

Understanding Gift Annuities

Introduction:

What follows is a basic introduction to charitable gift annuities: what they are, what market they appeal to, and how to establish and run a gift annuity program. For additional information contact the American Council on Gift Annuities. The Partnership for Philanthropic Planning also has helpful introductory information on its web site.

American Council on Gift Annuities

www.acga-web.org

233 McCrea Street, Suite 400

Indianapolis, IN 46225

317-269-6271 FAX 317-269-6276

Partnership for Philanthropic Planning

www.pppnet.org

233 McCrea Street, Suite 400

Indianapolis, IN 46225

317-269-6274

Definition:

A gift annuity is a contract between a charity and an individual or a couple. The donor transfers property, usually cash or stock, to the charity and the charity promises to pay a fixed annual amount to the annuitant for life, or to two annuitants for both their lives.

Market:

Gift annuities appeal to those who are older and/or financially conservative. The annuity amount is fixed, guaranteed, and age-sensitive (the older the annuitant, the larger the annual payment.) When interest rates are low and the stock market is volatile, gift annuity rates compare well to those of certificates of deposits. The guaranteed fixed payments add a stable and predictable anchor to the donor's sometimes too exciting portfolio.

Establishing a program:

Gift annuity programs require effort to establish, promote and run. First, your board must be willing to back the annuity program with the full faith and credit of your organization. Even though there have been very few cases of nonprofit organizations having difficulty because of a gift annuity program, board members rightly want to protect the assets of your organization. They will ask, "What if annuitants live far beyond their life expectancies and our organization is stuck with making guaranteed payments for years?" The answer to that question lies in the number of gift annuity contracts you feel you will write. The greater the number of contracts, the higher the probability is that the average lifetimes of your annuitants will follow a normal distribution.

Second, you will have to fulfill the registration requirements of the state or states in which you want to issue gift annuities. In California, for example, it can take several months to get licensed by the California State Department of Insurance. Determine if your organization is affiliated with another related entity willing to issue gift annuities for you. Small organizations affiliated with the United Church of Christ, the Red Cross, and the Salvation

Army, for example, may be able to use a central fund to handle licensing, processing of individual contracts, annuity payments and investments, with the local entities bringing the program to the attention of their donors. Having an experienced central resource eliminates the application process for the smaller local group and puts the annuity program. But don't be afraid of the application process if you feel you have a promising market for gift annuities and a willing board of directors.

Running an Annuity Program

Most charities hire financial institutions experienced in gift annuity management to file completed contracts with the state (if required), invest the gift funds, make the annuity payments, and provide the annuitants with year-end tax information. But even the best outside vender will not market your program for you. Here are some tasks you will have to do yourself:

1. Determine the size of your market by estimating the number of donors on your mailing list over the age of 65 who may be interested in the tax and income benefits of gift annuities;
2. Determine whether your board of directors is willing to back both a gift annuity program with the organization's assets, and also budget sufficient funds to promote the annuity program consistently, including:
 - a. Mailing and e-mailings to older donors of a gift annuity flyer
 - b. Repeated placement of small gift annuity promotions in your newsletter
 - c. A major feature article from time-to-time on a gift annuity donor in your newsletter
 - d. Mention of the gift annuity program in your annual report
 - e. Possible use of outside media to promote the program
3. Determine how the program is to be run and define in-house staff responsibilities
4. Determine investment policy, minimum age of annuitants, and rates offered. Regarding rates, most charities follow the recommendations of American Council on Gift Annuities
5. Assign regular review of the investment management of the gift annuity reserve to an appropriate committee
6. Have the board of directors review and select an agent from companies offering gift annuity management and investment services

7. Assign responsibilities for managing the licensing application. (Who will fill out the required forms?) Provide for application fees, if required. If an attorney is to be used to guide the process, budget for attorney fees

Your annuity program will require technical support to establish investment strategies and set rates. The American Council on Gift Annuities provides time-tested rate guidance. You will also need access to specialized computer software to develop proposals for prospective gift annuitants.

Alternatives to Issuing Charitable Gift Annuities Yourself

Most US nonprofit organizations do not have the capacity or willingness to run their own gift annuity program. If that's true of your organization, what can you do if a donor expresses interest in a charitable gift annuity? You can search for a community foundation that serves your area and that has a charitable gift annuity program. To begin your search, copy and plug into your search engine the following URL to find over fifty US community foundations which both have gift annuity programs and sponsor the American Council on Gift Annuities:

http://www.acga-web.org/index.php?option=com_comprofiler&task=usersList&Itemid=&limitstart=0&search=&cbsecuritym3=cbm_748c0cea_19db1bea_673e7315dda075aec812c7dc9143e2f7&listid=4&cb_organization_srmch=&cb_organization=community+Foundation&cb_orgtype_srmch=is&cb_orgtype=Community+Foundation&cb_city_srmch=&cb_city=&cb_state_srmch=&cb_state=

If your lucky enough to find a foundation you think you can work with, call the staff and find out what their charitable gift annuity policies are. Those policies vary greatly. Some require that 100% of whatever is left in your donor's annuity account at their death stays with them and is managed by them for your organization's benefit. A few simply transfer whatever remains in the account 100% to you. Several require a split: a certain percentage to the community foundation to cover their costs and justify their taking all the risk. These policies are highly individual, but it's worth the research if you find a community foundation that meets your donor's interests and helps your organization.

Another alternative is the Comerica Legacy Foundation, a nonprofit entity created by Comerica Bank. They are able to issue gift annuities in most states. Upon the annuitant's death they transfer 100% of whatever is left in the account to your organization. You can get a concise presentation of how they operate and view their gift annuity donor application form by visiting:

[http://www.agpa.org/foundation/Comerica%20Legacy%20Foundation%20CGA%20Brochure%20\(2\).pdf](http://www.agpa.org/foundation/Comerica%20Legacy%20Foundation%20CGA%20Brochure%20(2).pdf)

You will want more than a glimpse at their annuity brochure, however. Contact:

Comerica Charitable Services Group

101 North Main Street, Suite 100

Ann Arbor, Michigan 48104

734-930-2417 or toll-free 877-405-1091

Promotion

(This simple folder is typical of gift annuity promotional pieces. Make sure your piece tells the donor about the good work of your organization.)

Gift Annuities

*A lifetime of
income for you:
A gift to a great cause.*

(Your cause's logo)

Fixed payments for life

Our organization's Gift Annuity Program allows you to make a gift to a great cause, receive guaranteed fixed payments for life, and enjoy a current income tax deduction. In this way, donors discover they can make a far more generous future gift to a great cause than they thought possible.

Easy to understand

A gift annuity is simple to create. You fund your annuity with a gift of cash or stock. Our organization pays you a fixed amount monthly, quarterly, semiannually or annually for life. You must be at least 65 when the payments begin and your annuity must be created with gifts having a total value of at least \$5,000.

One-life or two-life plans

Your gift annuity can provide payments for one or two lives. Both plans generate an immediate charitable tax deduction and partially bypass capital gains tax. In addition, part of your payment will be tax-free and all of your gift will pass to our organization free of estate tax.

Most important of all

Your gift annuity allows you to support a great cause. The gift you make today guarantees you income for life and a future gift in your memory to those who need it most.

For more information...

Just complete this form and return it to our office, or call (contact person) at (phone) for a confidential gift annuity analysis with no obligation.

Please send me a confidential gift annuity analysis

NAME _____

ADDRESS _____

CITY _____ STATE _____ ZIP _____

DAYTIME PHONE _____

DATE OF BIRTH _____

I am interested in the following type of annuity:

single life joint life*

*Name, relationship and birth date of second person:

Name _____

Birth Date _____

Please provide information on annuities in the following amounts:

\$5,000 \$25,000 \$50,000 Other \$ _____

Return form or call:

Contact person

Address

Phone

Fax

E-mail

(Please note that the rates given here in this example promotional piece will change over time and should not be used without consulting the most recent rates of the American Council on Gift Annuities.)

Gift Annuity Rates:

Rates vary with age. The older you are, the higher your payment rate. Our organization follows the rates recommended by the American Council on Gift annuities.

The following are some single life annuity rates. (The rates are different for two lives):

age:	rate:
60	4.4%
65	4.7%
70	5.1%
75	5.8%
80	6.8%
85	7.8%

An example

Mary Smith, age 75, wishes to establish a one-life annuity with a \$10,000 gift of appreciated stock. In exchange for her gift, she will receive lifetime annual income of \$580 for life. About \$469 of her \$580 payment will be tax-free over her actuarial life expectancy. She will also receive about a \$4,100 charitable income tax deduction.

(Seek independent legal and financial counsel before signing a gift annuity contract.)