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Measuring the Success of Your CGA Program:
The Case for Maintaining Current Market Values for All Charitable Gift Annuities

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Charitable gift annuities (CGAs) are designed to be the split-interest gift for any donor. With some organizations still offering CGAs at minimal funding amounts of $10,000, they provide an opportunity to “give something and get something back” for donors who are just ordinary folks. The basic premise is that the donor contributes cash or marketable securities to a charitable organization, and the charity promises to make payments to the donor for the rest of his or her life. The donor receives a charitable income tax deduction at the time of the gift, and some portion of the original principal remains at the donor’s passing. The deduction is the estimated value of the charitable remainder in the future, discounted to present value.

That all sounds great, right? A classic “win-win-win” arrangement, and in fact, most charitable gift annuities result in a significant portion of the original principal as the *residuum*. When a charity has a robust gift annuity program, there can be enormous financial rewards from the ongoing stream of CGA terminations. But we’ve all heard the other side of the story as well. There are far too many examples where the gift corpus becomes completely used up, and in fact, the charity ends up kicking in money from general funds to *continue* making payments to an annuitant who lived beyond their original life expectancy. We call these “underwater gift annuities,” and they actually end up with negative dollar benefits.

Attempting to Measure Success

So, what is the sum total benefit of this gift annuity venture from the charity’s perspective? Do the positive examples outweigh the negative examples? Or vice versa? Or is it more of a draw in the end, coming out somewhere in the murky middle? There comes a time, sooner or later, when every charity sponsoring gift annuities needs to ask if the results of the gift annuity program justify the efforts in the long run. Why go through all the effort and trouble of running a gift annuity program if you're not going to reap significant rewards? But here, in fact, is the hardest question: How do you get your hands around the process of assessing the overall results? *Put simply, how does the charity even begin to measure the success of their CGA program?*

Fundraising – in all its styles and colors – is the bedrock of every not-for-profit organization. Ensuring a steady inflow of contributions is the lifeblood, without which nothing else can occur. The types of fundraising vary widely from one charity to another, but typical patterns of fundraising tend to emerge over time. Some organizations don't pay much attention to planned giving, other than the part about enjoying the flow of gifts from deceased persons through bequests and beneficiary designations.

Life Income Gifts Are Different

But the life income gifts portion of a planned giving program represents a *deliberate* effort by the charity to reach far above the low-hanging fruit. When a charity decides to embark on a charitable gift annuity program, the organization is making a specific choice of dedicating resources to an endeavor that may not produce much in rewards – if any – in the early years. Just the effort of getting up to speed on the requirements of offering gift annuities – in particular, the complexities of state regulations – involves spending money and resources on the front end. If there is a significant investment made in the front-end of the process, that makes the need for rewards in later years even more pointed. It's important from the very beginning that the charity keeps records on how much they are investing and how much they are harvesting.

There are lots of methods that charities can employ to determine the efficiency of their gift annuity programs. For expansive programs over the long run, it might be appropriate to undertake a comprehensive audit of the entire program. That might involve reviewing the gift acceptance policy as well as the groups of donors specifically targeted by marketing efforts. There might also be a review of investment policy and practices – the way the gift annuity assets are invested over the long run has a significant effect on the ultimate results of the CGA program. *But the simplest and easiest way to determine if the charity is getting enough bang for its buck is to maintain some type of system that will calculate and maintain ongoing market values for each and every gift annuity in the program – and to pay attention to those values.*

Why is it so important to maintain ongoing market values for every gift annuity in the program? Because it's the only way to know when a gift annuity terminates (some might say "matures") how much of the original gift principal is remaining. We all know that gift annuities are expected to lose money from the beginning. The donor's contribution of $10,000 is not the amount the charity will receive in the end; rather, the charity will receive a portion of that $10,000. The American Council on Gift Annuities (ACGA) puts together tables of recommended payout rates for gift annuities, and the underlying goal is for the remainder the charity will receive, in aggregate, to be at least 50% of the original gift amount.

But the results can vary widely from one gift annuity to another; some may result in residua well in excess of 50%, while others may result in residua well below 50%. The value of having a specific dollar amount for the residuum of every gift annuity allows for numerical analysis of the overall health of the program. Of particular note, in the most recent survey of member organizations, the ACGA reported an average residuum of 66% for all organizations who responded to the survey. That means out of every $3 contributed for a CGA, the remainder charity receives $2 after the completion of the gift arrangement. And as Meatloaf so aptly put it, “two out of three ain’t bad!”

Knowing How Much There Is Left

In addition to determining the overall level of success for a gift annuity program, computing CGA market values also enables an extremely important part of the gift annuity process to occur: when each gift annuity has an up-to-date market value, the charity knows right away what the termination value will be immediately upon the death of the annuitant. For pools of life income gifts, the traditional practice has been to use the most recent market value just before the death (or voluntary termination during the life of the annuitant). If a death occurs in February, for example, and the individual market values are updated at the end of every calendar quarter, the charity will know right away that the terminating value – which is the charitable remainder or residuum – will be the most recent market value computed on December 31.

Without individual CGA market values, the charity must go through some sort of manual calculation to determine the dollar value of the remainder. That ends up being an approximation – a rough estimate of the final value based on overall investment performance of the gift annuity assets over many years. Or in the worst examples, the charity has been running the gift annuity program for years – or even decades – and has never known how to compute or estimate a charitable remainder value for terminating gifts.

Full Disclosure: PG Calc Can Help

We’re not going to hide our light under a bushel basket here: PG Calc can even offer specific assistance when a gift annuity program has been running for many years (or even decades) to guide the organization through the initial stages of updating market values. We have helped organizations in a few instances with thousands of gifts whose residuum amounts had never been computed. With our assistance, in some cases, we have helped the organizations to free up millions of dollars trapped in limbo for terminations that happened long ago.

PG Calc also provides a licensed software application called *GiftWrap*, which handles all the administrative functions of a charitable gift annuity program. One of the most valuable features in *GiftWrap* is called *CashTrac*, and with some guidance from our Client Services group, *GiftWrap* users can calculate and maintain individual market values for all CGAs with relative ease. Once the process is established, it's simple and straightforward to move the market values from one period to the next (monthly, quarterly, semi-annually, or annually).

This is particularly important in handling the termination values of gift annuities in California – there are specific rules regarding the computation of the residuum, and in turn, those rules affect how much can be withdrawn from the California CGA investment pool upon the termination of each gift annuity. It's almost impossible to calculate the termination values correctly and maintain the correct amounts in the California CGA investment pool without maintaining up-to-date market values for each and every gift annuity.

But we are not saying that the *CashTrac* feature in *GiftWrap* is the only way to compute individual market values for gift annuities. There are other accounting systems that can handle the processes, and there is always the alternative of computing the market values on a good old-fashioned spreadsheet. It will take more time and manual effort, but it will meet the need. The important thing is to start computing the market values now if you have never done so in the past. You will be in a better position to determine the level of success for your gift annuity program, and you may free up substantial amounts of money representing the combined remainder amounts of long-terminated gift annuities. *That is, after all, what the donors intended – that whatever is left of their gift in the end be used in furthering the good work of the organization.*