Partnership for Philanthropic Planning

Charitable giving made most meaningful

Valuation Standards
for Charitable Planned Gifts

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Authors:

Jeffrey Comfort
Georgetown University

Robert Sharpe, Jr.
The Sharpe Group

Editors:

Tanya Howe Johnson
Partnership for Philanthropic Planning

Sandra K. Kerr
Kerr Associates

Reine Shiffman
Reine A. Shiffman & Associates

Barbara Yeager

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Executive Summary

Charitable organizations and the donors who support them ask a common question: what is the real value of planned gifts in accomplishing charitable missions that enrich our communities and serve people in need?

The Financial Accounting Standards Board (FASB) provides rules for the accounting of planned gifts; the Council for Advancement and Support of Education (CASE) provides standards for counting gifts in campaigns; and U.S. Treasury Regulations dictate the methodology for determining the charitable deduction for tax purposes. But accounting, counting and tax deduction measurements do not truly reflect the value a planned gift will provide to a charitable organization when the gift is finally available to accomplish its charitable purpose.

While some organizations have created their own methodologies for valuing planned gifts, no widely accepted standard is consistently used within the charitable community. The Partnership for Philanthropic Planning (formerly the National Committee on Planned Giving) believes that the time has come for gift planners to serve the needs of donors and the profession by adhering to a set of uniform standards for valuing planned gifts.

These standards are intended to provide the charitable gift planning community with a comprehensive and consistent methodology for valuing planned gifts. For the first time, charitable gift planners will be able to estimate the real value of funds raised through a planned gift program and to compare the relative value of alternate planned gift approaches to the charitable organization.

These Standards are based on the premise that donors make gifts to support charitable programs. The recommended valuation methodologies are designed to reflect the present value of the ultimate purchasing power of the gift. These methodologies are not intended to provide any comparison of a planned gift with an equivalent outright gift.

Donors look to planned gift alternatives for various reasons. For instance, a donor may choose a charitable remainder unitrust because she is unwilling to give away the asset outright and may need the income. The same donor may want the unitrust to ultimately endow a full scholarship. The question then becomes, "How much will need to be given to the unitrust now to endow a full scholarship when the trust ultimately terminates?" his is a question of the present value of the ultimate purchasing power of the gift.

Uniform valuation standards will permit easy and accurate tracking of gift planning results within each charitable organization. Widespread use of these valuation standards throughout the charitable community will also make it possible to conduct research on the effectiveness of planned giving in charitable resource development, including:

- The costs and benefits of planned gift fundraising.

- The financial effectiveness of a gift planning program.

- Assessment of appropriate resource allocation to a planned giving program..

- Appropriate planned gift fundraising expectations within a total resource development campaign.

- The ultimate <u>purchasing power</u> value to the charity of the funds raised through planned giving.

The valuation methodology for planned gifts is a two-step process. In the first step, payout rates, life expectancy or term and assumed investment returns are used to determine the value of the gift at its projected termination. In the second step, that total future value is discounted backward to the present using a separate, unique discount rate, which is based on expected cost rise rates. The key controllable variables are determined as follows:

- **Life Expectancy** is estimated based on IRS Mortality Tables.

- **Investment Return Rate** assumes net total investment return (dividends and interest plus change in the value of the investment minus expenses) based on the asset class mix to be used.

    Each organization may use its own investment return rate or a default rate provided by the Partnership. The default rate is based on a mix of stocks/bonds/cash using the long-term (70 year) returns for the stocks comprising the S&P Index, current 10-year Treasury Bond yields for bonds and the 30-day T-bill for cash, less customary expenses and fees associated with trust administration and investment management, excluding program overhead.

- **Discount Rate** assumes the charity's cost rise rate, or may be based on an appropriate charitable sector inflation rate or on a national rate, such as the Consumer Price Index average.

It is the investment return rate that distinguishes this valuation methodology from existing counting and accounting methodologies. Most planned gifts, and especially charitable trusts, must be managed in accordance with the Prudent Investor Rule (PIR). The Prudent Investor Rule recognizes that the *entire* port-folio matters, and that no investments or techniques are imprudent per se. Since diversification is of utmost im-portance in fulfilling fiduciary responsibility, and since the Prudent Investor Rule is the rule most fiduciary managers apply to charitable portfolios, the valuation methodology assumes that planned gifts are managed in keeping with the PIR.

The Partnership provides default factors for the investment return rate and the discount rate. These factors will be periodically updated based on historical data and/ or more recent experience. Charitable organizations may choose to use these default factors in calculating gift values, but they are encouraged to develop customized factors based on their own actual data and experience. For example, projected investment return rates can be developed through a review of the charitable organization's gift asset investment approach and history. Alternatively, discount factors could be based on industry-specific historical inflation data.

The methodology gives the user choices for customized factors. With proper use, these choices for customization allow for the greatest possible precision and accuracy in projected results. While some in the gift planning community may elect for customization to seek greater precision, others may choose to use the Partnership's default factors. The consistency is in the methodology.

The methodology used is sensible, sound, and completely reliable for the purpose intended: providing a present value for the future purchasing power of any planned charitable gift. As would be expected, the present value of the future purchasing power of any gift is almost always less than the original face amount of the gift. However, using customized factors for certain gift types may occasionally produce a present value of the future purchasing power that exceeds the original face amount of the gift. For example, using a very high projected net return factor in conjunction with a very low inflation factor on a low payout charitable remainder trust may produce a present value that exceeds face value. While this may seem counterintuitive, the methodology is still correct. The results are as sound as the factors used. If the factors are sound, then this gift may indeed provide future purchasing power for the charity that would exceed a current outright gift of the same amount. Of course, with any planned gift, the charity will experience an opportunity cost for not having the immediate use of the funds. Again, these methodologies are not intended to provide any comparison of a planned gift with an equivalent outright gift.

It should be noted that the valuation formulas have been devised to obtain values for both irrevocable and revocable gifts. The Partnership recognizes that because revocable gifts are a large component of most planned gift programs, a realistic assessment of any planned giving program must include these commitments. How-

ever, the Partnership urges that any report of these gift values should include a full disclosure of the revocable nature of such commitments and report them separately from the value of irrevocable gifts.

Until now, gift planners have had to rely on disparate (and sometimes conflicting) rules for counting, accounting or tax deductibility, none of which fully recognizes how most charities invest their gifts or their cost rise experience. The result has been an inconsistent, and possibly inaccurate, measurement of how much value—<u>in terms of purchasing power</u> measured in today's dollars—will eventually be available to the charitable organization, and whether that sum will be sufficient to accomplish the designated purpose of the contribution. The Partnership's valuation standards bring clarity to this undertaking.

We realize that the valuation estimates produced by using these formulas are by nature inexact, and that they can only estimate the value of planned gifts. Not every member of the gift planning community will agree with the methodology and the underlying assumptions. However, the Partnership for Philanthropic Planning presents these standards in the belief that, while it may not be possible for gift planners to reach complete consensus on the valuation standards, we can all agree that the use of consistent measurements will benefit all charitable organizations and their donors. We hope you will use, support and benefit from these standards in that spirit of voluntary cooperation.

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Acknowledgements

In 2000, the National Committee on Planned Giving (now the Partnership for Philanthropic Planning) formed a task force to consider a standard method for valuing planned gifts. The members represented the full range of gift planning professionals, including representatives from both nonprofit and for-profit organizations of various sizes, and professionals from health care, social service, educational and environmental organizations, as well as trust administration, banking and financial services professionals.

We would like to thank all the volunteers who gave so much time, effort and thought to this project; the many professionals in the philanthropic community who provided input, contributed data, and shared wisdom gained through their experience; and the PPP Board of Directors, who guided this project for more than three years. These standards represent intensive effort by volunteers and staff who considered hundreds of comments, debated the issues and ultimately developed the standards found in this guide. In particular, we express appreciation to the following individuals who were instrumental in the development of the valuation formula, methodology and default factors: **J. Scott Kaspick**, Kaspick & Company; **Scott R. Lumpkin**, University of Denver; **Robert F. Sharpe, Jr.**, The Sharpe Group and **Jonathan G. Tidd**, Attorney.

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Tanya Howe Johnson
Partnership for Philanthropic Planning

Elizabeth L. Mathieu
Capital IV Partners

Craig C. Wruck
Saint Cloud State University

Peter K. Kimball
Harvard University

Ron Sapp
Ron Sapp & Associates, Ltd.

Robert Lew
Planning & Financial Advisors

Of Counsel:
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The Need For A
Uniform Valuation Standard

If you are employed by a charitable organization in its fund development efforts, are you confident you can accurately report the value of the planned gifts completed for the benefit of your organization last year? If you are an advisor working with donors, do you have an accurate way to evaluate which planning strategies will best balance the relative value to your clients with their charitable interests?

The answer depends upon what you value and on how you value it. The Financial Accounting Standards Board (FASB) has created rules for the *accounting* of planned gifts. The Council for Advancement and Support of Education (CASE) has periodically recommended standards for the types of gifts to *count* within the context of an educational institution's capital campaign. And U.S. Treasury Regulations provide the methodology for determining the charitable *deduction* for a planned gift. All of these measurements are valid and necessary for the uses for which they were intended. But accounting, campaign gift counting and tax deductibility are not accurate measures of the *value* a planned gift will have to a charity when the gift is realized and used to accomplish its charitable mission.

What is meant by "valuation?" In simple terms, we mean determining the ultimate *value,* in terms of charitable purchasing power, of the gift to the charitable organization that receives it. You might think of it as "measurements of success" or "accountability." Valuation is a critical component in evaluating the bottom line success of any gift planning program.

Everyone can agree on how to value outright gifts of cash. Certainly, gifts received from estate settlements are easily valued—those gifts are money-in-the-bank.

But how should a gift annuity be valued? There is money-in-hand, as the donor has made an irrevocable gift of an asset to the charity, but the charity has accepted a liability to pay an annuity for life.

What about a charitable remainder trust? The donor has made an irrevocable transfer of assets to a trustee with an irrevocable gift of the remainder to one or more charitable organizations, but no charity has immediate access to the funds.

Should a charitable lead trust be valued for the full amount of the projected payments, or just the distributions that are received by the charitable organization each year? And, what about revocable gifts, such as bequest intentions and charitable remainder trusts where the charitable recipient can be changed? Should such gifts be included in gift reports when the donor's intentions are communicated, or not until the funds are actually received?

Gift planners need to be able to answer these questions and to answer them in a consistent manner. By providing the gift planning community with a set of accepted, consistent standards for valuing the results of planned gift fundraising efforts, we can better know the impact of planned gifts.

Benefits of Standard Valuation Methods

Uniform valuation standards will facilitate accurate analysis of gift planning results within charitable organizations. Widespread use of these valuation standards throughout the charitable community will also allow research to be conducted on the effectiveness of

planned giving in charitable resource development. Some of the measurements that can be made through the use of these standards include determining:

- The costs and benefits of planned gift fundraising.

- The financial effectiveness of a gift planning program.

- The appropriate resource allocation to a planned giving program.

- Reasonable planned gift fundraising expectations within a total resource development campaign.

- The true impact and present value of the future purchasing power of the funds raised through planned giving.

- How different variables will affect the eventual value of the gift to the organization.

Standardized planned gift valuation can help facilitate accountability by consistently measuring program productivity. By using a standard method of valuing planned gifts, charitable organizations will be better able to evaluate their gift planning programs consistently and to develop more accurate cost to benefit comparisons.

As an illustration, most institutions value irrevocable planned gifts in some fashion. Yet, revocable planned gifts are usually not included in overall gift totals, so the true value of gifts generated by a gift planning program in a given year is rarely recognized. This diminishes some of a fund raising program's most important and most productive work. The Standards for Valuing Charitable Planned Gifts recognize that since revocable planned gifts are a significant component of most gift planning programs, excluding these commitments from program evaluation would significantly understate the contribution of the program to the charitable organization. At the same time, the Partnership urges that any report of these gift values include a full disclosure of the revocable nature of such commitments.

(For more information on the role of the Prudent Investor Rule in these valuation standards, see Appendix A-2.)

Why Not Just Use the Charitable Deduction?

Some organizations value planned gifts by simply referring to the charitable deduction value calculated under U.S. Treasury Regulations. Although the charitable deduction calculation is an important and appropriate method for determining the value of the gift for tax purposes, it is not designed to measure the anticipated economic value of the gift to the charitable organization. The fact that the deduction calculation does not provide a way to adjust for alternative investment approaches (and therefore, for different expected returns) over time greatly limits its usefulness as an accurate predictor of the eventual value of the gift. For example, two trusts, with the same expected return and payout rate, one invested in all bonds and one invested in all stocks, would ultimately yield very different remainders, but both donors would be entitled to the same income tax deduction.

In calculating the charitable deduction, the U.S. Treasury Regulations use a "risk-free" investment analysis. The "CMFR" discount rate used in the calculation of the income tax deduction, for example, is a function of the yield on certain Treasury obligations. This is the most conservative approach, and the simplest for donors, who would have difficulty basing deductions on investment choices that might be made by a trustee. The reality, however, is that both modern practice and the standards set by the Prudent Investor Rule suggest that most trusts (except those with very short expected lives) will experience a higher return. This is because, in order to offset the risk of eroding the trust due to inflation, most trusts will have an equity exposure. The size of the equity exposure will depend on the circumstances surrounding the trust, primarily the expected term and prudent risk tolerance. The Prudent Investor Rule suggests that, to manage risk, both the equity and fixed income portions of the trust be diversified, not only across securities, but across asset classes. For purposes of valuation, the Partnership encourages charities to use their own investment experience or expectations, or to approximate a PIR standard approach by using simple portfolio mixes that consider the tradeoffs that might be made for different gift situations.

Another issue in using the IRS approach is its sensitivity to current interest rates. The valuation methodology dampens this potential volatility by utilizing long term expected returns, which are more stable. The following table shows the income tax charitable deduction for the same gift made on different dates. In each case, a gift

of $1,000,000 was made to a charitable remainder annuity trust with a 65-year-old life income beneficiary and a 5% payout. The only difference is the discount rate in effect on the date of the gift.

Date of Gift	Discount Rate	Charitable Deduction
5/1/97	8.2%	$576,000
12/1/97	7.2%	$545,000
2/1/01	6.2%	$510,000
8/1/02	5.2%	$471,000
10/1/02	4.2%	$425,000
8/1/03	3.2%	$375,000

Concerns regarding application of U.S. Treasury Regulations to planned gift valuation should in no way suggest that the charitable deduction formulas are faulty. They measure what they are supposed to measure, which is something different from the value of the funds eventually available for charitable use. The variations in the charitable deduction over time simply point out the need for charitable organizations to use the most appropriate rules and assumptions as a basis for calculating the value of future gifts when analyzing the impact of their programs.

Gift Valuation Methodology

The methodology for determining the value of the planned gift to the charitable organization consists of two separate computations. The purpose of the first computation is to estimate the nominal future value of the gift at the time it is expected to become available for spending by the charitable organization. The purpose of the second computation is to discount that future value to estimate what the future gift will be worth to the charity in today's dollars (i.e., today's purchasing power). The first computation provides a projection of how many dollars will be available in the future, and the second provides an estimate of what that future amount will buy, based on current prices. For example, if we know how much is required to fully fund an endowed scholarship today, the two computations can tell us whether a specific gift will be sufficient to fully fund that scholarship at the time the gift is expected to become available.

Computing the Expected Future Value of a Gift

To determine the future value of a gift, we begin with the amount contributed, and then adjust that amount each year to include the expected investment return plus any expected additions and minus expected costs and payments. The more accurately these factors can be estimated, the more accurate the projected future value will be. However, the longer the time frame, the more even small deviations in the actual result relative to the projections will reduce the accuracy of the projected outcome.

Five variables affect the future value of a planned gift: investment returns, expenses, payments to income beneficiaries, expected term of the gift and additions to the gift portfolio. Where appropriate, these variables should be estimated based on a charitable organization's own historical experience. PPP provides default rates for some variables, which may be used when internal data is not available.

Variable: Investment Returns

Investment returns vary widely over time, depending upon the type of investments selected, and therefore are largely a function of the asset class mix. Stocks, bonds and cash all have different expected long-term returns. Several alternative approaches to projecting investment returns are presented below. Each organization should use the method most appropriate to its particular circumstances.

Option 1. Organization-Specific Returns

Project expected returns based on the charitable organization's own portfolio design and return expectations. This is the most accurate method for projecting future results.

1) Identify the individual asset classes to be used for the gift portfolio and the time frame over which the gift is to be invested.

2) Equities. For periods of longer than 10 years, use the long-term expected return for each equity asset class. Because returns on equities can have significant variability over periods of less than 10 years, the best estimate of future returns is long term (e.g., 70- to 90-year averages). For periods of less than 10 years where your projection of returns for equities is different than the long-term average, substitute your projection.

3) For fixed income or bond asset classes, use current returns for the asset class since, unlike equities, current interest rates are the best predictors of future returns. However, if you believe current returns will not continue, use your own estimate.

4) To calculate the overall expected return, after you have identified the expected return for each equity and fixed income asset class, weight the expected returns by the weight of each asset class in the portfolio.

As an illustration, assume a portfolio of 60% stock, 40% bond mix. Now assume that the average return from equities is 11.2% and the return from bond class assets is 5.1%. The calculation for investment return is as follows:

$$(.6 \times .112) + (.4 \times .051) = \text{Investment Return}$$

$$.0672 + .0204 = .0876$$

Option 2: Organization-Specific Asset Allocation Using Default Returns

(See Appendix B-2 for PPP defaults.) Use your expected mix of asset classes for each portfolio, but use PPP's default long-term investment return expectations. This approach follows the methodology identified above, but provides investment return defaults for those without the history, experience and/or inclination to develop their own. Defaults are based upon historical data and are appropriate for portfolios with relatively long lives. PPP does not offer short-term equity return defaults.

Option 3: Default Asset Allocation Using Default Returns

(See Appendix B-2 for PPP defaults.) Use PPP's default asset mixes as well as long term return projections. This approach will likely result in some loss of accuracy, but for those without the experience or ability to more accurately predict the types of portfolios to be used, it provides a reasonable estimate. PPP provides assumptions for asset mixes for four types of portfolios. Use the assumptions for the portfolio type that most closely matches the expected investment mix for each gift. (This approach has been used by the American Council on Gift Annuities to determine suggested gift annuity rates since 1927. The overwhelming majority of charities that issue gift annuities choose to use rates based on the assumed rate of return on an asset allocation that ACGA considers to be prudent for investment of gift annuity funds.)

Long term growth, i.e., portfolios designed to balance volatility and growth (60% S&P 500 and 40% LB Int Govt/Corp Bonds).

Conservative growth, i.e., portfolios designed to dampen volatility but provide moderate growth (30% S&P 500 and 70% LB Int Govt/Corp Bonds).

Fixed income portfolios, i.e., conservative portfolios designed to minimize volatility with no equity exposure (100% LB Int Govt/Corp Bonds). Note that portfolios of 100% municipal bonds would have a lower expected return.

Gift annuities. For these portfolios, PPP recommends using the American Council on Gift Annuities assumed returns. ACGA provides detail on these assumptions.

Option 4: Single Default Rate

(See Appendix B-2 for PPP defaults.) Use PPP's recommended long-term growth portfolio mix and PPP's return assumptions for all future gifts. This is the least accurate projection, but also the easiest to calculate. It can be used where there is no acceptable basis for more detailed estimates, or where the charitable organization has determined that for its mix of portfolios overall it is a fair representation of the invested assets. It is strongly recommended that this approach not be used if it is likely to materially distort the expected future value of the portfolios involved.

Variable: Expenses

(See Appendix B-2 for default.) Expenses reduce the expected investment returns. Expenses that should be included are the costs of the investment managers, custody, trust administration and any other costs that are incurred by the portfolios in order to invest and manage investments. The expenses should be estimated based on your knowledge and expectations, or you may use the investment return defaults provided by the Partnership and the American Council on Gift Annuities, which take costs into account.

Variable: Payments to Income Beneficiaries

Payments to income beneficiaries from the planned gift may be fixed (percentage or dollar value) or variable, and may be known or unknown, depending upon the gift type. The most accurate way to determine total payments is to calculate the payment amount each year for each individual gift based upon the fixed dollar or percentage payout of the gift. Average payouts across all trusts can be used, but precision will be compromised. In cases where payments are not predictable (such as revocable trusts or estates), use an estimate, but remember that the precision of any such estimate is likely to be lower than that of a gift-by-gift estimate. Note that for portfolios that can only pay out income, such as net income trusts and pooled income funds, the income estimate for the portfolio (however it is defined for the particular case) should be substituted for the stated payout rate.

Variable: Expected Term of Gift

(See Appendix B-1 for single life and two life joint and survivor tables.) For gifts whose term is based on one or more lifetimes, the expected term equals the life expectancy of the beneficiary(ies) as reflected in the 1983 Basic Mortality Table. For example, a person age 60 has a life expectancy of 24 years (rounded down). This means that there is a 50% chance that the individual will live at least another 24 years. A couple ages 65 and 70 have a life expectancy of 23.1 years. Although the 1983 Mortality Tables are the PPP de-fault, users are encouraged to rely on other tables if they are determined to be more reflective of a specific constituency or more applicable to any specific gift.

Variable: Additions

Any expected additions to the gift portfolio must be added in the years expected. Since only rarely are there situations where specific amounts are added on a fixed schedule, this adjustment should be made only where appropriate.

Computing the Amount to be Received

Once the numbers for each of these variables has been identified, the process of determining the expected future value for each portfolio is as follows:

1) Start with the beginning value.
2) Add any additions.
3) Subtract any payments.
4) Multiply the result by the investment return net of expected costs for each year until the expected date the gift will be available to the charity.

**Computing the Present Value
of the Amount to be Received**

Calculating the expected value of the gift in the future tells us how much money will be available at that time. To complete our analysis of the true value of the gift to the charity, we also need to determine what the future value is worth to the charitable organization today, when the gift is made. To do this, we will calculate the purchasing power of the future dollars relative to purchasing power today. In this way, we can estimate what the future dollars are worth relative to today's costs and compare them to any purpose.

To determine the value of a future amount in today's dollars, discount the future amount over the number of years until it is expected to be received, using the charity's expected cost rise rate as the discount rate. For example, if historically the cost of a scholarship has risen at inflation plus one percent, then the discount rate should be the general inflation projection plus one percent.

Note: The discount rate used for this calculation should be the rate at which the charity's costs rise. It is not the endowment return rate, or the expected growth rate on the gift investment portfolio. While these may represent more traditional approaches to discount rates, they do not provide accurate information for

valuation of a gift to be received in the future. By using the cost rise rate to perform the discount calculation, we can determine what the gift proceeds will buy in terms of today's program costs.

For charitable organizations without the history or experience to calculate their own discount rates, the Partnership provides a discount factor that is based on projected inflation over long periods (see Appendix B-2). Charitable organizations can use this rate as a starting point and adjust it up or down as deemed appropriate, or simply use it without adjustment. Of course, the precision of the valuation calculation

diminishes along with the accuracy of the rate used. For charitable organizations wishing to determine their own discount rate, a reasonable starting point is the expected annual price rise for the charity over the life of the gift. Many charities have access to historical data that allows comparison of their expected cost rise experience relative to published indices such as the Consumer Price Index or the Higher Education Price Index. As with investment returns, the most accurate valuations will be produced by using the most precise method possible to project the expected cost rise over the period until the gift is expected to be realized.

Summary

The objective of these standards is to provide a calculation tool that more accurately reflects the anticipated value of a planned gift to a charitable organization. We have attempted to illustrate a precise methodology we believe will be most accurate, but we have also provided less complex options that may be used where institutional experience or other factors indicate their use is the most prudent course of action. Users of these standards should recognize that the resulting values will not be precise, nor will two gifts of the same monetary value given to two different organizations necessarily be valued identically. Most importantly, users should not construe the use of historical investment performance data in developing the default investment returns as a prediction of future performance.

Definition of Terms

Discount Rate	DR	Factor used to convert a future value into a value today, stated as a decimal percentage (e.g., 4.9% = 0.049).
Expenses	EXP	Usual and customary fees associated with trust and gift annuity administration, investment management, tax preparation and so forth. Does not include program expenses and overhead.
Future value	FV	Nominal value of gift at maturity or life expectancy of the beneficiaries.
Initial value	GIFT	Net value of the contributed assets when the charity or trustee takes control of them, or when the charity's future interest in them is vested, adjusted for reasonable and ordinary expenses related to the conversion of the assets to cash.
Life expectancy	LE	The average number of years that an individual of a certain age is expected to live based on statistical probability.
Net return	NR	Net investment return after fees and expenses, stated as a decimal (e.g., 7.5% = .075). Included are expenses of gift administration such as preparation, tax returns and other fees, such as trust management fees. Not included are overhead items such as the cost of the gift planning program and marketing.
Payout	PMT	The periodic payment to the income beneficiary, stated as either a fixed dollar amount or a percentage. Can be fixed or variable. It will be necessary to estimate the amount of such payments in the case of a net income unitrust or pooled income fund.
Periods/payments	N	Number or periods/payment. Can be set in terms of years, months, etc.
Present value	PV	The purchasing power of money to be received in the future, expressed in current dollars.
Probability factor	PF	An adjustment to take into account the chance that a revocable planned gift might be revoked or diminished prior to receipt by the charitable organization.
Term of years	TOY	The time period a trust may last if it is other than the life of one or more persons.

Gift Valuation Formulas

Outright Gifts

By definition, outright gifts are available for the immediate use of a charity. Even though a gift of non-cash assets may not be immediately convertible to cash, it is still available for the charity's current use, so its value is simply the amount of the gift. It is not necessary to compute a future or present value. Therefore, the value of an outright gift of cash, marketable securities, real estate, artwork or other asset is simply the amount of the gift.

Charitable Remainder Unitrust

> **Step 1:** Calculate future value of the gift.
> - Unitrust payout: $FV = Gift (1+Net\ Return-Payout)^N$

> **Step 2:** Calculate present value of future gift value over discount rate.
> - $PV = FV/(1+Discount\ Rate)^N$

Charitable Remainder Annuity Trust, Charitable Gift Annuity (Immediate)

> **Step 1:** Calculate future value of the gift.
> - Annuity payout: $FV = Gift (1+Net\ Return)^N - Payout[((1+Net\ Return)^N-1)/Net\ Return]$

> **Step 2:** Calculate present value of future gift value over discount rate.
> - $PV = FV/(1+Discount\ Rate)^N$

Charitable Gift Annuity (Deferred)

> **Step 1:** Calculate future value of the gift through deferral period.
> - $FV = Gift (1+Net\ Return)^N$

> **Step 2:** Calculate the future value of the gift at end of life expectancy.
> - Annuity payout: $FV = Gift (1+Net\ Return)^N \_ Payout[((1+Net\ Return)^N\_1)/Net\ Return]$

> **Step 3:** Calculate present value of future gift value over discount rate.
> - $PV = FV/(1+Discount\ Rate)^N$

Charitable Lead Trusts and Life Insurance with Irrevocable Interest

See Applications, page 20

Applications for Irrevocable Gifts

Note: The following examples are based on the Partnership's default earnings and discount rates.

> **Net Return Calculation**
> Assume a portfolio of 60% (.6) stock, 40% (.4) bond mix with annual expenses of 0.0075.
> .0975 = 70-year average return of stock
> .052 = current 10-year Treasury rate
> Total Return: (.6 x .0975) + (.4 x .052) = .0585 + .0208 = .0793
> Net Return = Total Return less expenses = .0793 _ .0090 = .0703
> Net Return rounded to nearest tenth = .07

Charitable Remainder Unitrust

A donor has established a $1 million, 20-year unitrust at a 6% payout rate with XYZ University. The donor has not retained the right to revoke the charitable beneficiary. The net return is 7.1% and the discount rate is 3.4%.

1: Calculate future value of the gift.
$$FV = Gift (1 + Net\ Return - Payout)^N$$
$$FV = \$1,000,000(1 + 0.07 - 0.06)^{20}$$
$$FV = \$1,000,000(1.01)^{20}$$
$$FV = \$1,000,000(1.220190)$$
$$FV = \$1,220,190$$

2: Calculate present value of future gift value using discount rate.
$$PV = FV/(1+Discount\ Rate)^N$$
$$PV = \$1,220,190/(1.034)^{20}$$
$$PV = \$1,220,190/1.951690$$
PV = $625,197 (Note that the charitable deduction for this example, using the IRS methodology and a 4.2% discount rate, would be $299,630.)

Charitable Gift Annuity (Immediate)

A 72-year old donor (life expectancy = 14 years) has established a $100,000, 6.7% gift annuity with ABC University. This illustration will use ACGA's assumptions. Thus, in this example, the net return factor will be 5%.

1: Calculate future value of the gift.
$$FV = Gift (1+Net\ Return)^N - Payout[((1+Net\ Return)^N - 1)/Net\ Return)]$$
$$FV = \$100,000(1+0.05)^{14} - \$6,700[((1+0.05)^{14} - 1)/0.05]$$
$$FV = \$100,000(1.97993) - \$6,700[(1.97993 - 1)/0.05]$$
$$FV = \$197,993 - \$6,700(19.5986)$$
$$FV = \$197,993 - \$131,311$$
$$FV = \$66,682$$

2: Calculate present value of future gift value using discount rate.
$$PV = FV/(1+Discount\ Rate)^N$$
$$PV = \$66,682/(1.034)^{14}$$
$$PV = \$66,682/1.59694$$
PV = $41,756 (Charitable deduction at a 4.2% discount rate = $38,350)

<u>**Charitable Gift Annuity (Deferred)**</u>

A donor, 60, established a gift annuity with XYZ Charity in 2003 in the amount of $100,000. The life expectancy is 24 years. The payments begin when the donor turns age 70. The recommended annuity rate for a 70-year-old (6.5%) is recalculated to reflect the deferral period, resulting in an annuity rate of 10.1%. Again in this case ACGA assumptions will be used. Thus the assumed net investment return is 5%. The discount rate is 3.4%.

1: Calculate future value at age 70.
$FV = Gift (1 + Net Return)^N$
$FV = \$100,000(1 + 0.05)^{10}$
$FV = \$100,000(1.05)^{10}$
$FV = \$100,000(1.62889)$
$FV = \$162,889$

2: Calculate future value at end of life expectancy.
$FV = Gift (1+Net Return)^N - Payout[((1+Net Return)^N - 1)/Net Return]$
$FV = \$162,889(1+0.005)^{14} - \$10,100[((1+0.05)^{14} - 1)/0.05]$
$FV = \$162,889(1.05)^{14} - \$10,100[(1.97993 - 1)/0.05]$
$FV = \$322,509 - \$10,100(19.5986)$
$FV = \$322,509 - \$197,946$
$FV = \$124,56$

3: Calculate present value.
$PV = FV/(1+Discount Rate)^N$
$PV = 124,563/(1.034)^{24}$
$PV = \$124,563/2.23096$
$PV = \$55,834$ (Charitable deduction at a 4.2% discount rate = $42,789)

Note: For some deferred gift annuities, these formulas may result in a present value that is higher than the amount of the gift.

Applications for Irrevocable Gifts Using A Business Calculator

The following pages apply the valuation formulas using a standard business calculator. For consistency, each example uses the same criteria when possible and assumes a discount rate of 4.9%. %i represents the interest function.

<u>**Charitable Gift Annuity (Immediate)**</u>

A donor, 72, established a 6.7% gift annuity with XYZ Charity in 2003 with a gift of $100,000. The life expectancy is 14 years. The assumed net investment return is 5%.

1: Calculate future value.
N = 14
NR (%i) = 5%
PMT = $6,700
PV = $100,000
FV = $66,682

2: Calculate present value.
N = 14
DR (%i) = 3.4%
PMT = 0
FV = $66,682
PV = $41,756 (Charitable deduction at 4.2% discount rate = $38,350)

Charitable Gift Annuity (Deferred)

A donor, 60, established a gift annuity with XYZ Charity in 2002 in the amount of $100,000. The life expectancy is 24 years. The payments begin when the donor turns age 70. The recommended annuity rate for a 70-year-old (7.2%) is recalculated to reflect the deferral period, resulting in an annuity rate of 12.4%. The assumed net investment return is 5%.

1: Calculate future value at age 70.
N = 10
NR (%i) = 5%
PMT = 0
PV = $100,000
FV = $162,889 (age 70)

2: Calculate future value at end of life expectancy.
N = 14
NR (%i) = 5%
PMT = $10,100
PV=FV = $162,889 (age 70)
FV = $124,563

3: Calculate present value.
N = 24
DR (%i) = 3.4%
PMT = 0
FV = $124,563
PV = $55,834 (Charitable deduction at 4.2% discount rate = $42, 789)

Charitable Remainder Unitrust With An Irrevocable Remainder Interest

A donor, 72, established a 5% annual payout CRUT with XYZ Charity in 2002 in the amount of $100,000 with an irrevocable interest for the charity. The life expectancy is 14 years. The assumed net investment return is 7%.

1: Calculate future value.
N = 14
NR (%i) = 2%*
PV = $100,000
FV = $131,948

* The net return (7%) is reduced by the payout (5%) percentage over the term of the trust.

2: Calculate present value.
N = 14
DR (%i) = 3.4%
PMT = 0
FV = $131,948
PV = $82,626 (Charitable deduction at 4.2% discount rate = $56,527)

Note: In the case of a net income unitrust, no buildup should be assumed. In the case of a "flip" unitrust, no buildup should be assumed when initially valuing the gift. At the time the trust becomes a "straight" unitrust, the trust should be revalued and any additional value reported in the year the "flip event" takes place.

Pooled Income Fund

A donor, 72, has given XYZ Charity's pooled income fund $100,000 in 2003. The life expectancy is 14 years. The cost basis is 100%. The assumed net investment return is 7%, including interest/dividends of 4%.

1: Calculate future value.
N = 14
NR (%i) = 3% *
PV = $100,000
FV = $151,259
* The net return (7%) is reduced by the interest/dividends (4%), which are distributed to the income beneficiary.

2: Calculate present value.
N = 14
DR (%i) = 3.4%
PMT = 0
FV = $151,259
PV = $94,718 (Charitable deduction at 4.2% discount rate = $63,327, assuming the highest payout in three years was 4%)

Charitable Lead Trust with an Irrevocable Interest

The present value of a lead trust is the value in today's dollars of the stream of payments the charity will receive from the lead trust. This requires using a different formula, which computes the present value of each payment using the same formula as used for CRTs, gift annuities, etc., and then summing the successive present values to determine the cumulative present value. In the case of a lead annuity trust, this is a basic calculation using a standard business calculator. It is more complex with a lead unitrust; however, it can be determined easily using most planned gift software programs.

A donor established a 20 year, 8% CLAT with XYZ Charity in 2003 in the amount of $100,000 with an irrevocable interest for the charity.

1: Calculate present value of payments to charity.
N = 20
DR (%i) = 3.4%
PMT = $8,000
FV = 0
PV = $114,735 (Charitable deduction at 4.2% discount rate = $100,000)

Life Insurance with Irrevocable Interest

In 2003, a donor, 72, makes XYZ Charity the irrevocable owner and beneficiary of a $100,000 life insurance policy on which no further premiums are due. The life expectancy is 14 years.

1: Calculate present value.
N = 14
DR (%i) = 3.4%
PMT = 0
FV = $100,000
PV = $62,620 (Charitable deduction = the economic value of the policy at the time of the gift. Note that if the policy is not paid up, the gift is revocable to the extent that the donor may stop paying premiums.)

Note: This calculation may assist the charity in determining whether to keep the policy until the donor's death, or cash it in immediately.

Applications for Revocable Gifts

Many donors make planned gifts through their wills, living trusts, life insurance, remainders of retirement plans, joint ownership and other **revocable** arrangements that become irrevocable only at the donor's death. Although accounting standards understandably restrict the reporting of revocable gifts until they are received, it is very important to estimate the value of these gifts in order to fully evaluate planned gift production results, to compare year-by-year totals and to achieve the other purposes set out in the introduction to these standards.

While these standards recommend and provide for the valuing of revocable gift commitments, the Partnership urges that any report of these gift values include a full disclosure of the revocable nature of such commitments. Two separate forms should be used when reporting gift totals: one form for revocable gifts and a second form for irrevocable gifts (see the valuation report worksheets, Appendix C).

Bequest Intention (Specific)

A donor, 72, has notified XYZ Charity in 2003 that he/she has included a $100,000 gift in his/her will. The donor's life expectancy is 14 years.

> **1: Calculate present value.**
> N = 14
> DR(%i) = 3.4%
> PMT = 0
> FV = $100,000
> PV = $62,620

Bequest Intention (Residuary)

A donor, 72, has notified XYZ Charity in 2003 that he/she will leave the charity 10% of his/her $1 million estate. The donor's life expectancy is 14 years.

> **1: Calculate present value.**
> N = 14
> DR(%i) = 3.4%
> PMT = 0
> FV = $100,000
> PV = $62,620

Charitable Remainder Trust With A Revocable Remainder Interest

A donor, 72, established a 6% charitable remainder annuity trust for $100,000 with XYZ Charity in 2003. Other organizations are also listed in the CRT. The donor's life expectancy is 14 years. The assumed net investment return is 7%.

> **1: Calculate future value.**
> N = 14
> NR (%i) = 7%
> PMT = $6,000
> PV = $100,000
> FV = $122,550

> **2: Calculate present value.**
> N = 14
> DR(%i) = 3.4%
> PMT = 0
> FV = $122,550
> PV = $76,741

Note: This is the value of the combined charitable interests of all the charitable remaindermen. This total would be divided according to the percent allocated to each remainderman. Because the remaindermen may be changed, it would also be appropriate to apply a probability factor to further discount the value of the gift. See the following section for discussion of factoring in probability of receipt. An appropriate Probability Factor (PF) for this application would be 75%.

Retirement Account Designations

A donor, 72, has designated in 2003 that XYZ will receive $100,000 of an IRA at the time of the donor's death. The donor's life expectancy is 14 years.

>**1: Calculate present value.**
>N = 14
>DR (%i) = 3.4%
>PMT = 0
>FV = $100,000
>PV = $62,660

NOTE: It is suggested that retirement account designations be treated in the same way as bequest intentions for purposes of valuation.

Revocable Gifts:
Factoring in Probability of Receipt

Depending on the intended use of the gift valuation, it may be appropriate to incorporate a probability factor. This decision should be made by the charitable organization.

Valuation of revocable gifts is more problematic than the valuation of irrevocable gifts, since the probability of receipt of the gift must be taken into account. Of course, even with irrevocable gifts, there is not 100% probability that the projected dollar value will actually be received because there is a risk that the actual investment returns could be less than the assumed amount. Nevertheless, with bequests and other revocable gifts, additional factors significantly cloud the issue. The donor may change the will and remove the charity, or may have never actually included the bequest. It is also possible that even where the donor did include the bequest, there may be insufficient funds in the probate estate to fund the gift.

The primary obstacle to valuing revocable gifts is the possibility that the donor will change his or her mind. In most irrevocable gifts, the funds are set aside in a manner that protects the corpus from invasion by the donor or his creditors. However, this is not the case with charitable bequests, gifts of life insurance benefits or the remainders of retirement plans. Therefore, when valuing revocable gifts, it is more accurate to incorporate a   factor that estimates the probability that the gift will actually be received by the charity.

Valuation of revocable gifts of specific amounts

The value of gifts of specific amounts from revocable gift instruments is calculated in two steps. First, calculate the present value of the gift using the same methodology applied to irrevocable gifts. The resulting present value amount must then be adjusted based on a "probability factor."

Valuation of revocable gift of non-specific amounts

A different approach must to used to value revocable gifts that are not stated in terms of a specific amount. Examples include bequests of a percentage or the residue of an estate, retirement plan account or life insurance policy where the exact value amount that will be paid out cannot be determined until the donor's death.

Because these residuary gifts may be affected by the donors use of his or her assets or by the claims of creditors, it is virtually impossible to value them accurately. However, given the fact that the majority of revocable gift commitments are reportedly structured as residuary gifts, some organizations may wish to value such gifts to some extent, despite the inherent challenges. For example, an organization may wish to determine the average residuary gift received for a period of time thought to be statistically reliable. Or, if past history is not available, it may be advisable to forego valuation of residuary gifts.

If organizations ask donors to make a rough estimate of the size of the residuary bequest, perhaps in broad bands such as "under $100,000," "$100,000 to $1,000,000," "over $1 million" it may be possible to determine average gifts received in that size category. For very large estates where the capability exists to do so, an actual estimate based on the facts of a particular situation may be made.

Once an average size has been determined, that amount should be used as the "surrogate value" instead of the stated value used in the case of a specific bequest.

The probability factor should be based on a "backward look" at the charity's actual experience. Those with long-standing and well-documented planned gift development efforts may be able to determine the historical percentage of expectancies that do not result in realized gifts. This may be due to a contingency not being satisfied, asset depletion in the estate, a change of the beneficiary or beneficiaries by the donor and/or other factors.

Where larger commitments are involved, some programs may elect to calculate their own probability factors through careful analysis of the facts of each case and/or by comparing previously known expectancies to actual receipts of those bequests over time. Contingencies associated with the gift should also be taken into account. Consider, for example, the case of an 88-year-old donor whose bequest is contingent on his 65-year-old wife predeceasing him. Compare this situation to that of a donor of the same age who is a widower.

Based on historical data and the extent of the relationship with any specific donor, some organizations may decide to use a probability factor of 100% for valuing certain individual revocable gift commitments. Alternatively, organizations may base probability factors on the table below. Although there is some sacrifice in accuracy, the table provides those institutions without the means to calculate their own probability rate or history with a nominal factor. Each organization is encouraged to adjust the probability factors suggested below in ways that are in keeping with their experience. For purposes of year over year comparisons, however, it is suggested that probability factors be consistent over time.

Internal Use of Revocable Gift Standards

Please note that although these standards recommend and provide for valuing revocable gift commitments, these guidelines are not intended to be used to determine how much to "count" in a campaign or under FASB accounting guidelines, or to report in any manner that combines the estimated values with the values of irrevocable deferred gifts.

The Partnership urges that any report of revocable gift values include a full disclosure of the revocable nature of such commitments. Two separate forms should be used when reporting valuation totals: one form for revocable gifts and a second form for irrevocable gifts (see the valuation report worksheets, Appendix C). Revocable gift reports should include the following data:

- The number and total estimated value of enforceable commitments of specific amounts.
- The number and total estimated value of residuary gifts.
- The method used to determine values of gifts for other than specific amounts.
- The method used to estimate probability of receipt of specific and/or residuary gifts.
- The discount rate used to determine the present value of specific and/or residuary gifts.
- The number and nature of gift commitments that were not valued for whatever reason.

Use	If
95%	The donor has a close relationship to the organization, the amount is specific, there is a legally enforceable pledge and the estimated value of the estate is at least 20 times greater than the intended gift amount.
75%	The donor has a close relationship to the organization, the amount is specific, and estimated value of the estate is at least 20 times greater than the intended gift amount.
50%	The donor has a close relationship to the organization, the amount is specific, and estimated value of the estate is at least 10 times greater than the intended gift amount.
25%	The donor has a limited relationship to the organization, the amount is specific but it is impossible to estimate the value of the estate .
5%	The donor has no gift history or documented relationship and it is impossible to estimate the value of the estate.

Applications for Revocable Gifts Using Probability Factors

Specific Bequest Intention, Involved Donor

A 91-year-old former board chair with an estate estimated from public records and other sources to be in excess of $20 million delivers a legally enforceable estate pledge of $1 million. Assume a life expectancy of 4 years and a discount rate of 3.4%. After reviewing the circumstances surrounding the gift and a legal opinion regarding the enforceability of the pledge, decision-makers assign a probability factor of 95% to this gift.

> **1: Calculate present value.**
> N = 4
> DR(%i) = 3.4%
> PMT = 0
> FV = $1,000,000
> PV = $874,818

> **2: Calculate value after probability discount.**
> PV = $874,818
> PF = 95%
> V = $831,077

Specific Bequest Intention, Unknown Donor

A 44-year-old donor with limited past involvement with the same institution writes a letter to the institution promising to make a $1 million bequest. He provides a copy of his will with that provision included. There is little information regarding the donor's net worth. Legal counsel advises that the commitment may or may not be enforceable under the laws of the donor's state. Assume a discount rate of 3.4%, a life expectancy of 38 years and a probability factor of 25%.

> **1: Calculate present value.**
> N = 38
> DR(%i) = 3.4%
> PMT = 0
> FV = $1,000,000
> PV = $280,685

> **2: Calculate value after probability discount.**
> PV = $280,685
> PF = 25%
> V = $70,171

The above analysis can be applied to gifts of specific amounts whether given by will, retirement plan, trust, life insurance not owned by the charity and/or not fully paid up, or other gift vehicles. Any contingencies associated with the gift should also be taken into account.

Retirement Account Designations

A donor, 72, designated in 2003 that XYZ Charity will receive $100,000 of an IRA at the time of his death. The life expectancy is 14 years. The assumed probability factor is 95%.

1: Calculate present value.
N = 14
DR(%i) = 3.4%
PMT = 0
FV = $100,000
PV = $62,620

2: Calculate value after probability discount.
PV = $62,620
PF = 95%
V = $59,489

Aggregate Bequest Intentions, Residuary

During an annual reporting period, an organization documents that 20 persons, all age 80 for simplicity's sake, have designated it to receive the residue of their estates. The average of 500 residuary bequests received over the past ten years by this organization is $95,000. The 20 bequest commitments are then assumed to be worth, in the aggregate, $1,900,000. The average life expectancy of each donor is nine years, and the discount rate is 3.4%. Furthermore, the organization has found that, over time, 75% of bequest commitments are received.

1: Calculate present value.
N = 9
DR(%i) = 3.4%
PMT = 0
FV = $1,900,000
PV = $1,406,270

2: Calculate value after probability discount.
PV = $1,406,270
PF = 75%
V = $1,054,702

Another organization received notifications of three residuary bequests during a particular year. It has received only 10 bequests in the past three years, four of which where residuary. The amounts of the residuary bequests were $1,530, $23,400, $78,200, and $1,478,322. The average of these amounts is $395,363. The organization decided it had no basis on which to accurately estimate the amount of the bequests and insufficient history to determine a probability factor.

Special Circumstances

When a gift commitment involves a combination of specific and residuary gifts, the gift should be considered as two separate gifts and valued accordingly.

When a charitable organization is to receive what remains of a trust after other organizations or institutions receive specific distributions, that charity's interest should be treated in the same way as a residuary commitment via a will, trust or other revocable plan.

When a donor has completed an irrevocable charitable remainder trust and named a charitable remainder recipient, retaining the right to change the remainderman, the gift should be treated in the same manner as a specific bequest where the terms of the trust make it possible to estimate the amount to be received or the remainder designation states a particular amount to be distributed to that charity.

Charitable Remainder Trust With A Revocable Remainder Interest

A donor, 72, established a 6% charitable remainder annuity trust for $100,000 with XYZ Charity in 2003. Other organizations are also listed in the CRT and all remainder interests and percentages are subject to change. The life expectancy is 14 years. The assumed net investment return is 7%.

1: Calculate future value.
N = 14
NR (%i) = 7%
PMT = $6,000
<u>PV = $100,000</u>
FV = $122,550

2: Calculate present value.
N = 14
DR(%i) = 3.4%
PMT = 0
<u>FV = $122,550</u>
PV = $76,741

Note: This is the value of the combined charitable interests of the various charitable remaindermen.

Appendix A-1

Source: American Council on Gift Annuities (770) 874-3355 or www.acga-web.org

Assumptions Underlying Suggested Gift Annuity Rates for rates effective January 1, 2012

Target Residuum. Historically, ACGA has targeted a residuum (the amount realized by the charity upon termination of an annuity) of 50% of the original contribution for the gift annuity. The new rate schedules retain the 50% target residuum, and continue the requirement first applied for the July 2011 rate schedules that the present value (PV) of the residuum be at least 20% of the original contribution for the annuity.

The 20% minimum PV requirement has the effect of reducing rates for annuitants age 57 and under. It is designed to help charities realize a minimum value from gifts whose residua will not be realized for many years. Rates for younger annuitants (ages 5 to 49) were reduced as necessary to comply with the 10% minimum charitable deduction required under IRC Sec. 514(c)(5)(A) using the 1.4% CFMR for November 2011. Particularly in low interest rate environments, charities should perform their own deduction calculations and lower their annuity rates if necessary to meet the 10% minimum deduction requirement.

Mortality Assumption. In calculating suggested rates, all annuitants are assumed to be female and one year younger than their actual ages. The suggested rates use the Annuity 2000 Mortality Tables. The rates also incorporate projections for increasing life expectancies (improvements in mortality) using a scale supplied by our actuary.

Expense Assumption. Annual expenses for investment and administration are 1.0% of the fair market value of gift annuity reserves. The annual expense assumption is unchanged.

Investment Return Assumption. The gross annual expected return on immediate gift annuity reserves is 4.25%. This is a decrease from the 5.0% total return assumption used in calculating the July 2011 rates. The gross expected return for deferred annuity reserves is also 4.25%. Both immediate and deferred payment annuity calculations use a net compounding rate of 3.25%.

Payment Assumption. Annual payments are made in quarterly installments at the end of each period.

The rates for the oldest ages are somewhat lower than the rates that would follow from the above assumptions. Rates are capped at age 90 and above, and rates for annuitants between ages 81 and 89 are graduated downward from the rate cap.

Additional Assumption for Deferred Gift Annuities

The annual compound interest rate credited during the deferral period for deferred payment gift annuities is 3.25% (the same investment return assumption as for current gift annuities after subtracting the 1.0% expense assumption). In other words, each dollar contributed for a deferred gift annuity is presumed to grow at an annual compound interest rate of 3.25% 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 a payment is made. For example, if payments will be made quarterly, and the first payment will be made on September 30, 2014, the annuity starting date would be July 1, 2014. If payments will be made semi-annually, the annuity starting date would be April 1, 2014.

Assuming that the annuitant would be nearest age 65 on the annuity starting date, and that the period between the contribution date and the annuity starting date is 10.25 years, the compound interest factor would be $1.0325^{10.25}$ or 1.387948. To determine the deferred gift annuity rate, this factor is multiplied by the immediate gift annuity rate, now in effect, for the nearest age of the annuitant at the time payments begin. In this example, the deferred gift annuity rate would be 1.387948 times 4.7%, or 6.5% (rounded to the nearest tenth of a percent).

The compounding rate during the deferral period is simply the assumed net return (total assumed return of 4.25% less 1.0% for expenses). The compounding rate applies to the entire compounding period, whatever its length.

Note: Specific information for New York and New Jersey can be found on the ACGA site at www.acga-web.org. Click on 'About Gift Annuities.'

Appendix A-2

The Prudent Investor Rule[1]

The Valuation Standards for Planned Gifts are based in part upon the principles of the Prudent Investor Rule (PIR). A more complete understanding of the Prudent Investor Rule and the evolution of investment standards for charitable trusts is helpful in fully appreciating the impact of investments on planned gift valuation.

Trustees who manage planned gifts have a fiduciary responsibility for the assets of others. They are required to exercise "prudence" in fulfilling their responsibility, but the meaning of the term "prudence" has changed over the years. In addition trustees of charitable remainder trusts are charged with protecting the interests of two parties with potentially conflicting interests: income beneficiaries, who are usually individuals with finite lifetimes and who are usually concerned about taxes, and charitable remainder beneficiaries, which are institutions with theoretically unlimited lifetimes and have little concern about tax outcomes.

Evolution of the Prudent Investor Rule

During the 1990s, a new legal standard emerged to guide fiduciaries, including those responsible for charitable remainder trusts and other planned gifts. The Prudent Investor Rule was articulated in 1991 by the American Law Institute in its Restatement (third) of Trusts. In 1994, the National Conference of Commissioners on Uniform State Laws adopted the Uniform Prudent Investor Act, which provides guidance for the investment of split interest trusts, including charitable remainder trusts. The Uniform Prudent

Investor Act, with various modifications, has been adopted as law in many states. As a result, in most jurisdictions today, the investment of a charitable remainder trust or other planned gift is guided by the Prudent Investor Rule.

The Prudent Investor Rule sets forth a number of "Principles of Prudence," which include a duty to conform to fiduciary standards, requirements of loyalty and impartiality, requirements of care and skill, requirements of caution, prudent investing, requirements of diversification and duties with respect to delegation. The Principles of Prudence hold that diversification is fundamental to risk management. Risk and return must be analyzed relative to the purposes and distribution requirements of the trust, and trustees are required to avoid costs that are not justified by the needs of the trust. The principles also require the trustee to strive to impartially balance the goal of generating current income and the goal of protecting against purchasing power depletion due to inflation. Trustees are also granted the authority and a duty to delegate certain responsibilities to professional advisors.

Prior to the introduction of the Prudent Investor Rule, the investment of most planned gifts was guided by the "Prudent Man Rule,"[2] which focused the trustee's attention on the risk of each investment asset. The trustee was directed to select only those investments that a "prudent man" seeking reasonable income and preservation of capital might acquire for his or her own investment. The new requirement that risk be evaluated in the context of the entire portfolio or trust rather than one investment at a time is one of the key innovations of the Prudent Investor Rule.

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[1] A complete exposition of the Prudent Investor Rule and the Uniform Prudent Investor Act is beyond the scope of this publication. This discussion focuses on those aspects of the Prudent Investor rule that have an impact on planned gifts and the valuation of planned gifts by charitable organizations. The application of the principles of the Prudent Investor Rule discussed here will depend upon applicable state laws. The Uniform Prudent Investor Act as adopted by the National Conference of Commissioners on Uniform State Laws is readily available from many public sources including the University of Pennsylvania law school web site [http://www.law.upenn.edu/bll/ulc/fnact99/1990s/upia94.pdf]. Note that the implementation of the Uniform Prudent Investor Act has varied from state to state and that therefore the state law governing a specific trust or planned gift must be consulted.

Concepts of the Prudent Investor Rule

A primary objective of the Prudent Investor Rule was to bring "modern portfolio theory" investment practices to the standards guiding trustees and others charged with the fiduciary investment of funds. Modern portfolio theory is a broadly accepted body of empirical and theoretical knowledge about the behavior of capital markets which recognizes the importance of broad diversification and the appropriateness of measuring investment risk at the portfolio level rather than the level of the individual investment asset. Modern portfolio theory was developed and is used by institutional investors, including those hired to invest large charitable endowments.

Another driving force for the Prudent Investor Rule was the recognition that inflation can pose a material investment risk if it significantly erodes purchasing power. The Prudent Investor Rule evolved during a period of relatively high inflation when the effect of loss of purchasing power was of keen concern. This led to an expansion of the traditional notion of protecting principal, requiring trustees to also consider the potential impact of inflation on the real value of principal and to select investments accordingly.

The Prudent Investor Rule also introduced the notion of investing to produce tax-efficient outcomes. The Prudent Investor Rule directs trustees to consider the tax positions of various beneficiaries when selecting investments. This requirement has had a profound impact on the investment of charitable remainder trusts because of the differing tax sensitivities of income and remainder beneficiaries. The investments held by a charitable remainder trust can have a significant impact on the income beneficiary as distributions are made under the four-tier payout rule, however the remainder beneficiary is a tax exempt entity that is generally ambivalent to taxes.

Application of the Prudent Investor Rule to the Valuation Standards

Two of the innovations of the Prudent Investor Rule are key to understanding the Valuation Standards for Planned Gifts: risk is to be defined at the portfolio level rather than at the level of the individual asset or asset class, and the effect of inflation is to be considered as a risk when choosing investments. Taken together these have re-defined the ways in which planned gifts are invested and managed and have changed the value that the charitable remainder beneficiary can expect to receive from any planned gift.

For example, investing in U.S. Treasury securities alone, which might have been a prudent investment choice under the old Prudent Man Rule, is not prudent for a trust with a relatively long expected duration since Treasuries offer little protection from the risk posed by inflation. In order to mitigate the inflation risk, trustees of most charitable remainder trusts today include equity investments in the trust portfolio.
This is one of the reasons that the charitable deduction calculation, which essentially assumes a fixed income investment such as Treasuries, does not provide an accurate estimate of the economic outcome for the charity which is required by the Prudent Investor Rule to invest in a more broadly diversified portfolio.

Finally, the Valuation Standards recognize that there is variation in the investment approaches used by trustees and charitable organizations. Some are prepared to employ the full range of investment choices available under the Prudent Investor Rule, including foreign investments, real estate and even high yield bonds, while others may choose a narrower range of asset classes. The Valuation Standards recognize that investment strategy decisions will have an impact on the economic value realized by the charitable organization.

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[2] The Prudent Man Rule was first articulated in 1830 in the case of Harvard College versus Amory, which held that all that can be required of a trustee is that, "he conduct himself faithfully and exercise sound discretion and observe how men of prudence, discretion and intelligence manage their own affairs not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income as well as the probable safety of the capital to be invested." Later court decisions applied the prudent man standard to the selection of individual investments and emphasized that good overall portfolio performance does not excuse risky individual investment decisions

Appendix B-1

Life expectancies based on Table 1983 Basic

Note: The Partnership offers the following actuarial tables as a default for projecting life expectancies. As with investment performance projection factors, users of these standards are encouraged to employ other credible actuarial tables if they are more reflective of a particular constituency and will provide a more accurate projection.

Single life

The life expectancy is shown to the right of each age. For example, the life expectancy of a person age 79 is 10.0 years. This means that there is a 50% chance that the person will live at least 10.0 years beyond age 79.

Age	Years		Age	Years		Age	Years
5	76.6		42	40.6		79	10.0
6	75.6		43	39.6		80	9.5
7	74.7		44	38.7		81	8.9
8	73.7		45	37.7		82	8.4
9	72.7		46	36.8		83	7.9
10	71.7		47	35.9		84	7.4
11	70.7		48	34.9		85	6.9
12	69.7		49	34.0		86	6.5
13	68.8		50	33.1		87	6.1
14	67.8		51	32.2		88	5.7
15	66.8		52	31.3		89	5.3
16	65.8		53	30.4		90	5.0
17	64.8		54	29.5		91	4.7
18	63.9		55	28.6		92	4.4
19	62.9		56	27.7		93	4.1
20	61.9		57	26.8		94	3.9
21	60.9		58	25.9		95	3.7
22	59.9		59	25.0		96	3.4
23	59.0		60	24.2		97	3.2
24	58.0		61	23.3		98	3.0
25	57.0		62	22.5		99	2.8
26	56.0		63	21.6		100	2.7
27	55.1		64	20.8		101	2.5
28	54.1		65	20.0		102	2.3
29	53.1		66	19.2		103	2.1
30	52.2		67	18.4		104	1.9
31	51.2		68	17.6		105	1.8
32	50.2		69	16.8		106	1.6
33	49.3		70	16.0		107	1.4
34	48.3		71	15.3		108	1.3
35	47.3		72	14.6		109	1.1
36	46.4		73	13.9		110	1.0
37	45.4		74	13.2		111	.9
38	44.4		75	12.5		112	.8
39	43.5		76	11.9		113	.7
40	42.5		77	11.2		114	.6
41	41.5		78	10.6		115	.5

Two lives: joint and survivor

Use the following tables to determine the joint and survivor life expectancy of two people. Find one age on the horizontal axis and the other on the vertical axis, then read the number in the box where the column and the row that you have picked intersect. For example, the joint and survivor life expectancy of a couple, ages 53 and 54 is 35.8 years. This means that there is a 50% chance that one or the other of them will live at least another 35.8 years.

Age	50	51	52	53	54	55	56	57	58	59
50	39.2	38.7	38.3	37.9	37.5	37.1	36.8	36.4	36.1	35.9
51	38.7	38.2	37.8	37.3	36.9	36.5	36.1	35.8	35.5	35.2
52	38.3	37.8	37.3	36.8	36.4	35.9	35.6	35.2	34.8	34.5
53	37.9	37.3	36.8	36.3	35.8	35.4	35.0	34.6	34.2	33.9
54	37.5	36.9	36.4	35.8	35.3	34.9	34.4	34.0	33.6	33.3
55	37.1	36.5	35.9	35.4	34.9	34.4	33.9	33.5	33.1	32.7
56	36.8	36.1	35.6	35.0	34.4	33.9	33.4	33.0	32.5	32.1
57	36.4	35.8	35.2	34.6	34.0	33.5	33.0	32.5	32.0	31.6
58	36.1	35.5	34.8	34.2	33.6	33.1	32.5	32.0	31.5	31.1
59	35.9	35.2	34.5	33.9	33.3	32.7	32.1	31..6	31.1	30.6
60	35.8	34.9	34.2	33.6	32.9	32.3	31.7	31.2	30..6	30.1
61	35.4	34.6	33.9	33.3	32.6	32.0	31.4	30.8	30.2	29.7
62	35.1	34.4	33.7	33.0	32.3	31.7	31.0	30.4	29.9	29.3
63	34.9	34.2	33.5	32.7	32.0	31.4	30.7	30.1	29.5	28.9
64	34.8	34.0	33.2	32.5	31.8	31.1	30.4	29.8	29.2	28.6
65	34.6	33.8	33.0	32.3	31.6	30.9	30.2	29.5	28.9	28.2
66	34.4	33.6	32.9	32.1	31.4	30.6	29.9	29.2	28.6	27.9
67	34.3	33.5	32.7	31.9	31.2	30.4	29.7	29.0	28.3	27.6
68	34.2	33.4	32.5	31.8	31.0	30.2	29.5	28.8	28.1	27.4
69	34.1	33.2	32.4	31.6	30.8	30.1	29.3	28.6	27.8	27.1
70	34.0	33.1	32.3	31.5	30.7	29.9	29.1	28.4	27.6	26.9
71	33.9	33.0	32.2	31.4	30.5	29.7	29.0	28.2	27.5	26.7
72	33.8	32.9	32.1	31.2	30.4	29.6	28.8	28.1	27.3	26.5
73	33.7	32.8	32.0	31.1	30.3	29.5	28.7	27.9	27.1	26.4
74	33.6	32.8	31.9	31.1	30.2	29.4	28.6	27.8	27.0	26.2
75	33.6	32.7	31.8	31.0	30.1	29.3	28.5	27.7	26.9	26.1
76	33.5	32.6	31.8	30.9	30.1	29.2	28.4	27.6	26.8	26.0
77	33.5	32.6	31.7	30.8	30.0	29.1	28.3	27.5	26.7	25.9
78	33.4	32.5	31.7	30.8	29.9	29.1	28.2	27.4	28.6	25.8
79	33.4	32.5	31.6	30.7	29.9	29.0	28.2	27.3	26.5	25.7
80	33.4	32.5	31.6	30.7	29.8	29.0	28.1	27.3	26.4	25.6
81	33.3	32.4	31.5	30.7	29.8	28.9	28.1	27.2	26.4	25.5
82	33.3	32.4	31.5	30.6	29.7	28.9	28.0	27.2	26.3	25.5
83	33.3	32.4	31.5	30.6	29.7	28.8	28.0	27.1	26.3	25.4
84	33.2	32.3	31.4	30.6	29.7	28.8	27.9	27.1	26.2	25.4
85	33.2	32.3	31.4	30.5	29.6	28.8	27.9	27.0	26.2	25.3
86	33.2	32.3	31.4	30.5	29.6	28.7	27.9	27.0	26.1	25.3
87	33.2	32.3	31.4	30.5	29.6	28.7	27.8	27.0	26.1	25.3
88	33.2	32.3	31.4	30.5	29.6	28.7	27.8	27.0	26.1	25.2
89	33.2	32.3	31.4	30.5	29.6	28.7	27.8	26.9	26.1	25.2
90	33.2	32.3	31.3	30.5	29.6	28.7	27.8	26.9	26.1	25.2

Two lives: joint and survivor

Age	60	61	62	63	64	65	66	67	68	69
50	35.6	35.4	35.1	34.9	34.8	34.6	34.4	34.3	34.2	34.1
51	34.9	34.6	34.4	34.2	34.0	33.8	33.6	33.5	33.4	33.2
52	34.2	33.9	33.7	33.5	33.2	33.0	32.9	32.7	32.5	32.4
53	33.6	33.3	33.0	32.7	32.5	32.3	32.1	31.9	31.8	31.6
54	32.9	32.6	32.3	32.0	31.8	31.6	31.4	31.2	31.0	30.8
55	32.3	32.0	31.7	31.4	31.1	30.9	30.6	30.4	30.2	30.1
56	31.7	31.4	31.0	30.7	30.4	30.2	29.9	29.7	29.5	29.3
57	31.2	30.8	30.4	30.1	29.8	29.5	29.2	29.0	28.8	28.6
58	30.6	30.2	29.9	29.5	29.2	28.9	28.6	28.3	28.1	27.8
59	30.1	29.7	29.3	28.9	28.6	28.2	27.9	27.6	27.4	27.1
60	29.7	29.2	28.8	28.4	28.0	27.6	27.3	27.0	26.7	26.5
61	29.2	28.7	28.3	27.8	27.4	27.1	26.7	26.4	26.1	25.8
62	28.8	28.3	27.8	27.3	26.9	26.5	26.1	25.8	25.5	25.2
63	28.4	27.8	27.3	269.	26.4	26.0	25.6	25.2	24.9	24.6
64	28.0	27.4	26.9	26.4	25.9	25.5	25.1	24.7	24.3	24.0
65	27.6	27.1	26.5	26.0	25.5	25.0	24.6	24.2	23.6	23.4
66	27.3	26.7	26.1	25.6	25.1	24.6	24.1	23.7	23.3	22.9
67	27.0	26.4	25.8	25.2	24.7	24.2	23.7	23.2	22.6	22.4
68	26.7	26.1	25.5	24.9	24.3	23.8	23.3	22.8	22.3	21.9
69	26.5	25.8	25.2	24.6	24.0	23.4	22.9	22.4	21.9	21.5
70	26.2	25.6	24.9	24.3	23.7	23.1	22.5	22.0	21.5	21.1
71	26.0	25.3	24.7	24.0	23.4	22.8	22.2	21.7	21.2	20.7
72	25.8	25.1	24.4	23.8	23.1	22.5	21.9	21.3	20.8	20.3
73	25.6	24.9	24.2	23.5	22.9	22.2	21.6	21.0	20.5	20.0
74	25.5	24.7	24.0	23.3	22.7	22.0	21.4	20.8	20.2	19.6
75	25.3	24.6	23.8	23.1	22.4	21.8	21.1	20.5	19.9	19.3
76	25.2	24.4	23.7	23.0	22.3	21.6	20.9	20.3	19.7	19.1
77	25.1	24.3	23.6	22.8	22.1	21.4	20.7	20.1	19.4	18.8
78	25.0	24.2	23.4	22.7	21.9	21.2	20.5	19.9	19.2	18.6
79	24.9	24.1	23.3	22.6	21.8	21.1	20.4	19.7	19.0	18.4
80	24.8	24.0	23.2	22.4	21.7	21.0	20.2	19.5	18.9	18.2
81	24.7	23.9	23.1	22.3	21.6	20.8	20.1	19.4	18.7	18.1
82	24.6	23.8	23.0	22.3	21.5	20.7	20.0	19.3	18.6	17.9
83	24.6	23.8	23.0	22.2	21.4	20.6	19.9	19.2	18.5	17.8
84	24.5	23.7	22.9	22.1	21.3	20.5	19.8	19.1	18.4	17.7
85	24.5	23.7	22.8	22.0	21.3	20.5	19.7	19.0	18.3	17.6
86	24.5	23.6	22.8	22.0	21.2	20.4	19.6	18.9	18.2	17.5
87	24.4	23.6	22.8	21.9	21.1	20.4	19.6	18.8	18.1	17.4
88	24.4	23.5	22.7	21.9	21.1	20.3	19.5	18.8	18.0	17.3
89	24.4	23.5	22.7	21.9	21.1	20.3	19.5	18.7	18.0	17.2
90	24.3	23.5	22.7	21.8	21.0	20.2	19.4	18.7	17.9	17.2

Two lives: joint and survivor

Age	70	71	72	73	74	75	76	77	78	79
50	34.0	33.9	33.8	33.7	33.6	33.6	33.5	33.5	33.4	33.4
51	33.1	33.0	32.9	32.8	32.8	32.7	32.6	32.6	32.5	32.5
52	32.3	32.2	32.1	32.0	31.9	31.8	31.8	31.7	31.7	31.6
53	31.5	31.4	31.2	31.1	31.1	31.0	30.9	30.8	30.8	30.7
54	30.7	30.5	30.4	30.3	30.2	30.1	30.1	30.0	29.9	29.9
55	29.9	29.7	29.6	29.5	29.4	29.3	29.2	29.1	29.1	29.0
56	29.1	29.0	28.8	28.7	28.6	28.5	28.4	28.3	28.2	28.2
57	28.4	28.2	28.1	27.9	27.8	27.7	27.6	27.5	27.4	27.3
58	27.6	27.5	27.3	27.1	27.0	26.9	26.8	26.7	26.6	26.5
59	26.9	26.7	26.5	26.4	26.2	26.1	26.0	25.9	25.8	25.7
60	26.2	26.0	25.8	25.6	25.5	25.3	25.2	25.1	25.0	24.9
61	25.5	25.3	25.1	24.9	24.7	24.6	24.4	24.3	24.2	24.1
62	24.9	24.7	24.4	24.2	24.0	23.8	23.7	23.6	23.4	23.3
63	24.3	24.0	23.8	23.5	23.3	23.1	23.0	22.8	22.7	22.6
64	23.7	23.4	23.1	22.9	22.7	22.4	22.3	22.1	21.9	21.8
65	23.1	22.8	22.5	22.2	22.0	21.8	21.6	21.4	21.2	21.1
66	22.5	22.2	21.9	21.8	21.4	21.1	20.9	20.7	20.5	20.4
67	22.0	21.7	21.3	21.0	20.8	20.5	20.3	20.1	19.9	19.7
68	21.5	21.2	20.8	20.5	20.2	19.9	19.7	19.4	19.2	19.0
69	21.1	20.7	20.3	20.0	19.6	19.3	19.1	18.8	18.6	18.4
70	20.6	20.2	19.8	19.4	19.1	18.8	18.5	18.3	18.0	17.8
71	20.2	19.8	19.4	19.0	18.6	18.3	18.0	17.7	17.5	17.2
72	19.8	19.4	18.9	18.5	18.2	17.8	17.5	17.2	16.9	16.7
73	19.4	19.0	18.5	18.1	17.7	17.3	17.0	16.7	16.4	16.1
74	19.1	18.6	18.2	17.7	17.3	16.9	16.5	16.2	15.9	15.6
75	18.8	18.3	17.8	17.3	16.9	16.5	16.1	15.8	15.4	15.1
76	18.5	18.0	17.5	17.0	16.5	16.1	15.7	15.4	15.0	14.7
77	18.3	17.7	17.2	16.7	16.2	15.8	15.4	15.0	14.6	14.3
78	18.0	17.5	16.9	16.4	15.9	15.4	15.0	14.5	14.2	13.9
79	17.8	17.2	16.7	16.1	15.6	15.1	14.7	14.3	13.9	13.5
80	17.8	17.0	16.4	15.9	15.4	14.9	14.4	14.0	13.5	13.2
81	17.4	16.8	16.2	15.7	15.1	14.6	14.1	13.7	13.2	12.8
82	17.3	16.6	16.0	15.5	14.9	14.4	13.9	13.4	13.0	12.5
83	17.1	16.5	15.9	15.3	14.7	14.2	13.7	13.2	12.7	12.3
84	17.0	16.3	15.7	15.1	14.5	14.0	13.5	13.0	12.5	12.0
85	16.9	16.2	15.6	15.0	14.4	13.8	13.3	12.8	12.3	11.8
86	16.8	16.1	15.5	14.8	14.2	13.7	13.1	12.6	12.1	11.6
87	16.7	16.0	15.4	14.7	14.1	13.5	13.0	12.4	11.9	11.4
88	16.6	15.9	15.3	14.6	14.0	13.4	12.8	12.3	11.8	11.3
89	16.5	15.8	15.2	14.5	13.9	13.3	12.7	12.2	11.6	11.1
90	16.5	15.8	15.1	14.5	13.8	13.2	12.6	12.1	11.5	11.0

Two lives: joint and survivor

Age	80	81	82	83	84	85	86	87	88	89	90
50	33.4	33.3	33.3	33.3	33.2	33.2	33.2	33.2	33.2	33.2	33.2
51	32.5	32.4	32.4	32.4	32.3	32.3	32.3	32.3	32.3	32.3	32.3
52	31.6	31.5	31.5	31.5	31.4	31.4	31.4	31.4	31.4	31.4	31.3
53	30.7	30.7	30.6	30.6	30.6	30.5	30.5	30.5	30.5	30.5	30.5
54	29.8	29.8	29.7	29.7	29.7	29.6	29.6	29.6	29.6	29.6	29.6
55	29.0	28.9	28.9	28.8	28.8	28.8	28.7	28.7	28.7	28.7	28.7
56	28.1	2.81	28.0	28.0	27.9	27.9	27.9	27.8	27.8	27.8	27.8
57	27.3	27.2	27.2	27.1	27.1	27.0	27.0	27.0	27.0	26.9	26.9
58	26.4	26.4	26.3	26.3	26.2	26.2	26.1	26.1	26.1	26.1	26.1
59	25.6	25.5	25.5	25.4	25.4	25.3	25.3	25.3	25.2	25.2	25.2
60	24.8	24.7	24.6	24.6	24.5	24.5	24.5	24.4	24.4	24.4	24.3
61	24.0	23.9	23.8	23.8	23.7	23.7	23.6	23.6	23.5	23.5	23.5
62	23.2	23.1	23.0	23.0	22.9	22.8	22.8	22.8	22.7	22.7	22.7
63	22.4	22.3	22.3	22.2	22.1	22.0	22.0	21.9	21.9	21.9	21.8
64	21.7	21.6	21.5	21.4	21.3	21.3	21.2	21.1	21.1	21.1	21.0
65	21.0	20.8	20.7	20.6	20.5	20.5	20.4	20.4	20.3	20.3	20.2
66	20.2	20.1	20.0	19.9	19.8	19.7	19.6	19.6	19.5	19.5	19.4
67	19.5	19.4	19.3	19.2	19.1	19.0	18.9	18.8	18.8	18.7	18.7
68	18.9	18.7	18.6	18.5	18.4	18.3	18.2	18.1	18.0	18.0	17.9
69	18.2	18.1	17.9	17.8	17.7	17.6	17.5	17.4	17.3	17.2	17.2
70	17.6	17.4	17.3	17.1	17.0	16.9	16.8	16.7	16.6	16.5	16.5
71	17.0	16.8	16.6	16.5	16.3	16.2	16.1	16.0	15.9	15.8	15.8
72	16.4	16.2	16.0	15.9	15.7	15.6	15.5	15.4	15.3	15.2	15.1
73	15.9	15.7	15.5	15.3	15.1	15.0	14.8	14.7	14.6	14.5	14.5
74	15.4	15.1	14.9	14.7	14.5	14.4	14.2	14.1	14.0	13.9	13.8
75	14.9	14.6	14.4	14.2	14.0	13.8	13.7	13.5	13.4	13.3	13.2
76	14.4	14.1	13.9	13.7	13.5	13.3	13.1	13.0	12.8	12.7	12.6
77	14.0	13.7	13.4	13.2	13.0	12.8	12.6	12.4	12.3	12.2	12.1
78	13.5	13.2	13.0	12.7	12.5	12.3	12.1	11.9	11.8	11.6	11.5
79	13.2	12.8	12.5	12.3	12.0	11.8	11.6	11.4	11.3	11.1	11.0
80	12.8	12.5	12.2	11.9	11.8	11.6	11.2	11.0	10.8	10.7	10.5
81	12.5	12.1	11.8	11.5	11.2	11.0	10.8	10.6	10.4	10.2	10.1
82	12.2	11.8	11.5	11.1	10.9	10.6	10.4	10.1	10.0	9.8	9.6
83	11.9	11.5	11.1	10.8	10.5	10.2	10.0	9.8	9.6	9.4	9.2
84	11.6	11.2	10.9	10.5	10.2	9.9	9.7	9.4	9.2	9.0	8.8
85	11.4	11.0	10.6	10.2	9.9	9.6	9.3	9.1	8.9	8.7	8.5
86	11.2	10.8	10.4	10.0	9.7	9.3	9.1	8.8	8.6	8.3	8.2
87	11.0	10.6	10.1	9.8	9.4	9.1	8.8	8.5	8.3	8.1	7.9
88	10.8	10.4	10.0	9.6	9.2	8.9	8.6	8.3	8.0	7.8	7.6
89	10.7	10.2	9.8	9.4	9.0	8.7	8.3	8.1	7.8	7.5	7.3
90	10.5	10.1	9.6	9.2	8.8	8.5	8.2	7.9	7.6	7.3	7.1

Appendix B-2

Default Factors

This section provides default factors for each of the components of the valuation methodology as well as a general description of how they are derived. The material is presented in the same order as the Gift Valuation Methodology section (page 11).

Variable: Investment Returns

The investment return provides the rate at which the portfolio can be expected to grow each year before adjusting for expenses. The Partnership has provided several options for organizations to use in developing the assumed investment return.

Option 1. Organization-Specific Returns

In the Gift Valuation Methodology section, the Partnership suggests an approach for identifying and applying the various returns, but the organization is required to determine the appropriate asset mix and develop its own specific investment return data.

Option 2. Organization-Specific Asset Allocations Using Default Returns

The organization determines the appropriate asset mix and but uses the default returns for different asset classes provided below.

Short-term equity returns are impossible to predict. Since planned gift portfolios tend to last 10 years or more, the default equity returns are based on 70-90 year averages because these data are likely to produce the best estimates of results over periods of ten or more years. Based on historical data, small company stocks are assumed to have a 1% per year greater return than the large company equity asset classes. Emerging markets stocks are assumed to have a 1.5% per year greater return. Historically, REITs have provided approximately the same return as large company stocks.

Interest rates are even more difficult to predict, even over 10 year periods, because underlying in-flation rates vary dramatically over time. Current interest rates are deemed to be the best predictor of future rates.

Annualized Rates of Return for Stocks and Current Yields Bonds (updated June 30, 2011)

Equities

Asset Class	Allocation	Yield	Appreciation	Total Return
Domestic Small Cap	_____%	1.40%	9.35%	10.75%
International Small Cap	_____%	2.55%	8.20%	10.75%
Emerging Markets	_____%	2.20%	9.05%	11.25%
Domestic Large Cap	_____%	2.35%	7.40%	9.75%
International Large Cap	_____%	2.55%	7.20%	9.75%
Domestic Real Estate (REITs)	_____%	1.90%	7.85%	9.75%
International Real Estate (REITs)	_____%	2.55%	7.20%	9.75%

Fixed Income

Asset Class	Allocation	Yield	Appreciation	Total Return
Domestic Fixed Income -High Quality	_____%	3.00%	0.00%	3.00%
Domestic Fixed Income -Investment Grade	_____%	3.35%	0.00%	3.35%
Foreign Fixed Income (Hedged)	_____%	2.80%	0.00%	2.80%
High Yield Bonds	_____%	7.65%	0.00%	7.65%
Cash	_____%	0.01%	0.00%	0.01%

Estimated Annual Current Yield   _____%
Estimated Annual Appreciation   _____%
Estimated Annual Total Return   _____%

Note that the estimated yield, appreciation and total return for any mix of asset classes can be determined by multiplying the percentage allocation for each asset class by the yield, appreciation or total return and then summing the results for the total portfolio. The allocation percentages above are not provided since they are to be determined by the organization.

Option 3: Default Asset Allocation Using Default Returns (updated June 30, 2011)

The organization uses one of the Partnership's default asset allocations as well as the Partnership's default returns. Below we have provided asset mix and return assumptions for three different types of portfolios. Each is a simple portfolio consisting of an index mix of the S&P 500 and Lehman Brothers Intermediate Government/Corporate Bonds. The portfolios have different mixes of equities and bonds. The S&P 500 is assumed to generate the return for the domestic large cap stock asset class and the Lehman Brothers Intermediate Government/Corporate Bond index is assumed to generate the return for domestic fixed income asset class. The default mixes and the default returns for each are presented below.

Long term growth, i.e., portfolios designed to balance volatility and growth (60% S&P 500 and 40% LB Int Govt/ Corp Bonds).

Default return = (.6 x .0975) + (.4 x .0335) = .0719

Conservative growth, i.e., portfolios designed to dampen volatility but provide moderate growth (30% S&P 500 and 70% LB Int Govt/Corp Bonds).

Default return = (.3 x .0975) + (.7 x .0335) = .05270

Fixed income portfolios, i.e., conservative portfolios designed to minimize volatility with no equity exposure (100% LB Int Govt/Corp Bonds). Note that portfolios of 100% municipal bonds would have a lower expected return.

Default return = (1.00 x .0335) = .0335

Option 4: Single Default Rate (updated June 30, 2011)

The organization uses the Partnership's single default rate, which assumes the long-term growth portfolio, described in Option 3 above. It is a simple index portfolio consisting of 60% S&P 500 and 40% LB Int Govt/Corp Bonds.

Default return = (.6 x .0975) + (.4 x .0335) = .0719

Variable: Expenses

Expenses include the usual and customary fees associated with trust administration, investment management, tax preparation, custody and so forth. If expenses are charged to the trust's portfolio it will reduce the expected return. This reduction should be reflected in any calculation of future value.

Other program expenses, such as the direct costs of the planned giving program and overhead, are typically not charged to individual trust portfolios. While these costs might be measured and compared to assess overall program results, they are typically not charged to individual trust portfolios and therefore should not be included in the valuation calculation.

The Partnership's default assumption for expenses for a simple indexed portfolio as described above is 0.9% and includes about 0.25% for trust administration, about 0.25% for investment management and about 0.4% for custody and managing and overseeing the investment process. More complex portfolios or portfolios using active managers would cost more, but theoretically there should be an offsetting increase in the return or these more complex portfolios would not be used.

The default expense assumption is 0.9%.

Variable: Net Investment Return (updated June 30, 2011)

The net investment return is simply the investment return less the expenses, both of which are described above. The net investment return is the rate at which a portfolio can be expected to grow before deducting any payouts to beneficiaries.

Investment Return— Expenses = Net Investment Return

The default Net Investment Return = the default Investment Return _ default Expenses.

The default Net Investment Return = .0719 — .009 = .0629

The default Net Investment Return rounded to the nearest tenth = .06

Variable: Payments to Income Beneficiaries

The annual payout from the portfolio must be deducted from the net investment return to determine the portfolio growth rate. The payout rate will vary for each portfolio based on the terms of the gift. Note that for portfolios that can only pay out income (such as net income trusts or pooled income funds) the income estimate (however defined for the particular portfolio) on the portfolio should be substituted for the stated payout rate. the Partnership provides default yield percentages by asset class under Option 2 above.

There is no default for payments. The payment should be determined individually for each portfolio being valued.

The Discount Rate (updated June 30, 2011)

The investment variables above are used to determine the future value in nominal dollars of the gift when the organization expects to receive it. The discount rate is used to determine the value, in today's dollars, of that future amount. Translating the future amount into today's dollars allows the institution to compare what the proceeds received in the future could fund (e.g. a scholarship) compared to the cost of the same program today. To make this comparison, a discount rate must be chosen that reflects the expected cost rise rate the institution and its programs will experience over time. The most common index for measuring cost increases is the Consumer Price Index. Since this index can vary considerably over time, and since many gifts will not be received for a relatively long period, we use a long-term average to estimate future cost rise rates.

The default discount rate is the 70 year average of the Consumer Price Index, or 3.25%.

Note that for some institutions (e.g., educational or medical organizations) costs typically rise faster than the Consumer Price Index due to their structures. In these cases, a higher discount rate (e.g., the Higher Education Price Index for colleges and universities) would be more appropriate.

Appendix C: worksheets

While the valuation standards provide for the valuing of both irrevocable and revocable gift commitments, the Partnership urges that these gift values be reported separately. To assist charitable organizations, the following worksheets have been devised as examples.

> C-1: Current year completed, irrevocable gifts

> C-2: Current year completed, revocable gifts

Worksheet Key: Gift Vehicles

Cash	CA
Publicly Traded Securities	PTS
Closely Held Securities	CHS
Real Estate	RE
Tangible Property	TP
Charitable Remainder Trust	CRT
Charitable Lead Trust	CLT
Charitable Gift Annuity	CGA
Pooled Income Funds	PIF
Life Insurance	LI-I
Remainder Trust w/Interest	RID
Pledge	Pledge
Installment Notes	IN

Worksheet Key: Probability Factors

Use	IF
95%	The donor has a close relationship to the organization, the amount of the gift is specific, there is a legally enforceable pledge and the estimated value of the estate is at least 20 times greater than the intended gift amount.
75%	The donor has a close relationship to the organization, the amount of the gift is specific, and estimated value of the estate is at least 20 times greater than the intended gift amount.
50%	The donor has a close relationship to the organization, the amount is of the gift specific, and estimated value of the estate is at least 10 times greater than the intended gift amount.
25%	The donor has a limited relationship with the organization, the amount of the gift is specific, but it is impossible to estimate the value of the estate.
5%	The donor has no gift history or documented relationships and it is impossible to estimate the value of the estate.

Appendix C-1

Internal Report: Cash Gifts and Irrevocable Commitments

	Number	Present Value
Cash Gifts	_____	_____
Irrevocable Commitments		
Publicly Traded Securities	_____	_____
Closely Held Securities	_____	_____
Real Estate	_____	_____
Tangible Property	_____	_____
Charitable Remainder Unitrust	_____	_____
Charitable Remainder Annuity Trust	_____	_____
Charitable Gift Annuity	_____	_____
Pooled Income Fund	_____	_____
Charitable Lead Trust	_____	_____
Installment Notes	_____	_____
TOTAL	_____	_____

Worksheet: Irrevocable Planned Gifts

Donor's Name	Date of Gift	Gift Type[3]	Fair Market Value	Years to Realization[4]	Future Value[5]	Present Value[6]
Kline, James	1/14/02	CRT-T	$1,000,000	20	$1, 488,864	$605,649
Smith,	1/31/02	CLT	$3,500,000[7]	20	NA	$2,256,791
Jones, John	3/25/02	LI-I	$1,500,000	14	NA	$767,776
Boyle, Anna	4/15/02	CGA	$750,000	10	$686,955	$479,375
Doe, Mary	6/14/02	CLAT	$250,000	12	$345,416	$201,355
Murray,	8/25/02	CRT-L	$3,000,000	13	$3,418,677	$1,905,225
Wolf, Peter	12/30/02	PTS	$750,000	0	NA	$750,000
TOTALS			$10,750,000			$6,966,171

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[3] See "Worksheet Key: Gift Vehicles" table on page 40.

[4] Life expectancy tables are based on the IRS life expectancy tables from age 35 to 115. Ages five through 34 are taken from the 1983 Basic Mortality Table.

[5] Based on a net return of 8.01% and any required payments made to donor over the course of the instrument's existence.

[6] Discount factor of 4.6% applied based on institution's cost rise rate.

[7] Calculated at $175,000 annually for 20 years.

Appendix C-2

Internal Report: Revocable Commitments

	Number	Present Value
Gifts by Will—Specified Amounts	_____	_____
Gifts by Will—Residuary	_____	_____
Gift by IRA —Specified	_____	_____
Gift by IRA—Residuary	_____	_____
Real Estate	_____	_____
Tangible Property	_____	_____
Charitable Remainder Unitrust	_____	_____
Charitable Remainder Annuity Trust	_____	_____
Charitable Gift Annuity—Testamentary	_____	_____
Gifts not valued	_____	_____
TOTAL	_____	_____

Worksheet: Revocable Planned Gifts

Revocable Gifts, Specified

Donor's Name	Date of Gift	Gift Type[8]	Fair Market Value	Years to Realization[9]	Present Value[10]	Probability Factor[11]	Probability Value
Kline, James	1/14/02	RLT	$750,000	20	$305,090	50%	$152,544
Smith, Phillip	1/31/02	Will	$100,000	14	$53,279	25%	$13,320
Boyle, Anna	4/15/02	IRA	$1,500,000	10	$956,697	75%	$717,522
Wolf, Peter	12/30/02	CRT-R	$100,000	14	$91,159	95%	$86,581
TOTALS			$2,450,000				$969,967

Revocable Gifts, Residuary

Donor's Name	Date of Gift	Gift Type	Fair Market Value	Years to Realization	Present Value	Probability Factor[12]	Probability Value
Fox, Jane	1/31/02	Will	$500,000[13]	14	$26,640	25%	$6,659
Rubin, Max	4/15/02	IRA	$500,000[14]	10	$318,899	50%	$159,449
TOTALS			$550,000				$166,108

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[8] See "Worksheet Key: Gift Vehicles" table on page 40.

[9] Life expectancy tables are based on the IRS life expectancy tables from age 35 to 115. Ages five through 34 are taken from the 1983 Basic Mortality Table.

[10] Discount factor of 4.6% applied based on institution's cost rise rate.

[11] See "Worksheet Key: Probability Factors" table on page 40.

[12] Based on ten year institution's history of residuary gifts actually received.

[13] Based on average of 50 residuary bequests received by organization for past ten years.

[14] Based on average of 15 residuary IRAs received by organization for past ten years.

Appendix D-1

About the Partnership for Philanthropic Planning

The Partnership for Philanthropic Planning (formerly, the National Committee on Planned Giving) is the professional organization for people whose work includes developing, marketing and administering charitable planned gifts. Our members include fundraisers for nonprofit institutions as well as consultants and donor advisors working in a variety of for-profit settings. The mission of PPP is to increase the quality and quantity of charitable planned gifts by serving as the voice and professional resource for the gift planning community.

Planned gifts are as old as Western civilization and have been interwoven into its history. Citizens of Rome established perpetual family foundations. During the medieval period, social services were sometimes funded by the proceeds of rents from land held in charitable trusts. America's forefathers used charitable bequests to establish many of the great institutions standing even today -Harvard and the Smithsonian to name but two. Gift annuities were common in medieval Europe. The first gift annuity in the United States was issued in 1843, and the American Council on Gift Annuities was founded in 1927. During the Depression many colleges and universities maintained their vitality through the power of bequests and gift annuities.

In 1950s and 60s a number of charitable institutions began offering planned giving vehicles to their donors. Subsequently, Congress provided strictly defined rules through the Tax Reform Act of 1969, governing vehicles such as charitable remainder trusts, pooled income funds and charitable lead trusts.

During the 1970s, many charitable organizations began to see the potential of planned gifts to serve the needs of donors and increase philanthropic support. In 1978 the Lilly Endowment Inc., offered a program to 19 independent colleges in Indiana to help launch or expand their planned giving efforts. The program was a success, and in 1979, a similar program was offered to 15 schools of theology across the country. Again, the

results were impressive. Two similar programs funded by the Northwest Area Foundation produced similar results in 1975 and 1979. Also during this period, nonprofit fundraisers with gift planning responsibilities began joining with donor advisors to form local common interest groups to provide networking and educational opportunities in planned giving. Representatives from these local groups began to discuss the feasibility of a national organization to act as a coordinator and facilitator for networking the various professionals and organizations involved in planned giving.

During the 1970s and 1980s, a number of local groups of planned giving professionals formed to provide a forum for sharing information and promoting community standards in planned giving practices. In late January of 1988, the National Committee on Planned Giving was formed as a federation of local groups to facilitate, coordinate and encourage the education and training of the planned giving community, and to facilitate effective communication among the many different professionals in this community. Lilly Endowment Inc., provided two, three-year operating grants to help establish this new organization.

In 2002, PPP created an additional category of membership for individuals, thereby broadening its ability to serve the gift planning community. In 2009, after more than a year of strategic directions research and discussion, PPP began a rebranding initiative and changed its name to the Partnership for Philanthropic Planning.

For more information regarding PPP membership, products and services, call 317-269-6274 or visit the Partnership's web site at: www.pppnet.org.

Model Standards of Practice for the Charitable Gift Planner

Preamble
The purpose of this statement is to encourage responsible gift planning by urging the adoption of the following Standards of Practice by all individuals who work in the charitable gift planning process, gift planning officers, fundraising consultants, attorneys, accountants, financial planners, life insurance agents and other financial services professionals (collectively referred to hereafter as "Gift Planners"), and by the institutions that these persons represent.

This statement recognizes that the solicitation, planning and administration of a charitable gift is a complex process involving philanthropic, personal,   financial, and tax considerations, and often involves professionals from various disciplines whose goals should include working together to structure a gift that achieves a fair and proper balance between the interests of the donor and the   purposes of the charitable institution.

I. Primacy of Philanthropic Motivation
The principal basis for making a charitable gift should be a desire on the part of the donor to support the work of charitable institutions.

II. Explanation of Tax Implications
Congress has provided tax incentives for charitable giving, and the emphasis in this statement on philanthropic motivation in no way minimizes the necessity and appropriateness of a full and accurate explanation by the Gift Planner of those incentives and their implications.

III. Full Disclosure
It is essential to the gift planning process that the role and relationships of all parties involved, including how and by whom each is compensated, be fully disclosed to the donor. A Gift Planner shall not act or purport to act as a representative of any charity without the express knowledge and approval of the charity, and shall not, while employed by the charity, act or purport to act as a representative of the donor, without the express consent of both the charity and the donor.

IV. Compensation
Compensation paid to Gift Planners shall be reasonable and proportionate to the services provided. Payment of finders fees, commissions or other fees by a donee organization to an independent Gift Planner as a condition for the delivery of a gift is never appropriate. Such payments lead to abusive practices and may violate certain state and federal regulations. Likewise, commission-based compensation for Gift Planners who are employed by a charitable institution is never appropriate.

V. Competence and Professionalism
The Gift Planner should strive to achieve and maintain a high degree of competence in his or her chosen area, and shall advise donors only in areas in which he or she is professionally qualified. It is a hallmark of professionalism for Gift Planners that they realize when they have reached the limits of their knowledge and expertise, and as a result, should include other professionals in the process. Such relationships should be characterized by courtesy, tact and mutual respect.

VI. Consultation with Independent Advisers
A Gift Planner acting on behalf of a charity shall in all cases strongly encourage the donor to discuss the proposed gift with competent independent legal and tax advisers of the donor's choice.

VII. Consultation with Charities
Although Gift Planners frequently and properly counsel donors concerning specific charitable gifts without the prior knowledge or approval of the donee organization, the Gift Planner, in order to insure that the gift will accomplish the donor's objectives, should encourage the donor early in the gift planning process, to discuss the proposed gift with the charity to whom the gift is to be made. In cases where the donor desires anonymity, the Gift Planner shall endeavor, on behalf of the undisclosed donor, to obtain the charity's input in the gift planning process.

VIII. Description and Representation of Gift
The Gift Planner shall make every effort to assure that the donor receives a full description and an accurate representation of all aspects of any proposed charitable gift plan. The consequences for the charity, the donor and, where applicable, the donor's family, should be apparent, and the assumptions underlying any financial illustrations should be realistic.

IX. Full Compliance
A Gift Planner shall fully comply with and shall encourage other parties in the gift planning process to fully comply with both the letter and spirit of all applicable federal and state laws and regulations.

X. Public Trust
Gift Planners shall, in all dealings with donors, institutions and other professionals, act with fairness, honesty, integrity and openness. Except for compensation received for services, the terms of which have been disclosed to the donor, they shall have no vested interest that could result in personal gain.

Adopted and subscribed to by the National Committee on Planned Giving (now the Partnership for Philanthropic Planning) and the American Council on Gift Annuities, May 7, 1991. Revised April 1999.