



This Stuff Matters: The New ACGA Rates and the New IRS Mortality Table

Date: August 17, 2022

Time: 1:00 – 2:00 Eastern

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**Vice President, Product
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New IRS mortality table

- What is a mortality table and how is used?
- Comparison of current and new IRS mortality table
- Guidance on which IRS mortality table to use when

New ACGA rates

- Assumptions underlying new ACGA rates
- Comparison of former and new ACGA rates
- Several factors will increase appeal of gift annuities to donors

What Is a Mortality Table?

- Estimates # of survivors at every age out of a starting population at age 0
- Based on the mortality experience of a large number of people
 - 2000CM: based on 2000 U.S. Census – charitable deductions
 - 2010CM: based on 2010 U.S. Census – charitable deductions
 - 2012 IAR: based on owners of commercial annuities – ACGA rates, gift annuity reserves
 - 1983 Basic: expected return multiples for gift annuities
- Used to predict likelihood a person of a specific age will live to a specific greater age
- Can be used to compute a life expectancy: the number of years a person of a specific age is expected to live, on average

What Is a Mortality Table?

- 2000CM

Age	Survivors
0	100000
1	99305
2	99255
3	99222
...	...
107	43
108	22
109	11
110	0

- 2010CM

Age	Survivors
0	100,000.00
1	99,382.28
2	99,341.16
3	99,313.80
...	...
107	56.91106
108	30.17214
109	15.47804
110	0

Rules for Use of 2000CM and 2010CM

- 2000CM required for gifts made on/after 7/1/2009
- 2010CM introduced by IRS in Proposed Regulations, published 5/5/2022 (three years late)
- Used to value deductions and life interests for planned gifts with terms based on *one or more lives*
- Donors can use 2000CM or 2010CM for gifts made on or after 1/1/2021 through end of month in which 2010CM regulations become final
- 2010CM will be required after that
- Comment period ended 7/5/2022; only 8 comments (one suggests moving transition period start date back to 5/1/2019)

Life Expectancy Comparison

Life Expectancy Comparison (years)

Age	2000CM	2010CM	Difference
65	17.7	19.1	1.4
75	11.1	12	0.9
85	6.2	6.5	0.3
65/65	22.8	24.1	1.3
75/75	14.9	15.8	0.9
85/85	8.6	9	0.4

2000CM vs. 2010CM: Gift Annuity

\$100,000 Charitable Gift Annuity Paying Current ACGA Rate; 3.0% IRS Discount Rate

Age(s)	Annuity Rate	Deduction Using Table 2000CM	Deduction Using Table 2010CM	\$ Decrease in Deduction	% Decrease in Deduction	Increase in Total Tax-Free Portion
65	4.2%	\$45,029	\$41,724	\$3,305	7.3%	\$3,305
70	4.7%	\$48,181	\$44,652	\$3,529	7.3%	\$3,529
75	5.4%	\$51,502	\$47,894	\$3,608	7.0%	\$3,608
80	6.5%	\$53,938	\$50,745	\$3,193	5.9%	\$3,193
85	7.6%	\$58,804	\$56,922	\$1,882	3.2%	\$1,882
65/65	3.8%	\$38,706	\$35,990	\$2,716	7.0%	\$2,716
75/75	4.6%	\$46,311	\$43,336	\$2,975	6.4%	\$2,975
85/85	6.5%	\$51,785	\$50,147	\$1,638	3.2%	\$1,638

2000CM vs. 2010CM: CRUT

\$100,000 Charitable Remainder Unitrust; 5% payout; 3.0% IRS Discount Rate

Age(s)	Deduction Using Table 2000CM	Deduction Using Table 2010CM	% Decrease
65	\$45,053	\$42,242	6.2%
70	\$52,476	\$49,622	5.4%
75	\$60,280	\$57,583	4.5%
80	\$67,893	\$65,802	3.1%
85	\$74,896	\$73,792	1.5%
65/65	\$33,934	\$31,580	6.9%
75/75	\$49,373	\$46,898	5.0%
85/85	\$66,183	\$65,015	1.8%

Should I Choose 2000CM or 2010CM?

Gift type	Situation	Mortality table to maximize tax benefit	Comment
CGA, DGA, FGA	New gift	<p>2000CM – maximizes deductible value</p> <p>2010CM – maximizes tax-free portion of annuity</p>	<p>Donor must decide which tax benefit is more important: a higher immediate deduction or a higher tax-free portion of the annuity during their life expectancy</p> <p>If the donor does not itemize deductions, has reached % of AGI limit, or otherwise cannot use the deduction, maximizing the tax-free portion of annuity will be best (Table 2010CM)</p>
CRAT, CRUT, PIF, RLE	New gift	2000CM	Maximizes deductible value
CLAT, CLUT	New gift	2010CM	Maximizes deductible value

Should I Choose 2000CM or 2010CM?

Gift type	Situation	Mortality table to maximize tax benefit	Comment
CGA, DGA, FGA	Give annuity interest to charity	2010CM	Table choice may have no effect on deduction, which is the lesser of (A) the value of annuity or (B) the total of undistributed tax-free and capital gain amounts. (B) is usually the lesser amount and is not affected by table choice
CRAT, CRUT, PIF, RLE	Give income interest or life estate to charity	2010CM	Maximizes deductible value
CLAT, CLUT	Give remainder interest to charity	2000CM	Maximizes deductible value

Consider contacting donors who have made planned gifts since 1/1/2021 and would benefit from using 2010CM.

- Has donor filed tax returns where deduction appears?
 - No: contact donor about redoing calculation using 2010CM
 - Yes: is benefit big enough to warrant filing an amended return?
 - No: don't contact donor
 - Yes: contact donor to see if interested in revised calculations using 2010CM
 - Best candidate: donor of large income interest in CRT or of large retained life interest in a home/farm

Relevant Links

- IRS tables for valuing of annuity interests, unitrust interests, income interests, and life estates based on 2010CM: <https://www.irs.gov/retirement-plans/actuarial-tables>
- Full text of proposed regulations: <https://www.govinfo.gov/content/pkg/FR-2022-05-05/pdf/2022-02303.pdf>



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POLL

- ACGA made new suggested maximum annuity rates public 6/2/2022
- New rates effective 7/1/2022
- Replace rates effective since 7/1/2020
- Assumptions that have changed
 1. Mortality assumption: 45% male/55% female blend of 2012 IAR mortality; was 50/50
 2. Investment return assumption: Net annual rate of 3.50% (4.50% minus 1% assumed annual expenses); was 2.75%
 3. Annual compound interest factor for determining deferred annuity rates: 3.50%; was 2.75%
 4. All rates pass 10% deduction requirement when IRS discount rate is as low as 3.0%; was 0.6%

Impact of New Annuity Rates: CGAs

Age(s)	Current Annuity	February 2022 Deduction*	July 2022 Deduction**	New Annuity	July 2022 Deduction**
65	\$420	\$3,705	\$4,795	\$480	\$4,051
75	\$540	\$4,663	\$5,336	\$600	\$4,818
85	\$760	\$5,617	\$5,984	\$810	\$5,720
65/65	\$380	\$2,854	\$4,238	\$430	\$3,480
75/75	\$460	\$4,011	\$4,866	\$520	\$4,196
85/85	\$650	\$4,823	\$5,318	\$690	\$5,030

* February deductions based on February's IRS discount rate of 1.6%.

** July deductions are based on June's IRS discount rate of 3.6%.

- Recent spike in IRS discount rate outweighs increase in ACGA rate in influencing CGA deduction
- Spike in IRS discount rate reduces total tax-free portion of annuity by same amount it increases deduction

Impact of New Annuity Rates: DGAs

\$10,000 gift deferred gift annuity, 7/1/2022 gift date, 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	\$610	\$740	\$130	1.3%
60	15	\$810	\$1,000	\$190	1.9%

Reasons gift annuities will be more appealing to some donors:

- CGAs: annuity rate 0.4% - 0.6% higher, starting July 1
- Deduction highest since late 2018 due to spike in IRS discount rate; likely will go higher
- A win-win for donors who itemize
- Donors who don't itemize don't benefit from deduction increase and will receive smaller tax-free portion

Could you offer the new higher ACGA rates before July 1, 2022?

- Charity cannot issue rates above those on file in Alabama, Arkansas, California, Maryland, New Jersey, New York, and Washington
- Violates New Hampshire law to issue annuities using the new ACGA rates before the rates become effective on July 1
- Any acceleration or delay in adoption should be specifically communicated to states where rates are on file

NY maximum annuity rates can be lower than ACGA suggested rates

- NY updates quarterly its maximum annuity rates for NY donors
- Since 2020, each quarter the NY rate has been lower than the ACGA rate for some male ages and more female ages
 - Q1 2022: NY max rates lower for males 50-84 and females 50-87
 - Q2 2022: NY max rates lower for male 80 and females 70-85
 - Q3 2022: NY max rates HIGHER for all male and female ages, but still can be LOWER for some DGAs
 - Q4 2022: ?

Maximum Annuity Rates for NY Donors

- Legislation pending in NY would greatly reduce likelihood any NY max rates < ACGA rates
 - Passed NY Senate; in committee in NY Assembly
 - NY legislature in recess until January 2023
- To look up NY 1-life max rates, go to:
https://www.dfs.ny.gov/apps_and_licensing/life_insurers/reserve_requirements
and click “Present Value of Immediate Annuities . . .” link
- PG Calc can compute 2-life CGA and 1-life & 2-life DGA NY max rates; fill out form here: <https://www.pgcalc.com/gift-illustrations/gift-calculation-service#ny-rate-calcs>

- In most cases, to donor's benefit to use 2000CM in calculations while it is still an option
- Exceptions: CGA donors who don't itemize; donors of a CRT or RLE interest
- For gifts made since 1/1/2021, consider contacting 2022 donors & 2021 CRT/RLE interest donors about redoing deduction calculation
- ACGA rates increased 0.4% - 0.6%, effective July 1
- DGA rates increased more; how much depends on length of deferral
- Higher deductions due to spike in IRS discount rate + higher ACGA rates = CGAs more attractive to itemizers than in many years



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