Never Surrender! (Or Surrender Now!) The Relinquishing of Life Income Gifts

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By Jeffrey Frye, PG Calc Senior Client Services Advisor

One of the planned giving trends that has evolved in recent years is the voluntary termination of life income gift arrangements. While not a part of the original intent in the creation of these gift plans, surrendering the remaining lifetime income in these split-interest gifts has become popular for a number of reasons. Certainly, there are obvious benefits to the sponsoring charitable organizations – these terminations eliminate the charity's ongoing liability for payments, and of course, they receive the remainder amounts sooner than otherwise would be the case – but there are also benefits to the donors who relinquish their interests.

Charitable gift annuities (CGAs), charitable remainder trusts (CRTs), and pooled income funds (PIFs) have a long and significant history in American philanthropy. Contributions to PIFs and CRTs have been popular as far back as the middle of the 20th century, and CGAs harken back to the early 19th century. These gift plans were put in place for the dual purposes of providing modest amounts of lifetime income and making significant gifts of the remaining principal to non-profit organizations. At the outset of each arrangement, the donor expects to continue receiving payments right up until his or her time of death. With CGAs, the nominal charitable remainders have tended to range between 50 and 100% of the funding principal amounts. With CRTs and PIFs, the remainders have tended to be in excess of the original funding amounts – even after paying income to a donor for 20 or 25 years, or longer.

Historically, that is how the process has worked. Over the past 15 or 20 years, however, there have been increasing numbers of donors who voluntarily give up their remaining lifetime income while they are still very much alive. What would be the incentive for a donor to give up a stream of income for his or her remaining lifetime? To start, the income amounts are rarely significant in the overall scope of retirement income. A $25,000 CGA that pays 6% each year only amounts to $375 for each of four quarterly payments. Unless a donor establishes these split-interest gifts for large dollar amounts or creates a significant number of these gift arrangements, the resulting flow of income likely will not be a sizable amount. In some cases, donors may wish to reduce their total income in conjunction with downsizing and simplifying their affairs.

We should keep in mind that some donors also consider the ultimate effect their life income gift is having on the charity they have long supported. If a donor lives much longer than the original estimate of life expectancy, the principal may in fact be shrinking substantially over time (especially in inflation-adjusted dollars). Some donors look at their actual gift history and realize, at a certain point, that the organization has paid them nearly as much as they had originally contributed, or even more, in certain situations. Also, donors of life income gifts generally are motivated by true charitable intent, and they do not wish for their gifts to drain resources from the organization.

In addition to the warm and fuzzy feelings resulting from surrendering a life income gift, there are some cases where the donors can get quantifiable benefits from the relinquishing of life income interests. In the case of a gift annuity, if the donor has NOT outlived their original life expectancy, they generally are entitled to an additional charitable deduction for the total amount of tax-free income and capital gains distributions they are still scheduled to receive. While these amounts tend not to be large, especially in comparison to the original tax deduction that was part of the establishment of the CGA, they still provide the donor with something of monetary value. PG Calc's *PGM Anywhere* (and desktop *Planned Giving Manager*) include functionality that makes it easy for a gift planning professional to compute these values.

With the relinquishment of a CRT or PIF participation, it's a little different: the value of the donor's remaining life income interest is computed by measuring the projected future income stream, but it's according to the current market value of the gift. In addition, the calculation of the terminating interest is also computed based on a new estimate of the donor's life expectancy and the current interest rate environment. It doesn't matter what the donor's life expectancy was at the time of the original gift – it's all about recalculating the donor's remaining life expectancy at this point in time. For those reasons, the values of CRT and PIF terminations tend to be greater than those for CGA terminations, everything else being equal. These calculations are also available and easy to navigate in *PGM Anywhere* and *Planned Giving Manager*.

It should be noted that the IRS requires the donor to file Form 8283 if the value of the income interest relinquished – the potential charitable income tax deduction – is greater than $5,000. The IRS also requires the donor to obtain a qualified appraisal regarding the computed value of the surrendered interest. PG Calc offers a service of providing qualified appraisals for gifts of this nature at a very reasonable price – see the information on PG Calc's website: https://www.pgcalc.com/consulting/qualified-appraisals