Jeffrey Frye - Wed, 8/12/2026 - 15:47

PG Calc's *PGM Anywhere* gift illustration software offers the ability to run projections for charitable remainder trusts that provide an *estimate* of the long-term outcome of the gift arrangement. Based on a number of input assumptions, the gift planning professional can give the prospective donor a reasonable idea of what is possible over time. None of the future numbers are guaranteed, of course, but modeling can serve as a useful tool in framing the overall picture.

While the long-range estimates can be helpful for a donor – and for his or her advisors – the process sometimes results in a number of questions. One of the most consequential questions we hear regarding the trust projections in *PGM Anywhere* is why the charitable deduction is so much smaller than the projected remainder amount. We generally refer to the deduction as the estimated value of the gift to the charity, but that is also how we explain the projected remainder amount. In some cases, the two numbers can be worlds apart. If they represent essentially the same concept, how can we see two numbers so dramatically different? Let's take a look at what is behind the numbers.

PGM Anywhere requires input assumptions for investment returns, split into percentages for earned income and capital appreciation. There are also places to specify whether or not the funding property will be sold in the first year, and what amount (if any) will be charged to the trust for management fees. When all is said and done, the result is a thoughtfully assembled projection of the long-term benefits for both the personal and charitable interests, but we must remember to emphasize that all the numbers are educated guesses.

We never know how the investments of the trust portfolio will perform over time, and more fundamentally, we never know how long the beneficiaries of the trust will live. We use life expectancy numbers that are derived from a mortality table, but those values simply represent averages for a population; few beneficiaries die exactly "on the schedule" suggested by the mortality table.

There are only two numbers in all this that are known for certain: the funding amount of the trust and the amount of the charitable deduction. We know, for example, that a particular charitable remainder unitrust (CRUT) written for the benefit of a 65-year-old and a 63-year-old is being funded with $1,000,000 in cash. We also can be certain of the trust's payout rate and the frequency of its payments.

The charitable deduction is also a firm number. Keep in mind that the deduction amount is essentially an estimate, just like the charitable benefit numbers in our projection charts, but it is an estimate that is sanctioned by the IRS. The IRS says that if we know the dates of birth for all beneficiaries, the value of the funding assets, the payout rate of the trust, and the frequency of its payments, we can determine the amount that the donors can itemize as a deduction on their income tax return. The charitable deduction is a hard and fast number – there is no gray area about it.

But the question that comes up, again and again, from gift planners is why the charitable deduction allowed by the IRS can be so different from the remainder shown in *PGM Anywhere*'s trust projections. Let's use the following example:

A CRUT is funded with $1 million in cash, and it pays 5% of its value annually to the donors in quarterly installments at the end of each calendar quarter. The donors are ages 65 and 63. The funding date is August 1, 2026, with an IRS discount rate of 5.2%. We'll assume a total investment return of 7%, with 2.5% income and 4.5% capital appreciation. We will also assume a trustee / asset management / administration fee of 1%.

Here is the relevant number: the funding of the trust results in a $306,870 income tax deduction for the donors.

Now let's look at the projected remainder amount: the joint life expectancy of the couple is 31 years. At the end of 31 years, the trust principal remaining for the benefit of the charity is projected to be $1,342,650. In addition, it is worth mentioning, the payments to the couple are projected to total $1,793,979 before taxes, meaning that the combined total benefit is projected to be $3,136,629.

We try always to emphasize the degree of leverage achieved in these situations – the initial funding of $1,000,000 is used to create a total benefit of more than 3 times the original amount! That makes for a powerful and compelling illustration.

But getting back to our original theme, it is only natural for the gift planner – and the donor – to question why the projected remainder is so much more than the charitable income tax deduction. In our example, the projected remainder is more than 4 times the amount of the deduction. If they both represent the approximate value of the benefit for the charitable organization, how can they be so dramatically different?

Part of the reason for the extreme difference is that the two numbers are calculated according to dramatically different methodology. The calculation of the projected remainder is based on an investment return assumption over the course of many years. If the trust earns a net return of 6% (net of management fees), but pays out only 5%, then 1% is available to be reinvested each year. When we have a projection going for many years, we see the power of reinvestment and compounding – a small amount is added each year, but the overall amount accumulated can become amazingly large.

The calculation of the charitable deduction involves a very different process. Based on a list of variables – the ages of beneficiaries, the trust payout rate, the IRS discount rate, the payout frequency, and other details – the deduction calculation incorporates the loss of purchasing power over time, or what we generally call inflation. Because of the way the deduction is computed, the number reflects the present value of the remainder amount. The discounting to present value – taking a nominal amount in the future and adjusting it for the loss of purchasing power over time – is baked into the methodology. The charitable deduction of $306,870 is a present value of the remainder amount the charity will receive whenever the second of the two donors dies. It is the officially recognized estimate of the present value of a much larger amount the charity will receive in the future.

One of the more exciting aspects of running trust projections in *PGM Anywhere* is the existence of a switch to convert future amounts into present values. The projected residuum of $1,342,650 is a nominal amount many years in the future; it is not adjusted for the time value of money. But at the bottom of the **Date-Lives-Term** window in *PGM Anywhere*, you are asked: **Show present values for projected amounts?** When you answer “yes,” you can enter an interest rate for discounting all projected values. This rate defaults to the IRS discount rate used to compute the charitable deduction, but it can be changed to any rate you wish.

In our example, we said “yes” to the question and allowed the default discount rate of 5.2% to be used. After making those choices, the projected remainder dropped from $1,342,650 to $278,917! This means that the projected future remainder, discounted to reflect a value expressed in today’s dollars, actually became less than the charitable deduction amount. What a dramatic difference!

This is, indeed, the major difference between the charitable deduction and the projected remainder in *PGM Anywhere*'s trust projections – the default estimate of the remainder is a nominal amount in the future. It has not been adjusted to reflect the present value in today's dollars. When we adjust the very large projected remainder amount *to reflect the loss of purchasing power over time*, we see that the remainder value is in the same ballpark as the charitable deduction amount. The two numbers don't match exactly because there are other differences between the two methodologies that we won't go into here.

The present value discount is a powerful tool in *PGM Anywhere*, and it can provide certain donors and certain advisors with the additional information they need to make a decision about a split interest gift. But this feature should be used judiciously – it is best to use it only when there has already been some discussion about what the projected remainder amount really means to the charitable organization. Some donors and advisors understand how to interpret the additional layers of numbers, but some do not. Showing a greatly reduced future remainder amount may serve as a disincentive in some gift planning conversations.

See our charitable remainder trust gift illustrations for the examples above:

- Trust projection showing future amounts: https://www.pgcalc.com/pdf/0926-featured-article_projection-future-amounts.pdf

- Trust projection showing present values for projected amounts: https://www.pgcalc.com/pdf/0926-featured-article_projection-present-values.pdf

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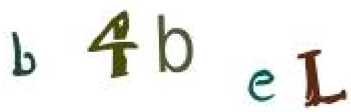

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