December 2023

Planned Giving Flash Update

QCDs to Life Income Gifts and CGA Rates Increasing

At the board meeting on November 17, 2023, the American Council on Gift Annuities (ACGA) voted to increase its suggested payout rates for Charitable Gift Annuities (CGA) effective January 1, 2024. In this flash update, we discuss updates for Qualified Charitable Distributions (QCD) to create CGAs and Charitable Remainder Trusts (CRT) and the positive implications of increasing CGA rates.

1. CGAs and CRTs created with QCDs

- The Consolidated Appropriations Act of 2023 expanded the definition of QCDs to include distributions to create CGAs and charitable remainder trusts (CRTs). Some of the key provisions under the new act, and most recent update include:
  - The annual limit (indexed for inflation) is increasing in 2024 to $53,000.
  - This new type of QCD is a one-time maximum transfer ($53,000 in 2024) in exchange with a charity for a CGA, or to a qualified CRT.
  - The new QCD can only be done once during the lifetime of the IRA owner, and must occur within a single calendar year.
  - Each spouse may contribute up to $53,000 to a joint CGA from their respective IRAs, resulting in a $106,000 CGA for the couple.
  - At least one of the income beneficiaries must be at least 70.5 years, and the CGA must have a payout rate of at least 5%, which effectively puts a lower limit on the age of the spouse.
  - No deferred payment CGAs allowed and the CGA is non-assignable.
  - The QCD gift does not qualify for an income tax charitable deduction but instead escapes income tax liability on the transfer.
  - Annuitants must be the IRA owner and/or their spouse.
  - *For additional details visit the [ACGA website.]*
- If you have been talking to someone with an IRA who is concerned because they still need income, the QCD could be an option.
- Screening your donor demographics specifically for your 70.5+ donors will allow you to present this new opportunity for giving.
- If your charity is currently accepting QCDs, you should be able to use the same process to fund the QCD CGA.

2. CGA Rates Increasing

- The ACGA's suggested maximum payout rates are increasing on January 1, 2024 by approximately 0.4%, depending on the age of the annuitant. For example, for a single-life annuitant age 79, which is the average age for annuitants at the time of gift, the annuity rate has increased from 7.4% to 7.8%.
- When compared to other relatively low-risk, income-producing options, such as government debt securities, the rates available on a CGA contract remain very attractive, especially for donors who value the philanthropic aspect (of leaving the residuum to the sponsoring charity).
- Along with the increases in interest rates, the IRS discount rate continues to increase. The IRS discount rate is used in calculating the charitable deduction for donors in establishing new CGAs, and this is pertinent for taxpayers who itemize their tax deductions. Generally for those donors, the higher the discount rate, the higher the charitable deduction that is available and thus, larger up-front tax savings.

3. Finding the right approach with donors

- The primary approach is to focus on the charitable gift aspect of the CGA contract; for donors, it is essential to hear about the importance of what their gift will help accomplish at the charity.
- Another approach is to focus on the income stability aspect of a CGA contract. Emphasize the fact that payments are fixed for life. 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.
- The new mortality table (2010CM), which can be used for gift annuity proposals, is more conservative than its predecessor. As a result, it produces a larger portion of tax-free annuity, which might be attractive for your prospects.
- Another option would be to consider an estate planning use of the charitable gift annuity for beneficiaries or heirs. Notwithstanding certain exceptions such as a spousal beneficiary, existing legislation (the SECURE Act) requires that IRA or other qualified funds be distributed within 10 years of a decedents passing. Funding a gift annuity with remaining qualified funds would allow those assets to be stretched over the lifetime of the annuitants. The annuity rates in effect at the time of the gift annuity's funding would apply.

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Income Method	Income Rate
Single-Life CGA Contract (Age 61 and older)[1]	5.3% - 10.1%
S&P 500 Dividend Yield[1]	1.49%
10-Year Treasury Note[1]	4.36%
U.S. Money Market Fund Prime Retail Gross Yield[2]	5.17%

[1] Source: ACGA, FactSet® Research Systems Inc., PNC; All data as of 11/30/23.
[2] Source: sec.gov. data as of 10/31/23.

READY TO HELP

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