UC SAN DIEGO FOUNDATION
CHARITABLE GIFT ANNUITY RESERVE
INVESTMENT POLICY AND GUIDELINES

CHARITABLE GIFT ANNUITY DEFINITION

A charitable gift annuity (CGA) is a contract between a donor and a charitable institution. The donor transfers cash or other assets to the institution in exchange for guaranteed regular payments for life (an annuity). The amount of each annuity payment is determined by the age(s) of the annuitant(s) when the annuity is initially funded, and the annuity rate, as stated by the American Council on Gift Annuities (ACGA). As the annuitant's age increases, so does the payout rate on the annuity. Once the payment is determined, it remains fixed for the lifetime of the beneficiary. The ACGA rates presume that the charity will ultimately benefit from about half of the original gift; the other half plus earnings/appreciation is expected to be returned to the beneficiary in the form of annuity payments. Unlike a charitable trust, wherein liability for the payment to the beneficiary is limited to the assets of the trust, annuity payments to a contract annuitant under a CGA are guaranteed to the extent of 100% of the assets of the charity issuing the contract.

UC SAN DIEGO FOUNDATION LICENSE

Under the terms of its license granted in January of 1990 from the State of California, Department of Insurance (DOI), the UC San Diego Foundation is authorized to issue CGA contracts. These contracts are issued subject to the Foundation's approved standard planned gift acceptance criteria for CGA contracts as approved by its Planned Gifts Subcommittee, or as approved by the Committee on a case-by-case basis as necessary if the gift falls outside of the standard acceptance criteria.

CGA REQUIRED RESERVE INVESTMENT

As required by the DOI regulations, all CGA contracts are initially issued with a calculated reserve investment requirement. The required reserve investment is typically 70–90% of the initial value of the gift made to fund the contract, and must be invested by the charity to provide for the annuity payments. Assets constituting the reserve investments as required under the California Insurance Code (Section 11520-11524) are to be segregated from the other assets of the charity in a trust account, and all reserve assets must be held in the name of the charity. It is the policy of the UC San Diego Foundation to be in compliance with the reserve investment guidelines as permitted by the California Insurance Code. When the CGA matures, the remainder, if any, in the reserve for that CGA is severed from the reserve and used for the purpose as intended by the donor.

Reserve investments are required regardless of whether or not the actual gift to fund the contract is made in cash or other assets. In the case that other assets are given, the charity must still obtain the cash funds necessary for a deposit to the reserve and a subsequent investment in allowable securities.

The DOI regulations require only that the calculated amount be invested in the reserve. Any excess of the original gift amount over the required reserve calculation may be used for the purpose intended by the donor immediately, rather than when the contract matures.
It is the policy of the UC San Diego Foundation, however, to invest 100% of the original gift in the reserve, and not to make any amount available for the purpose intended by the donor until the contract matures. Exception to this policy is permitted in the case that the original gift is not cash or immediately converted into cash, and the Foundation must use existing unrestricted funds or obtain other funds for the reserve investment. In these cases, a deposit of only the required reserve as calculated is necessary.

CGA RESERVE INVESTMENT OBJECTIVE

The primary investment objectives of the Foundation's CGA reserve are 1) to ensure that the required reserve balances as calculated, and the allowable reserve investments as set by the DOI, are always met; and 2) to provide for some growth in the principal of the reserves to enhance the overall performance of the CGA pool, yet ensure that the required annuity payments are met by using a combination of investment yield, appreciation, and a portion of principal. It is the intention of the Foundation to minimize the need for the return of principal by maximizing total return of the reserve investments.

AUTHORIZED DOI RESERVE INVESTMENTS

Required Reserve Investments:

DOI Guidelines

The calculated "required" amount of CGA reserve must be invested as specified in the applicable guidelines of the State of California, DOI and the California Insurance Code, Sections 1170 through 1182, as amended by Section 11521.2. These guidelines generally permit the following categories of investments in the required reserve portfolio, to be held in a separate trust/safekeeping account:

- Up to 100% of the portfolio may be invested in U. S. Treasury and agency fixed income securities, and certain other government and municipal fixed income securities of any maturity.
- Up to 50% may be invested in securities traded on the New York and American Stock Exchanges, regional exchanges, and NASDAQ, and may include mutual funds and other securities or pooled funds that are registered under the Federal Investment Company Act of 1940.
- Other investments may be permitted, subject to the written consent of the DOI.

CGA Required Reserve Investment Policy

The UC San Diego Foundation has determined an investment policy for its "Required Reserve" as follows:

- Up to 50% of the portfolio may be invested in equity securities as described in the authorized DOI investments; specific investments and asset allocation will be periodically determined by the Investment Committee in consultation with the Foundation's external CGA administrator.
- At least 50% of the portfolio will be invested in US Treasury and US government agency fixed income securities as described in the authorized DOI investments; specific investments will be periodically determined by the Foundation staff in consultation with the Foundation's external CGA administrator.
- Money market/cash equivalent funds will be maintained at an amount necessary to meet projected annuity payment requirements in the very near term (three months or less).
- The actual asset allocation of the required reserve will be determined annually by the Committee after considering recommendations by the Foundation's external CGA administrator. Staff will implement policy and ensure rebalancing as new contracts are issued and maturities occur.

The investments of the required reserve will be held in a separate trust/safekeeping account.

CGA Excess Reserve Investment Policy

The reserve balance in excess of the required reserve, per the DOI calculation, will be invested in up to 100% equity securities, funds, or products, as determined by the Investment Committee in consultation with the Foundation's external CGA administrator.

The actual asset allocation of the excess reserve will be determined annually by the Committee after considering recommendations by the Foundation's external CGA administrator. Staff will implement policy and ensure rebalancing as new contracts are issued and maturities occur.

The excess reserve investments will also be held in the separate trust/safekeeping account as the required reserve for purposes of efficiency and protection.

Reporting:

Foundation staff will report investment results, portfolio mix, and growth in the CGA program to the Investment Committee at least annually.