LUTHER COLLEGE

POLICIES AND PROCEDURES

Department:	Financial Services
Subject:	Gift Annuities
Date Issued:	April 1, 2006
Date Revised:	
Approved By:	

I. Policy

This policy sets forth the guidelines for accepting, establishing, recording and investing gift annuity contracts.

II. Scope

This policy applies to all gift annuities established after the approved date of the policy.

III. Terms and Definitions

- Gift annuity – an agreement between the donor and Luther College. A donor contributes $10,000 or more in cash, marketable securities or non-cash item approved by the Vice President of Finance and Administration. In exchange, Luther promises to pay the donor or other annuitant(s) a fixed dollar amount for life. Payout rate is based on the age of the annuitant(s) at the time of the agreement and will not exceed the most recently published rates of the American Council on Gift Annuities except under unusual circumstances approved by the Vice President of Finance and Administration.
- Donor(s) – person transferring property in return for a fixed payment.
- Annuitant(s) – person receiving the life income annuity. The annuitant(s) can be the donor or the donor and another beneficiary, or no more than two beneficiaries other than the donor who receive the promised payout of the gift annuity agreement.
- Gift annuity pool – individual gift annuity donations are pooled with one another to realize investment benefits that can be gained from a larger pool of funds.
- Remainderman – party who benefits upon maturity of the gift annuity. Luther College must be at least 50% remainderman.
- Crescendo Software – Vendor (Crescendo Interactive Inc.) purchased software currently in use by Luther College Development Office to assist in the calculations of gift annuity payouts, charitable contribution and liability amounts needed to establish the gift annuity.

IV. Procedures and Guidelines

A. General Requirements for a Gift Annuity
   - Normally, a gift annuity will require a minimum $10,000 irrevocable contribution.
   - Annuities funded with non-cash gifts (other than publicly traded securities) must be approved by the Vice President of Finance and Administration before establishing the annuity contract.

- Matured annuities cannot fund current building projects but can fund building endowments for the building project. Matured annuities, if board designated, can upon maturity, be designated by the board for a current building project.
- Gift annuities will be accepted only when the annuitant is 55 years or older.
- Deferred gift annuities will be accepted for annuitants younger than 55 depending upon the beginning date of the annuity payment.
- The College must be at least a 50% beneficiary of the annuity remainderman.

B. Establishing a Gift Annuity

A gift annuity agreement is prepared by the Development Office and includes:

- Date of the agreement
- Donor's name and address
- Description of property donated
- Fair market value of property donated
- Frequency and dollar amount of annuity payments
- Name, birth date and address of annuitant(s)
- Designation of the residual funds at termination of the annuity
- Signature of Vice President for Finance and Administration, President, or Vice President for Development

C. Crescendo Calculations

- The crescendo program determines the amount of the first and subsequent annuity payments.
- The crescendo program identifies the portion of the contribution that is considered a charitable deduction.
- A schedule of taxable annuity income will also be provided by Development and forwarded to the donor and to the Office for Financial Services.

D. Annuity Payments

- Annuity payments will be made on a quarterly, semi-annual or annual basis. The donor determines the frequency of payment at the time of agreement. Initial annuity payments will be made no more than one year from the date a gift annuity is established except in the case of a deferred annuity. Payment schedule is:
  - Quarterly — Last day of March, June, September, and December
  - Semi-annual — Last day of June and December
  - Annual — Last day of December
- A completed IRS form W-9 must be on file in the Office for Financial Services before annuity payments can be issued. Payments are made by check and mailed to the annuitant(s) or annuitant(s) bank.
- Changes in address should be sent to Luther College, the Office for Financial Services (Assistant Controller) no less than 10 working days before an annuity payment is to be made. Notification should be in writing either by mail, e-mail or fax.

E. Recording a Gift Annuity

- When a gift annuity agreement is completed, a copy of the agreement along with the crescendo computations will be forwarded to the Office for Financial Services.
- The Development Office will record the established annuity, which includes gift and liability amounts on the College's general ledger.
- The Office for Financial Services will initiate payments to annuitants.

- IRS form 1099-R, reporting distributions from gift annuities, will be mailed to annuitants by January 31 for the calendar year ended December 31.
- Each gift annuity is accounted for separately (even though assets are pooled).
- Income is posted annually at May 31 of each year to the individual gift annuity account.

F. Investing the Gift Annuity Funds
- Individual donations are pooled and not invested separately.
- Pooled gift annuity funds will be managed in a single investment portfolio.
- Pooled funds will be invested according to the policy established by the Investment Committee and reviewed annually by the Investment Committee.

G. Matured Gift Annuities
- Upon maturity, the remaining gift annuity value will be transferred to the designation stated in the annuity agreement. If the agreement is silent on this issue, the funds will be considered board designated, with the Board of Regents determining the designation of funds.

V. Statement of Investment Policy

The intent of the charitable gift annuity rate is to provide a remainder or residuum of approximately 50% of the original gift at the end of the annuitant's life. This percentage is based on the assumed mortality, estimated investment return of the gift amount, estimated administrative costs and frequency of payments.

A. Roles and Responsibilities
- Members of the Board of Regents, ultimately, are responsible as fiduciaries for managing the gift annuity pool. The Regents delegate responsibility for ongoing oversight of the gift annuity pool to the Investment Committee.
- The Investment Committee is charged with managing the gift annuity pool of investments.
- The College administration is responsible for implementing decisions of the Investment Committee.
- The College administration is charged with monitoring the gift annuity performance and preparing quarterly reports.
- The Investment Committee is charged with recommending investment strategies and managers in order to obtain the performance objective of the gift annuity pool.

B. General Investment Philosophy
- The time horizon for the gift annuity pool is not infinite but is dependent upon the life expectancies of the annuitant pool.
- With regard to the risk, the focus is on overall portfolio risk, not the risk associated to a specific annuitant. The overall level of risk on Luther's gift annuity investment portfolio will be primarily mitigated by attention to asset allocation.

VI. Confidentiality and Record

All gift annuity files will be held in the Development Office and because of donor's relationship to Luther College, will become part of Luther College's archives upon maturity