

FUND ACCOUNTING TRAINING

Module 5

Annuity and Life Income Funds

We are reviewing the fund groups that can be found on the Statement of Net Position. In this section we will look at:

Annuity and Life Income Funds

ANNUITY AND LIFE INCOME FUNDS OBJECTIVES

- Acquire basic understanding of Annuity and Life Income Funds
- Understand the two types of activities accounted for in Annuity and Life Income Funds
 - 1) Annuity and Life Income Funds held by U. T. System
 - 2) Beneficial Interests in Split-Interest Agreements Held by 3rd Parties

Note: Annuity and Life Income Funds have no net position, because gifts/income from these arrangements are only recorded when realized. When realized, gifts and related income are recorded to other fund groups.

ANNUITY AND LIFE INCOME FUNDS HELD BY U. T. SYSTEM

The Annuity and Life Income Funds Held by U. T. System are received by U. T. System under deferred giving agreements. These are four types of deferred-giving agreements that qualify the donor for federal income tax benefits:

- Charitable gift annuity contracts
- Pooled life income funds
- Charitable remainder unitrusts
- Charitable remainder annuity trusts

ANNUITY AND LIFE INCOME FUNDS HELD BY U. T. SYSTEM (CONTINUED)

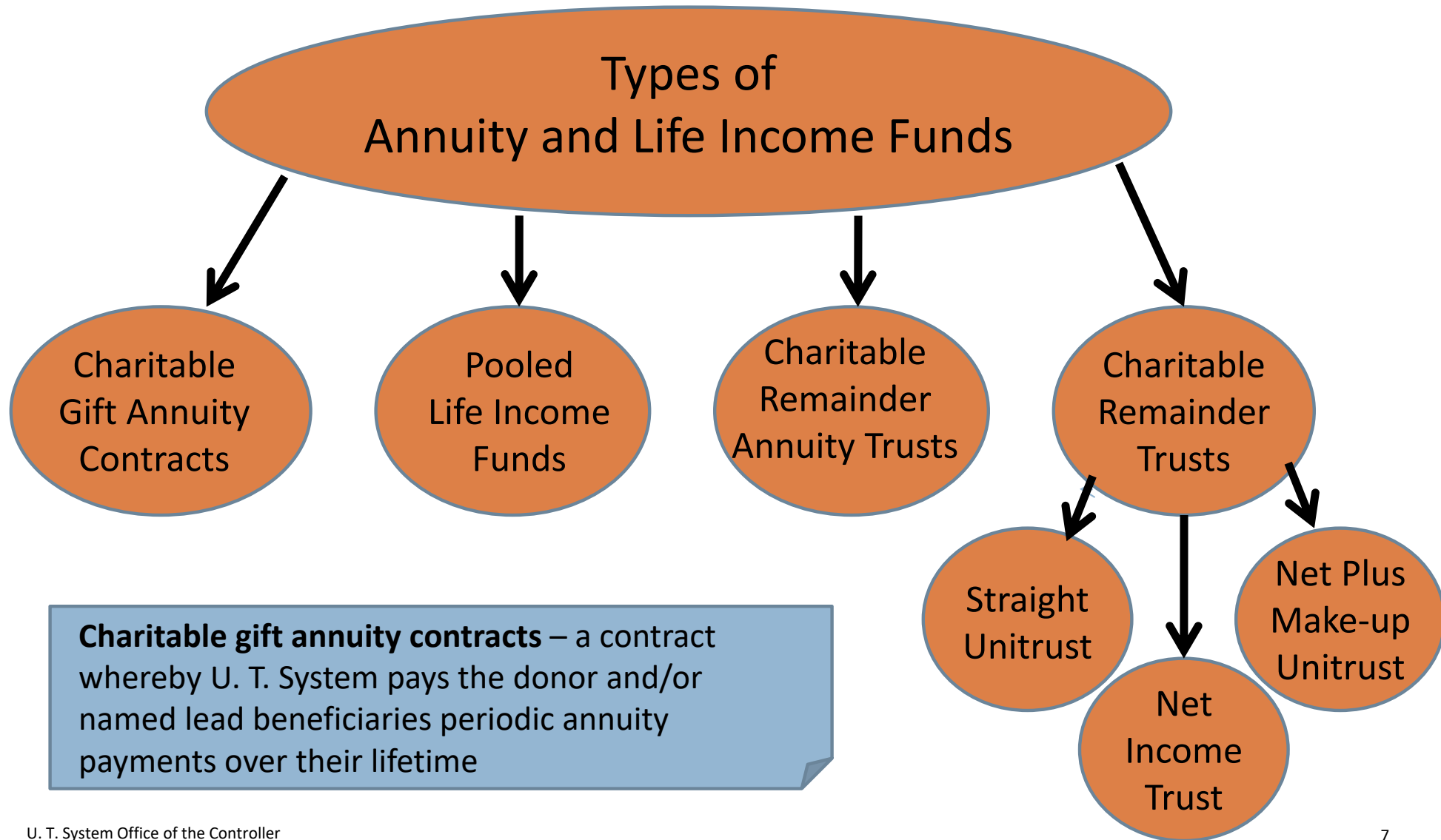
The Annuity and Life Income Funds Held by U. T. System provide payment to beneficiaries during their lifetimes or for a specific term. Institutions may use the remaining principal for other purposes, as defined by the donor(s), upon the death of the beneficiaries. Ultimately, these funds could either be expendable or used as an endowment for restricted or unrestricted purposes.

The difference between Annuity Funds and Life Income Funds is that Annuity Funds return a portion of the principal to the beneficiary and payments remain fixed over the life of the contract. Life Income Funds only return the income earned on the fund to the beneficiary and, therefore, may vary depending on market conditions.

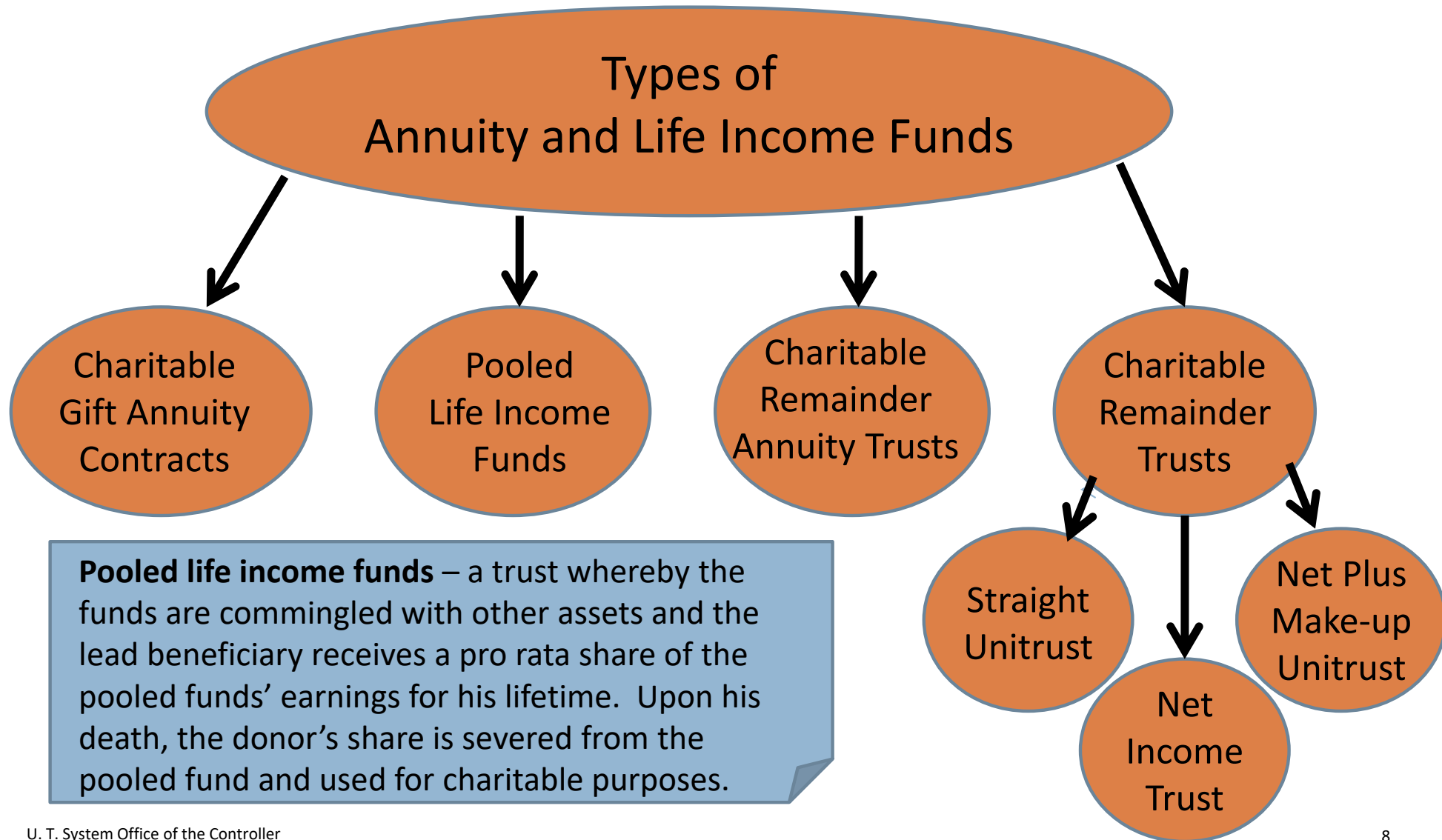
ANNUITY AND LIFE INCOME FUNDS HELD BY U. T. SYSTEM (CONTINUED)

- Assets:** Due to the nature of Annuity and Life Income Funds Held by U. T. System, assets are generally comprised of noncurrent investments, which provide stability and steady income to the funds; however, there may also be cash and cash equivalents.
- Liabilities:** The amount actuarially estimated to be paid to the lead beneficiary is recognized as a liability.
- Deferred Inflows:** The net of the assets and liabilities are reported as deferred inflows of resources from split-interest agreements. This balance represents the fair value of U. T. System's beneficial interest in these funds.

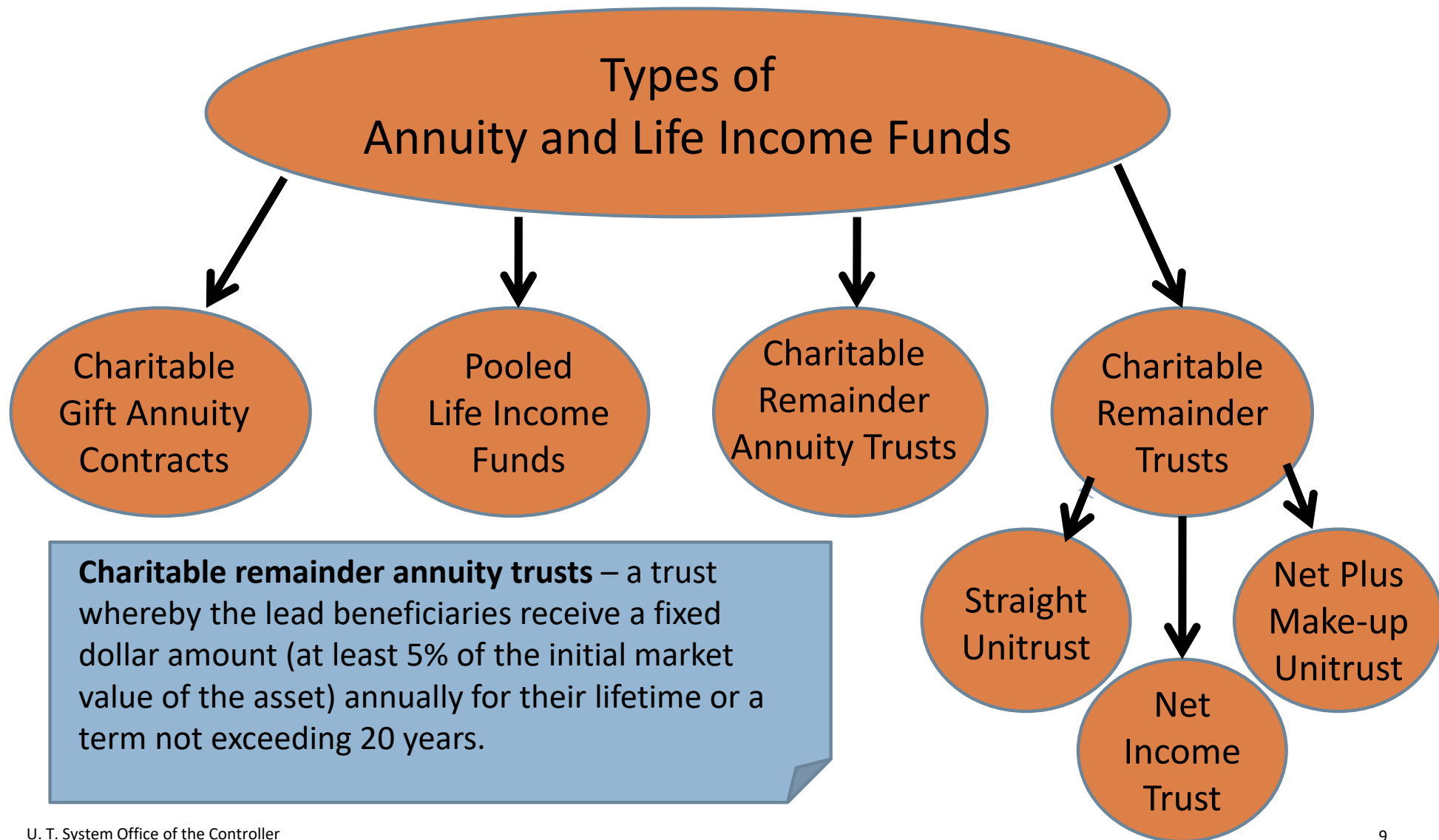
ANNUITY AND LIFE INCOME FUNDS HELD BY U. T. SYSTEM (CONTINUED)



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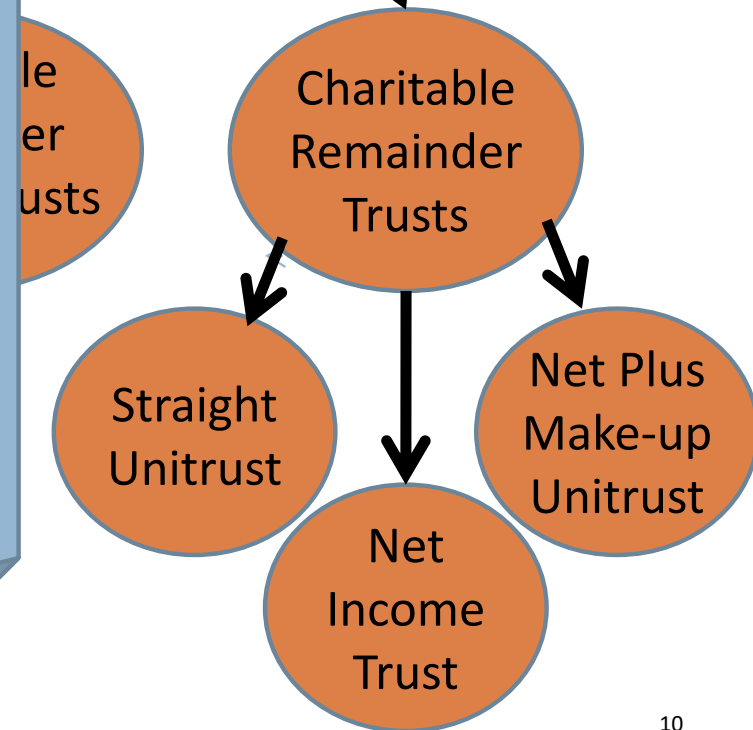


ANNUITY AND LIFE INCOME FUNDS HELD BY U. T. SYSTEM (CONTINUED)

Types of Annuity and Life Income Funds

Charitable remainder unitrusts:

- Straight Unitrust – a stated percentage of the market value of trust assets is distributed at a fixed percentage (not less than 5%) annually regardless of income for a term not to exceed 20 years.
- Net Income Unitrust – similar to a straight unitrust except that payments to lead beneficiaries are limited to actual income earned by the trust not to exceed the percentage stated in the trust documents.
- Net-Plus-Makeup Unitrust – payments are limited to ordinary earned income but may exceed the stated percentage up to but not exceeding the amount required making up any accumulated deficiencies from prior years.



ANNUITY AND LIFE INCOME FUNDS HELD BY U. T. SYSTEM (CONTINUED)

Annuity Funds are established through deferred giving contracts between the University and the donor. The principal is donated to the University and a portion of the principal and income is distributed to the lead beneficiaries over their lifetimes. Upon the final lead beneficiary's death, the University uses the remaining funds.

Life Income Funds are also set up through deferred giving contracts. The principal is donated to the University and only income, or a portion thereof, is distributed to the lead beneficiaries. Upon the final lead beneficiary's death, the University may use the principal.

BENEFICIAL INTERESTS IN SPLIT-INTEREST AGREEMENTS HELD BY 3RD PARTIES

Beneficial Interests in Split-Interest Agreements Held by 3rd Parties also involve deferred giving agreements in which a U. T. System institution is a beneficiary, but the funds underlying these arrangements are not held by U. T. System but instead are held by a 3rd party.

These deferred giving arrangements often mirror the types of agreements held by U. T. System, and include charitable remainder trusts, charitable remainder annuity trusts, and others.

BENEFICIAL INTERESTS IN SPLIT-INTEREST AGREEMENTS HELD BY 3RD PARTIES

U. T. Institution's beneficial interest can be one or both of the following:

- Lead Interest
 - Resources provided to the institution throughout the term of the agreement or in the form of periodic disbursements
- Remainder Interest
 - Resources provided to the institution at the termination of the agreement

BENEFICIAL INTERESTS IN SPLIT-INTEREST AGREEMENTS HELD BY 3RD PARTIES

Assets: This balance represents the fair value of U. T. System's beneficial interests in these split-interest agreements held by 3rd parties and is reported as other noncurrent assets.

Deferred

Inflows: The offset to the assets is reported as deferred inflows of resources from split-interest agreements.

ANNUITY AND LIFE INCOME FUNDS SUMMARY

Annuity and Life Income Funds are made up of the following:

- Noncurrent Investments
 - Fair value of annuity and life income funds held by U. T. System
- Other Noncurrent Assets
 - Fair value of U. T. System's beneficial interests in split-interest agreements held by 3rd parties
- Liabilities to Beneficiaries
 - Estimated amount to be paid to the lead beneficiaries of annuity and life income funds held by U. T. System
- Deferred Inflows from Split-Interest Agreements
 - Offset of all assets and liabilities in annuity and life income funds
 - Represents fair value of U. T. System's beneficial interests in all split-interest agreements, both held by U. T. System and held by 3rd parties

CONCLUSION

You have completed this module of the Fund Accounting Training. Exit the training by clicking the link below and access the next module.

[Fund Accounting Training](#)