Planned Giving Flash Update

CGAs Remain Attractive

At its most recent Board meeting on April 26, 2021, the American Council on Gift Annuities (ACGA) agreed that while interest rates have moved slightly higher, they have not moved to where the Board felt an increase to CGA rates would be warranted. Therefore they decided not to change the suggested maximum payout rates and the table effective July 1, 2020 remains as current.

1. CGAs remain attractive to donors

- The maximum recommended payout rate to annuitants is still around 4% or higher for single-life contracts for annuitants age 61 or older, and rises to above 7% for annuitants in their 80s.
- When compared to other relatively low-risk, income-producing options, such as government debt securities, the rates available on a CGA contract remain a very attractive option, especially for donors who value the philanthropic aspect (of leaving the residuum to the sponsoring charity).

2. Finding the right approach with donors

- One approach is to focus on the charitable giving aspect of the CGA contract; for donors, it is essential to hear about the importance of what their gift will help accomplish at the charity.
- Another approach is to focus on the income stability aspect of a CGA contract. Emphasize the fact that payments are fixed for life. Because the payout amount is based on the original gift value, the distribution to annuitants is not impacted by market volatility or other changes to the current value of the original gift. For individuals looking for this form of steady income stream, this could be a valuable aspect.

Income Method[1]	Income Rate
Single-Life CGA Contract (Age 61 and older)	4.0% - 8.6%
S&P 500 Dividend Yield	1.31%
10-Year Treasury Note	1.45%
5-Year Certificate of Deposit Rate Estimate	0.03%

[1] Source: ACGA, FactSet® Research Systems Inc., PNC; All data as of 6/30/21.

- Another option would be to consider an estate planning use of the charitable gift annuity for beneficiaries or heirs. Notwithstanding certain exceptions such as a spousal beneficiary, current legislation (the SECURE Act) now requires that IRA or other qualified funds be distributed within 10 years of a decedents passing. Funding a gift annuity with remaining qualified funds would allow those assets to be stretched over the lifetime of the annuitants. The annuity rates in effect at the time of the gift annuity's funding would apply.
- It is important to emphasize the income tax-favorable nature of payments, especially while the low interest rate environment continues to keep the IRS discount rate low. While this creates a somewhat lower potential charitable deduction up front, it does allow for a greater portion of the donor's annuity to be income tax-free. This is also true for gift annuities funded with appreciated property. This may be quite attractive to certain donors.
- As the market reaches new highs or continues to be volatile, donors may be willing to initiate contracts using appreciated (or re-appreciated) securities. Being mindful of how donors might find it most advantageous to give, and especially how that might be different than in prior years, can help fundraisers to be successful. It is important to remember that cash is not the only way to fund a gift and that there can be material advantages to donors using appreciated assets.

The information set forth in this Planned Giving Flash Update is for informational and educational purposes only. It is not intended to be used or relied upon as legal advice or tax advice. Any clients or potential clients of PNC who desire to implement these strategies, should do so only after receiving advice from their independent tax and legal advisors, who should explain how these strategies may impact your individual situation and prepare the necessary documents and/or other items that are necessary to properly implement these strategies.

READY TO HELP

The Endowment & Foundation National Practice Group

The Endowment & Foundation National Practice Group builds on our long-standing commitment to philanthropy and is focused on endowments, private and public foundations, and nonprofit organizations. We seek to help these organizations address their distinct investment, distribution and capital preservation challenges.
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