



Basics of Planned Giving for Generalists: **Session #4 Charitable Gift Annuities and** **Remainder Interests**

November 7, 2025

South Sound Planned Giving Council

Douglas Page

Greater Tacoma Community Foundation



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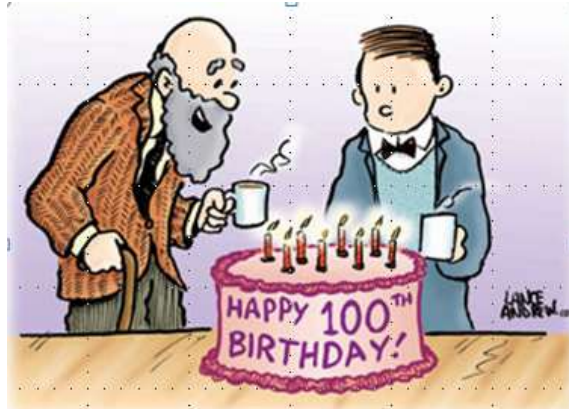
Agenda

- Charitable Gift Annuities
- Applicable Federal Rate (AFR)
- Washington State Regulations
- Philanthropy Protection Act of 1995
- Reinsurance
- Gift of Remainder Interest in Home or Farm (AKA, Life Estate)



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Charitable Gift Annuity



I'll bet GTCF didn't plan on this party when they set up my gift annuity 35 years ago!



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Charitable Gift Annuity

- A simple contractual agreement between the charity and the donor(s) that provides a guaranteed income for life for one or two persons
- A CGA may be funded with cash, securities and, in some cases, real estate
 - What about retirement assets?
- Ultimately, the charity will receive the proceeds



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Charitable Gift Annuity

- The CGA offers benefits to donors, beneficiaries and charities
 - Guaranteed fixed lifetime income for one or two people
 - Higher payment rates than most CD's, which means higher income for life
 - Portion of the income is tax-free
 - Available deferment periods to increase both future income and current income-tax deductions



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Charitable Gift Annuity

- Benefits (continued)
 - Donor enjoys an income tax charitable deduction
 - Donor is free from investment and management concerns
 - Can provide income for a loved one
 - Ultimately will provide important resources to support the work of charity



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Charitable Gift Annuity

- American Council on Gift Annuities
(www.acga-web.org)
 - Mission Statement
 - *“The American Council on Gift Annuities actively promotes responsible philanthropy through actuarially sound gift annuity rate recommendations, quality training opportunities, and the advocacy of appropriate consumer protection...”*



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Charitable Gift Annuity

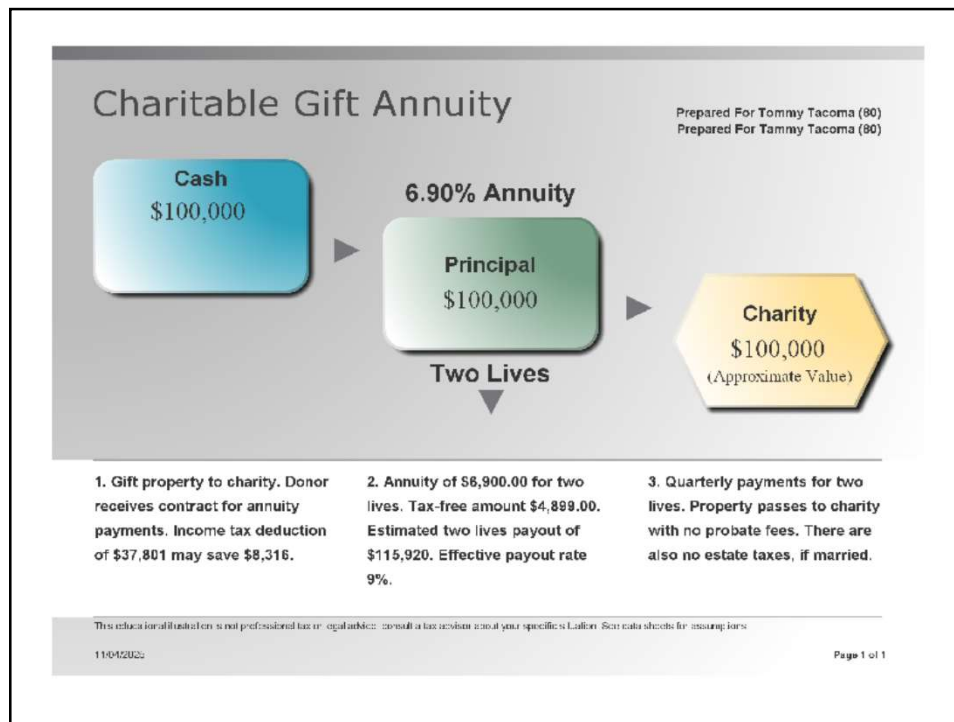
- Recommended Rates for CGA's are Determined by the American Council on Gift Annuities (ACGA)

– Sample Rates
Shown effective
01/01/2024

One Life		Two Lives	
60	5.2%	65/65	5.0%
65	5.7%	65/70	5.2%
70	6.3%	70/70	5.5%
75	7.0%	75/75	6.2%
80	8.1%	80/80	6.9%
85	9.1%	85/90	8.7%
90+	10.1%	90/91+	9.9%



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Charitable Gift Annuities

- What else can a CGA do?
 - CGA funded with appreciated stock
 - Portion of capital gain prorated over life expectancy
 - How about an IRA-QCD? Stay tuned!
 - College Annuity (Commuted Annuity)
 - Annuity for Another Person
 - Retain the “Right to Revoke” to avoid current gift
 - Deferred Annuity (including Flexible Payment)



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Deferred Gift Annuity

- Donor makes irrevocable gift to charity in exchange for annuity payments for life.
- Annuity payments begin at least one year from the date of gift.
- Deferring payments allows the gift to grow through compound interest.
- This growth allows the charity to offer a higher annuity rate.
- The longer the deferral period, the higher the annuity rate.

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Flexible Deferred Payment Gift Annuity

- Donor makes irrevocable gift to charity in exchange for annuity payments for life.
- Donor can choose from a range of annuity start dates, beginning at least one year from the date of gift.
- Deduction is limited to the annuity with the least remainder value for the charity (usually the first possible election date)
- “The longer you wait, the higher the rate.”

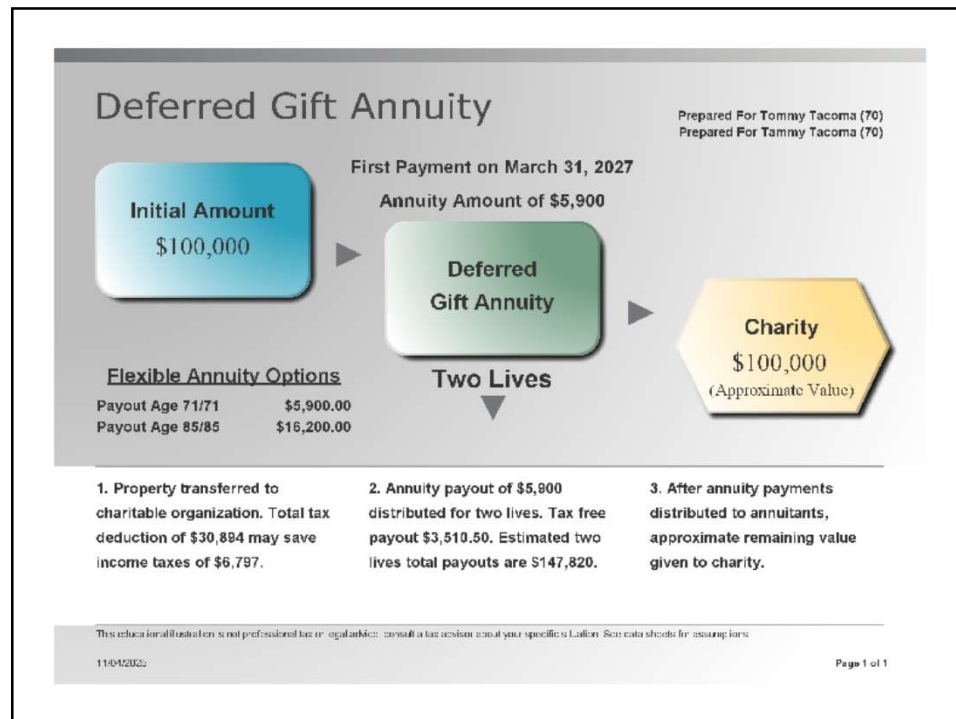
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Flexible Deferred Payment Charitable Gift Annuity

- Example
 - Tommy and Tammy Tacoma, both age 70, have a \$100,000 CD about to mature, want to make a gift, but are concerned that, though they do not need income now, they may need the income in the future



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“College” Gift Annuity

- A DGA that allows the lifetime annuity to be converted to payments of equivalent value paid in equal sums over a period of years
 - For example:
 - Grandparents funded a \$100,000 annuity on 3/31/2000 to celebrate the birth of their first grandchild that January
 - Deferred payments to when child will be age 18
 - DGA has a lifetime payout of 12.7%
 - Commuted into 4 equal payments, designed to pay tuition, each payment is \$41,828

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Applicable Federal Rate (AFR)

aka, Rate of the Month

- Defined as 120% of the Federal Mid-term Rate for the month in which the gift is made
- Impacts the amount of charitable deduction/tax free return of principal
 - Donors may choose most favorable AFR in the month of gift or two months preceding the month of the gift



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Applicable Federal Rate (AFR)

- Rate of the month for November is 4.4%
 - First prior month: October is 4.4%
 - Second prior month: September is 4.8%
- In first CGA example:
 - Larger Charitable Deduction
 - September 4.8% with \$38,538 deduction and \$4,836 tax free payouts.
 - Larger Tax-Free Payments
 - November 4.6% with \$37,801 deduction and \$4,899 tax free payouts.



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Applicable Federal Rate (AFR)

- | | |
|---|---|
| <ul style="list-style-type: none"> • Select low AFR <ul style="list-style-type: none"> – Charitable Lead Trust – Gift of remainder interest in residence/farm – Charitable Gift Annuity (if large tax-free payout desired) | <ul style="list-style-type: none"> • Select high AFR <ul style="list-style-type: none"> – Charitable Remainder Annuity Trust – Charitable Remainder Unitrust – Charitable Gift Annuity (if large income tax deduction desired) |
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Washington State Regulations

Twelve states (Alabama, Arkansas, California, Florida, Hawaii, Maryland, New Jersey, New York, North Dakota, Tennessee, **Washington**, and Wisconsin) require charities to maintain segregated reserves, submit annual reports, and/or file a detailed application in order to issue gift annuities to residents of that state. The application typically involves organizational and financial information about the charity, as well as the submission of prototype annuity agreements and a proposed rate schedule



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Washington State Regulations

- 3 years of business with unrestricted assets of \$500,000 +
- Must be registered as charitable organization with Secretary of State
- Maintain segregated reserve fund
- Invested in accordance with “reasonable prudence...”
- Annual report due 60 days after fiscal year end
- Provide copy of 990, audited financial statements



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Washington State Regulations

- CGA contract must include:
 - Payment Correction paragraph
 - Reasonable Value of Benefits paragraph
 - Washington law required as governing law
 - Donor must sign agreement or application form



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Washington State Regulations

- Not able or willing to apply for a CGA license?
 - Greater Tacoma Community Foundation
 - Charities located in Pierce County (with some exceptions)
 - Charities whose “reach” includes residents of Pierce County
 - \$25,000 minimum
 - Upon maturity, fund is used to create an endowment at GTCF for your organization’s benefit
 - Contact Douglas Page, CAP, Senior Legacy Fellow, 253.345.4188; dpage@gtcf.org



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Charitable Gift Annuities

- As part of the SECURE Act 2.0, beginning in 2023 individuals over the age of 70 ½ will have the opportunity to use up to \$54,000 (2026)of their qualified charitable distribution (QCD) to form a charitable gift annuity (CGA).
 - One-time only
 - Limited to donor and spouse
 - Not deductible
 - But not taxable!
 - Income is fully taxable



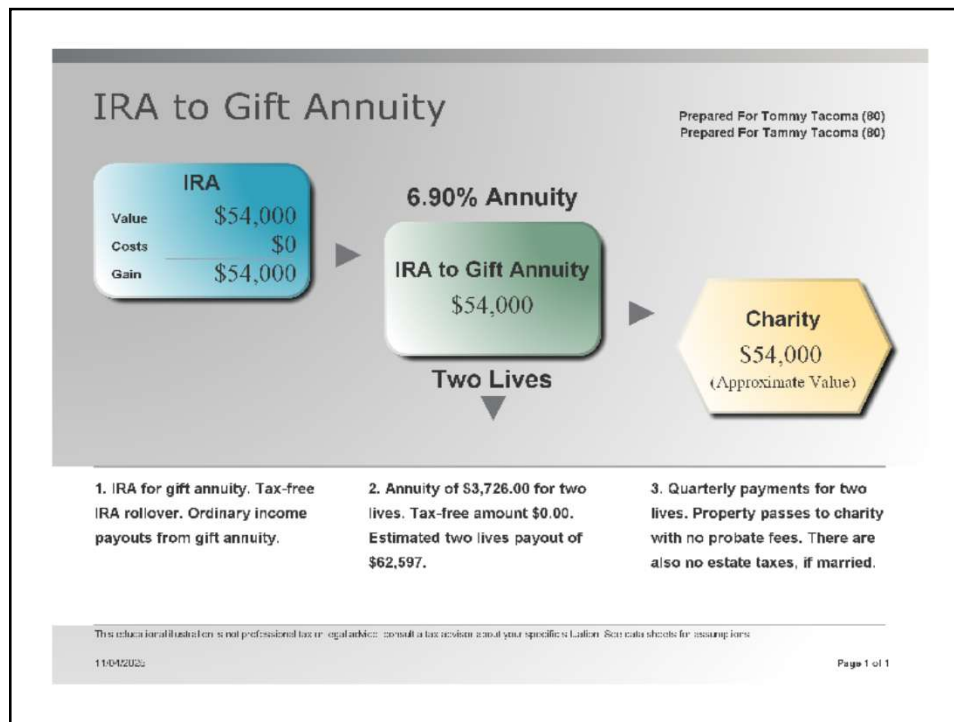
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Charitable Gift Annuities

- Appealing to donors who don't itemize and can use 100% of the QCD toward their RMD
- If they do itemize, QCD is better than funding a CGA with cash as long as they can use the entire QCD toward their RMD
 - But it might not better than funding with appreciated property



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Reinsurance?

- **Advantages**
 - A portion of the gift is available for immediate use by the charity. This is also true of self-insured gift annuities, but charities that self-insure are more likely to keep the entire contribution in reserve until the termination of the annuity.
 - The charity's risk is minimized.
 - Some states do not require a reserve for reinsured annuities.
 - Donors may feel more secure if the charity is young or financially weak.



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Reinsurance?

- Disadvantages
 - The charity will realize less money when annuitants die early and, if it can earn an attractive return on gift annuity reserves, may realize less from the entire gift annuity program.
 - Donors may be disappointed and confused when they learn that the charity retains only a fraction of the contribution.



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Philanthropy Protection Act of 1995

- Exempts “common funds” from SEC regulations
- Exempts fund-raising reps of charities from classification as “broker-dealer”
 - Unless fund-raiser received commission
- Must provide disclosure statements to donors
- Exempts CGA’s from anti-trust legislation



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Philanthropy Protection Act of 1995

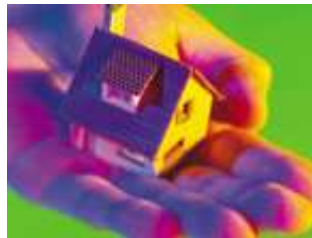
- Recommended Disclosure Statement

“With a gift annuity, you simultaneously make a charitable gift and provide fixed payments for life to yourself and/or another person. The fact that you are making a charitable gift may entitle you to income, gift, and estate tax deductions. However, because a charitable gift is involved, the annuity rates offered by [Charity] are lower than those available through commercial annuities offered by insurance companies and other financial institutions.”



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Gift of Remainder Interest in Home or Farm (AKA, Life Estate)



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Gift of Remainder Interest in Home or Farm (AKA, Life Estate)

- Benefits include:
 - Income tax deduction in the year of the gift, based on age and the value of the property.
 - Question: High AFR or low AFR
 - Avoid family disputes over the future use and ownership of home.
 - Make a significant gift to charity and support a project or program without giving up liquid assets.
 - Giving real estate during ones lifetime can simplify the estate settlement process: executors are relieved of any costs, expenses, and delays that can be involved in a transfer of real property at death.
 - A retained life estate gift reduces estate taxes by removing property from taxable estate.
 - Can choose to move out of home, which can either increase the tax deduction during lifetime or provide a payment for the value of the remaining life interest.



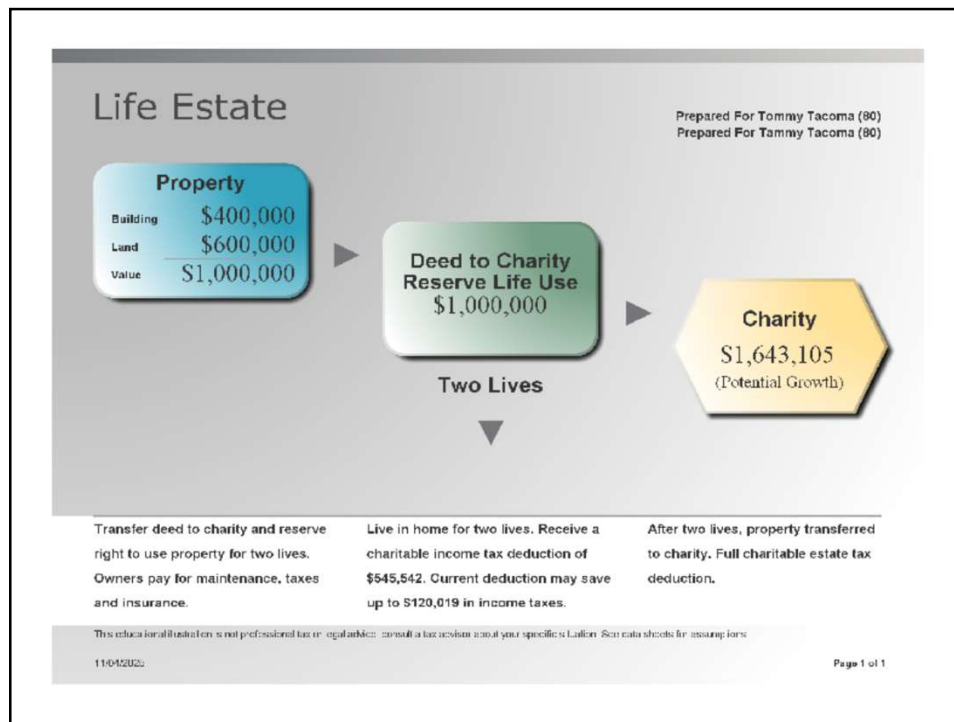
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Gift of Remainder Interest in Home or Farm (AKA, Life Estate)

- Example
 - Tommy and Tammy, both age 80, own a home worth \$1,000,000 which they contribute to a charity while retaining the right to live in the home as long as they are able



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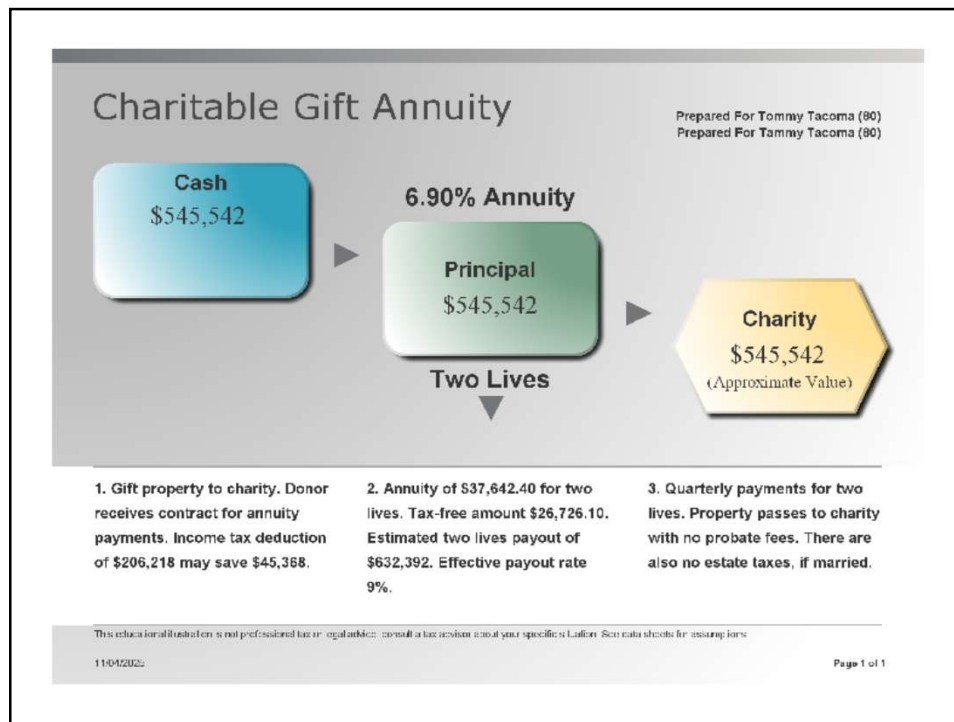
Life Estate and CGA Combo

(An alternative to a “reverse mortgage”?)

- Charity may issue a CGA for the charitable value of the Retained Life Estate
 - Risky! The charity must have resources to fund the annuity (unlikely that GTCF would be willing to do this!)
 - Tommy and Tammy illustration
 - CGA for \$545,542 (Charitable value of gift)
 - Annual annuity income of \$37,642 (6.9%)
 - Charitable income tax deduction of \$206,218
 - May save \$45,368 in taxes
 - 72% tax free, effective payout rate 9%



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Thank You!

- Questions?
- For more information visit the “toolkit”
 - Go to www.leave10.org/south-sound
 - Become a “Champion!”
- Contact me at:
Doug Page
253.345.4188; dpage@gtcf.org





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PLANNED GIVING
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NEXT WEEK – Fri. Nov. 14th

Basics of Planned Giving Session # 6
Charitable Lead Trusts (CLAT's & CLUT's)

Hayden Taylor, JD
Eisenhower & Carlson

