



## Analysis of the New ACGA Annuity Rates

**PG Calc Featured Article, July 2022 eRate**

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On April 22, 2022, Dave Ely, Chair of the American Council on Gift Annuities' Rates and Regulations Committee, announced at the ACGA Conference that the ACGA would be increasing its suggested maximum annuity rates, effective July 1, 2022. We now know the details of the new rates, which the ACGA made public on June 2. The new rates replace the rates that became effective July 1, 2020. The ACGA's decision to increase its suggested maximum gift annuity rates was triggered by the sharp rise in interest rates since the beginning of the year.

The new suggested maximum rates are moderately higher than the ones they replace. For typical annuitant ages 70 and older, the new single-life rates are 0.4% - 0.6% higher than the rates they replace and are capped at 9.1%, up from 8.6%. Two-life annuity rates are also 0.4% - 0.6% higher at most joint ages, culminating in a cap of 8.8%, up from 8.4%.

The new rates were set with the goal of 50% of the funding amount remaining for the charity on average, as well as a 20% present value. The new rates for immediate payment annuities ensure a contribution value at all ages of at least 10% of the funding amount down to May's IRS discount rate of 3.0%. The 20% present value goal causes the maximum rates suggested for younger ages (under 60) to be lower than they otherwise would be.

[ACGA Suggested Annuity Rates, Effective July 1, 2022](#)

### **Assumptions Underlying the New Annuity Rates**

The ACGA has made the assumptions listed below in determining the schedule of suggested maximum annuity rates that will go into effect on 7/1/2022. Items 3, 4, 6, and 7 differ from the assumptions used to determine the rates that went into effect on 7/1/2020.

1. The residuum realized by the charity upon termination of an annuity is 50% of the gift amount.
2. The present value of the residuum must be at least 20% of the gift amount.
3. Each rate must result in a contribution value of at least 10% down to an IRS discount rate of 3.0% (up from 0.6%).
4. The suggested rates use the 2012 IAR Mortality Table, which incorporates projections for increasing life expectancies (improvements in mortality). Annuitants are assumed to be 55% female and 45% male. In the past, annuitants were assumed to be 50% female and 50% male.
5. Annual expenses for investment and administration are 1.0% of the fair market value of gift annuity reserves.
6. The total annual return on gift annuity reserves net of 1% assumed annual expenses, is 3.50% (up from 2.75%).
7. The rates for the oldest ages (81 and above) are somewhat lower than the rates that would follow from the first five assumptions. One-life rates are capped at 9.1% at age 90 (up from 8.6%), and the rates from 81 to 89 are graduated downward from that cap.

### **Samples of Increased Annuity Rates**

The figures in the table below show how the new rates and resulting charitable deductions for a \$10,000 immediate payment gift annuity will differ from the current rates and deductions over a range of common annuitant ages. The February deductions are based on February's IRS discount rate of 1.6%, and the July deductions are based on June's IRS discount rate of 3.6%.

### **Comparison of Current and New ACGA Rates**

Age(s)	Current Annuity	February 2022 Deduction	New Annuity	July 2022 Deduction
65	\$420	\$3,705	\$480	\$4,051
75	\$540	\$4,663	\$600	\$4,818
85	\$760	\$5,617	\$810	\$5,720
65/65	\$380	\$2,854	\$430	\$3,480
75/75	\$460	\$4,011	\$520	\$4,196
85/85	\$650	\$4,823	\$690	\$5,030

You can see that the deductions available in July will be higher than they were in February, despite the higher ACGA rates. As an influence on the deduction, the recent spike in the IRS discount rate outweighs the increase in ACGA rates. Note, however, that the recent spike in the IRS discount rate has also reduced the total tax-free portion of annuity payments by the same amount as it has increased the deduction.

### **Deferred Gift Annuity Rates Will Increase More Than Immediate Annuity Rates**

The ACGA has increased the compound interest factor for deferred gift annuity (DGA) rates from 2.75% to 3.50% for all deferral periods. As a result, the longer the deferral period, the greater will be the difference between the old DGA rates and the new ones.

The figures in the table below show how the ACGA suggested rate for a DGA will change as the deferral period changes under the new schedule. The annuity amounts are based on a \$10,000 gift, a 7/1/2022 gift date, and dates of first payment on 7/1 five, ten, and fifteen years later

### **Current DGA Rates vs. New DGA Rates**

Age at Gift	Years of Deferral	Current Annuity	New Annuity	Amount Increase	Annuity % Increase
60	5	\$480	\$570	\$90	0.9%
60	10	\$620	\$740	\$120	1.2%
60	15	\$810	\$1,000	\$190	1.9%

The gap between the ACGA's 3.50% deferred interest factor and June's 3.6% IRS discount rate is narrow enough that deferred annuities that follow the ACGA rates should always have a charitable value over the required 10%. Should you encounter a DGA that fails the 10% requirement, *PGM Anywhere* and *PGM* desktop can decrease the annuity rate for you, as needed, to meet this requirement. Be sure to disclose the reduction to your donor in this case.

### **Using the New ACGA Rates in *PGM Anywhere*, *Planned Giving Manager*, and *GiftCalcs***

We updated *PGM Anywhere* with the new ACGA rates for all clients on June 2. If your *PGM Anywhere* account is configured to set default annuity rates using the ACGA rate table effective on the date of gift (the default configuration), it will continue to use the ACGA rate table that went into effect on 7/1/2020 to set default annuity rates for gift dates through 6/30/2022. It will use the ACGA rate table that goes into effect on 7/1/2022 for gift dates of 7/1/2022 onward. The same holds true for *Planned Giving*

*Manager* (PGM desktop) once you update it to PGM 7.5H or any later version. If *PGM Anywhere* or *PGM desktop* is configured to use a specific ACGA rate table or a custom rate table, then it will continue to use that table for setting default gift annuity rates regardless of the gift date.

We have also updated *GiftCalcs*, our calculator for planned giving websites, with the new ACGA rates. Like *PGM Anywhere* and *PGM desktop*, if *GiftCalcs* is configured to pick rates from the ACGA rate table effective on the date of gift (the default configuration), it will continue to pick rates from the ACGA rate table that went into effect on 7/1/2020 for gift dates through 6/30/2022. It will use the ACGA rate table that goes into effect on 7/1/2022 for gift dates of 7/1/2022 onward. Also, like *PGM Anywhere* and *PGM desktop*, if *GiftCalcs* is configured to use a specific ACGA rate table or a custom rate table, it will continue to use that table for picking gift annuity rates no matter the gift date.

### **A Word of Caution**

A few charities have asked us whether they can offer the new higher ACGA rates before July 1, 2022. A charity must file its schedule of maximum rates for annuities issued to residents of Alabama, Arkansas, California, Maryland, New Jersey, New York, and Washington. The charity cannot issue an annuity to residents of these seven states that exceeds the rates on file with state regulators. If a charity has previously filed an ACGA rate table, the state will generally assume that the charity will adopt any new ACGA schedule as of the ACGA's stated effective date. (The ACGA sends copies of new rate schedules to the state insurance departments.) Any acceleration or delay in adoption would need to be specifically communicated to the state. In addition, it would violate New Hampshire law for a charity to issue annuities using the new ACGA rates before the rates become effective on July 1.

### **Maximum Annuity Rates for NY Donors**

Since 2020, New York has updated quarterly its maximum annuity rates for annuities issued to New York donors. Each quarter, the New York rate has been lower than the ACGA rate for some male ages and more female ages. Most likely, some of the new ACGA rates will be higher than New York's rates when New York posts its 1-life rates for Q3 2022 in early July. Legislation is pending in New York that would greatly reduce the likelihood of its maximum rates continuing to be lower than the ACGA's suggested maximum rates for any male or female ages. The New York Senate has passed the legislation. It remains in committee in the New York Assembly. June 2 is the last day of New York's legislative session for 2022, so it looks like we will need to wait until 2023 before this hoped-for change can become law.

In the meantime, you can look up New York's 1-life maximum annuity rates by going [here](#) and clicking the "Present Value of Immediate Annuities . . ." link. To compute the maximum allowable payout rate, divide the value in the maximum income column by 10 for the age in question. If you need to know New York's maximum annuity rate for a 2-life annuity or a 1-life or 2-life deferred annuity, fill out this [form](#) to request a calculation.

## **Conclusion**

The ACGA suggested maximum annuity rates for immediate payment gift annuities will increase moderately at all ages, effective July 1, 2022. ACGA rates for deferred gift annuities will increase more significantly. The longer the deferral period, the greater will be the increase. The spike in the IRS discount rate since February means that deductions for gift annuities paying the increased ACGA rates will still be substantially higher than they were just a few months ago. The combination of higher annuity rates and higher deductions should make gift annuities more attractive to donors than they have been in a long time.