

Considering offering Charitable Gift Annuities? Here's What You Need to Know

A Charitable Gift Annuity (CGA) is a life-income giving vehicle that offers the donor an immediate income tax deduction and income for life. It can be for one or two lives, and it can even be set up to defer the start of income payments.

It is both age-sensitive and interest-sensitive. The older the annuitant, the higher the rate of return to the donor. Most charities issuing CGAs use the rates recommended by the American Council on Gift Annuities (<https://www.acga-web.org/>). They review rates regularly and change them with a month or two warning.

Additionally, many organizations issuing CGA's decline to offer them in all states. The state where the annuitant lives is the state that regulates gift annuities. There is no uniformity of regulation. Some states are virtually "anything goes." In others, there are lengthy hoops to jump through, reserve funds that must be established, preliminaries and follow-up to be completed, in some cases, annually. Again, the American Council on Gift Annuities offers detailed information about each state's regulations.

Most organizations that issue CGAs utilize software provided either by Crescendo or PG Calc. It is wise to have the donor complete an information form before preparing the gift annuity contract in order to have complete and correct information. Additionally, some states require specific language for disclosures that have to be provided to the donor. Because of the complexity in offering CGA's to donors, most organizations who provide them are national charities or large, well-established local nonprofits like community foundations, hospitals and colleges.

Appreciated stock and cash are the two most frequently utilized funding options for CGAs. Using appreciated stock to fund a CGA allows the donor to bypass capital gain that would have been due if sold. CGAs may not be funded with Qualified Charitable Distributions from IRA's. Most organizations will not accept real estate for funding CGA's but there are some national organizations that will fund a CGA with a gift of real property.

Many organizations have an age minimum and a minimum funding amount. For an example, a CGA proposed for a 66 year-old grandmother and her 2-year old grandson would not be possible because the projection would not allow for the minimum 10% remainder required by law. If there are two annuitants, the closer they are in age, the better rate they can claim. The average age for a first CGA is in the mid-70's.

And despite all of the above reasons, the main reason most organizations don't offer CGA's is that the entire assets of the organization have to be pledged to the annuitants. Even if the annuitants outlive their life expectancy and the fund is in the red, the organization is still obligated to pay the annuitant for life.

To summarize, here are the "con's" – the reasons not to offer CGA's:

1. Obligation of the organization to pay the annuitant regardless of solvency of the CGA contract
2. Need to invest in software
3. State reporting requirements for issuing CGA's
4. Inability to administer and invest CGA's
5. Lack of expertise to issue annual 1099-R's to annuitants

And here are the reasons why many organization's do offer CGA's – the "pro's":

1. People who get money from you, tend to love you. They do subsequent CGA's and often become bequest donors. A CGA is often a gateway gift to the organization that leads to many other gifts.
2. The ability to offer life-income gifts attracts a wide variety of donors to the organization who are susceptible to funding other types of projects.
3. Organizations who are concerned about donors outliving the asset, have the opportunity to reinsure the annuity with a national commercial reinsurer.

Taking everything into account, a nonprofit that is successful and solvent, large enough to have a staff that can handle the investing and reporting on CGAs, and interested in growing their donor base should consider offering CGAs. Organizations with small staff and uncertain assets should look to local community foundations or national organizations to assist their donors who are interested in these life-income gifts.