

Approximately 10,000 American baby boomers will turn 65 today. And tomorrow. And every day after that until 2030, when all baby boomers will be over the age of 65. This “gray tsunami” is predicted to set new firsts, including in the area of longevity. According to the Society of Actuaries, for a married couple who are currently both age 65, there’s a 50% chance that one spouse will live to be 90.

While longevity is on their side, the “longevity threat,” defined as outliving your retirement income, is not. Boomers started their careers at the dawn of the earliest 401k plans, and only 6% of boomers from the tail end of this gray wave have pensions (also known as a defined benefit plan). According to the Center for Retirement at Boston College, retirees who depend on a defined contribution plan, such as a 401k or 403b, are predicted to spend down their wealth more quickly than previous generations that depended on pensions. But they point out that the more a retiree’s resources come from “an annuity-like form” – including charitable gift annuities – the slower this cohort is expected to deplete their wealth. This is where a flexible deferred gift annuity (FGA) can step in to assist both the donor AND the charity with long-term planning.

### **How a Flexible Gift Annuity Works**

The FGA is a form of deferred charitable gift annuity. A donor makes an irrevocable gift to the charity in exchange for an annuity that begins at least one year from the date of gift. However, instead of deferring the first payment to a specific date, the annuitant is given a decade or more of possible starting payment dates to choose from. The payout rate associated with each possible starting date appear in the gift annuity contract. The longer the annuitant defers receiving payments, the greater the annuity will be when payments begin. Once the election is made, the annuity rate is fixed for the life of the gift. The table below shows the range of rates available to a 65-year-old establishing an FGA with the minimum one-year deferral.

<b>Elective Start Date</b>	<b>Age at Start Date</b>	<b>Annuity Rate</b>
3/31/2025	66	6.0%

3/31/2026	67	6.4%
3/31/2027	68	6.9%
3/31/2028	69	7.4%
3/31/2029	70	7.9%
3/31/2030	71	8.4%
3/31/2031	72	9.0%
3/31/2032	73	9.6%
3/31/2033	74	10.2%
3/31/2034	75	11.0%

The donor receives the income tax deduction at the time the FGA is established, not when they begin receiving income. The deduction itself is calculated based on the highest possible investment in contract for the donor, which is typically the first possible annuity they could elect. Investment in contract is simply the present value of the annuitant(s)' future annuity payments. Once the highest possible investment in contract is identified, that number is subtracted from the gift amount to produce the corresponding deduction (if you use *PGM Anywhere* or desktop *PGM*, these steps are done automatically for you by the software).

If established with a gift of cash, the FGA will produce tax-free and ordinary income. If established with a gift of appreciated assets, the FGA will produce a blend of capital gain, tax-free, and ordinary income. The ratio depends on the appreciation in the asset given. Significant capital gain income is still a plus for the annuitant, as it is taxed at a more favorable rate than ordinary income. Note that because the highest possible value of the annuity in the FGA's range must be used, the FGA's deduction will be the *lowest possible* deduction for all of the possible starting payment years. For instance, using the same age and deferral period, here is the value to the annuitant for each annuity for an FGA established with \$10,000.

Elective Start Date	Age at Start Date	Annuity Rate	Value of Annuity
3/31/2025	66	6.0%	\$6,242.40
3/31/2026	67	6.4%	\$6,080.70
3/31/2027	68	6.9%	\$5,972.30
3/31/2028	69	7.4%	\$5,819.60
3/31/2029	70	7.9%	\$5,629.10
3/31/2030	71	8.4%	\$5,406.40
3/31/2031	72	9.0%	\$5,215.00
3/31/2032	73	9.6%	\$4,990.10
3/31/2033	74	10.2%	\$4,737.90
3/31/2034	75	11.0%	\$4,546.80

### **Benefit to the Donor - the “Just in Case” Annuity**

Because 401(k)s, 403(b)s, and the like are invested in the stock market, they are exposed to market volatility. For instance, a report from Fidelity Investments found that the average 401(k) balance ended 2022 down 23 percent from 2021. Strong investment performance in 2023 allowed many 401(k)s to rebound, but there’s no skirting the issue that defined contribution plans produce variable income. In addition, donors must draw down their accounts through a required minimum distribution (RMD) starting at age 73 (for those born before 1960), and these payments are designed to steadily reduce the size of the retirement account over the life of the retiree.

With these factors in mind, charitable gift annuities can be presented to donors as an excellent way to mitigate the “longevity threat” by introducing retirement income that the annuitant can’t outlive. A flexible gift annuity appeals to the type of donor who wants a vehicle that maximizes payments in the future, but that they can also access if they should need the money earlier than they expect. Such a “just in case” annuity could be used to offset the income lost from a 401k hit by market decline, as occurred in 2022.

### **Benefit to the Charity**

The flexible gift annuity, like all deferred gift annuities, benefits the charity through the potential for the residuum to grow during the deferral period. Using the same case as above, a charity that was able to achieve an average investment return of 7% during each year of the deferral period would receive approximately 6% more from the residuum of the FGA than they would have received from an immediate CGA.

But in addition to the increased residuum, having annuity income can help combat the retiree’s perception that they don’t have a “license to spend” their retirement income, including on charitable giving. To quote a 2023 *Wall Street Journal* article on this topic, “On the one hand, we’re grateful for the lives we have, and we want to give back. But it feels different without a paycheck.”

Only 27% of retirees who responded to the Employee Benefit Research Institute’s 2023 Retirement Confidence Survey said that they were “very confident” they will have enough money to live comfortably throughout retirement. The predicted result is that many will withdraw less from their retirement plans, including for making charitable gifts.

Research reported on [thinkadvisor.com](https://www.thinkadvisor.com) contrasts the spending behavior of retirees with pensions from those funding their retirement with defined contribution plans, like 401(k)s. They’ve found that households spend more as they age, including on charitable giving, *if they hold their wealth as guaranteed income*, and not as investments. This is where a robust and flexible gift annuity program can step in to help create the sense of a “license to give,” by providing donors with a stream of guaranteed income that helps them feel wealthy enough to be charitable.

### **If You Currently Don’t Offer the FGA**

Don't worry, you're not alone. In their 2021 member survey, the ACGA reported that 56% of respondents offered FGAs. Some charities are put off by the higher payout rates in the later years, fearing what could happen to the residuum once the annuity begins paying. On closer inspection, however, the payout rate is a much lower percentage *when expressed as a proportion of the future value of the funding principal*.

For instance, continuing with the gift scenario above, imagine the donor elects the tenth possible annuity, which has a payout rate of 11%. If the original gift of \$10,000 compounds annually by 4.75% (the compounding rate used by the ACGA to create their recommended deferred gift annuity rates for 2024), then the value of the CGA's principal will grow to \$18,572 by the time the annuity begins paying out. While the annuity for the tenth year is 11% of \$10,000, or \$1,100, that translates into a *relative payout rate of approximately 6% when squared against the increased principal of \$18,572*.

## **In Conclusion**

Planned gifts can be used creatively to remove impediments to donor giving. If your donor is charitably inclined but worried that they need to conserve their assets to ensure they don't outlive them, a flexible gift annuity can be an effective tool for assuaging that reasonable fear, while at the same time providing for the charity's long-term health. The flexible gift annuity's "just in case" feature allows donors to choose when to receive their income and helps deliver a "license to give."

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