

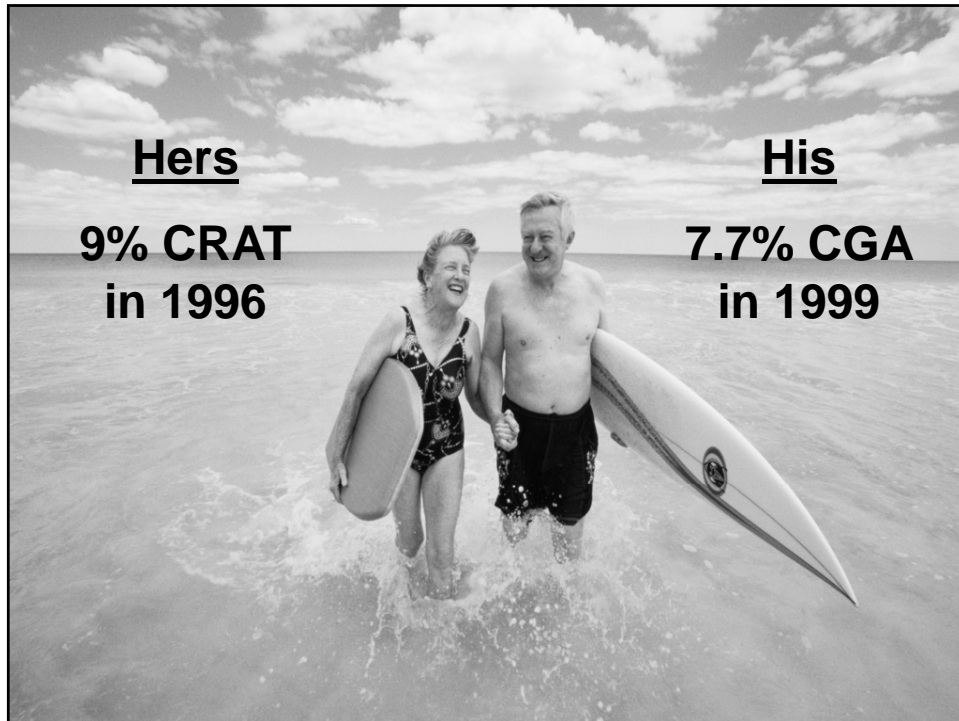
## **The Methusaleh Effect:**

# **Longevity's Impact On Planned Giving**

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## **Agenda**

- **Longevity Risk: A Definition and Planned Giving Applications**
- **Planned Giving Mortality Tables**
- **Recent Mortality Studies: CGAs and CRTs**
- **Investment vs. Longevity Risk**
- **Longevity Implications**
- **Exhaustion Frequency and Severity for CGAs and CRATs**



## Longevity Defined and PG Applications

Having a longer life than expected – or outliving assumed life expectancy.

1900 – Average person expected to live to 47

2000 – Average person expected to live to 77

### Applications for Planned Giving

1. Present Value Calculations for Valuation Purposes
2. Present Value Calculations for Charitable Deduction Purposes
3. Calculating Life Income or Remainder Interest Values
4. Calculating FASB Liabilities or CGA Reserve Requirements
5. Planned Gift Risk Management/Acceptance Policies
6. Planned Gift Investment Management

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**“I intend to live forever  
or die trying.”**

**Groucho Marx**

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## **Planned Giving Mortality Tables**

- **90CM Table (1990 Census)**  
Mandatory for charitable income tax deduction purposes, some use for FASB liability purposes.
- **Annuity 2000 Table**  
Some used for FASB liability purposes, some used for CGA reserve calculations, NCPG valuation guidelines and an adjustment for ACGA rates.
- **Expected Return Multiple Table**  
Used to calculate CGA installment sale life expectancy.

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## Miss Alabama in the 1994 Miss USA Contest

**Question: If you could live forever, would you and why?**

**Answer: "I would not live forever, because we should not live forever, because if we were supposed to live forever, then we would live forever, but we cannot live forever, which is why I would not live forever."**

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## 2005 CGA Mortality Research

- Behan-Clontz CGA Mortality Study for the Society of Actuaries – 22,000+ CGAs from 27 Charities

Sample Case: 77 Year-Old Female/\$100K 7.4% CGA/6% Discount Rate

|                |            |                    |
|----------------|------------|--------------------|
| 1990 IRS Table | 11.1 Years | \$55,828 Liability |
| Annuity 2000   | 12.7 Years | \$64,490 Liability |
| ACGA-LE        | 14.0 Years | \$68,782 Liability |
| Behan-Clontz   | 14.8 Years | \$71,267 Liability |

**Income Tax Deduction Overstated by 38-40%**

**Liability Understated by 27-30% over 1990 – 11-13% over 2000**

**Donors are living 1-5 years beyond Annuity 2000**

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## 2007 CRT Mortality Research

- Behan-Clontz CRT Mortality Study for Renaissance and SunTrust Bank – 5,000+ CRTs
- Sample Case: 65 Year-Old Female/\$100K 7% CRAT/6% Discount Rate

|                  |            |
|------------------|------------|
| 1990 IRS Table   | 17.2 Years |
| Annuity 2000     | 22.2 Years |
| Behan-Clontz CGA | 26.3 Years |
| Behan-Clontz CRT | 27.7 Years |

**Income Tax Deduction Overstated by 200-250%**  
**Liability Understated by 20-30% over 1990 Table**  
**Donors are living 1.5-6 years beyond Annuity 2000**

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## Longevity Implications on Planned Giving

- **Higher proportion of CGAs and CRATs will exhaust than assumed**
- **Asset managers invest with a shorter time-horizon than actual**
- **FASB liabilities are 10-30% under-stated**
- **Charitable deduction is 20-40% over-stated**
- **Reinsurance is under-priced**
- **Life income interests are under-stated**
- **Remainder interests are over-stated**
- **Valuation standards over-stating actual gifts**

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## Exhaustion Frequency and Severity

- **1998-2002: 20-45% Exhaustion Probability for all CGAs**  
\*Assumed 6/30/03 Market Values, 60% Equity Allocation, ACGA-Assumed Life Expectancies and Historic Future Returns
- **6-12% Exhaustion Probability for New CGAs**
- **Of the CGAs that Exhaust, the average “loss” on original gift is 10-15%**
- **Lowest Risk – Young Male with Deferred Annuity**
- **Highest Risk – 90 Year Old Female**

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