Planned Giving Flash Update

July 2020 ACGA Rate Change: CGAs Remain Attractive

The American Council on Gift Annuities (ACGA) announced in 2020 that it would be decreasing its recommended payout rates for charitable gift annuities (CGA). In this flash update, we discuss the implications of the decrease in rates and why we still believe charitable gift annuities remain an attractive charitable vehicle for donors looking to balance lifetime income stream objectives with the philanthropic goals of their estate planning process.

1. **ACGA announces that rates will decrease 0.4% to 0.5% across age groups**
   - In July 2020, the ACGA posted new maximum one-life rate tables and two-life rate tables that reflected a 0.4% to 0.5% decrease in maximum rates across the ages in tables.
   - With the target residuum remaining unchanged at 50%, these decreases are reflective of the expectations for the continuation of a low interest rate environment for the foreseeable future and decreased expectations for future investment market returns.
   - In conjunction with the rates change, the ACGA's assumed CGA portfolio annualized rate of return has been lowered to 3.75% gross-of-fees. The relatively conservative asset allocation recommendation by the ACGA was not changed.
2. **While the rates are lower, CGAs still remain attractive relative to alternatives**
   - While there is no arguing that the rates are lower than they were before, 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).

Income Method[1]	Income Rate
Single-Life CGA Contract (Age 61 and older)	4.0% - 8.6%
S&P 500 Dividend Yield	1.9%
10-Year Treasury Note	0.65%
5-Year Certificate of Deposit Rate Estimate	0.25%

[1] Source: ACGA, FactSet® Research Systems Inc., PNC; All data as of 6/1/20.

3. Finding the right approach with donors

- One approach is to focus on the income stability aspect of a CGA contract. 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.
- Another approach is to focus on the charitable giving aspect of the CGA contract – for donors looking to make a charitable contribution as part of their estate planning, the CGA remains a great vehicle to combine a stream of lifetime income payments with a gift to charity upon their death.
- It is worth noting the low interest rate environment continues to keep the IRS discount rate low. While this creates a somewhat lower charitable deduction up front, it does allow for a greater portion of the donor's annuity to be tax-free. This may be quite attractive to certain donors.
- As the market recovers from the depths of the coronavirus pandemic, donors might be willing to initiate contracts using appreciated (or re-appreciated) securities. Being mindful of how donors might find it most advantageous to give (i.e., cash versus stock gifts), 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.

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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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