

## Assumptions Underlying Suggested Maximum Gift Annuity Rates

Following is a summary of the major assumptions on which the suggested rates are based.

**Target Residuum.** Since 1955 the ACGA has targeted a residuum (the amount realized by the charity upon termination of an annuity) of 50% of the original contribution for the gift annuity. The new rate schedules retain the 50% target residuum, and continue the requirement first applied for the July 2011 rate schedules that the present value (PV) of the residuum be at least 20% of the original contribution for the annuity.

The 20% minimum PV requirement has the effect of reducing rates for annuitants age 59 and under. It is designed to help charities realize a minimum value from gifts whose residua will not be realized for many years. Rates for younger annuitants (ages 5 to 37 and 39) were reduced as necessary to comply with the 10% minimum charitable deduction required under IRC Sec. 514 (c)(5)(A) using the 1.8% CFMR for October 2019. Particularly in low interest rate environments, charities should perform their own deduction calculations and lower their annuity rates if necessary to meet the 10% minimum deduction requirement.

**Mortality Assumptions.** The National Association of Insurance Commissioners (NAIC) has recommended the use of a new mortality table for commercial and gift annuities issued after January 1, 2015. Known as the 2012 Individual Annuity Reserving Table (2012 IAR), the

new table is designed to reflect annuitant mortality more accurately over time. ACGA commissioned a study by The Korn Ferry Hay Group in December 2014 to determine what set of assumptions provided the best "fit" for the 2012 IAR with the ACGA Gift Annuitant Mortality Study completed in 2010. The Korn Ferry Hay Group determined the new "best fit" assumption was a 50-50 blend of the 2012 IAR male and female mortality with no age setback. (See further discussion below.)

**Expense Assumption.** Annual expenses for investment and administration are assumed to be 1.0% of the fair market value of gift annuity reserves.

**Investment Return Assumption.** The gross annual expected return on immediate payment and deferred payment gift annuity reserves is 4.25%. Both immediate and deferred payment annuity calculations use a net compounding rate of 3.25% (4.25% minus 1% assumed annual expenses).

**Payment Assumption.** Annual payments are made in quarterly installments at the end of each period.

The rates for the oldest ages are somewhat lower than the rates that would follow from the above assumptions. Single life rates are capped at 9.0% for annuitants age 90 and above. Single life rates for annuitants between ages 81 and 89 are graduated downward from the rate cap. Two life rates are capped at 8.8% for annuitants above 90 and are graduated downward in a similar way.

## Additional Assumption for Deferred Payment Gift Annuities

The annual compound interest rate credited during the deferral period for deferred payment gift annuities is 3.25% (the same investment return assumption as for immediate payment gift annuities after subtracting the 1.0% expense assumption). In other words, each dollar contributed for a deferred gift annuity is presumed to grow at an annual compound interest rate of 3.25% between the date of contribution and the annuity starting date.

If payments will be made at the end of the period, which is usually the case, the annuity starting date would be at the beginning of the first period for which a payment is made. For example, if payments will be made quarterly, and the first payment will be made on September 30, 2028, the annuity starting date would be July 1, 2028. If payments will be made semi-annually, the annuity starting date in this case would be April 1, 2028.

Assuming that the annuitant would be nearest age 65 on the annuity starting date, and that the period between the contribution date and the annuity starting date is

10.25 years, the compound interest factor would be  $1.0325^{10.25}$  or 1.387948. To determine the deferred gift annuity rate, this factor is multiplied by the immediate gift annuity rate, now in effect, for the nearest age of the annuitant at the time payments begin. In this example, the deferred gift annuity rate would be 1.387948 times 4.7%, or 6.5% (rounded to the nearest tenth of a percent).

The 3.25% compounding rate applies to the entire compounding period, whatever its length. (At times in the past, the compounding rate for periods in excess of 20 years was less than the compounding rate for the first 20 years of the deferral period.)

Historically, it has sometimes been necessary to apply a slightly lower compounding rate when the deferral period is relatively long in order not to exceed the maximum allowable deferred gift annuity rates allowed by the states of New York and New Jersey. However, this has not been the case for many years.

## Procedure for Calculating Suggested Deferred Gift Annuity Rates

- Determine the annuity starting date, which is:
  - One year before the first payment, if payments are made annually.
  - Six months before the first payment, if payments are made semi-annually.
  - Three months before the first payment, if payments are made quarterly.
  - One month before the first payment, if payments are made monthly.
- Determine the number of whole and fractional years from the date of the contribution to the annuity starting date (the deferral period). Express the fractional year to four decimal places.
- For a deferral period of any length, use the following formula to determine the compound interest factor:
  - $F = 1.0325^d$ , where
  - F is the compound interest factor and
  - d is the deferral periodExample: If the period between the contribution date and the annuity starting date is 10.25 years, the compound interest factor would be  $1.0325^{10.25} = 1.387948$
- Multiply the compound interest factor (F) by the immediate gift annuity rate for the nearest age or ages of a person or persons at the annuity starting date.  
Example: If the sole annuitant will be nearest age 65 on the annuity starting date and the compound interest factor is 1.387948, the deferred gift annuity rate would be 1.387948 times 4.7%, or 6.5% (rounded to the nearest tenth of a percent).

### Comments:

- The annuity starting date for purposes of calculating the deferred gift annuity rate will be the same as the annuity starting date for calculating the charitable deduction, if payments are at the end of the period (which is usually the case). This was not true with the pre-July 1, 2001 methodology.
- An annuitant is credited with compound interest for the entire period from the date of contribution to the annuity starting date. Under the pre-July, 2001 methodology, compound interest was credited only for the number of whole years between the two dates.
- Charities issuing deferred gift annuities in New York and New Jersey may need to use a slightly lower compounding rate depending on the deferral period.
- More complete information about suggested charitable gift annuity rates may be found in the 2020 Rates Report available on the ACGA website at [www.acga-web.org](http://www.acga-web.org).

## Note to Charities Issuing Deferred Gift Annuities in New York & New Jersey

The following compound interest factors during the deferral period noted will satisfy the requirements of New York and New Jersey:

For all deferral periods:

- Single-life and two-life annuities, whatever the gender of the annuitants, a compound interest factor of 3.25%.
- \*New York and New Jersey are the two states known at this time that may require different interest factors for deferred gift annuities with longer deferral periods.

# Suggested Maximum Charitable Gift Annuity Rates

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# SINGLE LIFE

Age	Rate	Age	Rate
5-7	2.2	69	5.0
8-13	2.3	70	5.1
14-17	2.4	71	5.2
18-21	2.5	72	5.4
22-25	2.6	73	5.5
26-28	2.7	74	5.6
29-31	2.8	75	5.8
32-33	2.9	76	6.0
34-35	3.0	77	6.2
36-37	3.1	78	6.4
38-39	3.2	79	6.6
40-42	3.3	80	6.9
43-44	3.4	81	7.2
45-47	3.5	82	7.4
48-49	3.6	83	7.6
50-51	3.7	84	7.8
52-53	3.8	85	8.0
54	3.9	86	8.2
55-56	4.0	87	8.4
57	4.1	88	8.6
58	4.2	89	8.8
59-60	4.3	90+	9.0
61-62	4.4		
63	4.5		
64	4.6		
65-66	4.7		
67	4.8		
68	4.9		

# TWO LIVES - JOINT AND SURVIVOR

Younger Age	Older Age	Rate	Younger Age	Older Age	Rate	Younger Age	Older Age	Rate	Younger Age	Older Age	Rate	Younger Age	Older Age	Rate
5	5-95+	2.0	51	51-53	3.4	68	69-71	4.5	77	90-95+	6.0	83	87	6.8
6	6-95+	2.0	51	54-95+	3.5	68	72-75	4.6	78	78	5.4	83	88	6.9
7	7-95+	2.0	52	52-57	3.5	68	76-95+	4.7	78	79	5.5	83	89	7.0
8	8-95+	2.1	52	58-95+	3.6	69	69-70	4.5	78	80	5.6	83	90	7.1
9	9-95+	2.1	53	53-55	3.5	69	71-73	4.6	78	81-82	5.7	83	91-92	7.2
10	10-95+	2.1	53	56-95+	3.6	69	74-76	4.7	78	83	5.8	83	93	7.3
11	11-95+	2.1	54	54	3.5	69	77-95+	4.8	78	84-85	5.9	83	94-95+	7.4
12	12-95+	2.1	54	55-59	3.6	70	70-72	4.6	78	86-87	6.0	84	84	6.6
13	13-95+	2.1	54	60-95+	3.7	70	73-74	4.7	78	88-90	6.1	84	85	6.8
14	14-95+	2.2	55	55-58	3.6	70	75-78	4.8	78	91-95+	6.2	84	86	6.9
15	15-95+	2.2	55	59-63	3.7	70	79-95+	4.9	79	79	5.6	84	87	7.0
16	16-95+	2.2	55	64-95+	3.8	71	71-73	4.7	79	80	5.7	84	88	7.1
17	17-95+	2.2	56	56	3.6	71	74-76	4.8	79	81-82	5.8	84	89	7.2
18	18-95+	2.3	56	57-61	3.7	71	77-79	4.9	79	83	5.9	84	90	7.3
19	19-95+	2.3	56	62-95+	3.8	71	80-95+	5.0	79	84-85	6.0	84	91	7.4
20	20-95+	2.3	57	57-59	3.7	72	72	4.7	79	86	6.1	84	92	7.5
21	21-95+	2.3	57	60-64	3.8	72	73-74	4.8	79	87-88	6.2	84	93-95+	7.6
22	22-95+	2.3	57	65-95+	3.9	72	75-76	4.9	79	89-91	6.3	85	85	6.9
23	23-95+	2.4	58	58	3.7	72	77-79	5.0	79	92-95+	6.4	85	86	7.0
24	24-95+	2.4	58	59-62	3.8	72	80-83	5.1	80	80	5.8	85	87	7.2
25	25-95+	2.4	58	63-67	3.9	72	84-95+	5.2	80	81-82	5.9	85	88	7.3
26	26-95+	2.4	58	68-95+	4.0	73	73	4.8	80	83	6.0	85	89	7.4
27	27-95+	2.5	59	59-61	3.8	73	74-75	4.9	80	84	6.1	85	90	7.5
28	28-95+	2.5	59	62-64	3.9	73	76-77	5.0	80	85	6.2	85	91	7.6
29	29-95+	2.5	59	65-69	4.0	73	78-80	5.1	80	86-87	6.3	85	92	7.7
30	30-95+	2.5	59	70-95+	4.1	73	81-83	5.2	80	88-89	6.4	85	93-95+	7.8
31	31-95+	2.6	60	60-63	3.9	73	84-95+	5.3	80	90-91	6.5	86	86	7.2
32	32-95+	2.6	60	64-67	4.0	74	74	4.9	80	92-94	6.6	86	87	7.3
33	33-95+	2.6	60	68-95+	4.1	74	75-76	5.0	80	95+	6.7	86	88	7.5
34	34-95+	2.6	61	61	3.9	74	77-78	5.1	81	81	6.0	86	89	7.6
35	35-95+	2.7	61	62-65	4.0	74	79-80	5.2	81	82	6.1	86	90	7.8
36	36-95+	2.7	61	66-68	4.1	74	81-83	5.3	81	83-84	6.2	86	91	7.9
37	37-95+	2.7	61	69-95+	4.2	74	84-95+	5.4	81	85	6.3	86	92-95+	8.0
38	38-95+	2.8	62	62-63	4.0	75	75	5.0	81	86	6.4	87	87	7.5
39	39-95+	2.8	62	64-66	4.1	75	76	5.1	81	87	6.5	87	88	7.7
40	40-95+	2.9	62	67-95+	4.2	75	77-78	5.2	81	88-89	6.6	87	89	7.8
41	41-95+	2.9	63	63-65	4.1	75	79-80	5.3	81	90-91	6.7	87	90	8.0
42	42-95+	2.9	63	66-68	4.2	75	81-82	5.4	81	92-93	6.8	87	91	8.1
43	43-95+	3	63	69-95+	4.3	75	83-85	5.5	81	94-95+	6.9	87	92-95+	8.2
44	44-95+	3	64	64	4.1	75	86-95+	5.6	82	82	6.2	88	88	7.9
45	45-47	3.1	64	65-66	4.2	76	76-77	5.2	82	83	6.3	88	89	8.0
45	48-95+	3.2	64	67-70	4.3	76	78	5.3	82	84	6.4	88	90	8.2
46	46	3.1	64	71-95+	4.4	76	79-80	5.4	82	85	6.5	88	91-95+	8.4
46	47-50	3.2	65	65	4.2	76	81-82	5.5	82	86	6.6	89	89	8.2
46	51-95+	3.3	65	66-68	4.3	76	83-85	5.6	82	87-88	6.7	89	90	8.4
47	47-49	3.2	65	69-73	4.4	76	86-87	5.7	82	89	6.8	89	91-95+	8.6
47	50-95+	3.3	65	74-95+	4.5	76	88-95+	5.8	82	90	6.9	90	90	8.6
48	48	3.2	66	66-67	4.3	77	77	5.3	82	91-92	7.0	90	91-95+	8.8
48	49-51	3.3	66	68-71	4.4	77	78-79	5.4	82	93-94	7.1	91	91-95+	8.8
48	52-95+	3.4	66	72-95+	4.5	77	80	5.5	82	95+	7.2	92	92-95+	8.8
49	49-50	3.3	67	67-69	4.4	77	81-82	5.6	83	83	6.4	93	93-95+	8.8
49	51-95+	3.4	67	70-73	4.5	77	83-84	5.7	83	84	6.5	94	94-95+	8.8
50	50-54	3.4	67	74-95+	4.6	77	85-86	5.8	83	85	6.6	95+	95+	8.8
50	55-95+	3.5	68	68	4.4	77	87-89	5.9	83	86	6.7			

**NOTES:**

1. The rates are for ages at the nearest birthday.
2. For immediate gift annuities, these rates will result in a charitable deduction of more than 10% if the CFMR is 1.8% or higher, whatever the payment frequency. If the CFMR is less than 1.8%, the deduction will be less than 10% when annuitants are below certain ages.
3. For deferred gift annuities with longer deferral periods, the rates may not pass the 10% test when the CFMR is low.
4. To avoid adverse tax consequences, the charity should reduce the gift annuity rate to whatever level is necessary to generate a charitable deduction in excess of 10%.