What Happens If The Annuitant Dies Early?

Whether a self-insured or reinsured CGA, both scenarios offer a charitable deduction that may be taken on the annuitant's final income tax return when an early death occurs. This deduction is based on the undistributed tax-free income from the CGA, which may be claimed as an itemized deduction and is not subject to the two-percent-of-adjusted-gross-income threshold that is applicable to most miscellaneous itemized deductions.

As for the benefit to ministry with an early death, this is vastly different if the CGA is reinsured or self-insured. An early death with a self-insured CGA would provide a greater benefit to ministry than the American Council on Gift Annuities (ACGA) projected 50% residuum of the funding amount. The converse is also true. If the annuitant lives pass their life expectancy, a self-insured CGA provides less benefit to ministry. Of the 214 ministries NCF serves to offer CGAs, some have come to us as a result of exhausting their self-insured CGA account due to longevity of the annuitants and not meeting the ACGA expected invest returns (currently 4.75%). This means not only was there no charitable benefit from the CGA to the mission of the ministry, the ministry had to continue the payments to the annuitants from other unrestricted assets. With the fact that on average, Christians live longer than the actuarial tables used by the ACGA, this is just one of the reasons why NCF reinsures, along with providing an option to benefit ministry at the onset.

A reinsured CGA mitigates the risk of longevity of the annuitants and/or lower investment returns from the CGA account. The benefit is the same to the ministry if the annuitant dies early or lives beyond their life expectancy. If the annuitant desires for the ministry to benefit more if there is an early death, we can simply include a guaranteed period certainty to the reinsurance. Basically, we would request the insurance company to make the payments through NCF for the life of the annuitant, with a guarantee of payments for 5, 10 or 15 years, even if the annuitant is deceased. If the annuitant dies within the guarantee period, the payments will continue and directly benefit the ministry until the end of that period.

For example, if an annuitant age 75 funded a CGA with $100,000, the annual payout to the annuitant will be $5,400 at 5.4%. If the annuitant requested a 10 guarantee to the life payments and then died after only 5 years of payments, $5,400 annually for the remaining 5 years ($27,000) would benefit ministry. This is, of course, in addition to what the ministry received at the onset. This would be a huge added benefit to ministry and mitigate the concern of an early death.

Requesting a 5, 10 or 15 year guarantee will, however, nominally increase the reinsurance premium fee by the insurance company. The longer the number of years in the guarantee, the higher the premium. The difference in cost between the higher premium with a guaranteed number of years and the basic premium for life, will be deducted from the onset benefit to ministry.