

What is a Gift Annuity?

A charitable gift annuity is a contract (not a "trust"), under which a charity, in return for a transfer of cash, marketable securities or other assets, agrees to pay a fixed amount of money to one or two individuals, for their lifetime.

A person who receives payments is called an "annuitant" or "beneficiary." The payments are fixed and unchanged for the term of the contract. A portion of the payments are considered to be a partial tax-free return of the donor's gift, which are spread in equal payments over the life expectancy of the annuitant(s).

The contributed property (the gift), given irrevocably, becomes a part of the charity's assets, and the payments are a general obligation of the charity. The annuity is backed by the charity's entire assets, not just by the property contributed. Annuity payments continue for the life/lives of the annuitant(s) no matter what the investment experience of the gift annuity fund.

Charities that offer charitable gift annuities should be aware many states regulate the issuance of gift annuities. Usually regulation is under a state's Insurance (or Securities) Laws. Charities may be required to comply not only with regulations in the state in which the charity does business, but also in the state of residence of the donor.

Most states that regulate charitable gift annuities require the charity to supply the state with the charity's published gift annuity rate chart of the maximum annuity rates the charity offers, listed by "actuarial age" (age to nearest birthday on the gift date).

If the charity uses the currently suggested gift annuity rates published by the American Council on Gift Annuities (ACGA), regulating states will not require the charity to prove, through the use of an actuary, that their annuity rate chart is within that state's regulatory law. If a charity is involved with a regulating state, and chooses to offer gift annuity rates that are higher than those suggested by ACGA, the regulating state may require the charity to employ an actuary to prove that the assumptions used in setting its annuity rates are within that state's regulatory laws. This would include using the actual earnings rate of the charity's gift annuity fund and not the conservative assumptions used by ACGA.

The gift annuity rates suggested by ACGA assume the entire gift will be invested and only 1% (100 basis points) of the remaining fund balance will be expended annually for expenses. While the charity may spend a portion of the contribution immediately, it must maintain sufficient reserves (as determined by state laws) to meet annuity obligations and satisfy regulatory requirements of each state in which the charity issues gift annuities.

The ACGA suggested rates assume that the entire gift is invested and held in reserve until the termination of the contract, at the death of the sole or surviving annuitant. The remaining portion of the contribution at that time is called the "residuum". The ACGA suggested rates also assume that the residuum will be at least 50% of the initial gift amount, if the annuitant(s) live only to their life expectancy, which is a requirement of many of the state gift annuity laws.

The charity should establish a means to track the ongoing value of each gift within its gift annuity fund, so that it can withdraw the correct residuum amount (based on the "market value", not "book value" of each gift's residuum balance).