



acga issues new rates for charitable gift annuities

MSK Client Alert

November 21, 2011

by David Wheeler Newman

On November 18, the American Council on Gift Annuities (ACGA) issued new recommended maximum rates for charitable gift annuities issued on and after January 1, 2012. The new rates replace those that became effective on July 1, 2011. The new rates are lower – generally by fifty to eighty basis points (0.5% to 0.8%) – than those they replace.

In developing the new rates table, the Council considered the same seven factors upon which the prior version was based:

1. The residuum remaining at the termination of the annuity should be at least 50% of the amount received from the donor.
2. The *present value* of that residuum should be at least 20%.
3. Mortality assumptions used in the actuarial calculations are based on the Annuity 2000 Mortality Tables, adjusted to reflect the mortality study commissioned by ACGA, and further adjusted to assume that all annuitants are female and one year younger than their actual ages.
4. Expenses for investment and administration are assumed to total one percent per year.
5. The total annual return on CGA reserves is 4.25%. *This assumed return was 5.0% when the last rates table was developed.*
6. The annuity rates for younger ages are adjusted downward to provide a charitable element of at least 10% based on an IRS discount rate of 1.4%, which was the rate for November, 2011. *The last rates table assumed an IRS rate of 3.0% or higher.*

attorneys

David Wheeler Newman

practice areas

nonprofit organizations



acga issues new rates for charitable gift annuities

7. Rates for older annuitants (age 90 and older) are capped at 9.0%, and the rates for ages 81 to 89 are correspondingly reduced from what the actuarial calculations would otherwise suggest, to account for this cap. *The cap on rates was 9.8% in the last rates table.*

Here is a sample of the rates under the July 1, 2011 table compared with the January 1, 2012 table:

Age

Old Rate

New Rate

65

5.3%

4.7%

75

6.5%

5.8%

85

8.4%

7.8%

Rates for two life annuities and deferred gift annuities are similarly reduced. The full table of recommended maximum rates is available at www.acga-web.org. Also available on the web site, without cost to ACGA sponsors, is a full report detailing the methodology used by ACGA to derive the recommended rates. (For organizations that are not yet sponsors, the availability of the new rates report presents a golden opportunity. Since sponsorship is only \$100 per year, and sponsors qualify for discounted registration for the ACGA biennial conference coming up in April, 2012, these benefits go a long way to paying for a sponsorship that helps underwrite the expense of all the work done by ACGA to prepare actuarially sound recommended maximum gift annuity rates that benefit the entire charitable sector).

These new rates reflect the prolonged drop in interest rates, since one of the key assumptions for the investment return earned by CGA reserves is the rate paid on the ten-year US Treasury bond.



acga issues new rates for charitable gift annuities

Note that many charities that issue CGAs have tables of the rates they offer on file with state insurance regulators. These charities will need to provide regulators with the new rates.

The American Council on Gift Annuities is a nonprofit organization that has been in existence since 1927, with over 1,000 sponsoring charities. ACGA actively promotes responsible philanthropy through actuarially sound gift annuity rate recommendations, quality training opportunities, and the advocacy of appropriate consumer protection. Information at www.acga-web.org.

If you have any questions about this Alert, please contact the author or any other member of the MSK Charitable Sector Practice Group.