
Folks:

Take-Away: The SECURE Act 2.0 permits \$50,000 of a qualified charitable distribution (QCD) from an IRA to be used to fund a charitable gift annuity (CGA) while satisfying some (or all) of the IRA owner's required minimum distribution (RMD) obligation for the year. Recently an increase in the recommended CGA maximum rates may make this new opportunity to be even more attractive for donors.

Background: The American Council on Gift Annuities (ACGA) published its suggested maximum rates for 2024 on November 17, 2023. These maximum rates are designed to produce a target gift for charity at the conclusion of the annuity contract equal to 50% of the funds contributed for the annuity. With the ability to make a qualified charitable distribution (QCD) to a charitable gift annuity in satisfaction (in part) of the annuitant's required minimum distribution for the year under the SECURE Act 2.0, starting in 2024, it is important to understand a bit about these suggested maximum rates for charitable gift annuities (CGAs.) Remember, though, that this is a one-time contribution opportunity, up to \$50,000, and no other contributions can be added to the CGA later on. For spouses over the age of 70 ½, they could collectively contribute up to \$100,000 (\$50,000 from each of their IRAs) to a 'joint and survivor' CGA as their QCDs.

ACGA Factors: The ACGA rates are predicated on the following: (i) an annuitant mortality assumption equal to a 45% Male/55% Female blend of mortality under the 2012 Individual Annuity Reserving Table (the 2012 IAR); (ii) A gross investment return expectation of 5.75% (which is higher than the previous return assumption of 5.25% per year on the charity's gift annuity funds); and (iii) an expense assumption of 1% per year. Therefore, both immediate and deferred payment annuity calculations use a net compounding rate of 4.75% (5.75% minus 1% assumed annual expenses.)

There is also a payment assumption that annual payments are made in quarterly installments at the end of each period.

Additional Assumptions for Deferred Gift Annuities: The annual compound interest rate credited during the deferral period for deferred payment gift annuities is 4.75% (the same investment return assumption as for immediate payment gift annuities after subtracting the 1.0% expense. Thus, each dollar contributed to a deferred gift annuity is presumed to grow at an annual compound interest rate of 4.75% between the date of contribution and the annuity starting date. If payments will be made at the end of the period, which is usually the case, the annuity starting date would be at the beginning of the first period for which payment is made.

- **Starting Date Example:** If payments will be made quarterly, and the first payment will be made on September 30, 2034, the annuity starting date is July 1, 2024. If the payments are to be made semi-annually, the annuity starting date is April 1, 2034.

New Rates: If an IRA owner wishes to fund a CGA using his/her IRA, up to \$50,000, starting at age 73, the Single Life Suggested Maximum Gift Annuity Rate is 6.7. If the IRA owner wishes to fund a CGA with his/her spouse, where both spouses are age 73, the Joint and Survivor Suggested Maximum Gift Annuity Rate is 5.9.

Tax Deduction: These maximum gift annuity rates are for ages at the nearest birthday. For immediate gift annuities, [which is required for a QCD] for a conventional charitable gift annuity (CGA) these rates will result in a charitable income tax deduction of more than 10% if the Charitable Federal Midterm Rate (CFMR) is 4.2% or higher, whatever the payment frequency. If the CFMR is less than 4.2% then tax deduction might be less than 10% when annuitants are below certain ages. Some deferred gift annuities with a longer deferral period, the rates may not pass the 10% test when the CFMR is low.

Conclusion: The new rule that permits up to \$50,000 of an RMD to be paid to a charitable gift annuity (CGA), coupled with more favorable ACGA suggested maximum rates for 2024, may prompt many IRA owners to inquire about this charitable giving opportunity. This is something to keep in mind with counselling clients who are charitably inclined.

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