Gift Annuity Agreements of Charitable Organizations

GIFT ANNUITY RATES, INTEREST RATES
and MORTALITY EXPERIENCE

STATE REGULATION OF GIFT ANNUITIES

TAXATION OF GIFT ANNUITIES

TENTH CONFERENCE

WISE PUBLIC GIVING SERIES, NO. 49

1959

GEORGE AUGUSTUS HUGGINS

1881 - 1959

At 3:50 p.m. on Wednesday, December 2, ten minutes before the closing of the Conference on Gift Annuities, Dr. George Huggins asked for the floor. In a brief personal word he expressed his great satisfaction in the strength of the Committee on Gift Annuities and in its dynamic leadership, stating that he would probably not be present at the Conference four years thence. No one dreamed that four weeks later, Dr. Huggins would be dead.

George A. Huggins was born on November 16, 1881, in Nevis, British West Indies, and was brought to the U. S. A. by his parents in 1893. He became a naturalized citizen in 1904. He was graduated from the University of Pennsylvania with a Bachelor of Science degree and received an honorary doctorate from Albright College. For many years he headed the firm of Huggins and Company, Consulting Actuaries.

Dr. Huggins was an Anglican by birth, and throughout his lifetime served his communion well. He was deeply devoted to the ecumenical movement. He was the consulting actuary of literally dozens of pension boards of Protestant communions of the United States.

Dr. Huggins, along with Dr. Gilbert Darlington, was a founder of the Committee on Gift Annuities, serving for more than thirty-two years as its Consulting Actuary.

After serving in his usual capacity as advisor to the Conference on Gift Annuities and as secretary to the Church Pensions Conference during the first week of December 1959, Dr. Huggins returned to Philadelphia, feeling tired. During the middle weeks of December he decided that his fatigue had become illness, and on December 23 he entered the Chestnut Hill Hospital. While there he suffered a sharp heart attack, on the morning of December 30, and died in mid-afternoon the same day.

The funeral was held on Saturday, January 2, in St. Paul's Episcopal Church, Chestnut Hill, Pennsylvania.

Dr. Huggins is survived by his widow, Mrs. Marjorie Alden Huggins, and several children. Mr. Charles Burrell, a son-in-law, now becomes the senior partner of Huggins and Company, Consulting Actuaries.

American Protestantism has been richly blessed in the person of George A. Huggins. His contribution to the field of annuities, pensions, philanthropy and Christian stewardship has become a permanent part of American Protestantism of the twentieth century.

Dr. T. K. Thompson,
for the
Committee on Gift Annuities

Gift Annuity Agreements
of
Charitable Organizations

PAPERS PRESENTED AT THE TENTH CONFERENCE ON GIFT ANNUITIES, HELD IN NEW YORK CITY, TUESDAY AND WEDNESDAY, DECEMBER 1-2, 1959, UNDER THE DIRECTION OF THE COMMITTEE ON GIFT ANNUITIES

THE COMMITTEE ON GIFT ANNUITIES

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WISE PUBLIC GIVING SERIES NO. 49

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OPENING REMARKS

MR. CHARLES W. BAAS
Chairman, Committee on Gift Annuities

Why a Conference on Gift Annuities?

1. The Tenth Conference on Gift Annuities has been called for a variety of reasons. First, according to the Constitution of the Committee on Gift Annuities, a conference must be held at least once every four years. Your Committee has stretched this article of the Constitution slightly, as the last Conference was held four years and two months ago. This meeting was scheduled in December primarily for the convenience of those attending the Church Pension Conference, which follows on December 3 and 4.

2. The change in interest rates. At the 1955 Conference the current net rate of interest earned on invested funds by U. S. Life Insurance companies, before Federal income taxes, was reported as 3.46 percent. This rate has risen to 3.85 percent in 1958 and no doubt will be even higher when 1959 figures are available. The rate of income earned on invested gift annuity funds is, of course, an important factor in determining gift annuity rates. Perhaps the expert Economist on the program this morning will help the delegates peer into the future with the hope of glimpsing the level of interest rates.

3. A new study of mortality among gift annuitants has been prepared. Dr. George A. Huggins, at the request of the Committee, has prepared a life mortality study similar to the one presented to the Conference in 1955. This study covers the five-year period, January 1954 through December 1958. The study is based on the Standard Annuity Table, female lives only, with a setback of one year. It is for both male and female annuitants covering 129,075 life years of exposure and shows an unfavorable mortality rate of 97.26 percent.

The Committee on Gift Annuities is gratified by the response of the Sponsors to the questionnaire. There were 79 replies. This fine response has provided valuable data with which to compare actual mortality experience with the expected mortality according to the table upon which the current annuity rates are based. A major part

of the Conference program will be devoted to this subject. Dr. Huggins will speak about the results of this survey today.

4. Another reason for the Conference is the question of treatment of capital gains on property transferred in exchange for a gift annuity agreement. Those present who attended the Ninth Conference may recall that a private Treasury Department Ruling, dated September 9, 1955, received by the Board of Christian Education of the then Presbyterian Church in the U.S.A., approved a rather complicated procedure resulting in at least a partial taxation of gain when appreciated property was exchanged for a gift annuity agreement. On November 10th of the same year, the Board of Christian Education was advised that,

> "The Revenue Service has under reconsideration the tax consequences of the transfer of property and securities to charitable organizations for an annuity contract and the proper method for reporting these transactions for Federal income tax purposes. It is contemplated that a Revenue Ruling will be issued in the near future on this subject."

To the best of my knowledge we are still in the near future. The Conference is fortunate to have as one of the speakers, Mr. Sydney Prerau, of the J. K. Lasser Tax Institute, who will no doubt shed some light on this subject when he reviews the taxation of gift annuities.

5. The need for correct gift annuity terminology. The language being used to advertise, sell, promote and describe gift annuities has improved considerably over the years, due in large part to the efforts of the Committee on Gift Annuities. However, there are still many instances where incorrect terms are used. This causes confusion, not only in the minds of Federal and State taxing authorities, but also in the minds of prospective donors. The Conference will be presented with some authoritative information on this subject when Mr. Chester Myrom of the United Lutheran Church Foundation speaks on gift annuity promotion and terminology.

6. State supervision of gift annuities. Twenty-four institutions, called charitable annuity societies, hold permits to issue annuities in New York State. I know of at least one other in the process of applying for such a permit. Also quite a few of our number report to the State

of California Department of Insurance. I believe these are the only state insurance departments which attempt to exercise any real degree of control.

In New York State, for example, the insurance laws through the insurance department dictate such things as: size of annuity reserves, maximum annuity rates, the segregation of annuity assets and the type of investment for annuity funds. The subject of state regulation of annuity funds will be considered as part of tomorrow morning's program. The conference will be doubly fortunate in having Dr. Darlington share his experience and also get the benefit of his comments on a paper prepared especially for this Conference by the Chief Actuary of the New York State Insurance Department, Charles C. Dubuar.

7. Recent developments in the life income, variable annuity and related fields. Emphasis on the future possibility of inflation have placed doubts in the minds of many prospective donors as to the wisdom of making investments guaranteeing a fixed annual return. These doubts plus favorable Internal Revenue treatment of capital gains resulting from the transfer of appreciated property in exchange for various agreements offering fluctuating life income, has lead many of the organizations represented here today to embark on some sort of life income program. As the use of such plans becomes more widespread, their possible effect on the gift annuity is an important subject. Thus, Dr. Matthies of Wittenberg University, has been invited to share with the Conference his wide experience in the field of life income agreements, as well as to report on the results of the life income agreement questionnaire mailed to the sponsor organizations.

8. Last and certainly not least, a reason for this Conference is to provide an opportunity for the representatives of sponsoring institutions to ask questions.

This discussion opportunity is four-fold as I see it: first, is the contact with other delegates during and after the formal Conference Program; second, the availability of members of the continuing Committee on Gift Annuities, distinguished by their gold-colored name tags; third, each speaker is requested to allow at least a few minutes during or after his presentation for questions by the delegates; fourth, three-quarters of an hour has been allotted near the end

of the Conference program for a discussion of your questions by a panel composed of members of the Committee on Gift Annuities. Your moderator for this panel will be Dr. T. K. Thompson, a long-time member of the Committee on Gift Annuities.

These will be the subjects for your consideration during the Tenth Conference on Gift Annuities.

For those of you attending a Conference on Gift Annuities for the first time, let me briefly review the origin and functions of the Committee on Gift Annuities.

This Committee came into existence in March 1927 as a result of a paper presented by Dr. Huggins to a conference in Atlantic City. A small group had been cooperating in getting the proposed insurance laws of New York State amended to recognize the existence of gift annuities which otherwise would not have been legal in the State of New York. Dr. Huggins reported to the Conference on Financial and Fiduciary Matters of the Federal Council of the Churches of Christ in America on March 22 through 24, 1927, and this Conference authorized the appointment of a continuing sub-committee on annuities with this resolution:

> "On Annuities. To study and recommend the proper ranges of rates, the form of contract, the amount and type of reserve fund and nomenclature to be used. To ascertain and advise as to the legislation in the United States and the various states regarding annuities, their taxability, etc. This Committee is requested to make an immediate study of the matter of rates and to call a conference of interested parties on this matter at the earliest possible date. This committee should be guided in its study by an early determination as to what is the primary motive in the writing of annuity contracts."

The sub-committee on annuities held many meetings and eight general conferences as part of the Federal Council of the Churches of Christ in America until this body was united with the National Council of Churches of Christ in the United States of America late in 1950. The sub-committee on annuities had no official status with the succeeding organization until October 2, 1951 when the Joint Department of Stewardship and Benevolence of the National Council at a special meeting passed this resolution:

"That the previously constituted Committee on Annuities of the Federal Council of Churches be continued as a separate committee under the Division of Christian Life and Work of the National Council of Churches, U.S.A."

At the Ninth Conference on Gift Annuities held in October, 1955 these actions were adopted by the Conference:

"Whereas the Committee on Annuities was originally a subcommittee of the Federal Council of Churches of Christ in America and has been cooperating with the National Council of Churches of Christ in the United States of America; and whereas it is the concensus of this Ninth Conference on Gift Annuities that the Committee on Gift Annuities should be perpetuated as an *independent agency* of service to religious, educational and charitable organizations. . . ."

The succeeding six parts of this seven-part resolution found in the proceedings of the Ninth Conference on Annuities called "Wise Public Giving, Series Number 48" outlines the framework within which the Committee and the Conference on Gift Annuities is expected to function.

Under this frame of reference, the Committee, now independent, has a Constitution and By-Laws which were included in the packet given to you as you came in this morning and which will be published as a part of the Proceedings of this Tenth Conference.

To sum up, the Committee on Gift Annuities, since its inception in 1927, has provided a continuing advisory service in the field of gift annuities and through conferences on gift annuities has recommended policies believed sound in the use of annuity funds to provide the maximum income from this source for the issuing organizations consistent with safety of principal for the annuitant.

Before we start our formal program let me share some statistics with you. According to the registration cards, we have present 198 official representatives of 150 organizations. These organizations represent at least a total of 59,030 annuity agreements outstanding with an original principal value of $84,865,155.

INTEREST RATES AND INVESTMENT OUTLOOK

DR. JOHN W. HARRIMAN
Professor of Finance, Graduate School of Business Administration, New York University

It is a distinct privilege for me to address you this morning. It is also a unique experience since you people represent for me a different type of audience from those to whom I normally speak. You combine in your work both material and spiritual qualities. In fact, the reason why you are interested in things materials, in investments, is because of your desire to further spiritual objectives. Here I would like to interject a thought which finds its roots in my own work as a teacher and an economist. Investment is a term of many meanings. There is both good and bad investment management from the standpoint of the investor, individual or institutional, and from that of the economy. Unfortunately, investment which is good for the investor can sometimes be bad for the economy. For all of you and for me as a member of the Finance Committee of the American Bible Society and as a professional educator, it seems especially important to distinguish good from bad investment in the economic sense. It is incumbent on us to manage the funds entrusted to our charge, not only with the goal of achieving the best possible financial results, but also with that of advancing the economic good. Sound direction of capital promotes the development of the economy and strengthens the private enterprise system within the Free World. This is my sermon for today! Now let us examine the topic which has been assigned me by my mentors, Dr. Gilbert Darlington and Mr. Charles Baas—"Interest Rates and the Investment Outlook." This sort of puts the cart before the horse. With your permission I would like to change the order and also to spotlight common stocks as a separate subject. Therefore, I shall talk about three closely interrelated topics—The Economic Outlook, the Position of Common Stocks and Interest Rates and Bond Yields.

Topic One—The Economic Outlook

We all know that the postwar period has been one of marked economic progress. This is true whether you measure progress in terms of the big economic series like gross national product and the

Federal Reserve index of industrial production or whether you think of growth as houses, appliances, automobiles and factories. As a whole the economy has expanded at an annual rate of approximately 4 per cent. Many industries have substantially exceeded this rate, for example, aluminum at 12 per cent, electric power 9 per cent, chemicals 6 per cent. Many other industries, however, have grown less than the average. This expansion has brought increased profits and higher dividends and has been a major reason for the sustained rise in common stock prices. This expansion has also caused the demand for funds to press hard on the supply with the result that interest rates have increased steadily.

Indications are that expansion will be continued, that the decade of the 'sixties will be one of economic growth and business progress. The underlying forces of growth will operate to push the economy to successively higher levels. Five such forces can be distinguished: (1) increasing population, (2) higher personal income, (3) rising consumer expenditures, (4) research and development on a massive scale, and (5) heavy spending by business for plant and equipment. It is important to realize that expansion is not confined to the United States. Today's world is consciously on the march toward more goods and services, a higher standard of living in the accepted American sense. In fact, many of the highly-industrialized countries like those in the European Common Market or in the new "Outer Seven" are expanding more rapidly than we are. Among the less developed countries the leaven of "rising expectations" is at work, a condition which as we well know, requires technological assistance and spiritual guidance.

Expansion does not proceed in a straight line; there are movements above and below the long-term trend. But the postwar period is distinctive in that it is the first time that a great war has not been followed by depression and deflation. Instead we have had some 12 years of general prosperity, interrupted only by three moderate recessions, those of 1948-49, 1953-54 and 1957-58. Why the difference? Does it mean that our economy has been depression-proof? It would seem so. It is my opinion that downward movements in business can be contained within reasonably narrow limits or, in other words, that deep depressions can be avoided. Causes of this difference are partly economic, partly psychological. I am sure you are all familiar with

the importance of such factors as built-in stabilizers, forward planning by management, improved governmental controls, and above all, continued high confidence on the part of both consumers and business. Thus, although the business cycle has not been eliminated, its nature has been greatly modified. It seems certain that a new economic rhythm has been established. Expansion, however, has been accompanied by inflation. The index for consumer prices is now about twice the prewar figure. There was a big rise because of World War II, another because of the Korean War, then several years of stability, followed by the much-discussed period of creeping inflation during 1956 and 1957. In 1958 and in 1959 to date, prices have been fairly stable. This does not mean that inflation is no longer a menace, only that it appears less dangerous than before. Our full-employment type of economy has an inflationary bias which the investor must always consider in planning long range policy.

Now let us look at the present situation. The American economy is scheduled to enter the $500 billion (one-half a trillion) area in terms of the gross national product during the first six months of 1960. This will also bring the Federal Reserve index of industrial production into the 160 range. As you realize, these predictions have been made before. Until the steel strike was called in mid-July, all was well in the business world. The upward movement that began in the spring of 1958 was proceeding along the lines of the established postwar pattern. We looked forward to an excellent last half of 1959 and an even better 1960. Confidence, however, changed to uncertainty as the strike continued without signs of a favorable settlement. Then, as generally happens when confidence weakens, people began to conjure up additional disturbing factors, chief among them being the possibility of drastic cuts in defense spending and the detrimental effects of tight money. The reaction in the stock market seemed to confirm their new doubts.

It is my conviction that the economic fundamentals have not changed. What has occurred represents an interruption in the upward movement of business, not a turning point. Now that the Taft-Hartley procedure is in operation, steel production has been resumed and full production is in sight. Nevertheless, the greater part of the post-strike bulge will be pushed over into 1960. This assumed that the workers will not go out again at the end of the 80-day period.

It also assumes that there will be no immediate change in the level of defense spending and that high money rates will not stop our upward progress. More on this last subject under the third topic. Thus, the balance of 1959 should witness increasing confidence, while 1960 should be a genuinely good year with a bulge in the first half followed by leveling-out in the second. Compared with 1959, government spending and residential construction will be less influential, consumer buying of durables, especially automobiles, more significant. Sales of new domestically-produced cars could approximate 6 million in 1960, resulting in two excellent automobile years in contrast to the one, 1955, in the previous cycle. In addition, there should be a strong temporary stimulus from inventory building and a more lasting one from higher plant and equipment expenditures by business—somewhat above $37 billion as against an estimated $34 billion for 1959.

Topic Two-Position of Common Stocks

The problem of stock investment can be treated with relative brevity since it is so closely dependent on the economic outlook. Common stocks are favored as long-term investments by economic growth, increased cyclical stability and capacity to offset inflation. These qualities have made stocks the outstanding investment medium in the postwar period, a situation which has been increasingly recognized by the serious investors. Since 1952 the number of shareholders in American corporations has risen from 6.5 million to 12.5 million, the common stock holdings of N.A.I.C. member investment companies from $4.3 billion to an estimated $13 billion, those of educational and charitable institutions by substantial but unknown amounts. Demand for stocks has exceeded supply with the result that prices have moved to a level which is historically high in terms of price/earnings ratios and yields. A study of stock performance in the postwar period shows that price/earnings ratios have risen and yields have fallen in each successive upward movement of the market. To illustrate with figures, the Dow-Jones industrial average is now about 18 times earnings compared with 14 times in 1957, 10 times in 1953, and 8 times in 1949. The very great attractiveness of common stocks has caused a broad revaluation of their worth. Can this revaluation process continue or have we about reached the realistic limit? This is a question to which all of us should give some truly hard thought. Because of their

tax status eleemosynary institutions are in a peculiarly favorable position to improve income and strengthen portfolios by eliminating extravagantly valued issues.

When stocks are at high levels, they are bound to be sensitive to adverse events even to those of a transitory nature. The September decline in prices amounted to 9 per cent in Dow-Jones industrials, a normal reaction by historical standards. However, if the upward movement in business had been interrupted but not stopped, it was logical to expect persistent strength in stock prices. This is apparently what has happened as the rise in the market indicates. Three qualifications should be set forth here: first, certain groups of stocks and certain specific issues, having reached heights which overdiscounted the immediate future, may not return to those prices for some time; second, since industries have different subcycles within that of general business, the leading industrial groups of 1960 will not be identical with those of 1959; and third, if the revaluation process referred to above is near its end, future increases in stock prices will be at a more moderate rate. Earnings for the third quarter were less than those originally expected, largely because of the strike and will also be less in the fourth quarter. This means fewer dividend increases and extra payments, but again 1960 can be counted on to be more generous.

Topic Three-Interest Rates and Bond Yields

The books tell us that interest represents the cost of money, the price which must be paid by those who wish to use funds to those who have funds. Why the price is high or low at any given time can be explained by stating that it depends on demand and supply. This is a simple and basically realistic statement, but it is merely a start. The various factors which determine demand and supply must then be evaluated not only for funds in general but for funds classified by time periods and by their uses and sources. There is no single market place for funds, but rather a series of markets, some closely interconnected, others apparently semi-independent. The best available measure of long-term interest rates is the yield on British Consols, the perpetual government debt of Great Britain. From 1753, a date which marks the approximate beginning of the Industrial Revolution, to the present there have been five trend-type movements: (1) 1753-1816, up from 2.86 per cent to 5.02 per cent; (2) 1816-1897, down from 5.02

per cent to 2.45 per cent; (3) 1897-1920, up from 2.45 per cent to 5.32 per cent; (4) 1920-1946, down from 5.32 per cent to 2.60 per cent; and (5) 1946-1959 (through October), up from 2.60 per cent to 4.98 per cent. Yield figures by years from 1919 to the present in the United States show the similarity between movements of the yield on British Consols and those of high-grade American issues. In both countries there have been important fluctuations above and below the trend line, caused largely by cyclical changes and central banking policy. It is noteworthy, first, that yields were already in a declining trend in the 1920's, but relatively stable during the last years of this prosperous decade; second, that the yields continued their decline through both the Great Depression and World War II. Over the years, the necessities of war finance have been one of the chief causes of rising interest rates, but in both Great Britain and the United States during World War II monetary measures in conjunction with other economic controls were able to hold down rates. Short-term rates are also at a high level, but these are of less concern to this group.

For long-term rates there seems to be a sort of "mystic" which in the past had set a ceiling not far above 5 per cent. If this holds true for the future, the next change in trend should be in a downward direction, but this does not mean (a) that rates might not move somewhat higher over the near future or (b) that rates might not remain on a high plateau for a substantial time. As Professor Roland I. Robinson has stated, "the published and identifiable forecasts of interest-rate changes reveal a sobering proportion of errors and misjudgements." The classic example was the symposium of forecasts made by various authorities in 1899 at the request of Equitable Life Assurance Society. Their almost unanimous opinion regarding the 20-year future of interest rates on high-grade bonds was that they would average lower than those then prevailing, a conclusion which turned out to be most erroneous. Nevertheless, it is necessary now as in 1899 for those who are concerned with long-term contracts such as bonds, mortgages and annuities to have reasonably definite opinions on the future of interest rates. These opinions must be based on certain assumptions regarding general business conditions and the policies of Government agencies. Assuming, therefore, that business expands in 1960 as discussed above and that the restrictive policy of the Federal Reserve is not altered, interest rates on long-term bonds

could move higher, but any such increase probably would be small. On short-term rates the advance could be somewhat greater since the build-up of pressures in the money market seems likely to be greater than that in the capital market. This condition stems from the needs of the Treasury, of business corporations and of consumers for credit. In part, this is the result of the steel strike, which not only is reducing Treasury receipts, thus assuring a deficit for 1960 (fiscal year ending June 30), but which is also placing a burden on many corporations to finance the rebuilding of inventories. As plant and equipment spending increases there will be additional demands for long-term funds. Finally, it is worthwhile to point out that 1960 is a presidential year, a fact that has some implications for monetary affairs in 1960 itself and which could have important effects on those affairs in subsequent years.

In Conclusion

It is unnecessary for me to provide you with a detailed summary. I have talked about our investment problems under three headings: the economic outlook, the prospects for common stocks, and interest rates and bond yields. Neither the economic present nor the economic future are without their problems, both real and imaginary, but there is nothing to indicate that these problems, like most others, cannot be satisfactorily solved. The future may not duplicate the past, but it will provide investment opportunities for reasonable income and capital appreciation. As far as interest rates are concerned the outlook is definitely for a continuation of the present high level for the foreseeable future. In other words, barring a true depression or a drastic change in our monetary policy, high interest rates appear likely to continue for the decade of the 'sixties. To me this indicates that an annuity rate of 3 per cent is unrealistically low and that 3.5 per cent would be a reasonable and logical figure. Let us hope that my prophecy proves superior to those of the financial experts of 60 years ago. Undoubtedly, the safest course would have been to have followed Horace Walpole's sage but somewhat impractical counsel:

> "Prognostics do not always prove prophecies,—at least the wisest prophets make sure of the event first."

REPORT ON THE MORTALITY EXPERIENCE STUDIES

DR. GEORGE A. HUGGINS
Consulting Actuary

When an actuary is introduced to another person, the introducer sometimes adds "here is a man who can tell you how long you are going to live". This remark well may be a jocular tribute to the actuary and his science but the fact is that no actuary can foretell the lifetime of an individual. However, speaking statistically, if the individual is a member of a group that is large enough and the conditions normal, the actuary can obtain a fairly good approximation of the average number of years of life ahead of the group of which the individual is a member, such as ten, twelve or fifteen. The average years of future lifetime are generally referred to as years of life expectancy. When life expectancy is applied to an individual life, it should be done with an understanding of what it really means; namely, the average future years of life of the group of which the individual is a member even though some members of the group may live only a very short time and others a comparatively long time.

It does not need an actuary or a statistician to tell us that in the general population there is a steady trend towards lengthening of life, but it does take the actuary or the statistician to make studies that aid us in determining to what extent the lives are being lengthened. When this problem is related to a particular group of lives, the best solution lies in having the actuary make periodic studies of the death rate among the lives included in the group.

When annuity payments are being made to a group of persons, the trend to lower mortality with correspondingly longer periods of life expectancy means longer periods of annuity payments with a resultant increase in the cost of the annuity program. In order to offset the so-called adverse mortality experience of the annuity organization, certain steps have to be taken to meet the increased financial load. This means putting up a larger sum (reserve) to provide for the promised annuity or if the sum available is fixed, then reducing the amount of the annuity accordingly. Annuitants are very human people. I well recall, when public school teachers covered in a statewide retirement system were greatly upset when they were told that,

because of increased longevity among the annuitants, a given amount of accumulated contributions could no longer provide the former amount of annuity and thereafter would purchase a lesser annuity. When I was approached for comfort and consolation, I explained the new era in which they would retire as contrasted with the retirees of early days and summed up by saying: "Which would you rather have, the larger annuity continued for a shorter period of time as before or a lesser annuity for a longer period of time when the two annuities are actuarial equivalents?" The answer was, "We want the larger amounts for the longer periods of time."

As you are well aware, gifts subject to annuity agreements are playing an increasingly important role in philanthropic giving. They are more and more sought by individuals who are willing to make gifts for the benefit of the causes in which they are interested but who need some income during their future lifetime and in some cases during the lifetime of a designated survivor beneficiary. For this latter reason, we must be as liberal as possible in the amounts of annuities provided but we must so administer the annuity programs that the hopes of the donors will be realized in full without even an intimation of failure to make the promised payments. At the same time, we must keep in mind that we are not in the gift annuity business just to sell annuities. We are in the business of getting gift money for the cause we represent.

As the officials of our organizations face the issues before them and see and hear more about this increased longevity, it is only natural that they be concerned as to its effect on the gift portion of these donations. It is, therefore, imperative that from time to time we study the mortality experience of our annuitants. We obtain far more reliable results by pooling our data than if such contributing organization studied its own experience separately.

It has long been a practice of life insurance companies to pool their experience data from time to time in order that they might study the trends of annuitant mortality. Upon the basis of these pooled data, there are then developed mortality tables which become recognized as the standard of current annuitant mortality. These more modern tables then come to replace the outmoded tables which have heretofore served as the standard.

No table of any great value can be produced unless it is based

upon a considerable volume of lives. Where the number of lives exposed to the risk of death in a given group is not sufficient to justify the construction of a new table, it is common practice to match the results of the study against the most up-to-date standard of annuitant mortality which is readily available and which most nearly parallels the data under study. It may be necessary to modify the standard table by setting the ages forward or backward to bring it more in line with the data under study.

The above practice may also be followed for another reason; namely, savings in time and funds. After the basic data are obtained, it is necessary to subject them to many mathematical processes before the annuity rates, reserves and other actuarial factors can be obtained. This work may, of course, be by-passed if the various actuarial factors are available on a standard table which parallels the experience of the group in question.

The above problems are complicated by the fact that sex as well as age plays a part in the mortality experience of annuitant lives. Repeated studies have shown greater longevity among female lives than among males. This difference in longevity has to be recognized not only in the case of single-life annuities but also in joint and survivor cases where, generally, both sexes are involved. For greater simplicity, actuarially and administratively, in the promotion and administration of gift annuities, the practice has been adopted of using one mortality table, that for females, for both male and female annuitant lives.

At the Conference on Wills, Annuities and Special Gifts held December 15 and 16, 1952, the subject of rates, mortality experience and reserves occupied a major place on the program. In preparation for this Conference, 15 organizations contributed the data on 5,198 annuitants who were living on June 30, 1952 and 1,264 who had died during the period July 1, 1947 to June 30, 1952. The results of the studies of the mortality experience based upon this data were compared with the results shown by similar studies of the experience of the American Bible Society which had in force on that date, 15,231 agreements issued on 7,551 lives representing original principal gifts amounting to $13,726,441. As will be shown later, quite similar experience was revealed in the two separate studies.

For the present conference we have completed an extensive study of annuitant mortality experience during the period January 1, 1954

through December 31, 1958 on the basis of the data which you have graciously submitted. The data which we were able to use in the study were contributed by 79 organizations as listed in Schedule D and covered 20,678 female lives and 6,602 male lives who were living on December 31, 1958, a total of 27,280. There were also 4,135 female lives and 1,269 male lives who died during the five-year period, a total of 5,404. In all, there were included in the study 24,813 female lives and 7,871 male lives, a total of 32,684 lives.

The above data represented 99,446.5 life years of exposure for the female lives and 29,628.5 life years for the male lives, a total of 129,075.0. The term "life years of exposure" is used in referring to the number of lives exposed to the risk of death for one year. For example, an annuitant on the rolls for the entire five-year period was counted as one life year of exposure at each of five ages, one year apart, or a total of five life years. Those who entered the annuity rolls during the five-year period and those who died during the period were counted as exposed only during the time they were actually on the rolls.

In Schedule A the results of the study related to the period July 1, 1947 through June 30, 1952 are compared with the results of the present study. The results are shown separately for females and males; and for females and males combined. The greater magnitude of the present study is indicated by the fact that the earlier study was based on 26,718.5 life years of exposure compared with 129,075 life years in the present study.

In Schedule A the life years of exposure as well as the actual deaths are shown by age groups. Also shown are expected deaths calculated according to the 1937 Standard Annuity Table, age set back one year and assuming all lives were female. The ratio of actual deaths to expected deaths was then determined for each age group. It might be noted that if the actual deaths exactly paralleled the expected according to the mortality rates used as a yardstick, the ratio of actual to expected would be 100% in each age group. When the ratio of actual to expected deaths is less than 100%, it means that lighter mortality than expected has been experienced. Similarly, if the ratio of actual to expected deaths is greater than 100%, it means that heavier mortality than expected has been experienced.

From Schedule A (1) it may be seen that on the basis of the 1952

study, there were 905 actual deaths among the female lives as contrasted with 915 expected deaths according to the 1937 Standard Annuity Table, female lives, ages set back one year, or a ratio of 98.93%. In the case of male lives, there were 359 actual deaths against 280 deaths expected according to the same basis, or a ratio of 128.17% as may be seen from Schedule A (2). For female and male lives combined as shown in Schedule A (3), there were 1,264 actual deaths against 1,195 expected, a ratio of 105.78%. Thus, it may be seen that on the basis of the 1952 study, there was an over-all mortality margin against future adverse experience in the present gift annuity rates, which are based on the 1937 Standard Annuity Table, female lives, ages set back one year. In other words, while there were variations in the various age groups, the over-all picture showed a margin of 5.78% against future adverse mortality trends in the basis of the gift annuity rates which were adopted at the Conference held on October 3 and 4, 1955. This margin was corroborated by the experience of the American Bible Society which, as mentioned earlier, was studied separately. For this group, the ratio of actual to expected deaths was 97.2% for females, 135.3% for males and 102.7% for females and males combined.

In the current studies, there were 4,135 actual deaths among the female lives against 4,387 expected deaths on the same basis as above; namely, the 1937 Standard Annuity Table, female lives, ages set back one year, or a ratio of 94.25%. This means that the reduction in the rate of mortality during the six and one-half years since the 1952 study resulted in a drop of 4.68% (98.93% to 94.25%) for female lives.

Among the male lives, there were 1,269 actual deaths in the current study as compared with expected deaths of 1,169, or a ratio of 108.56%. As compared with the 1952 study, this represents a drop of 19.61% (128.17% to 108.56%). For female and male lives combined, the ratio of actual to expected deaths is 97.26% in the present study as compared with 105.78% in the earlier study, or a drop of 8.52%. The current study clearly shows that the basis of the present gift annuity rates rather than having a comfortable mortality margin of 5.78% now shows a deficit of 2.74%.

Studies were then made to see what further adjustments would have to be made to the Standard Annuity Table if continued in use,

in order to bring it more in line with the experience of the five-year period ending December 31, 1958 and with a margin against a further increase in longevity. These studies showed the set-back would have to be one year more; that is, two years in all and if we were to be ultra-conservative, a three-year set-back. The device of setting back ages is in common practice and produces adequate over-all margins. However, as the number of years set-back is increased, serious distortions are introduced in the rates for individual ages.

As a result of these studies, tests were made to determine the effect of the use of a more modern annuitant mortality table. Studies were made on the a-1949 Table which showed that the current gift annuity mortality experience did not conform with this table. Studies were then made on a new table, the 1955 American Annuity Table based upon the pooled data of a number of the larger insurance companies issuing annuity policies. This table seems to conform more closely to the current mortality experience for the five years ending with December 31, 1958 with a reasonable over-all margin against further lengthening of lives.

It is not to be expected that the mortality rate shown by a given table recognized as a standard for mortality among annuitants would exactly parallel the experience of a particular group at all ages but it is well to have it conform at as many age groups as possible and with an over-all margin of safety.

As shown in Schedule A (1), the ratio of actual deaths to expected deaths on the 1955 American Annuity Table is 106.24% for the female lives. In Schedule A (2) for the male lives, it is 123.14% and in Schedule A (3) for the combined lives, it is 109.78%. In other words, there is an over-all margin of approximately 10% available to absorb future increases in longevity.

When it comes to the age distribution of life years of exposure, it is interesting to note that in both of the studies, the largest number of life years of exposure for females and males combined was in the age group 76-80. In the current studies, the next largest group was 81-85, the third 71-75 and the fourth 66-70. In 1952 the same four age groups had the largest exposures except that the 71-75 group came second and the 81-85, third.

Because of the difficulty, for lack of current information, of keeping up-to-date records of the deaths among the survivor beneficiaries

during the lifetime of the prime lives, these mortality studies relate only to the prime lives and to survivor beneficiaries after the death of the prime life.

In Schedule B, there is shown the distribution by age groups and sex of the persons entering the annuity rolls during the five-year period. Here, we see that the accessions are predominantly women (69.5%). The four age groups (excluding the group age 50 and under) with the largest numbers of new entrants in order are 71-75; 66-70; 76-80 and 61-65, respectively. The total of these four groups, 5,601, is 61.3% of the 9,133 lives included in the study. It should be noted that these accessions include the survivor lives, where the prime lives died during the five-year period ending December 31, 1958, so that there are more lives involved than just those entering upon a new single life or joint life and survivor annuity.

In Schedule C are shown the uniform gift annuity rates now in use, Column (A). Shown in Column (B) are the ungraded, tabular annuity rates based on the 1955 American Annuity Table. In Column (C) are shown the annuity rates of Column (B) graded in the same manner as the rates of Column (A). All rates are calculated on the same formula; namely, a 50% residuum, interest at 3% per annum with a loading for expenses of 5% of the total gift.

SCHEDULE A(1)

GIFT ANNUITY MORTALITY STUDY

FEMALE LIVES

	July 1, 1947 Through June 30, 1952				January 1, 1954 Through December 31, 1958					
Age Group	*Life Years of Exposure*	*Actual Deaths*	*Expected Deaths (S.A., f-1)*	*Ratio A/E*	*Life Years of Exposure*	*Actual Deaths*	*Expected Deaths (S.A., f-1)*	*Ratio A/E*	*Expected Deaths (A.A., f.)*	*Ratio A/E*
50 and Under	803.0	1	2.933	34.09%	6,682.0	17	22.659	75.03%	10.662	159.44%
51- 55	676.0	3	5.129	58.49	3,783.0	21	28.564	73.52	14.890	141.03
56- 60	1,164.5	7	12.845	54.50	6,329.5	32	69.722	45.90	38.197	83.78
61- 65	1,872.0	19	30.138	63.04	9,465.0	74	151.594	48.81	94.125	78.62
66- 70	2,902.5	40	67.551	59.21	13,332.5	197	310.735	63.40	224.991	87.56
71- 75	3,707.0	94	125.519	74.89	15,034.0	361	505.605	71.40	408.455	88.38
76- 80	4,109.5	178	199.578	89.19	17,299.0	723	845.239	85.54	740.374	97.65
81- 85	3,291.0	251	228.396	109.90	15,555.0	1,049	1,085.155	96.67	1,008.203	104.05
86- 90	1,588.0	208	155.986	133.35	8,481.0	988	835.095	118.31	811.166	121.80
91- 95	442.0	77	61.692	124.81	2,797.5	504	389.028	129.55	391.900	128.60
96-100	101.0	25	19.376	129.03	579.0	138	112.814	122.33	117.059	117.89
101-105	20.5	2	5.669	35.28	99.0	31	26.773	115.79	28.215	109.87
106-	—	—	—	—	10.0	—	4.074	—	3.925	—
Total	20,677.0	905	914.812	98.93%	99,446.5	4,135	4,387.057	94.25%	3,892.162	106.24%

SCHEDULE A(2)

GIFT ANNUITY MORTALITY STUDY

MALE LIVES

	July 1, 1947 Through June 30, 1952				January 1, 1954 Through December 31, 1958					
Age Group	*Life Years of Exposure*	*Actual Deaths*	*Expected Deaths (S.A., f-1)*	*Ratio A/E*	*Life Years of Exposure*	*Actual Deaths*	*Expected Deaths (S.A., f-1)*	*Ratio A/E*	*Expected Deaths (A.A., f.)*	*Ratio A/E*
50 and Under	356.0	3	1.127	266.19%	4,258.5	5	13.090	38.20%	6.054	82.59%
51- 55	198.5	2	1.516	131.93	1,560.0	5	11.674	42.83	6.080	82.24
56- 60	331.5	1	3.633	27.53	1,928.0	21	21.139	99.34	11.573	181.46
61- 65	439.5	2	7.039	28.41	2,593.5	32	41.426	77.25	25.694	124.54
66- 70	685.0	14	15.989	87.56	3,462.5	70	80.673	86.77	58.404	119.85
71- 75	965.0	40	32.540	122.93	3,968.5	122	133.473	91.40	107.829	113.14
76- 80	1,256.5	89	61.372	145.02	4,584.5	220	223.644	98.37	195.839	112.34
81- 85	1,093.0	90	75.930	118.53	4,030.5	341	280.858	121.41	260.897	130.70
86- 90	504.0	70	50.107	139.70	2,402.5	272	237.071	114.73	230.336	118.09
91- 95	187.0	40	25.504	156.84	682.0	146	95.398	153.04	96.159	151.83
96-100	20.5	7	3.985	175.66	153.0	32	29.271	109.32	30.329	105.51
101-105	5.0	1	1.351	74.02	5.0	3	1.257	238.66	1.327	226.07
106-	—	—	—	—	—	—	—	—	—	—
Total	6,041.5	359	280.093	128.17%	29,628.5	1,269	1,168.974	108.56%	1,030.521	123.14%

SCHEDULE A(3)

GIFT ANNUITY MORTALITY STUDY

ALL LIVES

Age Group	July 1, 1947 Through June 30, 1952				January 1, 1954 Through December 31, 1958					
	Life Years of Exposure	*Actual Deaths*	*Expected Deaths (S.A., f-1)*	*Ratio A/E*	*Life Years of Exposure*	*Actual Deaths*	*Expected Deaths (S.A., f-1)*	*Ratio A/E*	*Expected Deaths (A.A., f.)*	*Ratio A/E*
50 and Under	1,159.0	4	4.060	98.52%	10,940.5	22	35.749	61.54%	16.716	131.61%
51- 55	874.5	5	6.645	75.24	5,343.0	26	40.238	64.62	20.970	123.99
56- 60	1,496.0	8	16.478	48.55	8,257.5	53	90.861	58.33	49.770	106.49
61- 65	2,311.5	21	37.177	56.49	12,058.5	106	193.020	54.92	119.819	88.47
66- 70	3,587.5	54	83.540	64.64	16,795.0	267	391.408	68.22	283.395	94.21
71- 75	4,672.0	134	158.059	84.78	19,002.5	483	639.078	75.58	516.284	93.55
76- 80	5,366.0	267	260.950	102.32	21,883.5	943	1,068.883	88.22	936.213	100.72
81- 85	4,384.0	341	304.326	112.05	19,585.5	1,390	1,366.013	101.76	1,269.100	109.53
86- 90	2,092.0	278	206.093	134.89	10,883.5	1,260	1,072.166	117.52	1,041.502	120.98
91- 95	629.0	117	87.196	134.18	3,479.5	650	484.426	134.18	488.059	133.18
96-100	121.5	32	23.361	136.98	732.0	170	142.085	119.65	147.388	115.34
101-105	25.5	3	7.020	42.74	104.0	34	28.030	121.30	29.542	115.09
106-	—	—	—	—	10.0	—	4.074	—	3.925	—
Total	26,718.5	1,264	1,194.905	105.78%	129,075.0	5,404	5,556.031	97.26%	4,922.683	109.78%

SCHEDULE B

GIFT ANNUITY MORTALITY STUDY

ACCESSIONS

JANUARY 1, 1954 THROUGH DECEMBER 31, 1958

Age Group	*Female Lives*	*Male Lives*	*Total*
50 and under	633	441	1,074
51-55	446	174	620
56-60	559	200	759
61-65	862	337	1,199
66-70	1,105	415	1,520
71-75	1,148	435	1,583
76-80	894	405	1,299
81-85	510	255	765
86-90	166	111	277
91-95	23	14	37
Total	6,346	2,787	9,133

SCHEDULE C

GIFT ANNUITY MORTALITY STUDY

ANNUITY RATES

Age	Present Uniform Rates	Rates Based on Recent Mortality		Age	Present Uniform Rates	Rates Based on Recent Mortality	
		Tabular	*Graded*			*Tabular*	*Graded*
	(*A*)	(*B*)	(*C*)		(*A*)	(*B*)	(*C*)
30	3.0%	3.3%	3.0%	55	4.2	4.0	4.0
31	3.0	3.3	3.0	56	4.3	4.1	4.1
32	3.0	3.3	3.0	57	4.3	4.1	4.1
33	3.0	3.4	3.0	58	4.4	4.2	4.2
34	3.0	3.4	3.0	59	4.5	4.2	4.2
35	3.0	3.4	3.0	60	4.5	4.3	4.3
36	3.1	3.4	3.1	61	4.6	4.4	4.4
37	3.2	3.4	3.2	62	4.7	4.5	4.5
38	3.3	3.5	3.3	63	4.8	4.5	4.5
39	3.4	3.5	3.4	64	4.9	4.6	4.6
40	3.5	3.5	3.5	65	5.0	4.7	4.7
41	3.6	3.5	3.5	66	5.1	4.8	4.8
42	3.6	3.5	3.5	67	5.2	4.9	4.9
43	3.7	3.6	3.6	68	5.3	5.1	5.1
44	3.7	3.6	3.6	69	5.4	5.2	5.2
45	3.7	3.6	3.6	70	5.5	5.3	5.3
46	3.8	3.6	3.6	71	5.7	5.5	5.5
47	3.8	3.7	3.7	72	5.8	5.6	5.6
48	3.9	3.7	3.7	73	6.0	5.8	5.8
49	3.9	3.8	3.8	74	6.1	5.9	5.9
50	3.9	3.8	3.8	75	6.3	6.1	6.1
51	4.0	3.8	3.8	76	6.5	6.3	6.3
52	4.0	3.9	3.9	77	6.7	6.5	6.5
53	4.1	3.9	3.9	78	6.9	6.8	6.8
54	4.1	4.0	4.0	79	7.1	7.0	7.0
				80	7.4	7.2	7.2

Column (*A*): 1937 Standard Annuity Mortality Table, female lives; ages rated as one year younger, modified at younger ages up to age 40, inclusive, limited to 7.4% at ages 80 and over.

Column (*B*): 1955 American Annuity Mortality Table, female lives; tabular rates, not graded.

Column (*C*): 1955 American Annuity Mortality Table, female lives; modified at younger ages up to age 40, inclusive, limited to 7.2% at ages 80 and over.

GIFT ANNUITY MORTALITY STUDY

LIST OF ORGANIZATIONS WHOSE DATA WERE INCLUDED IN STUDY

Number of Lives: Living 12-31-58	Number of Lives: Deceased 1-1-54 to 12-31-58	Name of Organization
13	0	American Advent Mission Society, Inc.
		American Baptist Convention—
34	12	Board of Education and Publication
402	125	Foreign Mission Society
263	93	Home Mission Society
355	137	Ministers and Missionaries Benefit Board
204	67	Woman's Foreign Mission Society
139	61	Woman's Home Mission Society
9,236	1,493	American Bible Society
383	98	American Board of Commissioners for Foreign Missions
450	61	American Leprosy Missions, Inc.
94	11	American Lutheran Church
86	34	American Sunday-School Union
177	45	American Tract Society, Inc.
143	19	Assemblies of God—General Council
111	7	Augustana Evangelical Lutheran Church—Foundation
3	0	Baptist Foundation of South Carolina, Inc.
33	7	Bethel College and Seminary
12	6	Bethesda Hospital and Deaconess Association
39	1	Biblical Seminary in New York
191	43	Christian and Missionary Alliance
438	132	Church of the Brethren—General Brotherhood Board
133	19	Church of God—Board of Church Extension and Home Missions
296	88	Congregational and Christian Churches, Board of Home Missions
5	1	Dakota Wesleyan University
40	4	Denison University
8	1	DePauw University
89	19	Disciples of Christ—Pension Fund
111	19	Evangelical Lutheran Church—Abiding Memorial Foundation
115	28	Evangelical and Reformed Church—Board of International Missions
36	3	Glenmary Missioners
18	4	Goshen College
74	25	Illinois Wesleyan University
14	1	Iowa Methodist Hospital
5	0	Lutheran Old People's Home, Inc.
44	9	Massachusetts Society for the Prevention of Cruelty to Animals
8	4	Methodist Church— Board of Temperance
29	13	Conference Claimants' Endowment Board of the California Annual Conference
539	184	Division of National Missions of the Board of Missions
1,042	253	Division of World Missions of the Board of Missions
16	8	Methodist Home for Aged

GIFT ANNUITY MORTALITY STUDY

LIST OF ORGANIZATIONS WHOSE DATA WERE INCLUDED IN STUDY
(*continued*)

Number of Lives Living 12-31-58	Deceased 1-1-54 to 12-31-58	*Name of Organization*
12	4	New York East Annual Conference
81	18	North Iowa Conference Pensions, Inc.
9	3	Preachers Aid Society, Inc. North Indiana Annual Conference
70	20	Midway Junior College
4,805	926	Moody Bible Institute
133	48	National Woman's Christian Temperance Union
8	0	Nebraska Methodist Hospital
179	53	New York Bible Society
50	14	North American Baptists, Inc.
46	7	Northwestern University
20	3	Oberlin College
36	6	Ohio Wesleyan University
38	4	Pacific Homes Corporation
75	10	Philadelphia College of Bible
35	3	Pocket Testament League, Inc.
63	16	Pomona College
		Presbyterian Church in the United States—
71	21	Board of Annuities and Relief
58	7	Board of Church Extension
4	1	Foundation
80	11	Princeton Theological Seminary
642	116	Salvation Army
119	23	Southern Baptist Convention—Relief and Annuity Board
1,006	123	Society for the Propagation of the Faith
16	1	South Dakota Methodist Foundation
9	5	Southern Baptist Theological Seminary
1	0	Southern Methodist University
379	85	United Church of Canada
419	104	United Christian Missionary Society
		United Lutheran Church in America—
38	110	Board of Pensions
27	4	Foundation
21	5	United Theological Seminary
7	1	University of Redlands
		United Presbyterian Church in the United States of America—
343	49	Board of Christian Education
1,424	197	Commission on Ecumenical Mission and Relations
13	0	Foundation
1,201	215	Presbyterian National Missions
198	25	Vassar College
19	7	William Jennings Bryan College
27	7	Wittenberg University
70	17	World Gospel Mission
27,280	5,404	TOTAL

Appendix to the Report on the Mortality Experience Studies

The Report on the Mortality Experience Studies brings out clearly the adverse mortality experience of the five-year period under study as contrasted with the experience shown by the 1952 studies. Therefore, in any annuity rates adopted, this adverse experience should be kept in mind and also provision should be made for future lengthening of life among annuitants.

On the other hand, the experience as to the return on invested funds has been very favorable in recent years and apparently this favorable experience may continue for some time. The question, therefore, is whether or not the favorable investment earnings experience should be taken into account in determining uniform annuity rates for use in the future.

In Schedule C of the Report are shown annuity rates based on the 1955 American Annuity Table with interest at 3% (Column C). In the Exhibit herewith, these 3% rates, as well as the present uniform annuity rates, are shown at specimen ages. Also are shown for comparison, rates based on the 1955 American Annuity Table, with interest at 3¼% and 3½%. It will be noted that the 3% rates are lower than the present uniform rates while the 3¼% rates are approximately the present uniform rates and the 3½% rates are higher.

If the present uniform annuity rates are continued in use, it will mean that part of the excess interest earnings over 3%, approximately ¼% will be required to offset the adverse mortality experience. However, excess investment earnings over the 3¼% will inure to the benefit of the issuing organization.

In the supervisory laws of the State of New York, Section 45, "Charitable annuity societies exempt.", there are included the following provisions:

Subsection 1. ". . . . . . Every such corporation or association shall, before making any such agreement, file with the superintendent copies of its forms of agreements with annuitants and a schedule of its maximum rates, which shall be so computed, on the basis of the annuity standard adopted by it for the calculation of its reserves, as to return to such corporation or association upon the death of the annuitant a residue at least equal to one-half the original gift or other consideration for such annuity."

Subsection 2. "Every such domestic corporation or association shall have and maintain admitted assets at least equal to the sum of the reserves

on its outstanding agreements, calculated in accordance with section two hundred five of this chapter, and a surplus of ten per centum of such reserve or the amount of one hundred thousand dollars, whichever is the higher."

In Section 205, "Valuation of life insurance policies and annuity contracts", there is included the provision:

Subsection 3. (*a*) "The minimum standard for the valuation of all such policies and contracts shall be the commissioners reserve valuation method defined in paragraph (b), *three per cent interest* and the following tables:"

. . . .

(iii) "For annuity and pure endowment contracts, excluding any disability and accidental death benefits in such policies, and excluding annuities involving life contingencies provided or available under optional modes of settlement in life insurance policies or annuity contracts, the 1937 Standard Annuity Mortality Table."

It is our interpretation of the above provisions, that the maximum annuity rates of New York would be based on the 1937 Standard Annuity Mortality Table, with interest at 3% per annum, with a 50% residuum, and with no deduction for expenses, such as the 5% expense allowance in the existing uniform rates. It is on this basis that the "New York Maximum Rates" in the attached exhibit were calculated.

If a mortality table other than the 1937 Standard Annuity Mortality Table, such as the 1955 American Annuity Table and/or a rate of interest other than 3% were adopted for gift annuity rates and reserves, such mortality table and interest rate would become the basis for determining the maximum rates under the New York supervisory laws, provided such a basis produced lower maximum rates than under the 1937 Standard Annuity Mortality Table and interest at 3%. An assumed rate of interest materially higher than 3% might produce rates in excess of the rates calculated in accordance with the latter table and interest assumption.

COMPARISON OF ANNUITY RATES

Age	*Present Uniform Rates*	*Rates Based on Recent Mortality*			*New York Maximum Rates***
		*3%**	*3¼%*	*3½%*	
45	3.7%	3.6%	3.8%	4.0%	4.0%
50	3.9	3.8	4.0	4.2	4.3
55	4.2	4.0	4.2	4.4	4.6
60	4.5	4.3	4.5	4.7	4.9
65	5.0	4.7	4.9	5.1	5.5
70	5.5	5.3	5.5	5.7	6.1
75	6.3	6.1	6.3	6.5	7.0

*Rates shown in Column (C) of SCHEDULE C of the Report on the Mortality Experience Studies.

**Based on 1937 Standard Annuity Table, female ages, interest at 3%, 50% residuum, semi-annual installments and with no deduction for expenses.

STATE REGULATION OF GIFT ANNUITY FUNDS

DR. GILBERT DARLINGTON

Investment Officer, American Bible Society

I. The Need for a Sound Legal Basis to Issue Gift Annuities

Before a religious, charitable, or educational corporation, association, or society can accept gifts on the annuity basis, it must have some legal existence in the native state in which it operates. This may be by incorporation or by some other legal form of existence approved by the laws of that state or of the District of Columbia, Canal Zone, or Puerto Rico. It must also be sure that it complies with the insurance laws of its native state and with those of every state in which it receives annuity gifts by having personal or corporate representatives there to negotiate the gift, receive the gift, and/or deliver its gift annuity agreements.

Many states have little if any legislation about this. Others have complete and complicated legislation. Be sure to have competent legal and actuarial advice on the regulations of the state where your organization is domiciled and of all other states in which you are doing business by personal contact with the donor of any annuity gift.

The need for a sound legal basis for gift annuities is that as the amount of the annuity is guaranteed for the lifetime of one or two persons, your organization is guaranteeing or insuring to the annuitants that the annuities due will be paid promptly and without failure as they come due.

If you do not have a sound legal right to issue the annuities, it may be claimed by legal guardians, executors, relatives of the donor, or the legal representatives of other states than your own, that as you have no legal right to issue the annuity, the principal parted with by the donor must be returned.

Suppose a donor of 70 years becomes incompetent at 71 years of age. Her guardian may demand back the whole principal of the gift annuity on the basis: (1) that she was not competent to make such a principal gift and (2) that your organization had no legal right to accept it.

In 1931 and 1932 Mr. Jacob W. Dickel of Washington, D.C., who was born on February 21, 1848, made the American Bible

Society annuity gifts totaling $27,000 when he was 84 years of age. Mr. Dickel was quite eccentric and lived in a house in Washington that he owned up to the time of his death on May 23, 1933 after a short illness. His son, Mr. E. W. Dickel, in May 1934 claimed that his father was not competent to make this gift. It was also claimed that the Society had no right to issue annuities in New York State and that it had no right to issue annuities in the District of Columbia. An action having been started against the Society by the Ancillary Administrator of the goods, chattels, and credits of Jacob W. Dickel, the case was scheduled to come up in a Special Term, Part 3 of the Supreme Court in Brooklyn in November 1936. For several weeks accountants and attorneys examined the books and records of the Society concerning its Annuity Fund and correspondence with Jacob W. Dickel. Rather than have the case come to trial, the Society on April 27, 1936 approved of settling the suit for a small cash payment. Had the Society at that time had a permit to issue annuities in New York State, it is posible this litigation would not have occurred.

If a donor in Pennsylvania draws a will in which provision is made to make a gift on the gift annuity basis to some dependent or friend, the judge of the Orphans' Court may refuse to allow the bequest to be paid until he is legally sure that (1) the organization receiving the gift is legally qualified to accept it, and (2) it has set aside reserves sufficient to make the payments when due. Relatives who will benefit financially if such a gift is returned to the estate of the donor may demand its return, or if it is by will may oppose the making of the bequest if there is a chance that they will be upheld by the courts.

Take the case of Mrs. Louise H. Thomas of Pennsylvania in 1953-55. Her will provided that the residue of her estate was to be divided by her executor into three equal parts for three annuities to be issued by: (1) American Bible Society, (2) Board of National Missions of the Presbyterian Church of the U. S. in America, and (3) Board of Missions and Church Extension of the Methodist Church in favor of her son who resided in Texas.

The President Judge of the Orphans' Court did everything he could to stop the issuance of these annuities. He set a hearing date June 15, 1954 in the Courthouse, claiming that the will did not provide for the holding of each one-third share by a trustee or for the ultimate payment to the remaindermen, indicating that the result might be a

lapsed legacy. Later he suggested that a compromise be agreed to with two-thirds of the residue paid in cash to the son and the remaining one-third divided among the three New York State beneficiaries.

As a result, local counsel had to be retained and copies of the permits of the Insurance Department of New York supplied to the court. It was not until April 27, 1955 that the judge ruled that the annuities could be paid by the executor. Each one-third interest was $940.26, and the American Bible Society's share of the legal expense was $125. Without a sound legal basis in New York State we could not have convinced this judge.

You can help your Committee on Gift Annuities if you will keep us informed of any legal decisions or changes in the laws of your state covering gift annuities. This covers rates permitted, reserve investments, terminology, accounting, mortality tables used, and so on. It seems wise not to stir these matters up locally with the authorities without consulting first with the Committee. There may be other organizations that are also concerned with the same problems and have already been in touch with the Committee.

II. New York State Regulation of Gift Annuity Funds

The first conference on annuity agreements of charitable organizations was held in New York April 29, 1927 by a Sub-Committee on Annuities of the Committee on Financial and Fiduciary Matters of the Federal Council of the Churches of Christ in America. This Sub-Committee on Annuities was appointed in March 1927, and I quote the resolution as follows:

> "To study and recommend the proper range of rates, the form of contracts, the amount and type of reserve funds and the nomenclature to be used, to ascertain and advise as to the legislation in the United States and the various states regarding annuities, their taxability, etc."

Before the Sub-Committee was appointed, considerable work had been done in New York State to establish a more definite legal basis for the issuance of gift annuities. The early insurance laws of New York State made no reference to gift annuities of charitable, religious, or educational groups. The American Bible Society had been accepting gifts on an annuity basis for over 100 years. The amounts, however, were small and the annuity rates were about 5 percent, which is just about the amount that was paid on mortgages and other types of investments at that time. However in 1920 annuity agreements were

being written by several New York religious boards and agencies at rates of from 6 percent for annuitants of 30 years of age, to 10 percent for those aged 80 or older. Such rates were of course more than could be earned each year on the investment of the principal and so these gift annuities were very similar to the commercial annuities supervised by the Insurance Department of New York State.

In 1927 the legal basis upon which legacies, estate notes, life income agreements, paid-up life insurance policies, income from living trusts, etc. could be accepted and accounted for by religious, educational, and charitable organizations and associations was fairly well understood and the terminology and accounting procedure used was also reasonably clear, but this was not so with annuity gifts.

In advance of this formal action in 1927 appointing the new Sub-Committee on Annuities, Dr. George A. Huggins and I, with a few others including learned counsel, had secured the insertion of the following clause in the Insurance Law of New York State when it was amended in 1925:

> "The business of insurance within the meaning of this section shall include the issuance of all kinds of endowment policies and annuity contracts, except life insurance and annuity contracts issued by charitable, religious, missionary, educational, or philanthropic non-stock corporations conducted without profit where such corporation maintains a reserve fund to carry out such contracts at least equal to its contract liabilities, calculated in accordance with the provisions of Section 84 and 85 of this Chapter."

The reserves called for in the law were based on McClintock's Mortality Tables with interest at 4 percent. As long as such a reserve was maintained in securities suitable for the investment of funds of life insurance companies of the State of New York, the Superintendent of Insurance had no jurisdiction. If, however, the legal reserves were not kept, then the Superintendent of Insurance could intervene to protect the annuitants.

As Mr. Dubuar's excellent report indicates, the New York State Superintendent of Insurance found that the burden was placed upon him to verify whether proper reserves were set aside for gift annuitants. There was no easy means by which he could make this verification. He did not know the names of the exempt organizations, nor the amount and character of their assets. It was therefore decided to revise the Insurance Law of New York State and to follow California

in making each gift annuity organization apply for a special license or permit.

While this second revision of the Insurance Law of New York State was being considered, members of your Committee on Annuities cooperated with Professor Edwin Patterson of the Columbia Law School, who was chairman of the Revision Committee, and with the Joint Legislative Committee and with the department staff, including Mr. Charles C. Dubuar, in helping to write the new code.

At the Sixth Conference on Annuities on October 4th and 5th, 1939, Charles C. Dubuar, Principal Actuary of the Insurance Department of the State of New York, was present and explained its provisions and how to comply with them. A form of resolution to be used in order to comply with the new law and to secure a permit to accept and administer gift annuities, approved by a special meeting on October 19, 1939, was published in the minutes of the Sixth Conference.

His paper on the State Regulation of Gift Annuity Funds prepared for this Tenth Conference dealing with the experience of the Insurance Department of New York State under the new law from January 1, 1940, is very informative and complete when added to his paper at the Sixth Conference in 1939. The present paper shows the growth in the amount of assets and the number of the annuities in force from the end of 1941 to December 31, 1958 as follows:

			Annual Annuities in Force	
End Year	*Number of Active Societies*	*Total Assets in millions*	*Number*	*Amount*
1941	25	$24.3	19,927	$1,957,000
1950	25	28.8	28,382	2,014,000
1958	24	36.5	36,799	2,421,000

It also has some suggestions that are of value in improving the record in years to come. These are:

1. There should always be equality of treatment of annuitants purchasing contracts during the same period. No favoritism should be shown.
2. All board minutes or correspondence having to do with general policy matters or annuity fund operations, and complete information about the reserve data, should be in segregated form, ready for review.

3. A record of the advertisements that are used should also be available for review to see if proper terminology is used and that it is made plain that the principal of the annuity is an absolute and irrevocable gift.

We are much indebted to him for his generous help and regret that he could not be with us to present it in person.

The maximum gift annuity rates that are legal in New York State are determined by Section 45 of the Insurance Law that reads:

> "Every such corporation or association shall, before making any such agreement, file with the superintendent copies of its forms of agreements with annuitants and a schedule of its maximum annuity rates, which shall be so computed, on the basis of the annuity standard adopted by it for the calculation of its reserves, as to return to such corporation or association upon the death of the annuitant a residue at least equal to one-half the original gift or other consideration for such annuity."

Although if your organization has a permit to issue annuity gifts in New York, it may choose a different standard of valuation for its reserves than that called for in Section 205.3 (a) III, the standard chosen cannot provide lesser reserves than the minimum reserves required by Section 205.3 (a) III "the 1937 Standard Annuity Table" with interest at 3 percent.

Of the 24 non-profit organizations that hold gift annuity permits in New York, Mr. Dubuar reports that on December 31, 1958 over two-thirds of their reserves were based on the Standard Annuity Table at 3 percent which is the present legal standard.

$14,185,562	is on the 1937 Standard Annuity Table at 3%
2,282,849	is on the 1937 Standard Annuity Table at 2½%, ages set back 1 year, loaded 6½%
436,166	is on 1937 Standard Annuity Table at 2½%, male set back 2 years, female 3 years
655,192	is Combined Annuitants Table at 3%
2,999,095	is Combined Annuitants Table at 3½%
611,351	is Combined Annuitants Table at 4%
1,198,359	is Original principal of gifts
1,427,112	is standards not separated but grouped
$23,795,686	Total

III. California State Regulation of Gift Annuity Funds

In my paper on "Legislation and Taxation" at the first Conference on Gift Annuities, in 1927, I called attention to the Political Code of the State of California that provided that "charitable, religious, benevo-

lent, or educational societies, corporations, institutions or associations (pecuniary profit not being the object or purpose) must secure a permit or certificate of authority from the Insurance Commissioner of the State." "On granting such a permit or certificate the Commissioner shall require that a reserve fund be established and maintained, based on McClintock Table of Mortality among Annuitants with interest at 3½ percent." The 1925 law as amended provided that all those issuing gift annuities "shall file with the Insurance Commissioner a true and complete copy of each annuity agreement, giving the value of the property granted, the amount or amounts of annuity to be paid, and the manner and intervals at which such payments are to be made. Furthermore, it must show the value of the benefits granted which shall in no case exceed by more than 15 percent the net single premium for such benefit or benefits as determined in accordance with the standard of valuation prescribed. Each agreement must have written on it an endorsement giving the reasonably commensurate value in a form prescribed by the Insurance Commissioner."

The American Bible Society had maintained an office in California for many years. Although we did not, as a general policy, solicit annuity gifts or receive money by our personal representatives for annuities in California, we decided to secure a Certificate of Authority because at that time our legal authority in New York might have been questioned in California. This Certificate of Authority was issued October 19, 1925 under Section 596 of the Political Code of the State of California and cost $10. We have since reported each three months all the annuity gifts that we have received from residents of California. The amounts received as these gifts come in by mail and the agreements themselves are forwarded through the mail. Each agreement has printed on it the statement of its reasonably commensurate value of the benefits granted as required by California law.

At the present time there are about 70 grant and annuity societies licensed in California under Sections 11520 to 11524 of the California Insurance Code. The valuation standard since January 1, 1950 is the 1937 Standard Annuity Table at 2½ percent. The Insurance Commissioner has authority to prescribe other valuation standards but as yet no action has been taken. The present law in California is as follows:

CALIFORNIA INSURANCE CODE SECTIONS

11520 to 11524, Inclusive

11520. The following organizations and persons may receive transfers of property, conditioned upon their agreement to pay an annuity to the transferor or his nominee, after obtaining from the commissioner a certificate of authority so to do:

(a) Any charitable, religious, benevolent or educational organization, pecuniary profit not being its object or purpose, after being in active operation for at least 10 years;

(b) Every organization or person maintaining homes for the aged for pecuniary profit.

The provisions of this section shall not apply to organizations subject to and operating under Chapter 3, Division 3, of the Welfare and Institutions Code.

11521. Upon granting to such organization or person a certificate of authority to receive such transfers, the commissioner shall require it to establish and maintain a reserve fund adequate to meet the future payments under its outstanding annuity contracts and in any event not less than an amount computed as follows:

(a) In case of annuities payable under agreements made prior to January 1, 1950, in accordance with the standard of valuation based upon McClintock's table of mortality among annuitants, with interest assumption at 3½ percent per annum.

(b) In the case of annuities payable under agreements made on and after January 1, 1950, in accordance with the standard of valuation based upon the 1937 Standard Annuity Table, with interest assumption at 2½ percent per annum, or other table of mortality derived from recent annuity experience, with interest assumption not higher than is currently yielded on safe securities, as may be prescribed by the commissioner.

For any failure on its part to establish and maintain such reserve fund, the commissioner shall revoke its certificate of authority.

11522. Every organization or person holding a certificate of authority to receive transfers under this chapter, shall file with the commissioner a copy of each agreement entered into between such permit or certificate holder and the transferor.

11523. Such annuity agreement must show:

(a) The value of the property transferred.

(b) The amount of annuity agreed to be paid to the transferor or his nominee.

(c) The manner in which, and the intervals at which, such annuity is to be paid.

(d) The age, in years, at or nearest the date of such agreement, of the person during whose life the annuity is to be paid.

(e) The reasonably commensurate value, as of the date of such agreement, of the benefits thereby created. This value shall not exceed by more than 15 percent the net single premium for such benefits, determined in accordance with that standard of valuation set forth in subdivision (a) or (b) of Section 11521 which is applicable to such agreement as the minimum standard of valuation.

11524. Except as prescribed in this chapter, such organization or person shall be otherwise exempt from the provisions of this code and other insurance laws of this State, except the provisions of Sections 730 to 737, Section 1011, Sections 1012 to 1044, and Sections 1056.5 to 1061. The cost and expense of examining such organization or person shall be paid as prescribed in Section 736.

IV. Replies to Questionnaire on State Legislation

Seventy-two replies were received from twenty-two different states, the District of Columbia, and one from Canada, to the questionnaire concerning state legislation of gift annuities. One reply was received from each state except as otherwise noted.

> California (4), District of Columbia, Florida, Georgia, Illinois (8), Indiana (6), Iowa, Kentucky (3), Michigan (4), Minnesota (2), Missouri (2), Nebraska, New Hampshire, New York (18), North Carolina (3), Ohio (5), Pennsylvania (4), Rhode Island, South Dakota, Tennessee, Texas, Virginia, Wisconsin.

New York State seems to have the most complete and comprehensive supervision of gift annuities. California also has specific legislation dealing with gift annuities, as is shown earlier in my report. Gift annuities are not directly mentioned or referred to except in the insurance laws of New York and California. New York provides for a Permit and California for a Certificate of Authority if the conditions laid down in the law are met. In other states, where there is no positive legislation dealing with gift annuities as a group, it may be

possible to get authority by a special act of the legislature to accept, invest, and administer gift annuities.

Twenty-six of the replies to the questionnaire, which came from 16 different states, indicated that they considered that their organizations had special authority in their charters to accept, invest, and administer annuity gifts. As, however, they did not give the clause, it is not certain that gift annuities were specifically mentioned in each charter along with the right to accept other "gifts." Six of these 26 were in New York State, but all of these now have permits from the Superintendant of Insurance of New York State and report to him fully each year. Evidently they did not consider that the clauses referred to in their charters were a complete and final answer to their needs.

The following information from the states of Illinois, Ohio, and Pennsylvania is of interest for charitable organizations issuing gift annuities in those states:

STATE OF ILLINOIS
WILLIAM G. STRATTON
Governor

DEPARTMENT OF INSURANCE

JOSEPH S. GERBER
Director

SPRINGFIELD
November 18, 1959

F. VERNON ROSENTHAL
Assistant Director
JAMES W. ROSS
Chief Deputy

Mr. Gilbert Darlington
Honorary Chairman
Committee on Gift Annuities
450 Park Avenue
New York 22, New York

Dear Mr. Darlington:

I have your letter of November 13, addressed to Mr. Joseph S. Gerber, Director of Insurance of the State of Illinois, regarding the question of gift annuities.

We have no law on the Illinois statute regarding this question. Consequently, I cannot give you a comprehensive answer to your communication.

Annuities provided by religious, educational and charitable organizations have been considered as not coming under the control

of the Illinois Department of Insurance providing such organizations do not use an insurance company as a vehicle for the distribution of such annuities.

I do know that the statutes of some states do place the control of such annuities under the supervision of their respective insurance departments.

(Signed)

Very truly yours,
James W. Ross
Chief Deputy

MICHAEL V. DISALLE
Governor

EDWARD A. STOWELL
Superintendent of Insurance

STATE OF OHIO
DEPARTMENT OF INSURANCE

115 East Rich Street

Columbus 15

November 19, 1959

Mr. Gilbert Darlington
Honorary Chairman
Committee on Gift Annuities
450 Park Avenue
New York 22, New York

Dear Mr. Darlington:

In reply to your letter of November 13, please be advised that Chapter 3915 of the Ohio statutes outlines the standard provisions and standard prohibitions to be included in contracts issued by a life insurance company. However, Section 3915.02 exempts annuities from the provisions of this chapter. Therefore, this Department has no measuring stick under which to file annuities and therefore annuities are exempt from the supervision of this Department.

We have no copies of the Insurance Laws of Ohio available for distribution but the same may be purchased from the W. H. Anderson Company, 50 Main Street, Cincinnati, Ohio. The price is $7.50.

In light of the exemption outlined above, there would be no re-

quirements regarding the reserves and rates for such annuities provided in the statutes of Ohio.

(Signed)

Your very truly,
Edward A. Stowell
Superintendent of Insurance

COMMONWEALTH OF PENNSYLVANIA
INSURANCE DEPARTMENT
HARRISBURG

November 24, 1959

Mr. Gilbert Darlington
450 Park Avenue
New York 22, New York

Dear Mr. Darlington:

Your letter of November 13, 1959, relative to gift annuities and variable annuities, is herewith acknowledged.

Insurance activities in Pennsylvania are governed basically by two separate Acts, the Insurance Department Act, being the Act of May 17, 1921, P. L. 789, and the Insurance Company Law, being the Act of May 17, 1921, P. L. 682.

Section 103 of the Insurance Department Act, 40 P. S., Section 23, provides that the provisions of the Insurance Department Act, as a general rule, shall not apply to "fraternal benefit societies, orders, or associations conducted not for profit, and having a lodge system with ritualistic form of work and representative form of government, or to beneficial or relief associations conducted not for profit formed by churches, societies, classes, firms, or corporations, with or without ritualistic form of work, the privilege of membership in which are confined to the members of such churches, societies, or classes, and to members and employes of such firms or corporations."

Section 105 of the Insurance Company Law, 40 P. S., Section 365, provides that the Insurance Company Act shall not apply to "assessment associations or to fraternal benefit societies, orders, or associations, having a lodge system with ritualistic form of work and representative form of government; or to beneficial and relief associations

formed by churches, societies, copartnerships, associations, or corporations, with or without ritualistic form of work, the privileges and membership in which are confined to the members of such churches, societies, and to members and employes of such copartnerships, associations, or corporations."

In view of the above Sections of the Insurance Statutes in Pennsylvania, it is clear that the Insurance Department has no jurisdiction over gift annuities issued by religious, educational, and charitable organizations within our State. In view of the fact that we have no control over same, we have no knowledge whether or not any colleges, etc. are issuing gift annuities in this State.

There is no legislation whatsoever dealing with variable annuities in Pennsylvania.

I trust the above is in response to your inquiry.

(Signed)

Very truly yours,
Francis R. Smith
Insurance Commissioner

Your Committee on Gift Annuities should be prepared to make it clear to any states that do not now regulate gift annuities, that an immediate single premium non-refundable gift annuity is not a negotiable investment. It has no cash surrender value, cannot be sold or used as collateral, and cannot be transferred.

If the Insurance Department of any state does not claim jurisdiction over it, this should not open the door to the Security Exchange Commission or to any other agency of the federal or state governments. If any such attempt is made, please inform the Committee on Gift Annuities at once. As gift annuities guarantee the payment of a sum certain during the lifetime of the annuitant and as the rates, especially in the higher ages, are more than can be safely earned by current investments, there is good reason why some states may wish their Insurance Department to make sure that sound actuarial and financial experience and correct legal language is used in the rates offered, investments made, and publicity and promotion used. The Insurance Departments of the states have the knowledge and experience to safeguard the public in these matters. The Committee on Gift Annuities seeks by self regulation of its members to make state regulation un-

necessary by the Insurance Departments of additional states, but any attempt by other agencies of the states or federal government should in my judgment be vigorously opposed by your Committee. Please keep the Committee informed.

V. Proposed Changes in State Legislation

A. New Mortality Tables

At the very time of our meeting in New York, the American Life Convention, and the Life Insurance Association of America were presenting to the National Association of Insurance Commissioners of the fifty states at a meeting in Miami Beach, Florida, five changes that they would like to have made in the insurance laws of the different states. The first of these changes is as follows, the other four changes do not directly affect gift annuities.

1) Standard Valuation Law—New Minimum Standards for Annuity and Pure Endowment Contracts.

   The Standard Valuation Law prescribes a single table, the 1937 *Standard Annuity Mortality Table,* as a minimum valuation standard for annuity and pure endowment contracts. We recommend that alternate tables be permitted as minimum standards at the option of the company. For individual annuity and pure endowment contracts the alternate tables recommended are the Annuity Mortality Table for 1949, Ultimate, any modification of either this table or the 1937 Standard Annuity Mortality Table approved by the commissioner, or any other table approved by the commissioner. For group annuity and pure endowment contracts the alternate tables recommended are those for individual annuity and pure endowment contracts and also the group Annuity Mortality Table for 1951 and any modification of it approved by the commissioner.

Since the publication of the 1937 Standard Annuity Mortality Table the mortality of annuitants has appreciably improved and several studies have been made of recent annuitant mortality. Several new tables resulting from such studies have been published in the Transactions of the Society of Actuaries. The most important of these are the Annuity Mortality Table for 1949 and the Group Annuity Mor-

tality Table for 1951. The paper in which this table was presented also covered *methods of projecting mortality* rates to allow for future improvement in annuitant mortality.

Many companies are using the new annuity mortality tables for valuation purposes because they reflect current annuitant mortality better than the minimum statutory standard. Companies are also allowing to an increasing degree for improvement in mortality through the *introduction of projection factors in calculating reserves.* Ages are also being rated forward as well as back to accord with different times of purchase. The 1937 Standard Annuity Table continues to be used, however, by many companies, in part because it is the statutory standard and in part because the mortality rates at the important higher ages have proved to be conservative even though the general curve of mortality rates is not as representative of current annuitant mortality as the newer tables.

As annuity business has developed the specification of the 1937 Standard Annuity Table as the only statutory standard has created awkward problems of demonstrating compliance with the standard *because of the necessity for demonstrating that the newer, well-recognized tables produce reserve levels that are at least equal to the mimimum.* Flexibility in the type of table permitted for the determination of annuity reserves appears highly desirable *in view of the different types of annuity and the varying times annuities* will actually become effective under contracts being presently written.

In order to give recognition to the new mortality tables and the current practices allowing for mortality improvement, we therefore recommend that:

1. both the 1937 Standard Annuity Mortality Table and the Annuity Mortality Table for 1949, Ultimate, be made minimum valuation standards for individual or group contracts;
2. the Group Annuity Mortality Table for 1951 be also made a minimum standard for group contracts; and
3. any other table or any modification of the three prescribed tables which is approved by the commissioner be also permitted as a minimum standard.

The three recommended prescribed tables have wide actuarial recognition. In view of the variety of tables currently in actual use,

we believe that modification of these tables or other tables should also be permitted. The requirement of approval by the commissioner should serve to prevent the use of any table which is *unsatisfactory for the type of annuity being valued.*

Dr. George A. Huggins has recommended the use of the experience of 18 large life insurance companies covering their individual, immediate, non-refund annuities as reported in the *Transactions of the Society of Actuaries,* May 1955, as the basis for our gift annuity rates. This study is based on the experience of 1,032,830 contract years and $304,412,536 income years of exposure for the years 1948 to 1953. I am informed that the next five years, 1953-58, will be available after January 1, 1960 for study by our Committee. It will be interesting to see how this experience compares with the a-1949 Annuity Table with various projections to and after 1960 and with the experience of our own group that Dr. Huggins has so carefully assembled for us.

It will be a great step forward if immediate non-refund single premium gift annuities can be valued on a life experience table that is as close as possible to our own experience. The cost of working out such a table with various rates of interest as well as for valuation for Federal Income Tax purposes is quite substantial. Dr. Huggins was able to make use of the tables calculated at 3 percent interest by the Provident Mutual Life Insurance Company of Pennsylvania for the experience that he calls the "1955 American Annuity Table." For the interest rates at 3¼% and 3½%, Huggins & Co. had to work out the values for the sample eight years that were given.

It is evident that there are great differences between various types of annuities. In the *Life Insurance Fact Book for* 1959, copies of which were so generously supplied by the Institute of Life Insurance of New York, there is listed on page 34 the annuities in force each year from 1935 to 1958 for (1) Individual Annuities, (2) Group Annuities, (3) Supplementary Agreements. Group annuities are written in connection with pension plans. There may be an accumulation of annual payments on a pension for thirty years before the annuity goes into effect. The same is true of Supplementary Agreements for life insurance policies, the annuity part of which may not go into effect for as much as 60 to 70 years. Naturally, the insurance companies' problems on these annuities is very different from those on immediate single premium non-refund gift annuities.

The September 1959 issue of *The Tally of Life Insurance Statistics* published by the Institute of Life Insurance in New York gives interesting information on the annuities in force of United States Life Insurance companies by the age of the annuitants in 1958. Here again we have the division into (1) Individual Annuities, (2) Group Annuities, and (3) Supplementary Agreements.

ANNUITIES IN FORCE BY AGE OF ANNUITANT 1958

U. S. LIFE INSURANCE COMPANIES

	Age of Annuitant	*Individual Annuities* Contracts	*Individual Annuities* Annual Income	*Group Annuities* Certificates	*Group Annuities* Annual Income	*Supplementary Agreements* Contracts	*Supplementary Agreements* Annual Income	*Total* Number	*Total* Annual Income
				TOTALS (000 Omitted)					
ANNUITIES WITH INCOME NOW PAYABLE	Under 65 Years ...	77	$ 33,000	88	$ 50,000	136	$63,000	301	$146,000
	65 Years or Over ..	374	143,000	331	214,000	181	94,000	886	451,000
	Total	451	$176,000	419	$264,000	317	$157,000	1,187	$597,000
				PERCENTAGE DISTRIBUTION					
	Under 65 Years ...	17%	19%	21%	19%	43%	40%	25%	24%
	65 Years or Over ..	83	81	79	81	57	60	75	76
	Total	100%	100%	100%	100%	100%	100%	100%	100%
				TOTALS (000 Omitted)					
TOTAL ANNUITIES OUTSTANDING*	Under 65 Years ...	728	$398,000	3,809	$1,380,000	164	$ 77,000	4,701	$1,855,000
	65 Years or Over ..	485	188,000	377	225,000	226	120,000	1,088	533,000
	Total	1,213	$586,000	4,186	$1,605,000	390	$197,000	5,789	$2,388,000
				PERCENTAGE DISTRIBUTION					
	Under 65 Years ...	60%	68%	91%	86%	42%	39%	81%	78%
	65 Years or Over ..	40	32	9	14	58	61	19	22
	Total	100%	100%	100%	100%	100%	100%	100%	100%

*Total annuities include annuities on which income is now payable.

Source: Institute of Life Insurance. Figures are based on reports from a representative sample of companies having over 50% of the business in each category.

Of a total of 5.8 million annuity contracts and certificates in force with U. S. life companies at the end of 1958, 1.2 million were currently paying out income, with annual income to annuitants of $597 million.

Estimates based on a recent survey indicate that just over three-fourths of this amount, or $451 million annually, was payable as income to persons aged 65 years or over. When the three types of annuities are considered individually, the survey reveals that payments to persons of 65 or over made up 81% of income currently payable under both individually purchased annuities and under group annuity certificates. In the case of supplementary agreements, where annuity settlements were chosen for life insurance policy proceeds, the older age group accounted for 60% of income payable.

Under the total of 5.8 million annuity contracts and certificates outstanding at the close of 1958, including deferred annuities as well as those on which income was currently payable, life companies guaranteed annual income of $2.4 billion. Persons under 65 years of age accounted for about four-fifths of all annuities in force and for almost the same proportion of the annual income provided under them. The age distribution of annuitants varied considerably, however, with the type of annuity. The vast majority of group annuity certificates, 91%, and the greater proportion of individually purchased annuities, 60%, were owned by persons under 65. Persons of 65 or over, on the other hand, had the greatest number of supplementary agreements in force, specifically, 58%.

The figures evidence the increasingly significant role of the group annuity in providing retirement income. Whereas group annuities accounted for 44% of annual income currently payable by the companies as of year-end 1958, these represented 67% of total annual income provided by all annuities in force.

VI. Proposed Changes in Interest Rates

In New York State the present reserve valuation interest rate for annuities is 3 percent. At the forthcoming session of the New York legislature I am informed that a request will be made to raise the rate to 3½ percent. In that event, it would be the same as that used in most of the other states that have such legislation. On page 59 of the *Fact Book* of the Institute of Life Insurance is shown from 1915

through 1958 the gross interest earned by United States life insurance companies, ranging from over 5 percent in 1921-1930 to less than 3 percent in 1946-1948, and rising to 3.85 in 1958.

During the same period the mortality tables and rates of interest that have been the legal reserve valuation basis in New York State have shown considerable changes. These vary from 4 percent interest with McClintock's Mortality Table prior to 1931, 4 percent with the Combined Annuity Table (1931-1939), to 3½ percent with the Combined Annuity Table age set back one year, (1940-1947), and to 3 percent on the Standard Annuity Table 1948 and subsequently.

Now that five-year Government bonds are yielding almost 5 percent, United States life insurance companies that are using a 2 percent or a 2½ percent interest rate in figuring their single premium immediate life annuities, non-refund type, are probably not issuing many such annuities for people under sixty years of age.

The Life Insurance Companies' *Fact Book* for 1959, page 34, shows that in 1950 the United States life insurance companies had 1,235,000 individual annuities in force with a total annual payment to the annuitants of $585,000,000. On December 31, 1958, they had 1,213,000 individual annuities in force paying $586,000,000, a loss of 22,000 annuities and an increase in annual annuity payments of only $1,000,000.

In the meanwhile, group annuities increased from 2,210,000 in December 1950 with annual payments of $593,000,000 to 4,186,000 with annual payments of $1,605,000,000, an increase of almost 100 percent in number and 150 percent in annual amount. On the other hand, supplementary agreements have increased from 217,000 on December 31, 1950 paying $102,000,000 annually to 390,000 agreements paying $197,000,000 in 1958, or almost 100 percent.

There should be different rates of interest for immediate single premium annuities and for deferred annuities. Some life insurance companies have already raised their interest assumptions to 3¼ or 3½ percent on their group annuity rates. Many group annuity rates hold for five years only and then are followed by new rates dependent on current interests rates and projections of mortality experience at that time.

One reason given for a higher interest rate for group annuities is that the income on the accumulations of the pension is not taxable to

the life insurance company that receives it. This is also true of all of the income received by a charitable corporation on its gift annuity funds and should be brought to the attention of any Insurance Departments of states that regulate gift annuities and are considering new standards of interest rates and/or mortality tables.

Immediate single premium gift annuities should also have a higher rate of interest than commercial immediate single premium annuities because no income taxes are paid by the religious, educational, or charitable corporations on its income from the investments of its annuity funds. Those charities who have kept all or most of the gift value of their current annuities in annuity excess reserve funds have also been able to use wide discretion in investing in common stocks and other equities. These in recent years have generally increased greatly in value and in yield and have raised the annual income substantially on both legal reserve and free reserve annuity funds above the yield shown by commercial life insurance companies.

As new standards of valuation are adopted by various states, it is important that these differences be brought out so that too low a rate of interest will not be used in the standard of valuation of gift annuity rates with the result that gift annuity rates will have to be reduced to too low a level compared with the tax-free rates being earned on Gift Annuity Legal Reserves and Gift Annuity Reserve funds.

If the State of New York should adopt the a-1949 Table with projections and only a 3 percent interest rate, this will soon result in a lowering of the ceiling that has been set on gift annuity rates since they must provide to the charity a 50 percent residuum of the original gift.

These are most important matters to the whole gift annuity program. I am sure this conference will wish to express its judgment about them.

Too low a rate of interest for gift annuities will put them at a disadvantage with Life Income Agreements and Tax Exempt Life Income Agreements under present market conditions. As changes appear imminent in both the interest rates and mortality tables used by New York State and other states for their insurance company reserves, it is important that your Committee on Gift Annuities should be informed by its members of any changes that are proposed so that it can act promptly and carefully to see that the Insurance Departments

and state legislatures that are involved may be fully informed of the exact nature and facts about charitable gift annuities and their important place in the religious, charitable, educational, welfare, and character-forming agencies of the United States.

VII. Variable Annuities

In preparation for the Tenth Conference on Gift Annuities, it was learned that Mr. Charles C. Dubuar, Chief Actuary, Insurance Department, State of New York could not be at the Conference to present his paper. On October 19, 1959, therefore, I wrote him as follows:

> "Vassar College appears to be the only college in New York State that holds a permit from the Insurance Department. Do any other colleges in New York State issue annuities under paragraph 6 of Section 45? Does not this section exempt them from regulation if they issue variable annuities based upon common stock collateral?"

Subsection 6 of Section 45 of the insurance law of New York State reads as follows:

> "Every college, as defined in the education law, which within the meaning of subsection one agrees to pay an annuity otherwise than by the payment of sums certain, shall with respect to such agreements be exempt from this section and from all other provisions of the insurance law."

Mr. Dubuar stopped in at the Bible House in response to this letter and indicated that no variable annuities have been issued by New York State colleges so far under paragraph 6 of Section 45 of the Insurance Law of New York State. A copy of his paper on State Regulation of Annuity Funds for the Conference on Gift Annuities on December 1 and 2 at the Park Sheraton Hotel in New York and mailed to me on November 10, has the following statement on page 4:

> "Subsection 6 of Section 45 exempts a college from any statutory requirements which 'agrees to pay an annuity otherwise than by the payments of sums certain.' In other words, the amount of the annuity is limited to the actual returns on a specified investment or pool of investments. The Department construes this exemption as extending to any non-guaranteed annuity of this type whether issued by a college or by an educational, charitable, or religious organization holding a permit to issue annuities from the Insurance Department of New York State."

The door is therefore open in New York State for those who have such permits to take the lead in establishing Variable Gift Annuity Funds if they decide that it is desirable to do so. As Mr. Dubuar's paper also indicates, the College Retirement Equities Fund was incorporated in 1952 by special act of the legislature of New York

State. Its investments are solely in common stocks. Teachers are invited to purchase units in the Fund each year during their employment as teachers. When the teacher retires, his funds accumulated in CREF are converted into an annuity consisting of his accumulated units of the Fund from year to year. Each year thereafter he receives the market value for that year of some of the accumulated units dependent on his age at the time of conversion to an annuity and the mortality experience of the group for that year.

Although the Insurance Department of New York has limited supervision of this Fund, no risk is assumed by the Fund as each year the units are valued on the basis of (1) market value, (2) dividends received, (3) mortality experience of the variable annuity group and (4) expenses for the past year. As the Fund was started in June 1952, the market value of each original $10 unit of 1952 is now $22.03 as of 1959.

Before deciding to issue Variable Gift Annuities, it is important to find out how a residue of 50 percent of the original gift can be assured to the charity issuing the variable annuity and at the same time the variable annuity can be made attractive to the donor and/or the annuitant.

1. Complicated actuarial and financial decisions will be necessary before any promotional leaflets can be printed.
2. The tax exempt refund of principal to the annuitant will have to be solved with the approval of the Federal and State Income Tax authorities.
3. If there is no accumulation period of unit purchases over several years, there is danger that the unit values may not appreciate substantially over the first five or ten years of investment.
4. As the Dow-Jones industrial average is now, on November 30, 1959 at 659.18, and as the yield is only 3.18 percent, while high quality bonds are yielding over 5 percent, it may be desirable not to limit the investments to 100 percent in common stocks, but to consider a diversified fund when common stock purchases appear unattractive.
5. A careful study of the decision of the United States Supreme Court on March 23, 1959 must be made. This ruled 5 to 4 that two life insurance companies organized in the

District of Columbia for the purpose of issuing Variable Annuity Contracts "must comply with the Securities Act of 1933 and the Investment Company Act of 1940 and register such contracts as securities with the Security Exchange Commission." An irrevocable non-refund annuity is not a negotiable security.

6. Because common stock prices have fluctuated so greatly in the past century, the Prudential Insurance Company of America has decided it will not sell variable annuities unless there has been a steady accumulation of the variable annuity units over a period of at least 15 years. This, it is believed, is the best way to make sure that the annuitant is not disappointed in the value of his annuity units when these variable accumulation units are converted into the market value of the annuity units each year. The Prudential appears ready to assume the risk of the expense and the dividend factors but not the mortality factor in the accumulation period.

It would seem wise for the Conference to encourage the Committee on Gift Annuities to study this matter for its members, and for the members to keep the Committee fully informed of any decisions or legislation in their own fields. Much hard work must be done before the newly opened door can be passed through with any confidence of real success.

STATE REGULATION OF GIFT ANNUITY FUNDS

CHARLES C. DUBUAR
Chief Actuary,
New York Insurance Department

I have limited the announced subject of this paper to the state regulation of gift annuity funds in New York. Supervision by our Department of gift annuity societies has been in effect since January 1, 1940, or almost exactly twenty years. My purpose is to comment briefly as to the developments occurring during this period, any problems which have arisen and a few related matters.

Prior to January 1, 1940 gift annuity societies were specifically exempted from the insurance law provided they held the same type of annuity reserves required of life insurance companies. While the responsibility rested on the Insurance Department to verify that such reserves were held, the Department did not receive any filed reports and actually had no means of identifying the number or names of gift annuity societies operating in New York. It was for this reason that the original law was enacted. It has been changed only once since that time, primarily to exempt smaller gift annuity societies with required reserves of less than $80,000 from the need of securing a permit. However, such smaller societies must not only hold the required reserve but a surplus of 25%. The amendment recognized that insurance averages cannot be expected to work out too satisfactorily in the case of a small society.

From the Department's viewpoint the law governing gift annuity societies has been somewhat of an experiment. It calls for only a limited degree of supervision and not the detailed supervision required of life insurance companies. For example, gift annuity societies file a condensed annual statement (numbering 15 pages) as compared to the detailed statement (numbering 42 pages) for life companies. Gift annuity societies are examined at 5-year intervals rather than 3-year intervals for domestic life companies. Gift annuity societies are not required to amortize their bonds and investments in excess of the required annuity reserves plus 10% surplus are not restricted. The main concern of the law has been the segregation of

assets and adequate safeguards as to such assets. The experience to date under the present law has been entirely satisfactory and no change in the present law is contemplated.

At the end of 1941 there were 25 societies to which a permit had been issued. At that time their total assets amounted to $24.3 million. At the end of 1958 or 17 years later, the number of active societies holding a permit had changed to 24, although their total assets had increased to $36.5 million, as shown by the comparative figures below:

End Year	Number of Active Societies	Total Assets (in millions)	Annual Annuities in Force	
			Number	Amount
1941	25	$24.3	19,927	$1,957,000
1950	25	28.8	28,382	2,014,000
1958	24	36.5	36,799	2,421,000

Incidentally, according to our records five societies during the 17-year period lost their identity by merger or consolidation; also, two societies are no longer active, although continuing to pay annuity benefits and carry out their trust agreement as regards the segregation of assets; also, one new active society was added in 1959.

As a matter of interest, the total gifts or original considerations received by authorized societies during the 17-year period totaled $50.2 million, while the benefits paid out to annuitants totaled $35.1 million.

In preparation of this table a review has been made of Departmental examination reports of gift annuity societies made during the past ten years and I have also talked with the examiner chiefly responsible for such reports. Only a relatively few questions have arisen such as the following:

1. In at least one instance the particular donor was receiving a guaranteed income considerably in excess of the rate schedules then in effect. The examiner felt that there should be equality of treatment between annuitants purchasing contracts during the same period.
2. In the examiner's opinion his examination can be considerably

expedited if relevant board minutes or correspondence having to do with general policy matters or annuity fund operations are in ready form for his review; likewise, if the reserve data is in ready form for verification.

3. In the examiner's opinion the society should maintain a record of its advertising for his review. His primary interest is whether improper terms are adopted, such as "investment return on the annuitant's investment" as compared to the proper description of "the annuity return on the annuity purchased." Any misunderstanding that the original consideration for the annuity must be retained by the society on the annuitant's death should be avoided.

Subsection 6 of Section 45 exempts a college from any statutory requirements which "agrees to pay an annuity otherwise than by the payments of sums certain." In other words, the amount of the annuity is limited to the actual returns on a specified investment or pool of investments.

The Department construes this exemption as extending to any non-guaranteed annuity of this type whether issued by a college; or by an educational, charitable, or religious organization holding a permit to issue annuities from the Insurance Department of New York State.

The acceptable minimum valuation standards under the law depend on the year of issue as follows:

Issue Years	*Table*
Prior to 1931	McClintock's 4% Tables
1931-1939	Combined Annuity 4% Tables
1940-1947	Combined Annuity 3½% Tables (1 year setback)
1948-subsequent	Standard Annuity 3% Tables.

While there is no obligation for any insurer to strengthen reserves calculated on older annuity tables, the life companies, as a matter of conservative practice, have generally strengthened reserves on most older annuity tables. Of course this action is entirely voluntary and not one required by law. As a matter of interest, figures

shown below compare various annuity tables to the Standard Annuity 3% Table:

Ratio of Monthly Annuity Values at Age 65 (Female) on Various Tables to the Standard Annuity 3%

Combined Annuity 4%	85.68%	82.46%	81.59%
Combined Annuity 3½%	89.68	85.81	84.42
Combined Annuity 3½% (1)	92.14	88.54	87.51
Combined Annuity 3% (1)	96.72	92.36	90.74
Standard Annuity 3%	100.00	100.00	100.00
Standard Annuity 3% (1)	105.77	102.90	103.31
Standard Annuity 2½% (1)	118.78	115.80	116.86

(1) Ages set back 1 year

Any paper on annuity problems should make some reference to the subject of variable annuities. With one exception, variable annuities may not be issued in New York by authorized insurers. The exception is that a company known as the College Retirement Equities Fund was incorporated in 1952 by a special act of the Legislature to be subject to limited supervision by the Insurance Department. The investments of the Fund are solely in common stocks. CREF acts as a companion company to the Teachers Insurance and Annuity Association, the stock of which is owned solely by the Carnegie Corporation, and which issues regular life insurance policies and annuity contracts insuring teachers.

At the time a teacher retires his funds accumulated in CREF are converted into a life income consisting of annuity units. The dollar amount of each annuity unit varies from year to year consistent with the (a) appreciation or depreciation in the market values of the Fund, which as stated is invested in common stocks, and (b) actual mortality of annuitants as compared to the expected mortality under the table used at the time of conversion in calculating the number of annuity units. At the time of the formation of CREF on July 1, 1952 the original annuity unit value was fixed at $10. In the case of a man aged 65 retiring on July 1, 1952 the subsequent CREF annuity unit value has varied as follows:

	Annuity Unit Value
1952	$10.00
1953-1954	9.46
1954-1955	10.74
1955-1956	14.11
1956-1957	18.51
1957-1958	16.88
1958-1959	16.71
1959-1960	22.03

It is contended by proponents of variable annuities that with proper selection of common stock investments such annuities may tend to offset any inflation in the cost of living.

In conclusion I welcome this opportunity of again stating that the experiment commenced 20 years ago of limited statutory supervision of gift annuity securities has worked out entirely satisfactorily from the Department's viewpoint. The substantial amounts of annuity funds involved have been adequately safeguarded and I believe that the prestige of the gift annuity societies has thereby been enhanced.

TAXATION OF GIFT ANNUITIES

MR. SYDNEY PRERAU
Director, J. K. Lasser Tax Institute

The usual query by a prospective speaker at a conference like this is—What is the level of knowledge of the audience? And I generally get a most appropriate answer—"Don't insult their intelligence"—but you never insult the intelligence of an audience by assuming the absence of factual information, no matter how elementary. So let us start right at the beginning.

An annuity is the payment of money at regular intervals. Originally an annuity—because of its derivation from annual—indicated an annual payment. But now it just means a series of regular payments. The individual who receives the regular payments is called the annuitant, and he is entitled to his annuity payments because he had earlier transferred money or property to the payor—the person or organization making the regular payments.

The annuitant can transfer the money or property to the payor organization or person in one of two ways. He may pay a fixed amount over a period of time before he starts to receive the annuity payments. Or he may turn over a single lump-sum of money or property in exchange for the promise of future regular annuity receipts. The latter—the single premium annuity—is the kind we are to discuss.

Annuities may extend for any period of time. They may be for a stated number of years—such as 10, 15, 20, and so on; or for a stated number of years or the rest of the annuitant's life, whichever is longer; or for the remaining span of the annuitant's life. The latter —regular payments for the rest of the annuitant's life—is called the Single Life annuity.

Frequently, however, the purchaser of the annuity desires that the regular payments to be made should continue not only for his life but also for the life of his wife or another—or to the survivor of either. This is called the Uniform Joint and Survivor Annuity. Here the same dollar amount is paid throughout the entire duration of the annuity contract regardless of whether the payments go to both annuitants or to but one after the death of the other.

Although not as frequent as the Uniform Joint and Survivor

Annuity, which is the kind with which we are most familiar, you should be aware of another type of annuity. Here the dollar amounts to be paid the annuitants are set forth exactly with a specified amount going to the first annuitant for life. After his death, the second annuitant receives a lesser amount for life. If the second annuitant dies earlier, the first annuitant continues to collect the original amount specified for him for the remainder of his life.

You should also be familiar, I think, with the type of annuity where the annuitant is to receive payments for his life but upon his death, additional payments are to be made to the annuitant's estate or a beneficiary. These refund payments are in the nature of the return of the payment originally made by the annuitant for the annuity. Generally, these are annuity contracts for life but with a minimum number of payments guaranteed, and are called annuities with a refund feature. The Refund Feature annuity is not usually included as a gift annuity.

It may be overlooked that there is another world of annuity activity. Annuities may come about in other ways than the transfer of money or property to a charitable organization. You are undoubtedly familiar with the activities of commercial insurance companies in offering annuity contracts. But an employee of a business or charitable organization, may receive regular payments after his retirement until his death as a result of his participation in his company's pension or profit-sharing plan. A civil service employee likewise receives an annuity for his post-retirement years. And there are other ways in which an annuitant can be created—including, of course, old age benefits under our Federal Social Security system.

However, for the purpose of our discussion here, we propose to limit ourselves to the tax problems in the purchase for money or property of a—

Single Life annuity—that is, for the remainder of the annuitant's life; and the

Uniform Joint and Survivor Annuity—where the same specified amount is to be paid to the annuitant and another or the survivor of the two.

Let us start with the simplest case—a widower aged 60 offers you $5,000—in cash—in exchange for your promise to provide him with

regular payments for the rest of his life—usually to be received by him semi-annually. He understands that upon his death you are to retain for church or other philanthropic aims any part of the $5,000 and its accumulated interest not returned to him in the course of the regular payments you will make to him before his death. He expresses an inquisitiveness—sometimes unbearably—concerning three aspects of the proposed transaction—

1. How much will he receive each year for the rest of his life?
2. On how much of this amount will he have to pay tax?
3. How much of the $5,000 can he deduct on his income tax return as a charitable contribution?

As to the first—how much will be received every six months—you find that answer in the table of Uniform Gift Annuity Rates established and recommended by the Committee on Gift Annuities as adopted by the Conference on Gift Annuities, October 4th, 1955. Looking at this table for a single life—next to his age of 60 (and note the same table is used whether the annuitant is male or female) is the rate of 4.5%. On the transfer of $5,000, this annuitant will receive during each and every year for the remainder of his life, the sum of $225, 4½% of $5,000. Upon his death the payments will cease. Whatever remains of the $5,000 originally transferred to you and the accumulated interest thereon not so paid to him, becomes your sole property to do with as you so desire for the stated purposes of your organization.

In the year the annuity contract is signed, the annuitant becomes entitled to a charitable contribution which he may deduct on his income tax return for that year. How that charitable deduction is determined has caused a great deal of difficulty. That is because the annuitant's purchase price for the annuity—here $5,000—is composed of two different and distinct elements—(1) the cost of the annuity; (2) the charitable contribution.

The actual cost of the annuity has to be determined to ascertain the amount of the annuity receipts which will incur a Federal income tax. In tax language, the cost of the annuity is called BASIS. For our purposes and to associate the familiar with the possibly unfamiliar—we shall refer to the actual cost—as the annuitant's cost-basis for the annuity. Thus, the first of the elements in the $5,000 in cash trans-

ferred for the annuity is the donor-annuitant's cost-basis for the annuity.

The second element in the $5,000 transferred is the charitable contribution—the gift portion. The gift portion is the excess over the cost-basis of the annuity—that is to say, the difference between the cost-basis and $5,000. It is for this gift portion that the annuitant has his tax deduction.

The ambiguity in this area is generated by the manner in which the cost-basis is determined. And that determination is based upon a 1939 decision of the old Board of Tax Appeals—the predecessor of the present Tax Court. The Board held that the cost-basis of the gift annuity is equal to what a commercial insurance company would demand in payment for an annuity furnishing the same regular payments to the annuitant. Subsequently, the Treasury indicated its preference for computing the cost-basis of the gift annuity by the use of the 1937 Standard Annuity Mortality Table with interest at 2%, ages set back one year, and a loading charge of 6½%. The loading charge represents the expenses of conducting business, office, investment expenses and the like.

However, factually and realistically the Treasury is guided by the Board of Tax Appeal's case holding. That is to say, it is not necessary to use any tables—all that is required is the obtaining of one figure—the actual amount required by a commercial insurance company for the issuance of a similar annuity. I disclose no new information when I tell you the American Bible Society determines the cost-basis of its annuities by reference to the amount required by the Manhattan Life Insurance Company, which I understand uses a 2½% table.

A certain amount of maneuveribility is available to you in the choice of the 2 or 2½% table depending upon the needs of your annuitant. If he is interested in a large contribution deduction you can —by selecting the 2½% give him a low cost-basis for his annuity thus making the difference greater between that figure and the amount transferred for the annuity. If, however, he is more interested in having a lesser amount of his annuity payments taxable for the income tax, you can use the 2% table. This will raise his cost-basis for the annuity —and, as we shall see in a few moments—give him a greater percentage exclusion for his annuity receipts which will result in a lower amount subject to tax.

To continue now, with our hypothetical case of the annuitant who

has given you $5,000 in cash for the annuity payments of $225 annually, we have learned that a commercial annuity paying $225 a year for the remainder of the life of a 60 year old annuitant, costs approximately $3,400. Following our formula, the excess over the $3,400 up to $5,000 becomes the gift portion. Our friend then has this difference of $1,600 available as a charitable contribution deductible on his income tax return for this year.

However, there is a limit imposed by the tax law on the amount an individual can deduct as a charitable contribution. It is presented in the form of a percentage or percentages of what is defined by the law as the taxpayer's adjusted gross income. Adjusted gross income is his gross income—that is to say, all of the income he received during the year which is subject to tax, adjusted for or, in other words, reduced by his deductible expenses in earning this income and further reduced by any losses up to $1,000 resulting from the sale of certain kinds of property. When a gift, donation, or contribution is made to a charitable organization, the taxpayer can deduct on his tax return the amount of his contribution but not more than 20% of his adjusted gross income. However, an additional deduction of 10% of the taxpayer's adjusted gross income is allowed for the aggregate of contributions made to these specified organizations: churches, educational institutions and hospitals.

Most of you are in the group which are allowed contributions up to 30%. Our annuitant having $1,600 available as a contribution deduction would need an adjusted gross income of at least $5,333.33 to have the $1,600 gift portion of his purchased annuity allowed in full on his tax return. This deduction will reduce the taxes he would have had to pay had he not purchased the annuity.

Now, it may occur that our annuitant has an adjusted gross income of less than the $5,333. Or it may be he had earlier in the year contributed to a church, or charitable organization. In either event his transfer of $5,000 for the gift annuity would provide him with a charitable deduction in excess of the allowed 30%. In such an event, the excess over the allowable is unavailable for this or any future year. It is only with corporation contributors that a carryover of unused contribution deductions is permitted. A corporation which makes donations more than 5% of its taxable income—the maximum deductible each year—can carry over the excess of the deductible amount to two subsequent years.

However, you can arrange a situation which will prevent our donor-annuitant from sacrificing his contribution deduction. Nothing deters you from writing an annuity—the gift portion of which together with his other contributions will be less than 30% of adjusted gross income, this year. Then, next year or in any future year—issue another annuity or annuities leveled to come within 30% of his adjusted gross income. The purchase price for the annuities can be placed in escrow. Or, if you have no doubts as to your donor's financial integrity, you can take notes for the price.

Either of these methods postpones the execution of the annuity contract and its attendant contribution deduction until the prearranged date in the subsequent year. A promissory note as a donation is not a deduction until the note is presented and paid. The payment date fixes the year of the donation—not the year of the issuance of the note. Do not for a moment conclude I am suggesting any improper, unethical, illegal or immoral act. This is illustrative of a basic concept in our tax law. Alternative methods of undertaking a transaction are set forth in the law, each of which results in a different tax burden. Like all law, ignorance of the tax law is no excuse—and lack of knowledge of the tax law which results in a heavier tax burden is to say the least most unwise. Here, appropriately, let me quote from a most respected judge—Learned Hand—"Nobody is under a public duty to pay more than the law demands. Taxes are enforced exactions, not voluntary contributions. To demand more in the name of morals is mere cant."

At this moment in our story, an annuity contract has been executed —you have the $5,000 and our 60 year-old has the contract. Some annuity-writing charitable organizations immediately purchase an annuity from an insurance company that will provide the regular payments it has agreed to make. Others set up reserves and service the annuity. Still others commingle the transferred money in the endowment fund and rely upon the endowment's earnings to meet the obligation for making regular payments to the annuitant. We will assume you do not re-insure.

The general practice for writers of annuities is to supply the annuitant with the figure of his contribution and the necessary information to prepare properly his income tax return.

Before 1934, the receipts from an annuity were not taxed. From

1934 to 1954—3% of the annuity cost was held to be earnings or interest on the money transferred for that annuity, hence that 3% was taxed. But from January 1, 1954, on a new method of taxing annuity income was established and annuitants receiving annuity income before that date had to conform to the new method. So today all annuitants use the present system—the 3% rule is merely historical.

The current and only method of taxing annuity income is designed to exclude—or immunize from taxation—each year a portion of the annuity income which represents a return to the annuitant of his own money. The law presumes the aggregate of the excluded portions of each year's annuity receipts will reimburse taxfree his cost basis of the contract. And this is effected by a formula—most certainly not accurately in each case—but which averages out correctly where a large sampling is employed. Let me emphasize, this formula is based on a large sampling. A grave risk is entailed by a gift-annuity writing organization, having a limited number of contracts. As you well know—extraordinary longevity is assured to the purchaser of a gift annuity.

Under the formula of returning his cost-basis taxfree—the excluded portion of the annuity receipts is presented as a ratio—his cost-basis compared to the aggregate annuity payments he expects to receive for the duration of the contract.

Let me illustrate by continuing with our 60 year-old annuitant. A few moments ago we saw that his cost-basis which is actually his investment in his contract came to $3,400. This is the figure inserted in Line 1 of Schedule E on his form 1040 for 1959. He expects to receive $225 each year for the rest of his life. By use of the official Government table—Table 1 for a single life annuitant—we find the expected life of a man 60 years of age is 18.2. In this particular case, we are required to decrease this figure by .2 because the first payment to him is to be made six full months from the annuity starting date. So, to find the aggregate of what he expects to have returned to him, we multiply his life expectancy of 18 by the annual $225 he is to receive. The result—$4,050, his expected return is entered on line 2 of his Schedule E.

His exclusion ratio is thus his $3,400 investment in the contract as contrasted with his $4,050 expected return—or, when expressed in a percentage—his exclusion ratio is 83.9%. And it is this 83.9% which is entered on line 3 of Schedule E. Applying his exclusion ratio of

83.9% to his annual annuity receipts entered on line 4 of $225—we find $188.77 is excluded from taxation and fill this in on line 5. Now subtracting from the annual receipt of $225 the nontaxable $188.77, we have left what is taxable—$36.23. And we enter $36.23 on line 6 of his Schedule E to complete his income tax accounting for his annuity income.

A point to be emphasized at this juncture is that the exclusion ratio computed at the starting date of the annuity remains constant throughout the life of the contract. Usually the first year's receipts are less than each subsequent year's because the contract starts during the year. But the exclusion ratio, the percentage figure, is applied to this lesser amount as well as for all later years.

It seems to me, you are under an obligation to give your annuitants all this information. I would suggest you copy Schedule E of Form 1040—inserting thereon the appropriate figures on their respective lines for the particular annuitant. See that he gets it together with the dollar amount of his charitable contribution as soon as possible after you have his money. In this way you give him data he cannot—believe me—obtain for himself. Besides, you avoid receiving from your annuitant marooned in a mass of technicalities—a flood of questions.

Suppose now, instead of a widower, your annuitant is married. His purchase of an annuity is motivated by a desire to assure both for himself and his wife—or for either who survives—an annual basic income. In this case you use the recommended two-annuities table. The process I have previously detailed for determining the contribution deduction and the taxing of the annuity income is identical with but these two variations:

1. The cost-basis for the Uniform Joint and Survivor annuity is measured obviously by the cost of a similar policy demanded by a commercial insurance company.

2. Likewise obviously, the life expectancy of one person must be different from the combined life expectancy of two persons. Thus, the official government table to be used to find the multiple of two lives is Table II—which gives you the multiple after correlating the ages of both annuitants. Incidentally, it is this Table II which is also used if the joint annuitants are the donor and his child or any other person.

You may have noticed as I referred to the transfer of the $5,000

for the annuity a continuous emphasis on the $5,000 as money. It was intentional. The transfer of property in exchange for a gift-annuity presents a greater problem.

Our law imposes a tax on profits resulting from the sale or exchange of certain kinds of property identifiable under the law as capital assets. And this tax on property profits—called the capital gain tax—carries a rate different from the tax rate imposed on ordinary income. By ordinary income the law means income from salaries, business income—under which is included a minister's compensation—and the taxable portion of annuity income. Where the capital asset is in the possession of a taxpayer for a period of more than six months before he sells or exchanges it—the capital gain tax rate is one-half the ordinary rate and in the alternative, never more than 25% of the full profits.

The capital gain rate is frequently referred to as the 25% rate. Note however, under the alternative capital gain rate, an individual in the 30% top bracket of income finds his capital gain rate to be 15% and not 25%. As a matter of fact, for many of your prospective annuitants the 25% rate is costlier. The cheaper capital gain rate for them is the one-half of the rate they pay on ordinary income. Mechanically, it is only when taxable income for a married man exceeds $36,000 —or a single man when taxable income is more than $18,000—that the 25% capital gain rate produces the lowest tax.

A further provision of the tax law grants immunity from the capital gain tax to a donor who contributes property to a church or charity. As the tax is only imposed on profits—avoidance of the capital gain tax is available only when appreciated property—that is to say, property that has increased in value while held by the donor—is contributed. Thus an annuitant who contemplates obtaining an annuity by transferring property which has gone down in value because of general market conditions would be advised well to sell the property and use the proceeds to buy the annuity. Not having any profits, he can never get the advantage of avoiding the capital gain tax. Moreover, he may be able to use his loss—the difference between his high cost and the present low market value—to cut his current year's tax bill. Finally, because of the law's uncertainty here you cannot assure him of a deductible loss when he transfers the property in exchange for the annuity.

Please do not confuse property which has gone down in value as a result of general market conditions with depreciable property used in a trade or business. On a business man's books, depreciable property may have a low cost-basis, independent of and with no relation to its market value. The low cost-basis is a result of the depreciation deductions he has been allowed on his tax returns during the years he possessed the business asset. It is this cost-basis and not what he originally paid for the asset which, when matched against the selling price, determines his gain or loss. When business assets reduced to a low figure because of the depreciation deductions are donated to a church or charity, the immunity from capital gain taxes is most advantageously applicable.

To come back to our question—what happens when appreciated property is exchanged for a gift annuity? Is the capital gain tax on the transfer avoided? Before we answer—let us ask an additional question. What is the profit on the exchange? The profit is the difference between the donor's cost-basis of the property and the cost-basis of the annuity he receives in exchange. It is not—definitely not—the difference between his cost and the fair market value of the property he is transferring. That is so because part of the fair market value of the property is his charitable contribution. His profit on the exchange is the difference between his cost-basis for the property and the cost-basis of the annuity he obtains by transferring the property.

To illustrate, let us say our previously mentioned 60 year old friend, instead of giving $5,000 in cash, transfers property—shares of stock which he bought some years ago for $2,000—now worth $5,000. We learned earlier his cost-basis for the gift-annuity comes to $3,400—the cost of a like commercial annuity. His profit or gain is the difference between his cost for the stock—$2,000—and the cost-basis of his annuity—$3,400. His capital gain is $1,400.

As to whether this capital gain of $1,400 is taxable—the answer is yes, as the law stands today.

Unlike a transfer of appreciated property for any of the various types of life income contracts—a transfer for a gift-annuity incurs the capital gain tax on the spread between the donor's property cost and the necessary amount required to purchase a like commercial annuity.

I do not believe any practical purpose is served by giving a discourse on the rationale of the government rulings discriminating

against the annuity. Nor can I be unequivocably definitive about the treatment of the capital gain on an annuity. Although the Internal Revenue Service has promised for some five years to issue a ruling, none has been forthcoming.

But this I can tell you. Early last year at the Conference on Wills and Christian Philanthropy at Cleveland, a method of treating this problem was presented. You have that step-by-step presentation in your hands at this moment. A copy was read by a high official of the Internal Revenue Service and it received his unofficial approval. It is my conviction that if you comply with that method of handling the tax aspects of a transfer of appreciated property for a gift-annuity, you will be as accurate as anyone can possibly be in the present unsettled status of the law.

Although there is a recognized gain on the transfer of appreciated property for a gift-annuity—the payment of the capital gain tax is postponed. The tax becomes due only after a total of the annual excludables —that's line 5 of our Schedule E—equals the donor's cost of his property transferred for the annuity. In other words, the taxing process here first allows the return tax free to the donor for his cost of the property transferred. It is only then that the capital gain tax has to be paid. From then on, the excludable amount each year is reported as a long term capital gain on the donor's Schedule D, the separate form for reporting capital gain. Thereafter, the donor continues each year to report the excludable as a long term capital gain until he has reported his full capital gain which is—to repeat—the difference between his cost for the property transferred and the cost-basis of his annuity.

If the annuitant dies before he has recovered fully his cost of the property transferred, or dies later but before he has paid his capital gain tax in full, apparently everything ends. He has not been reimbursed for his cost of the transferred property, in fact, his estate may have a deductible loss. Not having had a capital gain the government is not entitled to any capital gain tax.

This rule imposes an additional bookkeeping chore on you. You should get the annuitant's cost for the property transferred when you execute the contract. Figure out the amounts to be inserted on his Schedule E and his contribution deduction as you would if he had given you cash equal to the current value of the property at that time. Then determine how many years it will take for the annuitant to

recover his property cost. You do this by dividing his annual excludable into his property cost. That gives you his number of years of tax freedom. Now subtract his property cost from the cost-basis of the annuity. The difference is his capital gain. Now divide the annual excludable into his total capital gain. The result of that division is the number of years he should report the excludable amount as a capital gain.

Undoubtedly, if he lives long enough there will be two years of overlaps—

1. In the year he recovers his full cost for the transferred property.
2. In the year he completes reporting his capital gain.

On his Schedule D in each of these two years he will report less than the full amount of that year's excludable amount.

Note—throughout the entire process—from the very first year of the annuity receipts—the annuitant must pay the tax on the taxable portion of the annuity income as it is determined and entered on Line 6.

I would like now to discuss the estate and inheritance tax consequences on the death of the annuitant while he is receiving annuity payments from you. In the case of a single life annuitant for Federal estate tax purposes there is a simple answer. No estate tax liability is incurred. Even if any part of the proceeds remaining unpaid is considered as part of the annuitant's estate, the fact that a charitable organization is to receive this sum causes it to be deductible from his gross estate. There is a possibility, however, of a state inheritance tax. This could arise if the annuitant was not domiciled in your state and was domiciled in a state not having a reciprocal arrangement concerning charitable deductions.

When, however, the deceased annuitant is the other participant in a Joint and Survivor Annuity—an amount is included in his gross estate representing the value of the annuity payments still to be paid to the survivor annuitant. The amount included is that part of the value which is proportionate to the part of the purchase price of the annuity contributed by the decedent. For example, if the husband contributed one-half of the cost of the joint contract and he dies first, there is included in his gross estate one-half of the value of the annuity still to be paid to his wife. That value computed at his death would be the cost of

securing an annuity paying the wife a like amount at her age at that time.

Our final discussion involves the gift tax. Our law imposes upon a donor a gift tax liability when he makes a gift in any one year in excess of $3,000 to one person and such excess is greater than his life time exemption of $30,000. If the donor's spouse joins him in making the gift, the amounts are doubled. That is to say, a husband and wife jointly, for gift tax purposes, have an annual exclusion of $6,000 and a lifetime exemption of $60,000. However, even if the donor of a gift to a church or charity is required to file a gift tax return (Form 709) a deduction is allowed on that form for the gift to charity.

You may have a gift tax liability when the donor-annuitant includes another in a Joint and Survivor annuity where the other annuitant is a spouse or another person or where a gift annuity is purchased by one person on the life of another. The value of the annuity going to another is subject to the gift tax. The value of the annuity going to the other person is again determined by comparison with the cost of a commercial insurance of that annuity or the allocable part.

SCHEDULE E

I

INCOME FROM PENSIONS AND ANNUITIES

General Rule

	Amount
1. Investment in contract	$3400.00
2. Expected return	4050.00
3. Percentage of income to be excluded (line 1 divided by line 2)	83.9%
4. Amount received this year	$225.00
5. Amount excludable (line 4 multiplied by line 3)	188.77
6. Taxable portion (excess of line 4 over line 5)	36.23

II

Figuring Tax On The Exchange Of Appreciated Property For A Gift Annuity

1. Taking the age of the single life annuitant, find the rate on the "Uniform Gift Annuity Rates" adopted by the Conference on Gift Annuities. There is another table for uniform joint and survivor annuities.

2. Ascertain the present fair market value of the property being transferred for the annuity.

3. Multiply the rate of (1) by the present market value of (2) which equals the dollar amount per year to be received by the annuitant or annuitants.

4. Ascertain the cost of a single payment annuity issued by an insurance

company that will pay the same amount per year as in (3). This is the annuitant's cost or basis for the gift annuity.

5. Subtract the figure in (4), the cost of a commercial annuity, from the present fair market value of the property transferred for the gift annuity (2). This difference is the charitable contribution available to the transferors, the owner of the property. The deduction of course is limited to 30% of adjusted gross income of the annuitant if the organization issuing the annuity is a church, school, or hospital.

6. Ascertain the taxable amount of the annuity to be received by finding the percentage of annuity income to be excluded as set forth in Schedule E, Form 1040. This is the fraction where the investment in the contract [the figure in (4)] is the numerator and the expected return is the denominator. Expected return is the total of the annual payments multiplied by the factor in the Government table for the particular type annuity involved.

7. Ascertain the tax-basis of the property transferred—in the hands of the annuitant. This is his adjusted basis, the figure he would compare with a selling price to ascertain whether he has a taxable gain or loss in the event he otherwise sold the property.

8. Subtract the figure in (7) (cost-basis of the property transferred) from the figure in (4) (cost of the annuity, that is, what a like commercial annuity would cost). The difference, if it is a plus figure, is the gain subject to capital gains tax. (If the property transferred has been held for longer than 6 months, the gain is long term).

9. The capital gain is not reported for tax purposes until the total of the excludable amounts (line 5 of Schedule E, Form 1040) exceeds the figure in (7) (cost-basis of the property transferred). Then the excess amount is reported on Schedule D as long term capital gain annually until the full amount of the figure in (8) (the capital gain) is reported. Thereafter the annuity payments are reported as provided in Schedule E, Form 1040.

GIFT ANNUITY PROMOTION AND TERMINOLOGY

MR. CHESTER A. MYROM

Executive Director, United Lutheran Church Foundation

This 1959 Conference on Gift Annuities follows in the tradition of earlier conferences in that it is designed to give opportunity to representatives of the many gift annuity issuing agencies of the nation to consider together matters of common concern, particularly those of a somewhat technical nature—such as mortality experience, interest rates, investment outlook, etc.—and their implications, if any, for prevailing uniform gift annuity rates.

Mindful, however, that more and more agencies and institutions are soliciting funds on the basis of gift annuity agreements, with the likely consequence that many persons present may be attending their first annuity conference, the program committee decided early this year that some consideration of matters related to promotion and administration might helpfully be included in the agenda.

As a consequence of that conclusion a questionnaire was authorized. It was agreed that a compendium of prevailing patterns of practice, experience and opinion among gift annuity issuing agencies would be relevant, authoritative and useful. The ready willingness of nearly 60 agencies to complete the questionnaire so that the program committee's objective might be achieved is gratefully acknowledged.

Your speaker, a relative newcomer to this fellowship, whose privilege it has been to develop the questionnaire and to tabulate the responses, has become aware that the questionnaire procedure is by no means an innovation in the history of this association. To illustrate, in the fall of 1931 the Chairman of the Sub-Committee on Annuities of the Committee of Financial and Fiduciary Matters of the Federal Council of the Churches of Christ in America circularized a group of religious and charitable organizations with a questionnaire on annuities and received better than 50 replies. One of the questions asked was: "How long have you been receiving gifts on the annuity plan?" Replies indicated that the American Bible Society was the pioneer with a gift annuity history at that time covering a period of 110 years. The American Baptist Home Missionary Society had started writing annuity agreements 91 years before while the others reported dates of inception ranging from 27 to 82 years prior to 1931.

From that 1931 survey we learn also that receipt of gifts on the annuity plan averaged a total of two to three million dollars annually during the period 1925-30 for about one hundred and fifty reporting organizations and that the total amount on which these organizations were paying annuities exceeded 43 million dollars.

It is interesting to observe that registrants at this conference have reported their total outstanding annuity agreements now exceed $84,865,000. By anyone's standards that's important money!

A review of the minutes of the 1931 Conference, apparently conducted on a pattern quite similar to this one, suggests that much the same questions were being asked then as are being asked today. For example, many were asking, "Do annuity gifts to a charitable organization interfere with gifts to it in other ways?"

A paper prepared and presented to the conference by Ernest F. Hall, Secretary, Department of Annuities, Presbyterian Board of Foreign Missions, made this reply: "It is difficult to answer this question because organizations which are receiving gifts on the annuity plan do not know in most cases the financial ability of the donors. In a few cases, doubtless outright gifts could be made with no annuity return. In other cases it would be absolutely impossible. Many letters have been received stating that the writers cannot make outright gifts, but they can take advantage of the annuity plan. Some persons who have given on the annuity plan have also from time to time made outright gifts. The annuity plan offers to many people of moderate means, especially those who are deeply interested in the work of an organization, an opportunity to make a gift which they might not otherwise be able to make. Many women of very limited means have counted it as a great privilege to give to an organization a definite amount of money on the annuity plan and thus feel that they are, up to the limit of their ability, aiding the work of the society. It is very doubtful if the same amount of money which is received on the annuity plan would be received from the same sources as outright gifts, if the plan were not available."

He went on to say, "Annuity gifts, as a rule, are not made by the wealthy, but by people of limited means in addition to what they voluntarily and gladly contribute each year to the current work of the organization."

The concluding paragraph of his paper contains an observation

which is as relevant today as it was then. "It must be evident to all who have given serious consideration to the subject of annuities within the past few years and especially to those who have been present at the conferences on annuities and who have read the reports of those conferences that there is much more to the annuity business than merely receiving gifts and paying the stipulated annuities. Regulations have been prescribed for carrying on the business which must be observed. Otherwise embarrassing situations, if not financial losses, may at some time arise for both the annuitants and the organizations. The Committee on Annuities is studying the situation constantly and is endeavoring to put necessary information in the hands of all organizations."

Now to the situation as it prevails in 1959. Some among us here today were among those present in 1931. As they hear and read the conclusions reached from the current questionnaire they may well find occasion to say, "This is where I came in!" We late arrivals to the annuity field give truth to the observation "Every generation educates itself by rediscovering already known truths."

Fifty-seven responses were received to the 1959 questionnaire. In summary the conclusions drawn from them are these:

I. REGULATION:

Twenty-three operate under regulation by a state agency. Thirty do not. The remainder made no indication.

II. CURRENT PRACTICES:

A. Concerning limitations:

There is wide agreement that $100 is the minimum gift accepted under annuity agreement.

Few set maximum limits. Those that do appear to set varying amounts, namely $10,000, $20,000, $50,000 and $100,000.

By far the majority limit to two the number of persons included in one agreement. In contrast five said three while one agency apparently will include even more.

The median minimum age at which annuitants will be accepted appears to be 30. Fifteen agencies set no minimum while 14 set 35 years. A scattered few set 40, 50, 60 and even 65 as their minimum age.

B. Concerning immediate expenditure of annuity funds:

Forty-two of the 57 indicate that no part of their annuity funds

are expended until the agreement is terminated.

Reported practices of others include these variations: expending the amount which is in excess of the minimum legal reserve; expending an arbitrary portion such as 1/4, 1/10 or 1/3; or expending 1/2 of the amount which is in excess of the minimum legal reserves.

III. EXPERIENCE:

A. Concerning the size of annuity gifts:

$1,000 is the median size reported. It is also apparently the most frequently occurring gift.

A dramatic exception is noted from three universities. They report $10,000 as their typical annuity gift.

As to the representative range of gifts it appears that the median is from $500 to $5,000. In sharp contrast with this figure, however, is the report of one university that its typical range is from $50,000 to $250,000.

B. Concerning the age of donors:

It can be concluded without doubt that as a minimum most donors are 60 years of age or over and that the representative age of donors as a group seems to be between 60 and 75.

IV. IMPRESSIONS: (So listed because it was recognized that factual data might not be available.)

A. As to sex and family circumstances of donors:

Forty-four reported women were definitely in the majority.

Four reported men. (The universities again.)

Five said 50-50.

Less precise are the conclusions as to whether the typical donor is married or unmarried, is married with a living spouse, has been married but survived a spouse, or is typically without other immediate family responsibilities. "Many" but not necessarily "most" donors are reported as being of each of these categories.

B. As to financial circumstances:

Forty-nine out of 57 have the impression that their donors are in "modest but comfortable" financial circumstances.

Eight said many of their donors were "moderately wealthy." (The universities again.)

None indicated that their annuity donors were "very wealthy." (How similar to 1931!)

V. OPINION:

A As to most productive promotional procedures:

Thirty-three regard personal contact and direct solicitation as best.

Thirteen said ads in publications, while eight said prospect lists.

One regarded all three as equally important. Another said, "No one answer will do, we use all the methods indicated."

B. As to effective media:

Twenty-four said ads in their own publication were most productive.

Nineteen said the official publication of their denomination, while four found benefit in ads in periodicals of auxiliaries and agencies of their church. Only one reporting agency seems to use the secular press. They regard the Sunday edition as the most fruitful.

VI. RELATIVE IMPORTANCE OF ANNUITY FUNDS:

A. In terms of new gifts:

Twenty-eight cite annuities as "a source along with many others."

Fourteen said annuity income was "relatively unimportant." On the other hand, three said for them it was a "principal source."

Sixteen indicated that annuities were an "undeveloped source." Some added the word "unfortunately."

B. In terms of funds available for use:

Nineteen said the flow from this source was "sporadic" while seven said it was "steady."

Eleven said it was "not important" while six said that it was.

Eleven said that the amount was "increasing each year" while eight said it was "too soon to know."

C. In terms of the foreseeable future:

Thirty expressed the judgment that their annuity income "could be expected to increase."

Eighteen said it seemed "likely to remain the same" while

seven were of the opinion that annuity income "will tend to decrease."

Conclusion:

Many who responded accepted the committee's invitation to submit a single question related to promotion and administration. These will be coming to your attention this afternoon as another part of the program.

It is apparent from the responses to the questionnaires that within the group assembled there is a wide range of practice, experience and opinion. This is both wholesome and to be expected.

It would seem nevertheless that there is general agreement among charitable, religious and educational organizations and institutions that the gift annuity plan has been, is and will continue to be a desirable and important tool in any complete and modern gift development program.

It also appears from the questionnaire responses that many persons with responsibility in this field readily concede that for them the gift annuity plan has not achieved its full potential, either for lack of attention, for lack of qualified personnel or out of a continuing sense of bewilderment with the more technical aspects of gift annuity interpretation and administration.

The Committee on Annuities is hopeful that the gathering and sharing of information in this way, together with that to be offered through the question and discussion period which follows, will prove to be for many an occasion of helpfulness, encouragement and revitalization.

COMPARISON OF GIFT ANNUITIES WITH LIFE INCOME AGREEMENTS

DR. ROLAND C. MATTHIES
Vice President and Treasurer
Wittenberg University, Springfield, Ohio

May I make two prefatory observations.

I caution all of you who are deeply concerned about your Christian stewardship and about bringing proper advice to prospective donors in the cause of Jesus Christ that you not be careless in receiving counsel from just anyone who has a license to practice law. I am reminded of the time—back some twenty-five years ago when I was admitted to the bar in the State of Indiana—when several prospective clients would have handed me almost any type of legal business, they assuming that I was qualified to give them competent advice.

On a subject that is as technical as the one in which we are engaged in discussing today, it is imperative that we seek counsel from the best one capable of giving expert advice. Having heard from Mr. Prerau this morning that we are not tax experts, let us agree upon that. Nor, by the same token, are men who have gone four years to college and three years to law school tax experts.

It is certainly true, also, that most tax accountants are not familiar with this area. When consulted by your prospective donor, he may reach for the wrong book on the shelf and begin quoting something about which he is not particularly sure. Persons who are familiar with the routine preparation of federal income tax reports, are certainly not by that experience qualified to do our work.

You have, in justice to all of us, to seek counsel and to keep that counsel only so long as he is able to prove to you that he really knows his business. In my own case, I serve as my own counsel and, therefore, bear the double burden of responsibility. When I begin to question my own advice, both Mr. Baas and Mr. Prerau are my first consultants!

Secondly, I am concerned lest individual institutions among us begin approaching state regulatory bodies independently of the rest of us. Your attorney, upon running across a portion of legislation in your state, may with all honesty advise you to procure a license from

some state body without delay. This has happened in one state about which I know and I doubt whether the license was at all necessary. In that case, a license was obtained from the state body regulating securities and the license purportedly gave permission for the issuance of charitable annuities. It may well be that the foot is now in the door and that the rest of us in that state will be circularized by the same commission to pay a $10 fee and obtain their license. Rather than use the individual approach, would it not be better to use your Committee on Gift Annuities in making the original investigation? I am utterly sincere in this concern.

Now, let us proceed with the comparison of annuities with life income contracts. This comparison is restricted entirely to that arrangement and I will not engage in a discussion of variable annuities at this time. In a survey which was sent out through the Committee on Gift Annuities, sixty of you were most cooperative in answering and in getting my survey back to me on time. The results are quite interesting. May I review for you the questions:

1. Do you write life income contracts?
2. Do you write tax-free life income contracts?
3. Are you authorized to act as your own trustee?
4. Are you authorized to receive, operate, and return the income on real estate?
5. What is your preferred method of raising money with income going back to the donor?

Out of sixty replies, these are the results: 29 answered every question "Yes"; 12 answered every question "No" and added that they preferred annuities; 3 answered "Yes", "Yes", "No", "No"; 2 answered "Yes", "Yes", "Yes"; "No"; the remaining 14 gave varied answers, but most of them said "No" to No. 2 concerning tax-free life income contracts. And this bothered me no little bit. One of the largest annuity-writing charitable organizations in the United States made such a reply, and I am concerned that they have done one of these things: either ignored the possibilities of the tax-free life income contract, or avoided it because they did not comprehend how simple it was to operate.

Mr. Myrom has explained annuity experiences very clearly, and it gives me a springboard now for the comparison that you have been promised. Let me be quite categorical about the two systems—the annuity and life income contracts, in which I include tax-free life income

contracts. I suggest that you merely draw a line down the center of your page and number from 1 to 14, and I will give you the answers.

	Annuities	Life Income Contracts
1.	Annuities cover both a gift and the purchase of a guaranteed income for life. The rate of income is a published rate.	Life income contracts cover a gift and the return of the actual earned income on that gift for life. The rate of return is variable and cannot be published in advance.
2.	Annuities give a charitable gift deduction based upon the difference between the market value of the annuity, or cost value as Mr. Prerau called it this morning, and the total transaction.	Life income contracts afford a larger charitable gift based on the Internal Revenue Service report, which is contained in the blue book IRS No. 11. (Superintendent of Documents, Washington 25, D. C.—IRS No. 11, Revised May 1959—Actuarial Values for Estate and Gift Tax).
3.	Annuities have the advantage of an annual exclusion of a major portion of the income from federal income tax. (IRS No. 76, Actuarial Tables).	Life income contracts have no such exclusion, but this can be overcome completely by investing the proceeds in tax-exempt bonds, commonly known as municipals.
4.	Annuities leave only a residuum with the charity. The annuity rates we follow are based upon a partial return of the principal.	Life income contracts retain their full worth and may even increase by reason of wise investment experience on the part of the charity. You can well imagine what would have happened to your investment of a life income contract situation over the last ten years of the stock market.
5.	In spite of what Mr. Prerau said this morning, annuities still have a question mark as to the capital gains tax situation. What you read on the table this morning was quite cleanly put. What he said to you from the platform was that the Internal Revenue Service is still sitting on the matter.	Life income contracts are definitely free from any form of capital gains tax.
6.	Annuities *normally* cover no more than two lives.	Life income contracts can cover a whole host of lives, if necessary. For instance, Wittenberg University has a life income contract with a donor and his wife, who are 81 and 81, covering their 44-year old daughter and her three children. We have been asked, "Why did you take such an involved commitment?" And my answer is, "I read his will in advance and I know that we would take a similar provision under his will if he were to die tomorrow."

Annuities	Life Income Contracts
7. Annuities involve setting up of reserves and complying with state regulations, about which we heard so lucidly this morning. It also involves more complicated accounting on the part of your bookkeepers or accounting officers.	Life income contracts have no such complexity and no regulation, so far as I know, by any state body.
8. Annuities offer excellent gross return at sixty and over.	Life income contracts do better than this for a person in a high income bracket, if the tax-free plan is used.
9. The advantage for an annuity is that it is well known and does not need as much explanation and publicity.	Life income contracts, on the other hand, always leave to a donor the evaluation of your investment policies. Under the normal life income contract, you agree to pay out the earnings of your investment pool and, if you do not have a smart investment counsel and are building only a minimal income, the donor is going to be quite critical of your achievements. A further hazard is a concern at what level your donor "buys into" your investment pool.
10. Annuities currently attract well-to-do widows or retired folk as the most likely prospects.	Life income contracts, especially the tax-free kind, are attractive to businessmen at the crest of their incomes and at the crest of their careers. For many years we seldom had the opportunity of approaching a person at the height of his career and interesting him in an annuity, because he was too busy making money. Now, on the other hand, many men are primarily occupied with saving it from the tax collector.
11. Annuities are seldom practical on the retention of a specific asset—for instance, a block of closely held stock that has no ready market, or a piece of real estate that has only limited income.	Life income contracts, on the other hand, can be used in the nature of a trust. For example, in my own case, we acquired a building at an agreed valuation of $250,000, with the understanding that we would hold it until we could get this price for it. During the time that we were holding, we operated it as trustee under a trust agreement with ourselves as trustees for ourselves—and this is legal. We collected the net rental from the property and paid it to the donor, and all this was completely subject to income tax. Then, when we sold the property for $250,000, we put it into

Annuities	Life Income Contracts
	tax-exempt bonds, having previously so contracted with the donor, and he now enjoys a tax-free life income arrangement. He bought the building, by the way, for $39,000 and gave it to us at $250,000!
12. Annuities must be reported carefully on federal income tax returns. You have had that very cleanly presented this morning, and Mr. Prerau suggested that we fill out not only one schedule, but two, on behalf of every donor.	Life income contracts, on the other hand, need be reported only as regular income and, if you use tax-free bonds as the basis of investment, the income need not even be reported let alone deducted.
13. Annuities require more service from you.	Life income contracts are simplicity itself.

14. Neither has a gift tax advantage over the other. You will remember the advice we had this morning that, where the property is in one person and the agreement that you write with that person covers a beneficial interest in another annuitant, there is an immediate gift. You would do well to find good counsel in the area of gift taxes, too.

Thus ends the comparison and contrast as simply as I can place it before you.

Now, let me conclude with one or two other matters. It is practically impossible to find a life income arrangement that cannot be worked, if you have an agreeable donor and if you have competent advice. This is not a matter of evading taxes. Make it very clear to your donor that it is a matter of avoiding taxes, and there is every difference in the world between those two words. Most of your donors know little about this area of giving. Even your wealthy man has not had time to investigate. For example, this man who gave us the $250,000 building had the year before been afraid of the idea and had taken a capital gain of $86,000 on land that he had sold.

Again, it bothers me that twenty-six of the sixty who reported to me seem to be ducking tax-free life income contracts. I ask very boldly, "Are you timid about it?" If so, don't be, because it is the simplest method of obtaining a gift and reurning the income about which I have known.

I suggest that no single plan is best. It is up to your ingenuity to work out the best plan for the donor and your institution. This is where you must be expert above all. May your success be unbounded!

MINUTES

TENTH CONFERENCE ON GIFT ANNUITIES

Hotel Park-Sheraton, New York City

Tuesday and Wednesday, December 1-2, 1959

Mr. Charles W. Baas, Chairman of the Committee on Gift Annuities, called the meeting to order at 10:00 a.m. Lt. Col. L. M. Sehl, Secretary, Legacy, Legal and Annuity Department, The Salvation Army, pronounced the invocation.

Chairman Baas then made an introductory statement in which he extended official as well as personal greetings and welcome to the delegates to the Conference. He briefly enumerated the highlights of the program that had been prepared and briefly sketched the history of the Committee on Gift Annuities.

Mr. Baas then announced that at its meeting on November 24, 1959 the Committee on Gift Annuities had accepted the resignation of three persons from the Committee, for reasons of retirement or changed professional situation, and had elected three others to replace them. Those who had resigned were Dr. H. Burnham Kirkland, Former Treasurer, Division of World Missions of The Methodist Church; The Reverend H. Spenser Minnich, Former Director of Special Gifts, General Brotherhood Board, Church of the Brethren; and Dr. Frank J. Scribner, General Secretary, Retired, Congregational Christian Pension Boards.

Elected to replace them were the following persons, who were present and were introduced: Dr. Ashton A. Almand, Treasurer, Division of World Missions of The Methodist Church; Dr. William Kincaid Newman, General Secretary, Annuity Fund for Congregational Ministers; and Mr. Harl Russell, Director of Special Gifts, Church of the Brethren.

It was announced also that Chester A. Myrom, Executive Director of the United Lutheran Church Foundation, had been named to fill the position of Secretary, formerly held by Dr. Kirkland. It was stated that Mr. Myrom had also been named Secretary for the Conference.

Chairman Baas then presented the suggested names for a Resolutions Committee. These were unanimously approved by the Confer-

ence. They were the following: Chairman, George W. Renneisen, Board of Christian Education of the United Presbyterian Church in the U.S.A.; Robert Greiner, General Brotherhood Board of the Church of the Brethren; Allen F. Hawley, Vice President, Pomona College; Alf W. Jorgenson, Abiding Memorial Foundation, Evangelical Lutheran Church; George A. Huggins, Huggins and Company; T. K. Thompson, Executive Director of the Joint Department of Stewardship and Benevolence, National Council of Churches of Christ in the U.S.A.; Chester A. Myrom, Executive Director, United Lutheran Church Foundation; and Charles W. Baas, Treasurer, American Bible Society, Ex Officio.

The program of the Conference got under way at 10:30 a.m. when Dr. George A. Huggins, Consulting Actuary, was called upon to present his preliminary statement concerning the comprehensive actuarial study which he and his staff had been commissioned to undertake. His presentation appears in full elsewhere in this volume, under the title "Report of Actuary on the Mortality Experience Studies".

Dr. John Harriman, Economist Tri-Continental Corporation—Professor of Finance, Graduate School of Business Administration, New York University, then addressed the Conference on the subject "Interest Rates and Investment Outlook".

At 12:00 noon the Conference recessed for luncheon. A feature of the luncheon period was the "surprise" recognition of and tribute to Dr. Gilbert Darlington, former Chairman of the Committee on Gift Annuities. Dr. Huggins presided over this brief and pleasant interlude. He spoke with appreciation for Dr. Darlington's many years of service as Chairman of the Committee on Gift Annuities and as Treasurer of the American Bible Society.

Other speakers paying tribute to the guest of honor were Dr. John Harriman, who in his remarks said "I am a neophyte member of the Finance Committee of the American Bible Society. May I confess to you that I didn't know until a short time ago that Dr. Darlington had 'retired.' I had been observing him at work at a pace to outstrip most of us".

Chairman Baas then presented Dr. Darlington with an attractive silver tray which had been suitably inscribed for the occasion.

At 2:15 p.m. the afternoon session began with a continuation of Dr. Huggins' report. There was extended discussion of the implica-

tions of his findings for the present schedule of annuity rates. In accordance with the previously announced time schedule, action on annuity rates was deferred to 9:30 a.m. of the second day's session.

At 4:15 p.m. the Conference recessed for the day. The benediction was pronounced by the Rev. O. W. Toelke, Vice President, Director of Development, Valparaiso University.

Wednesday, December 2, 1959

The program of the second day began at 9:30 a.m. with the invocation led by Dr. Frank J. Scribner, General Secretary Retired, Congregational Pension Boards.

Chairman Baas then called for further discussion, if any, and for action by the Conference on the mortality study presented by Dr. Huggins. Mr. Renneisen, Chairman of the Resolutions Committee, made the following motion which was promptly seconded by Mr. Allen F. Hawley, Vice President of Pomona College: MOVED *that the present gift annuity rates, as adopted by the Ninth Conference on Gift Annuities on October 4, 1955, be continued as the Uniform Gift Annuity Rates recommended by the Conference on Gift Annuities.*

Mr. Renneisen then made an elaborating statement in support of the motion. He pointed out that:

1. Only a minor change in rates would be made if a $3\frac{1}{4}\%$ or a $3\frac{1}{2}\%$ interest basis were assumed;

2. Preparing a complete new table for both single and two-life agreements entailed considerable experience;

3. The present rates have been in effect for most agencies and institutions a relatively short period of time;

4. If high interest yields continue, this yield could offset adverse mortality, strengthen reserve funds of the agencies and/or be the basis for increased rates in the future;

5. Many agencies are reporting 1959 as a "good" or "best" year.

There was no further discussion. The question was called for. The motion was adopted without dissent.

Dr. Darlington then addressed the convention on the subject "State Regulation of Gift Annuity Funds". In connection with his presentation he made extended reference also to the paper prepared under this same title by Charles C. Dubuar, Chief Actuary, New York State Insurance Department. Copies of Mr. Dubuar's paper had been

previously distributed to the registrants. This latter statement as well as that of Dr. Darlington appear elsewhere in this volume.

Chairman Baas then introduced Mr. Sydney Prerau, Director, J. K. Lasser Tax Institute, who addressed the convention on the subject "Taxation of Gift Annuities". His address is included elsewhere.

The concluding presentation of the morning was given by Mr. Chester A. Myrom, Executive Director of the United Lutheran Church Foundation, who presented a paper on the subject "Gift Annuity Promotion and Terminology". In it he reported on the responses received to a questionnaire, authorized and distributed earlier by the Committee on Gift Annuities, which inquired into prevailing practices, experience and opinion of gift annuity issuing agencies and institutions. Sixty-one responses had been received. The full text of his report also appears elsewhere in this volume.

Dr. Huggins then called for the floor and spoke briefly, commending the Conference for its action on the annuity rate structure.

The Conference recessed for luncheon at 12:00 noon. Since there was to be no formal program in connection with it, Chairman Baas announced that the final session would begin fifteen minutes earlier than had been previously announced.

The feature presentation at the outset of the afternoon session was a "Comparison of Gift Annuities With Life Income and Other Agreements" presented by Dr. Roland C. Matthies, Vice President and Treasurer of Wittenberg University. The text of his address appears elsewhere.

The Rev. T. K. Thompson, Executive Director of Stewardship and Benevolence, National Council of Churches of Christ in the U.S.A. was then introduced as moderator of a question and answer period. Some forty different questions had been submitted through the response to the questionnaire as well as in writing during the Conference. These were directed to a panel of "experts". This proved to be a helpful and stimulating period. Members of the panel were Mr. Baas, Dr. Darlington, Dr. Huggins, Mr. Prerau, Mr. Myrom and Dr. Matthies, together with Dr. J. Homer Magee, Council on World Service and Finance, The Methodist Church, Mr. John Rosengrant, Commission on Ecumenical Missions and Relations, The United Presbyterian Church in the U.S.A., and Col. G. Blair Abrams, Salvation Army (retired), now with the United Presbyterian Foundation.

Mr. Renneisen was then called upon to present the report of the Resolutions Committee. With one exception the recommendations of the Committee were unanimously adopted. The Amended Report appears on the pages immediately following these minutes.

Dr. Huggins then asked the Chairman for the privilege of briefly addressing the Conference. In his remarks he recalled his continuous participation with Dr. Darlington particularly, with others as well, in all of the preceding Conferences on Gift Annuities. Remarking that this well might be the last Conference in which he might be an active participant, he expressed appreciation for the cooperation and fellowship of the group and expressed his high confidence in the new and young leadership of the Committee on Gift Annuities. He concluded his remarks by expressing his judgment that this Tenth Conference was "the best of all that had been held to date".

Upon a motion the Conference adjourned at 4:00 p.m. The closing prayer and benediction was led by the Rev. Lloyd Scheerer, Chaplain and Field Representative, Iowa Methodist Hospital.

Respectively submitted,
Chester A. Myrom,
Secretary

REPORT OF THE RESOLUTIONS COMMITTEE

I. Be It Resolved that the Tenth Conference on Gift Annuities expresses its appreciation to Dr. Gilbert Darlington for his outstanding services to Christian Philanthropy as Chairman of the Committee on Gift Annuities 1939 to 1958. The Committee recommends that the Conference give evidence of their appreciation and respect by adopting this resolution with a rising vote.

II. Be It Resolved that the Tenth Conference on Gift Annuities desires to express sincere appreciation to Dr. John Harriman, Professor of Finance, Graduate School of Business Administration, New York University, for his most informative and instructive address on "Interest Rates and Investment Outlook", and to Mr. Sydney Prerau, Director, J. K. Lasser Tax Institute, for his enlightening and helpful presentation on the subject of "Taxation of Gift Annuities".

III. Be It Resolved that the Tenth Conference on Gift Annuities acknowledges with profound thanks and sincere respect the monumental contribution over the years to the success of this and preceding conferences on gift annuities made by Consulting Actuary Dr. George A. Huggins. The Committee recommends that the Conference give evidence of their appreciation and respect by adopting this resolution with a rising vote.

IV. Be It Resolved that the Tenth Conference on Gift Annuities expresses its deep appreciation to Mr. Charles C. Dubuar, Chief Actuary, New York Insurance Department, for his paper "State Regulation of Gift Annuity Funds" and also for his helpful and cordial relationship with the Committee on Gift Annuities for a period of over thirty years.

V. Be It Resolved that the Tenth Conference on Gift Annuities sends greetings to Dr. H. Burnham Kirkland, Dr. Frank J. Scribner and Dr. H. Spenser Minnich who, because of changed responsibilities, have given up membership on the Committee on Gift Annuities, and expresses appreciation for the services rendered during their term of membership on the Committee.

VI. Be It Resolved that the Tenth Conference on Gift Annuities expresses its gratitude for the significant leadership given to this Conference and to the Committee on Gift Annuities by its Chairman, Charles W. Baas and that it likewise expresses thanks to the following men who have presented addresses and have led the Conference in its discussion periods:

Dr. Gilbert Darlington
Dr. George A. Huggins
Dr. Roland C. Matthies
Mr. Chester A. Myrom
Dr. T. K. Thompson

VII. Be It Resolved that the Tenth Conference on Gift Annuities recommends to the various societies, agencies, boards, and colleges issuing gift annuity agreements that for the purpose of uniformity and a better understanding of all concerned:

1. the agreement between the donor and the issuing agency be referred to as a "Gift Annuity Agreement";

2. the payments on account of this gift annuity agreement be referred to as "Annuity Payments";

3. in speaking of, promoting or advertising gift annuity agreements such terminology as "bonds", "interest", "principal" which apply to other forms of agreements, should be carefully avoided.

VIII. Be It Resolved that the Conference asks the Committee on Gift Annuities to give consideration to the possibility of preparing a booklet which would enable institutions to readily compute the tax implications of an annuity gift.

IX. Be It Resolved that the Committee on Gift Annuities prepare a recommended form of a gift annuity agreement.

X. Be It Resolved that the Conference directs the Committee on Gift Annuities to request the Internal Revenue Service to review its practice of valuing gift annuities on an assumed interest rate of two percent.

XI. Be It Resolved that the Tenth Conference on Gift Annuities urges and encourages all organizations issuing gift annuity agreements to give consideration to the adoption of the Uniform Gift Annuity Rates as a maximum.

XII. Be It Resolved that the Tenth Conference on Gift Annuities held in New York December 1 and 2, 1959, representing 153 religious, educational, charitable, and character-forming agencies from 26 states of the United States directs the Committee on Gift Annuities to bring to the attention of the Superintendent of Insurance and/or other authorities of any states where new legislation or rulings affecting Gift Annuities are planned or taking place, the importance of differentiating clearly between (1) immediate single premium gift annuities, and (2) group annuities and/or annuity options included as supplementary agreements in life insurance policies.

XIII. Be It Resolved that this Tenth Conference on Gift Annuities approves the further study of the desirability of using Uniform Annuity Rates for gift annuities based on the combined mortality experience of many of its own members.

XIV. Be It Resolved that the Tenth Conference on Gift Annuities also requests its members to keep the Committee on Gift Annuities informed of any proposed or actual rulings or legislation that will affect gift annuities, including Income, Gift or Estate

Tax problems or rulings, so that the Committee on Gift Annuities can help present the resolutions passed by this Conference to the proper authorities in the various states and/or to the Income, Gift or Estate Tax sections of the Treasury Department in Washington (if this appears to be desirable) so that the proper authorities may be kept fully informed of the experience and judgment of the delegates to this Tenth Conference on Gift Annuities concerning these matters.

RESOLUTIONS COMMITTEE
TENTH CONFERENCE ON GIFT ANNUITIES

MR. GEORGE W. RENNEISEN, *Chairman*

MR. C. L. BURRALL (*Representing Dr. Huggins*)
MR. ROBERT GREINER
MR. ALLEN F. HAWLEY
MR. ALF W. JORGENSON
MR. CHESTER A. MYROM
DR. T. K. THOMPSON

Ex Officio:
MR. CHARLES W. BAAS

DELEGATES TO THE TENTH CONFERENCE

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Presbyterian Church in the U. S.—Board of Church Extension, Atlanta, Ga.	Mr. G. B. Strickler

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United Lutheran Church Foundation, New York City	Mr. Chester A. Myrom Miss Diane Schilke
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Organization	Represented by
United Presbyterian Church in the U.S.A.—Board of National Missions, New York City	Dr. D. Allan Locke Mr. Frank C. Kemer
United Presbyterian Church in the U.S.A.—Commission on Ecumenical Missions & Relations, New York City	Mr. John Rosengrant
United Presbyterian Foundation, Philadelphia, Pa.	Mr. Harris C. Aller, Jr. Lt. Col. G. Blair Abrams
United Presbyterian Church in the U.S.A.—General Council, New York City	Mr. Roger H. Johnson
United Theological Seminary, Dayton, Ohio	Dr. Walter N. Roberts
University of Redlands, Redlands, California	Dr. Francis W. Thompson
Valparaiso University, Valparaiso, Ind.	Rev. O. W. Toelke Mr. Seth H. Moseley, III
Vassar College, Poughkeepsie, N. Y.	Mr. John M. Deschers
Westminster College, New Wilmington, Pa.	Mr. Paul M. Musser
Westmont College, Santa Barbara, Calif.	Mr. Sidney A. Rasanen
Wheaton College, Wheaton, Ill.	Mr. H. G. Faulkner Mr. David L. Roberts Mr. Henri Elkhardt Mr. Ross D. Smith
Wilmington College, Wilmington, Ohio	Mr. T. S. Townsley
Wittenberg University, Springfield, Ohio	Dr. Roland C. Matthies
Woodward, Ryan, Sharp and Davis, New York City	Mr. Jonathan G. Sharp
Y.M.C.A. of Metropolitan Chicago, Chicago, Ill.	Mr. R. T. Magnuson
Y.M.C.A. Retirement Fund, New York City	Mr. Mauritz Seashore

CONSTITUTION OF THE COMMITTEE ON GIFT ANNUITIES

Article 1

The Committee on Gift Annuities, hereinafter referred to as the Committee, shall continue the activities of the Committee on Annuities organized in 1927 as a Sub-Committee on Annuities of the Committee on Financial and Fiduciary Matters of the Federal Council of the Churches of Christ in America.

The Committee shall study and recommend the proper range of rates, the form of contracts, the amount and type of reserve funds, and the nomenclature to be used in describing, advertising and issuing gift annuities.

The Committee shall ascertain and report as to legislation in the United States and in the various states regarding gift annuities, their taxability, et cetera.

The Committee shall call a conference on Gift Annuities at least once each four years and invite those who contribute to its activities to attend.

Article II

The membership of the Committee shall consist of not more than twenty-five persons. These members shall be chosen by a majority vote of the Committee from important religious, educational, charitable and other organizations, issuing and experienced in gift annuities. In electing members to the Committee, the Committee shall secure nominations from the group from which the proposed member is to be selected, but such member is not the agent of the group from which he comes, nor does he bind his group by any decisions reached by the Committee.

As a general rule, only one representative shall be selected from each group, unless for special reasons an additional member is selected by the Committee.

Article III

In order to finance its activities and its research in actuarial, financial, and legal matters, and the publication and dissemination of information so obtained, the Committee will collect registration fees from those who attend its Conferences and annual or periodic fees from those who make use of its findings and services. It will request

gifts from those groups that cooperate with it to cover the expenses of its various activities; the amount that it requests to be decided by the Committee. The Committee will also sell its printed gift annuity material to pay for its out-of-pocket expenses.

Article IV

This constitution may be changed, provided the proposed changes are presented at one meeting of the Committee and voted upon at the next meeting. Any proposed changes shall be mailed to every member of the Committee, prior to the meeting on which it shall be voted upon and approval by two-thirds of the members present and voting shall be necessary for final approval.

Article V

The Committee will cooperate with the National Council of the Churches of Christ in the United States of America, but it is entirely free to draw its members from other groups who are not members of the National Council.

BY-LAWS
COMMITTEE ON GIFT ANNUITIES

I. The Officers shall be a Chairman, Vice Chairman, Treasurer, Secretary, Assistant Treasurer and Assistant Secretary, who shall be elected at the organizational meeting and thereafter annually at the first meeting held after January 1st of each year and shall serve without compensation. A vote of a majority of those present will elect.

II. Vacancies in the offices of the Committee shall be filled by the Committee at any meeting. A vote of a majority of those present will elect.

III. The Chairman, Vice Chairman, Treasurer, Secretary, Assistant Treasurer and Assistant Secretary of the Committee shall fulfill the usual duties of those offices during their term of office. The Treasurer shall keep the accounts, and the Secretary shall keep the Minutes of the meetings of the Committee and each shall perform such other duties as may be assigned them by the Chairman or the Committee.

IV. The Chairman, or in his absence from the country, or inability to act, the Vice Chairman shall call the meetings of the Committee at such time and place as seems desirable either to the Committee if it is in session, or to the Chairman if the Committee is not in session. At least two week's notice of the forthcoming meeting should ordinarily be given.

V. Conferences on Gift Annuities shall be called by the Committee upon a vote of not less than thirteen (13) members either present at the Committee Meeting that votes on calling such Conference, or by correspondence if not present at such meeting.

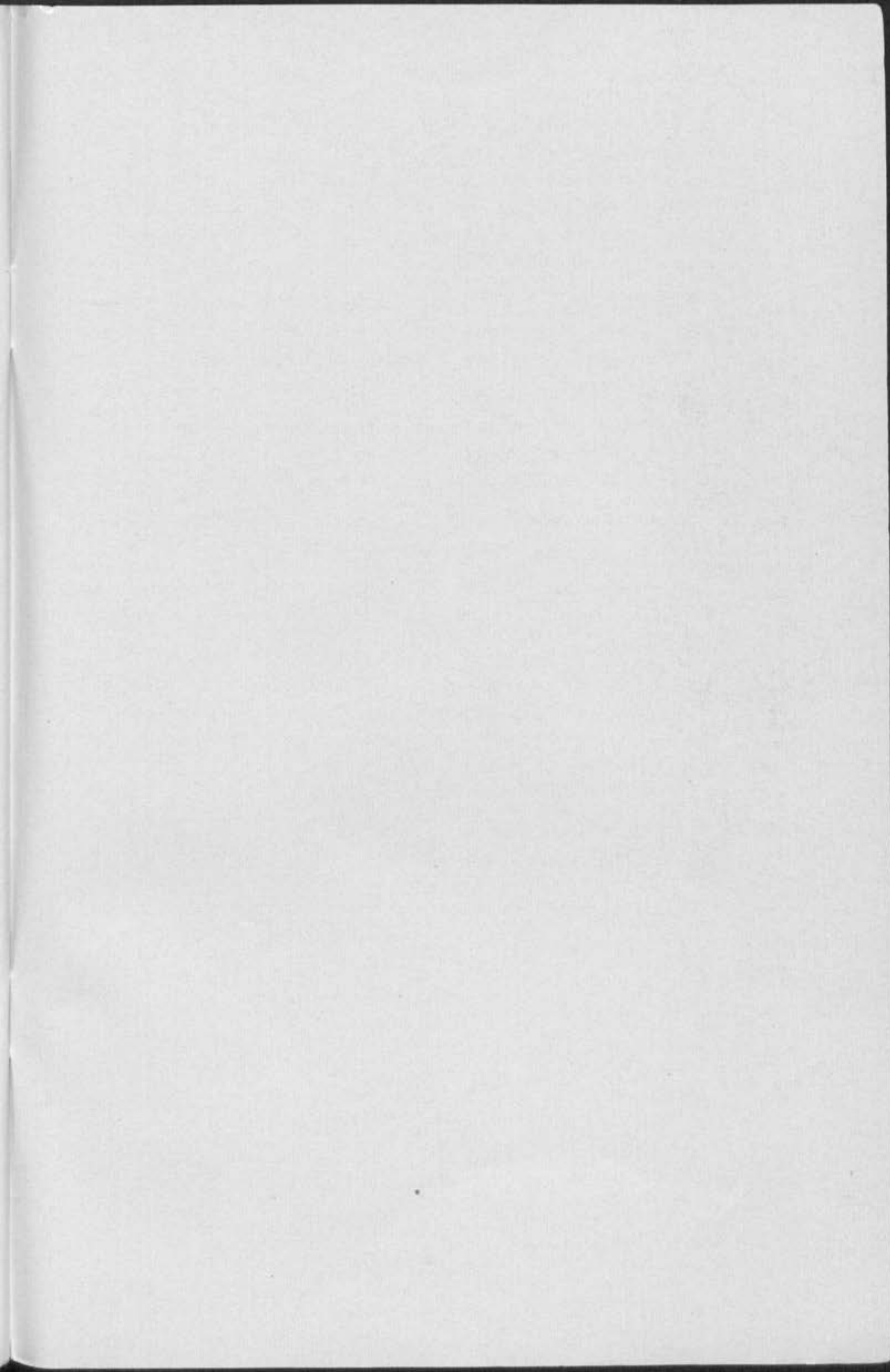
VI. Members of the Committee on Gift Annuities shall serve for three years, or until their successors are elected by the Committee as provided in the Constitution.

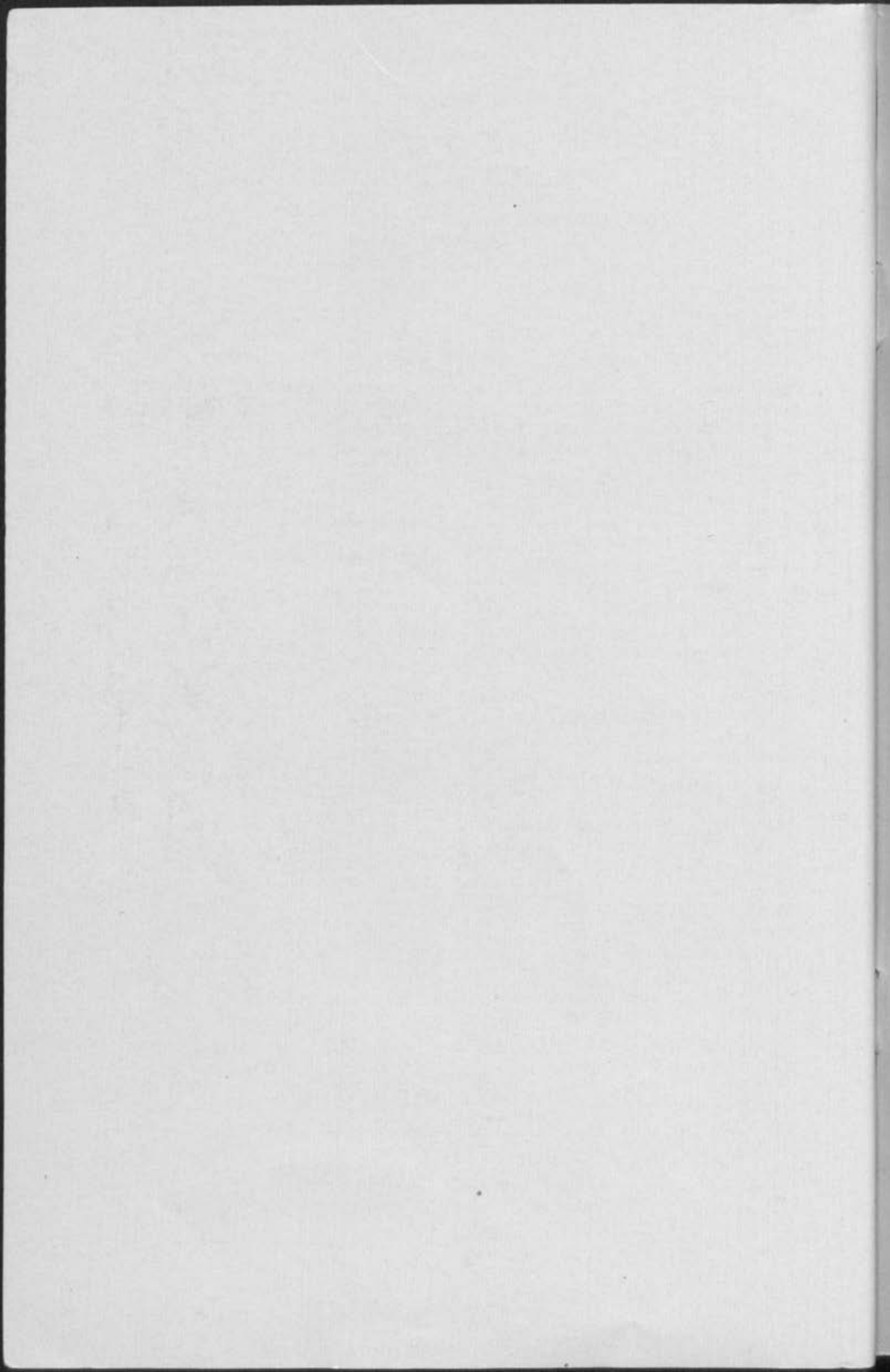
VII. A quorum necessary for the conduct of business of the Committee shall consist of five members.

VIII. Each member is expected to cover his own expenses in coming to the meeting of the Committee and to its Conferences on gift annuities.

IX. If a member of the Committee cannot be present, he may be represented by an alternate, provided notice of such representation is given in writing or by telegram to the Chairman prior to the meeting.

X. These by-laws may be amended at any regularly called meeting of the Committee, provided the proposed changes are approved by a two-thirds vote of the members present and voting.





MEMBERS OF THE COMMITTEE ON GIFT ANNUITIES

Chairman
MR. CHARLES W. BAAS
Treasurer, American Bible Society

Vice Chairman and Actuary
DR. GEORGE A. HUGGINS
Huggins & Company

Secretary
MR. CHESTER A. MYROM
Executive Director, United Lutheran Church Foundation

DR. ASHTON A. ALMAND
Treasurer, Division of World Missions of the Board of Missions of The Methodist Church

LT. COL. G. BLAIR ABRAMS
Staff Consultant, United Presbyterian Foundation

DR. WESLEY O. CLARK
Treasurer, The Board of Missions, Evangelical United Brethren Church

DR. THEODORE A. DISTLER
Executive Director, Association of American Colleges

*DR. H. BURNHAM KIRKLAND
Former Treasurer, Division of World Missions of the Board of Missions of The Methodist Church

DR. D. ALLAN LOCKE
Treasurer, Board of National Missions, The United Presbyterian Church in the USA

DR. J. HOMER MAGEE
Associate Secretary, Council on World Service and Finance, The Methodist Church

DR. ROLAND C. MATTHIES
Vice President and Treasurer, Wittenberg University

*REV. H. SPENSER MINNICH
Director of Special Gifts, General Brotherhood Board, Church of the Brethren

Treasurer
MR. FORREST SMITH
Treasurer, American Baptist Foreign Mission Society

Honorary Chairman
DR. GILBERT DARLINGTON
Investment Officer, American Bible Society

DR. WM. K. NEWMAN
General Secretary, Congregational Pension Boards

DR. R. ALTON REED
Executive Secretary, Annuity Board of the Southern Baptist Convention

MR. JOHN ROSENGRANT
Secretary of The Division of Special Gifts, The Commission on Ecumenical Missions and Relations, The United Presbyterian Church in the USA

MR. HARL L. RUSSELL
Director of Special Gifts, General Brotherhood Board, Church of the Brethren

*DR. FRANK J. SCRIBNER
General Secretary, Retired, Congregational Christian Pension Boards

LT. COL. L. M. SEHL
Secretary, Legacy, Annuity and Legal Department, The Salvation Army

DR. T. K. THOMPSON
Executive Director, Joint Department of Stewardship and Benevolence, National Council of Churches of Christ in the USA

DR. HOLLIS L. TURLEY
Executive Secretary of Pension Fund, Disciples of Christ

**Relinquished Membership, December* 1959