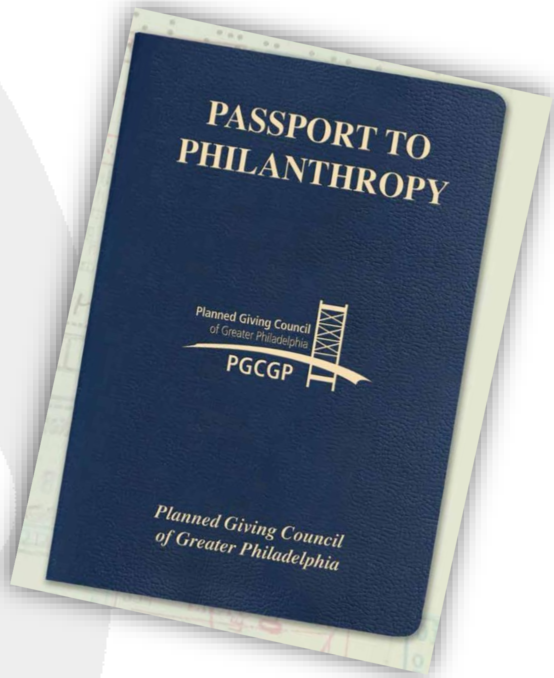


Welcome

2020 Planned Giving Day Conference

Passport to Philanthropy

Wednesdays, October 14 – November 18, 2020

Planned Giving Council of Greater Philadelphia
PGCGP

THE 2020 PLANNED GIVING DAY COMMITTEE

CO-CHAIRS

Delia G. Perez, CFRE
Fairleigh Dickinson University

Peter Reitmeyer, CAP®
The American College of Financial Services

MEMBERS

Anat Becker, JD
President – PGCGP

Beth Harper Briglia, CPA, CAP®
Chester County Community Foundation

Jessica Brookstein
The Salvation Army

Colleen M. Becht Foltz, CFRE, CAP®
American Red Cross

Daniel Greenspon, CAP®
DG Capital Insights

Gregory E. Johnson, CFP®
University of Pennsylvania

Nathana Jackson
University of Delaware

Joyce Michelfelder, CAP®
Masonic Charities

Martha Mitchell
University of Delaware

Trish Callahan Murzyn, MA, CAP®
Animal Care Sanctuary

Mary Fischer Nassib
SowGoodNow.org

Shelley A. Speirs, MBA
East Stroudsburg University Foundation

David Toll, JD
Drexel University

Thank you to our annual sponsors!

Gold Sponsors

AFP — Association of Fundraising Professionals, Greater Philadelphia Chapter

PNC

Silver Sponsors

CCS Fundraising

PENTERA — Modern Planned Giving Marketing

Schultz & Williams — *Powering Missions That Matter™*

SowGoodNow

STELTER

TIAA Kaspick — Celebrating 30 years

Bronze Sponsors

Acts Legacy Foundation — *Where Loving-Kindness Gives*

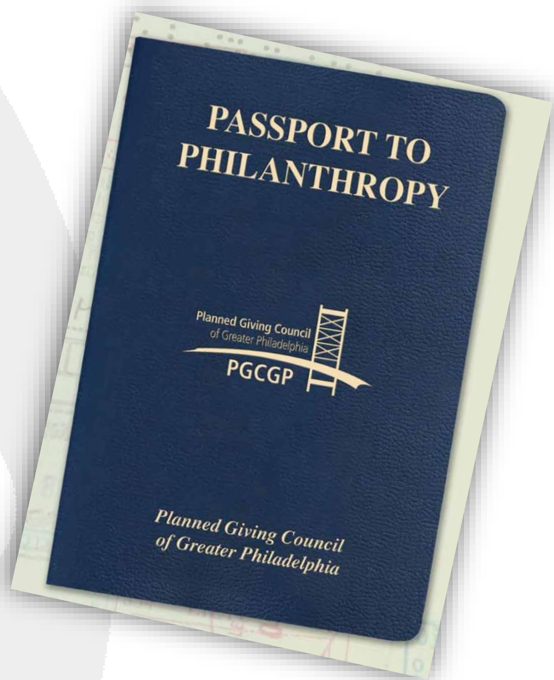
Crescendo — Integrated Marketing for Planned Gifts

The American College of Financial Services®

Exhibitor

FREEWILL

Planned Giving Council
of Greater Philadelphia
PGCGP



Welcome

2020 Planned Giving Day Conference

Passport to Philanthropy

Wednesdays, October 14 – November 18, 2020

PNC INSTITUTIONAL ASSET MANAGEMENT

PNC Planned Giving

CGA Program Management: Underwater Gifts

2020 Planned Giving Day Conference
Planned Giving Council of Greater Philadelphia
Passport to Philanthropy
November 18, 2020

PNC INSTITUTIONAL ASSET MANAGEMENT

Topics for Today's Discussion

I. What is a Charitable Gift Annuity?

II. Where Are We Today?

III. In Focus: "Underwater" Gifts

IV. How to Address Underwater Gifts

V. PNC's Best Practices for Managing a CGA Program

VI. Parting Thoughts

What is a Charitable Gift Annuity (CGA)?

The Background on CGA's and How They Work

PNC INSTITUTIONAL ASSET MANAGEMENT

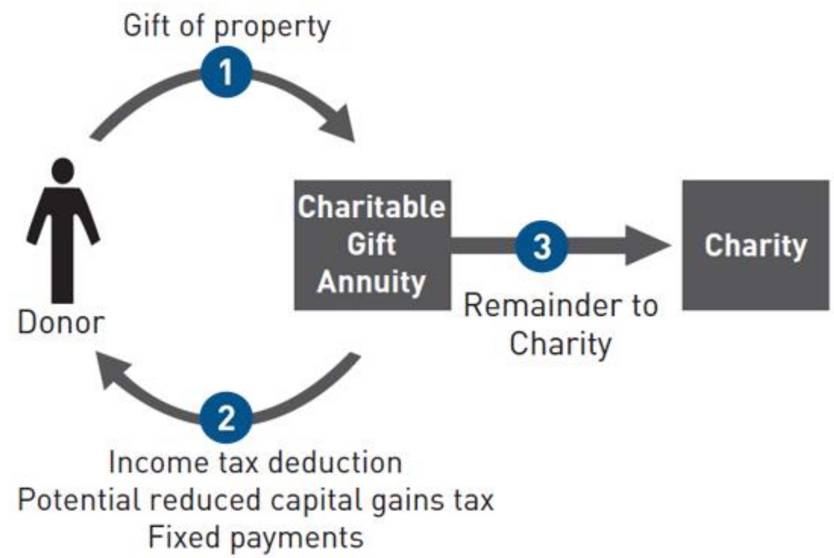
Charitable Gift Annuity Programs

- The first CGA appeared in America in 1831
- The American Bible Society is the oldest CGA program in continuous operation, with tens of thousands of CGA's since 1843
- The American Council on Gift Annuities (ACGA) was founded in 1927
- The Philanthropy Protection Act of 1995 increased transparency and donor information surrounding CGA Programs
- As of 2009, CGAs were offered by over 4,000 charities

A charitable gift annuity is a simple contract between a donor and a charity organization

- In exchange for a donor's irrevocable gift of cash, securities, or other assets, the charity agrees to pay one or two annuitants a fixed sum for each year of life
- The payments are backed by the general resources of the charity and are usually made in annual, semiannual, or quarterly installments
- The older the designated annuitants are at the time of the gift, the greater the fixed payments the charity will agree to pay

How A CGA Works



Summarized in 3 Steps

1. You transfer cash, securities, or other property to Charity.
2. You may qualify for an income tax deduction and may save capital gains tax. Charity pays a fixed amount each year to you or to anyone you name for life.
3. When the gift annuity ends, its remaining principal passes to Charity.

Source: ACGA 2017 Survey of Charitable Gift Annuities report

Source: PG Calc

Where Are We Today?

Statistics that Characterize the CGA Space*

PNC INSTITUTIONAL ASSET MANAGEMENT

97% of charities continue to follow the suggested ACGA Annuity Rates.	90% of charities did not need to add money to their annuity reserve accounts.	23% of charities expanded their ability to market gift annuities over the last four years.	13% of charities changed the asset allocation of CGA investments over the last four years.
On average, the residuum for annuities terminated in the last five years was 62%.	The number of charities issuing Flexible Deferred Payment Annuities has sextupled since 1999.	Over 90% of organizations had at least one projected underwater gift annuity.**	More than $3.2 billion in gift annuity funds are under management
75% of participants used cash as the main asset to fund gift annuities.	The average age of immediate payment gift annuitants remains 79 years old.	Females continue to dominate the annuitant demographic, making up 54% of annuitants.	At the charity level, the average annuity rose to $64,592 as of April 2017, compared to $50,056 in 2013.

*Source: ACGA 2017 Survey of Charitable Gift Annuities report

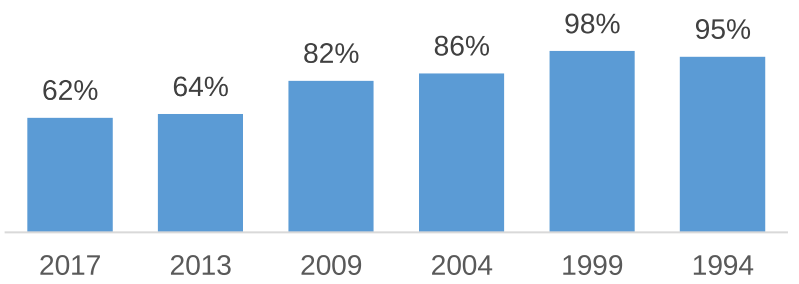
**Source: "Protecting Your Gift Annuity Program from 'Underwater' Gifts," BNY Mellon Wealth Management, 23 May 2019.

What Have We Seen?

Rates & Residuum:

- The residuum for CGA's has declined since 1994
- Average residuum balances remain above the 50% ACGA assumption
- ACGA rates have changed 9 times since 2003
    - Rates changed every year from 2008 to 2012
    - Three changes in 24 months!

Residuum for Annuities Terminated in the Last Five Years



Current ACGA Rate Assumptions:

50% Residuum
1.0% Expense Fee
3.75% Rate of Return
2012 IAR Mortality tables adjusted

ACGA Suggested Charitable Gift Annuity Rates As of July 1, 2020

Single Life		Two Lives	
60	3.9%	60/65	3.7%
65	4.2%	65/70	4.0%
70	4.7%	70/75	4.3%
75	5.4%	75/80	4.9%
80	6.5%	80/85	5.8%
85	7.6%	85/90	7.1%
90+	8.6%	90/95+	8.4%

But, not all CGA's survive… some deplete entirely and end up "underwater"

Source: ACGA 2017 Survey of Charitable Gift Annuities report

In Focus: “Underwater” Gifts

PNC INSTITUTIONAL ASSET MANAGEMENT

What is an “underwater” gift?

- An underwater charitable gift annuity is one whose current value has reached zero or gone negative prior to the final annuitant passing.
- The issuing party (the charity) is therefore left with the obligation to pay that annuitant.

How often does this happen?

- BNY Mellon reported upon the programs it administers as of May 2019*:
    - “Nearly 50% of issuing organizations had at least one current underwater annuity”
    - “Over 90% of issuing organizations had at least one projected underwater annuity”
- PNC found that among the programs it administers as of June 2019**:
    - 38% of issuing organizations had at least one current underwater annuity
    - 74% of those organizations had five or fewer underwater CGA’s

The Big Question

Why might a gift go underwater in the first place?

Example of an Underwater CGA**

Donor Makes $10,000 Gift

- 12/21/1999
- 78 years old
- Life expectancy: 10.5 years (90CM)
- Payout: 8.7% or $870

Donor Receives Annuity

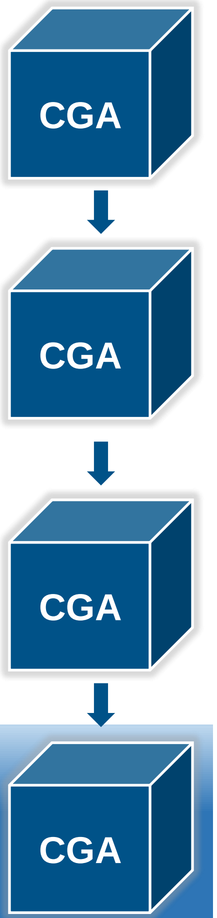
- *10* years pass—the donor is now 88
- Annuity received $8,700
- Current MV: $4,459.36
- Life expectancy: 5.1 years (2000 CM)

Donor Continues to Receives Annuity

- *10* years pass—the donor is now 98
- Annuity received $17,400
- Current: $-2,951.50
- Life expectancy: 2.6 years (2000 CM)
- Life expectancy: 3.6 years (2012 IAR)

Donor’s Gift Falls Underwater

- 20 years have passed
    - donor is now 98 years old
    - Donor has received $17,400
- Gift depleted during 2016
- Charity must continue to pay the $870 Annuity



*Source: “Protecting Your Gift Annuity Program from ‘Underwater’ Gifts,” BNY Mellon Wealth Management, 23 May 2019.
**Source: PNC

In Focus: Why Gifts Go "Underwater"

PNC INSTITUTIONAL ASSET MANAGEMENT

Evaluating the conditions surrounding an underwater gift can tell you more on how it has fallen underwater:

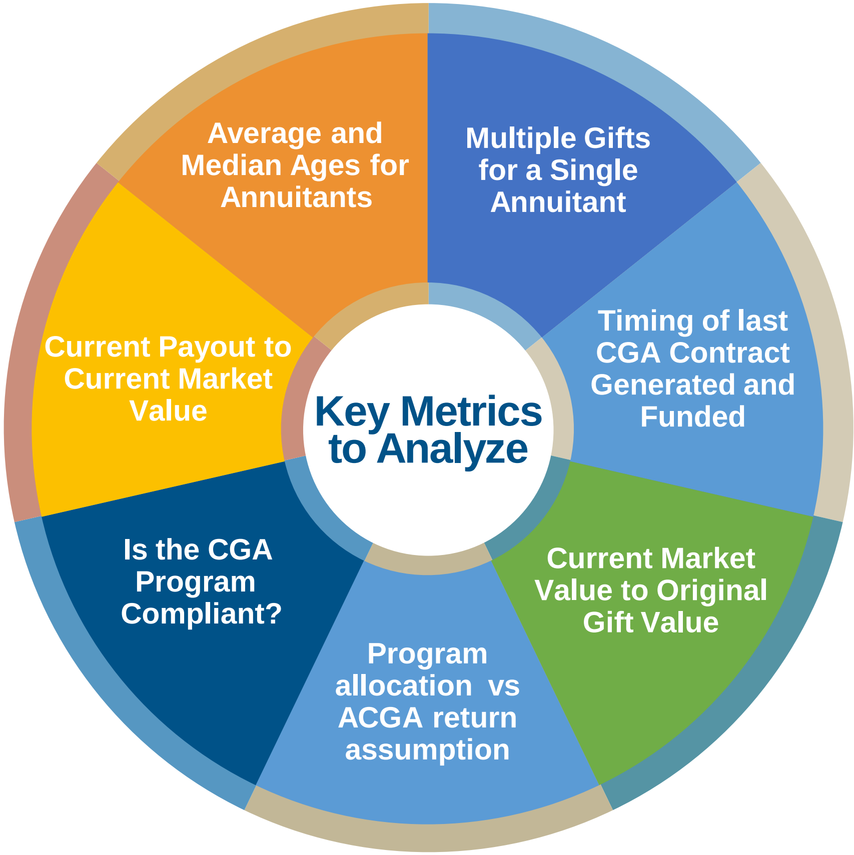
AGE AND GENDER	PAYOUT	INVESTMENTS	WHAT ELSE?
Joint Annuitants	ACGA rates followed?	Investment allocation of CGA asset pool	Prior practices & promotion
Is the Annuitant male or female?	Gift value will decrease over time by design, return of principal (tax-free portion)	Investment performance	Gift timing
Is the annuitant outliving actuarial mortality? Tables have evolved.	The % of annuity payment vs current value will increase through time	State regulations	

Regardless of why a gift has gone underwater, a growing number of underwater gifts within a CGA portfolio can weigh down an entire program.

- Due to the CGA's contractual nature, a Charity is obligated to pay the annuity for the rest of the annuitants' lives
- Because CGAs are a general obligation, if CGA's fall underwater, the charity bears the burden of paying the annuitant via its general resources

In Focus: "Underwater Gifts"

Furthermore, an analysis of key metrics provides insight into the health and structure of an overall CGA Program.



Source: PNC

In Focus: “Underwater” Gifts

What Can You Do To Minimize the Potential Underwater Gifts?

Outside Your Control

- GIFT TIMING
- INVESTMENT PERFORMANCE
- MARKET RISK
- MORTALITY

Within Your Control

- PROGRAM ANALYSIS
- PRUDENT MANAGEMENT
- COMMUNICATION
- GIFT ACCEPTANCE POLICY

In Focus: Analyze Your Program

So, how can you address underwater gifts?

First, do not panic…

- The reality is, underwater gifts can occur in even the most successful of CGA pools
- Underwater gifts, or those approaching depletion, can be used as an opportunity, to reconnect with the annuitant

Second, evaluate how many gifts are underwater and identify the contributing factors…

- Measure the key characteristics of your CGA pool to reveal any patterns or anomalies within
- Analyze the pool gift by gift to measure the asset to funding ratios
- Reveal the underwater gifts and those gifts in jeopardy
- Identify the factors that drove gifts underwater and confirm whether they are isolated or systemic

Third, take steps to mitigate the impact of your underwater gifts on the CGA pool…

- Identify your minimum reserve level funding so that you can continue the obligation
- Devise a strategy to initiate communication with the annuitant
- Create Underwater Pool

Fourth, evaluate program policies and plan for the future…

- Resolve to holistically track the health of the CGA Pool with consistency
- Set warning triggers, and develop a protocol for how to respond to challenged gifts
- Be proactive, understand your CGA pool, and seek help from outside advisors when needed

In Focus: Solutions

PNC INSTITUTIONAL ASSET MANAGEMENT

Assign Annuity Back to Charity

- Is the annuity already underwater?
- Is the annuity approaching depletion – approach or let it ride?
- Communication should be strategic
- Has the annuitant been actively stewarded?
- What is the age of the annuity? What has been the total benefit received?

Unable to Accelerate/Assign Back to Charity

- Not stewarded or lapsed relationship with organization
- No POA or next of kin
- No connection to charity
- Must continue to fund the obligation

Options to Fund

- Continue to fund from CGA pool/reserves (ample surplus and not many underwater gifts)
- Retain finished CGA residua (if unrestricted) or create a loss-reserve (i.e. 80/20)
- Fund from unrestricted/operating via creation of an *Underwater Pool*

Best Practices for CGA Program Management

Best Practices

Follow ACGA Best Practices

- Follow ACGA Rates
- Monitor the CGA realistically
- Confirm administrative best practices

Establish Policies

- Gift acceptance policy
- Minimum amount for a gift annuity
- Minimum age for immediate and deferred annuities

Investment Care

- Invest entire original gift amount
- Invest appropriately
- Have the ability to track individual values of each annuity

Donor Relationship

- Make sure your donor understands the gift
- Communicate often with your donor → establish a relationship

Education

- Educate internally and externally
- Market your gift annuity program

Parting Thoughts

Underwater	▪ **Early identification is key—** While they are more common than not; understand what factors cause gifts to go underwater and take measures to mitigate their impact on your overall pool.
CGA Program Best Practice	▪ **Each pool has a different story—**The reality is that no two CGA pools are alike. The key is that effective management of a CGA program occurs when all best practices can work in concert.
CGA Program Management	▪ **Thorough management is vital—**Communication amongst your provider, your finance and your development offices is paramount.

Important Disclosures

Opinions expressed herein are subject to change without notice. The information was obtained from sources deemed reliable.

The PNC Financial Services Group, Inc. ("PNC") uses the marketing name PNC Institutional Asset Management® for the various discretionary and non-discretionary institutional investment, trustee, custody, consulting, and related services provided by PNC Bank, National Association ("PNC Bank"), which is a **Member FDIC.** The material presented herein is of a general nature and does not constitute the provision by PNC of investment, legal, tax, or accounting advice to any person. PNC does not provide legal, tax, or accounting advice unless, with respect to tax advice, PNC Bank has entered into a written tax services agreement. PNC Bank is not registered as a municipal advisor under the Dodd-Frank Wall Street Reform and Consumer Protection Act.

"PNC Institutional Asset Management" is a registered mark of The PNC Financial Services Group, Inc.

Investments: Not FDIC Insured. No Bank Guarantee. May Lose Value.