How the American Council on Gift Annuities Sets its Rates (and why we should care)

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For the first time in five years, the American Council on Gift Annuities (ACGA) has lowered the rates it suggests to nonprofit organizations that issue charitable gift annuities (CGAs). This news, which spread fast throughout the fundraising community, has engendered several questions, especially among those new to nonprofit fundraising, including, who or what is the ACGA, why do they set the rates that we all follow, and how do they determine what the rates should be?

The American Council on Gift Annuities, according to their useful website (visit it at www.acga-web.org) is a "qualified nonprofit organization formed in 1927 as the Committee on Gift Annuities for the purpose of providing educational and other services to American charities regarding gift annuities and other forms of planned gifts."

One of the main activities of the ACGA is to set the rates for charitable gift annuities. Having standard rates that all charities follow allows charities (and their donors) to focus on the important gift portion of the annuity (instead of having donors trying to play one charity off another for a better "deal"). Following the rates that ACGA sets allows us to be gift planners rather than commodities salespeople—a true benefit to all of us in nonprofit fundraising.

ACGA bases its rates on the following four main assumptions:

1. that the amount left to a charity at the expected end of a donor's life (the "residuum") be 50%. In other words, the rates need to be set to allow a charity to expect to receive, at the donor's death, at least 50% of the total amount the donor gave to establish a CGA;
2. that life expectancy follows the Annuity 2000 Mortality Tables. ACGA also uses female life expectancies (because women live longer than men) with a two-year setback, as well as increases in life expectancy projected after those tables were published, in order to provide the most safety to the charity issuing the annuities;
3. that a charity's annual expenses for investment and administration are 100 basis points, or one percent of the fair market value of gift annuity reserves. This expense includes investment fees, the costs of preparing and sending annual 1099 forms to income beneficiaries, and the costs of submitting required reports in specific states; and
4. that a charity's total annual return on gift annuity reserves is 5.75%. This expected return is based on a conservative portfolio of 40% equities, 55% fixed income, and 5% cash.

Given that life expectancy is increasing and that annual returns on investments are decreasing, ACGA decided, wisely in my opinion, to reduce the rates it suggests as of July 1, 2008.

In order to preserve the appeal of a CGA, for both donors and charities, the ACGA wanted to ensure that its rate schedule did not put charities at risk. Most of us hope that those lowered rates will not trigger charitable "blue light specials," which might garner a few gifts in the short term but could undercut the CGA appeal for the months after July 1.

ACGA's actions remind us that CGAs are, after all, a *gift*. We should also keep in mind that with the reduction of rates comes an increase in the amount a donor can deduct on a tax return, which may, in fact, be more compelling to some of our donors than the higher annual rate. Finally, both charities and donors can rest assured that starting or maintaining a charitable gift annuity program will be beneficial to both donors and the charity for now and in the future, due, at least in part, to the careful oversight of the ACGA.

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