the college years.

The commuted payment gift annuity is often referred to as the college tuition gift annuity.

She has asked you to model this type of gift annuity.



Modeling Commuted Payment Gift Annuities

Facts

Use current discount rate (highest of last 3 months)

Use annuitant's dates of birth: 7/15/2025

Possible commuted payment years: 2043 - 2046

Assumptions

Commuted Payment Charitable Gift Annuity

Semi-annual payments

\$100,000 principal value - cash



CGA Termination

Reasons for Computing Deduction

There are generally two reasons for computing an additional tax deduction when a gift annuity is finished:

- Death of the last annuitant.
- When the annuitant(s) reassign their income interest in the gift annuity to the charity.
- <https://info.pgcalc.com/gift-annuity-voluntary-termination>



Questions and Answers

- To ask a question, send a chat or unmute yourself!





Thank you!

Thank you for spending your time with us. We hope this class was helpful. Please don't worry about remembering everything we covered – you may always call us or send us an email message – or both. We love to hear from you!

PG Calc's Client Services team is here for you – today, tomorrow, and in the weeks and months ahead.



How to follow up with us...

Client Services Team:

1-888-474-2252

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