Gift Annuity Agreements of Charitable Organizations

GIFT ANNUITY RATES, INTEREST RATES
and MORTALITY EXPERIENCE

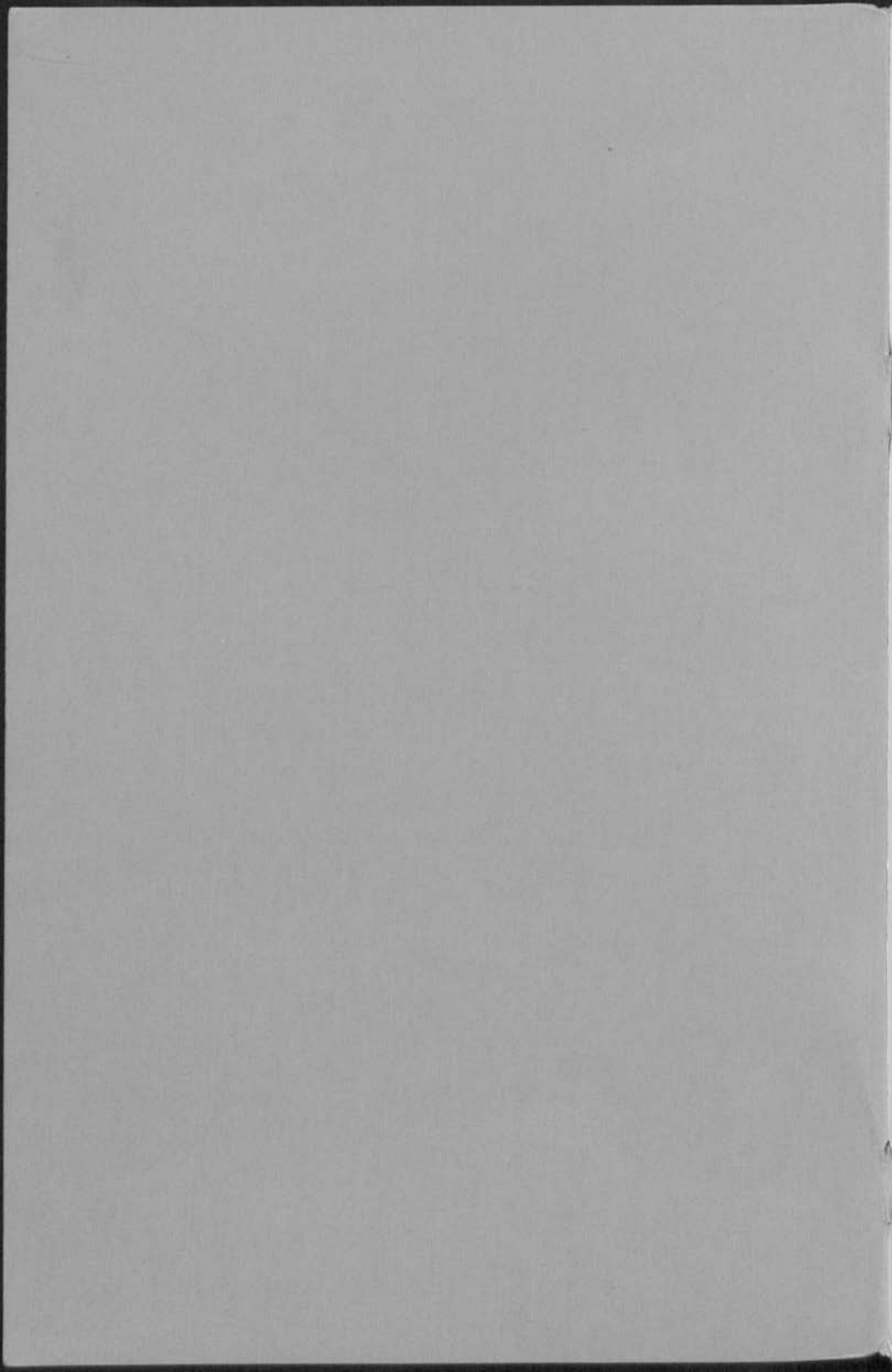
TAXATION OF GIFT ANNUITIES

LIFE INCOME AGREEMENTS

ELEVENTH CONFERENCE

WISE PUBLIC GIVING SERIES, NO. 50

1962



Gift Annuity Agreements of Charitable Organizations

PAPERS PRESENTED AT THE ELEVENTH CONFERENCE ON GIFT ANNUITIES, HELD IN NEW YORK CITY, TUESDAY AND WEDNESDAY, NOVEMBER 27-28, 1962, UNDER THE DIRECTION OF THE COMMITTEE ON GIFT ANNUITIES

THE COMMITTEE ON GIFT ANNUITIES

450 Park Avenue · · New York 22, N. Y.

WISE PUBLIC GIVING SERIES NO. 50

1962

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OPENING REMARKS

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

Many of you are aware that the Eleventh Conference will be the first Conference on Gift Annuities in which Dr. George Huggins will not participate. The Committee remembers with regret the death of this great man. Dr. T. K. Thompson will speak for the Committee:

Dr. T. K. Thompson

"For the first time in the history of the Committee on Gift Annuities, we are meeting in the absence of George A. Huggins.

Three years ago, at the last meeting of the Conference on Gift Annuities, about ten minutes before the end of the conference, Mr. Huggins asked for the floor. In a brief personal word he expressed his great joy in the strength of the Committee and of its leadership under Mr. Charles Baas. He stated that he would probably not be at the next conference; but no one dreamed that four weeks later, Dr. Huggins would be dead.

George Augustus Huggins was born on November 15, 1881, in Nevis, B.W.I., and came to the United States with his parents in 1893. He became a naturalized citizen in 1904. He was graduated from the University of Pennsylvania with a B.S. degree and received an honorary doctorate from Albright College. For many years he headed the firm of Huggins and Co., consulting actuaries.

Dr. Huggins was an Anglican by birth and throughout his life he served his communion with devotion. His ecumenical interests are symbolized in his giving of the furnishings of the Personnel Department of the National Council of Churches. His work as consulting actuary brought him into intimate contact with most American Protestant communions.

Dr. Huggins, along with Dr. Gilbert Darlington, was a founder of the Committee on Gift Annuities. He served this Committee for 32 years as its consulting actuary.

During the first week of December 1959, Dr. Huggins served in his usual capacity as adviser to the Conference on Gift Annuities and as secretary of the Church Pensions Conference. He returned to

his home in Philadelphia with a feeling of unusual weariness. By the middle of December, his fatigue had developed into illness, and on December 23 he entered the Chestnut Hill Hospital in suburban Philadelphia. While there, he suffered a sharp heart attack, on the morning of December 30, and died in mid-afternoon of the same day. The funeral was held on Saturday, January 2, in St. Paul's Episcopal Church, Chestnut Hill, Philadelphia.

Dr. Huggins is survived by his widow, Mrs. Majorie Alden Huggins, and several children. Mr. Charles Burrall, a son-in-law, is the Executive Vice President of Huggins and Company. Dr. Huggins' son William died of cancer almost exactly one year before his father.

American Protestantism owes a great debt of gratitude to George A. Huggins. His contributions to the fields of annuities, pensions, philanthropy and Christian stewardship have become a permanent part of American Protestantism. It seems appropriate, therefore, that the Conference on Gift Annuities should take this action at this time:

Resolution

WHEREAS, God, in his gracious purpose for mankind, has given to this generation a great leader in the person of George Augustus Huggins, and has called him to his eternal home, on December 30, 1959;

BE IT RESOLVED:

That the Conference on Gift Annuities, in session on November 27, 1962, express to his widow, his family, his firm, and his friends everywhere, its gratitude to God for the gift of George Augustus Huggins.

That out of gratitude to George Augustus Huggins, this Conference reaffirms its devotion to all that he held dear: To Jesus Christ, the Lord and Savior of all mankind; to the Church of Jesus Christ; to the Christian pastors; to the cause of Christian giving; and to the adequate support of Christian work in all the world."

The duties of the Chairman include explaining "Why are we having a Conference on Gift Annuities?" Three years ago it was possible to blame the Conference on the Constitution of the Committee on Gift

Annuities which requires a Conference at least once every four years. Your Committee decided on an earlier Eleventh Conference session after receiving many requests for more frequent conferences.

The number of delegates present today appears to confirm the judgment that more frequent conferences were desired.

At every Conference since the first Conference in 1927, annuity rates have probably been the most important conference subject. The two major variables in the rate structure; mortality experience, and interest assumption, have appeared as features at each Conference. The Eleventh Conference will be no exception. Today new mortality information will be presented to you, and you will hear words of wisdom concerning the investment outlook.

A few of you may not be aware that the Internal Revenue Service has recently released some rulings affecting the tax consequences of gift annuity agreements. My guess is that most of you feel the Committee has already supplied too much data. However, this Conference will review in detail the gift-annuity tax situation.

A Conference first—Your Committee has dectected more interest in, and more use of, the Life Income Agreement in recent years. According to a questionnaire circulated in early 1962, almost 50% of the Sponsoring Organizations responding issued Life Income Agreements. Much of tomorrow morning's session will be devoted to a full-scale review of Life Income Agreements.

Any one of the subjects I have mentioned is probably important enough alone to warrant holding a Conference.

Special attention should be called to the other important subjects appearing in the printed program, but I will only take time to remind you of one Conference feature not listed in the docket. This feature is the opportunity to talk about, and ask questions about, gift annuities. As I see it, this opportunity is four-fold. First, there is contact with other delegates; remember it pays to circulate, to sit next to different people at luncheon; at each session; perhaps to stay for a few minutes after the conclusion of today's program. Second, the members of the Committee on Gift Annuities are the experts; the gold-colored name tags identify them for you. You will find all Committee members willing to share data and opinions. Third, each speaker has been asked to reserve time for your direct questions during the presentation, and if the point is not covered to your satisfaction, by all means, at the appropriate

time ask the speaker for further comment. Finally, near the close of the Conference, a panel composed of speakers and committee members will hold forth and attempt to field any remaining questions.

While we are on the subject of questions, let me answer some for you now! Who planned this Conference? Who prepares tax booklets? Who are the members of the Committee on Gift Annuities? I'd like you to meet this Committee now. Will the members come up and stand in front as I call your name.

Honorary Chairman Dr. Gilbert Darlington	American Bible Society
Vice Chairman Dr. Roland C. Matthies	Wittenberg University
Treasurer Mr. Forrest Smith	American Baptist Foreign Mission Society
Secretary Mr. Chester A. Myrom	Lutheran Church in America Foundation
Assistant Treasurer Dr. Wesley O. Clark	The Board of Missions of the Evangelical United Brethren Church
Assistant Secretary Dr. J. Homer Magee	Council on World Service and Finance of The Methodist Church
Lt. Col. G. Blair Abrams	United Presbyterian Foundation
Dr. Ashton A. Almand	Division of World Missions of The Methodist Church
Mr. D. Allan Locke	Board of National Missions, The United Presbyterian Church in U. S. A.
Dr. William K. Newman	The Annuity Fund for Congregational Ministers

Dr. R. Alton Reed	Annuity Board, Southern Baptist Convention
Mr. John Rosengrant	Commission on Ecumenical Missions and Relations of The United Presbyterian Church in the U. S. A.
Mr. Harl L. Russell	General Brotherhood Board-Church of the Brethren
Colonel L. M. Sehl	The Salvation Army
Dr. Thomas K. Thompson	National Council of the Churches of Christ in the U. S. A.
Dr. Hollis L. Turley	Pension Fund of Christian Churches (Disciples of Christ)

Before you are the old-timers—Now, the Committee members who are new since the last Conference:

Mr. Harold L. Arnup	The United Church of Canada
Mr. Charles L. Burrall, Jr.	Huggins & Company, Inc.
Mr. James A. Christison, Jr.	American Baptist Home Mission Societies
Mr. James A. Cousins	The Society for the Propagation of the Faith
Dr. Allen F. Hawley	Pomona College
Mr. George T. Welch	Vassar College

Throughout the Conference you will probably find that though I may not be able to answer your questions; my talent is in knowing which of these Committeemen can.

While these Committeemen are before you I would like to remind you that the Tenth Conference made three specific requests of this Committee:

First—A tax implications booklet was requested.

Such a booklet was carefully prepared and offered to the Sponsoring Organizations in August of 1961.

Second—The Committee was asked to prepare a recommended form of gift annuity argeement.

Such a form, reviewed by legal counsel, was prepared and most recently appeared in the tax implications booklet.

Third—The Committee was asked to convince the Internal Revenue Service that the then current gift-annuity valuation tables were unrealistic.

This project was launched through a visit by a Committee delegation to Washington in February 1960, and culminated in the new Internal Revenue Service tables published last August 28th.

The drafting of resolutions to be considered by a Conference on Gift Annuities has at past conferences been done by a Resolutions Committee appointed for this purpose. The Committee on Gift Annuities suggests the following persons to serve as a Resolutions Committee for this Conference:

Chairman

Curry B. Hearn	Treasurer, Board of World Missions of the Presbyterian Church in the U. S. A.
Lyndon O. Adams	Manager, Treasury Department, Northwestern University
D. W. Smythe	Comptroller, DePauw University
Charles L. Burrall, Jr.	Huggins & Company, Inc.
Chester A. Myrom	Lutheran Church in America Foundation
Hollis L. Turley	Pension Fund of the Christian Churches

and

Your chairman
Ex Officio

A Conference Packet was presented to you on arrival this morning. Most of the material in this envelope will be the subject of specific reference during conference presentations. I wish to call your special attention to three papers:

The first is the paper on Conference Statistics:

Responses have been received from 92 of the 170 Sponsoring Organizations represented at the Conference. Incidentally, the Conference is now sponsored by 260 organizations.

For 92 organizations the outstanding gift annuities in 1963 totaled 56,757 Agreements having a principal value of $102,309,710—an average value per agreement of $1,803.

For the same group, new gift annuities in the latest full year totaled 3,791 Agreements having a principal value of $8,546,768—an average value per agreement of $2,254.

Also appearing on this sheet is some data on Life Income Agreements.

The second paper to which you should refer is the publicity release. Secretary Myrom will provide comment:

(Secretary Myrom)

> "Earlier this year the Committee on Gift Annuities decided to seek wider publicity coverage in the public press about the Conference itself and the whole field of gift annuities in general. To that end, a professional publicist has been engaged, Peggy Le Boutillier. Releases about the Conference have been sent, to all the New York newspapers, to major cities across the country, and to the weekly news magazines.
>
> "In addition, a partially prepared publicity release, for local use, has been sent to every registrant before the Conference. Presented now in the packet is another release, prepared from a different point of view, for use in a similar way. Cooperation of the group is invited in creatively utilizing these aids and in reporting news coverage experienced."

The last papers to which I will direct your attention are the Constitution and By-Laws of the Committee on Gift Annuities which may be found on pages 96-99.

THE LONG-TERM TREND OF LONG-TERM INTEREST RATES

MR. ALFRED H. HAUSER
Senior Vice President, Chemical Bank New York Trust Company

It is a pleasure to join with you in attempting to look into the crystal ball to see what the future holds for the issuer of annuity contracts and the investor in fixed income securities. I find forecasting to be a most enjoyable form of recreation—it is stimulating and interesting—the only problem it presents is to tell what is going to happen in the future.

In August 1959, the Joint Economic Committee of Congress held three days of hearings in New York in connection with their study of the Government's Management of its Monetary, Fiscal and Debt Operations. Chairman Douglas sought to determine the cause of the decline in government bond prices between June and October 1958, when the newly issued 2⅝'s of 1965 tumbled some 8 points. Suspected causes of the decline were:

A. Speculation
B. Inadequate margin requirements
C. The "Bills only" policy of the Federal Reserve
D. The alleged monopoly enjoyed by 17 government bond dealers
E. Inflation
F. Deflation

Little attention was given to an analysis of the demand for money which was beginning to make itself felt at that time. No mention was made of events which were brewing in the field of international exchange.

In December 1958, the following European countries had restored non-resident current account convertibility for their currencies: Austria, Belgium, Denmark, Finland, France, the Federal Republic of Germany, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Sweden, Switzerland and The United Kingdom. From that date, in

other words, non-residents acquiring these currencies in current transactions could freely convert them into any other currency within narrowly defined limits around the official rates.

Shortly thereafter, other countries in related monetary areas took steps to adjust their exchange regulations to the new conditions. These included Australia, Burma, Ceylon, Ghana, India, Iraq, Jordan, Libyia, Malaya, Morocco, New Zealand, Pakistan, Sudan, Tunisia and the then Union of South Africa.

The conditions which prevented convertibility until more than a decade after the war resulted directly from the war or from the economic crisis which preceded it. It will be recalled that in 1945 the productive capacity of the various Western European countries was either extremely low or practically non-existent. At the same time, the money supply was increasing as a result of either the German occupation financing or the war financing. Inflation, therefore, was a major problem, and continued so for some years. Furthermore, the trade and balance of payments situations were almost universally weak, and international reserves were very low and ill-distributed. All of these problems had to be solved or overcome before the strait-jacket of bilateral trade and payments agreements could be broken.

Thanks to a large infusion of U. S. aid and to the adoption of sound fiscal and monetary policies the picture gradually changed. Production facilities were rebuilt or expanded, the gross national products moved upward, money supplies were returned to more traditional levels in relation to G.N.P. and trade and payments positions returned to surplus. I will not bore you with a mountain of statistics spelling out these changes. All of these developments are sooner or later reflected in the behavior of a country's international reserves. You cannot, for example, reasonably expect an economy's reserves to expand if inflation is sapping its strength, if production is lagging and if as a consequence trade and payments deficits are being regularly incurred. Therefore, the movement from weakness to strength which enabled the major European countries to restore current account convertibility is clearly reflected in a comparison of gross reserves in 1946 and 1961. The figures also reflect the U. S. contribution to this process in the decline of our gold holdings.

Gross Reserves
(millions of U. S. dollars)

Year End	1946	1950	*Convertibility* 1958	1961
United States	20,706	22,820	20,580	17,060
Austria	NIL	91	665	826
Belgium-Lux.	875	733	1,497	1,657
Denmark	124	118	331	338
Finland	34	109	277	397
France	928	791	1,050	2,939
Germany	7	274	6,582	7,273
Italy	248	878	2,321	4,493
Netherlands	437	696	1,679	2,091
Norway	295	161	368	412
Portugal	433	547	863	691
Sweden	667	352	735	985
Switzerland	1,467	1,580	2,063	2,759
United Kingdom	2,861	3,300	3,069	3,318
Total*	8,376	9,630	21,500	28,179

*excluding the U.S.

Let us go back some fifteen years to bring to our minds the circumstances in the late '40's, when the world was recovering from World War II, and when the United States had a virtual corner on gold and on capital. Our friends (and former enemies) abroad were struggling to rebuild their productive power and we recognized the necessity of supplying them with capital to put them on their feet. We were also aware of the need to supply them with dollars and gold in order to bolster their currency reserves and to give them purchasing power in a hard currency. Whether we were altruistic or selfish, we embarked on a program of redistributing our gold supply and providing the world with dollar exchange. You will recall, I am sure, the prevalent problem of the dollar gap. It seemed at times as though this gap could never be closed and that Europe would not be able to buy our exports.

The gap was closed, however, and it took us several years to realize that the wheel had turned and that a gap was developing in the opposite direction. Our efforts to redistribute gold had gathered momentum and threatened to get out of control. I need not delineate the

many steps we have taken in the past five years to stop this trend and to correct the deficit in our Balance of Payments.

While the dollar gap existed it was impossible for most countries, other than the United States and Switzerland, to permit a free market in their currencies, and it was impossible for private funds to flow freely from country to country. All European countries regulated transactions in foreign exchange and restricted purchase of gold and transfers of capital.

Under the circumstances prevailing prior to 1958 the United States was free to conduct its monetary and fiscal affairs with very little regard to money markets in other countries. We were thoroughly insulated from the disciplinary considerations which we have had to face more recently. Credit could be made very easy without fear of an outflow from the United States to financial centers where rates were much higher. Fiscal policies resulting in large deficits or in the piling up of short-term debt may have raised a question in the minds of foreign central bankers, but it did not cause them to withdraw their funds, because they had very little to withdraw and there was no more stable currency to flee to.

At times credit was made so easy that yields on short-term obligations were driven down to a fraction of one percent. The Federal Reserve Board was free to influence the volume of member bank reserves so as to stimulate or retard business activity. Similarly, Federal budgets were deliberately unbalanced at times to stimulate business. In neither case was there danger of an outflow of money on the score of rate differentials or fear for safety of the dollar.

Interest rates in most European countries, in South America and Japan were high enough to provide a distinct advantage to Americans who had the fortitude to risk the difficulties of retrieving or repatriating their funds at maturity. Political unrest, currency restrictions, and the low state of the economy raised questions regarding the repayment of foreign loans and negated the more liberal returns available.

With the establishment of convertibility in 1958 we were no longer insulated and the need for capital pulled funds abroad, where vigorous economic recovery produced a demand for expanded facilities for production, distribution, and transportation. Doubts over currency rates, money markets, and political developments diminished and in

many cases disappeared. For the first time in many, many years the world demand for capital began to exert a pressure on our money market which certainly was not recognized in 1958-59, and this phenomenon probably is not yet fully understood and appreciated. One may well ask whether the sudden sharp increase in interest rates which took place in 1959 was the result of the obscure but powerful demand from abroad which we were trying to satisfy through government aid and private investment.

Of course, capital formation abroad may eventually be a source of supply which will counter-balance this demand and which could eventually put downward pressure on our money market. It would appear, however, that such an event is remote.

Fiscal policy of the United States must now be conceived and executed in a manner which gives due regard to the spotlight which our short-term creditors in Europe are focusing on us. We must realize that our every step is observed and reacted to. Have you ever tried to visualize the discussions which take place in the central banks of Germany, France and Italy, for instance, with respect to their holdings of dollar balances? The thought must frequently cross their minds that if the United States continues to suffer from a deficit in its Balance of Payments a point will be reached where decisions will have to be made with respect to our ability to meet all of our obligations and commitments in gold. Should the central banks of these countries wait until that point is reached, or should they play safe and convert some of their dollar exchange now? Any move we make toward unbalancing our budget by a drastic tax reduction or increased expenditures must cause these discussions to be renewed.

My remarks up to this point are not designed to lead to any specific conclusion concerning the trend of interest rates; rather, I have tried to demonstrate the importance of the rest of the world in the determination of our money market trends. For the foreseeable future it would appear that the foreign influence will be on the side of demand for capital, with an implication that the pressure would be toward higher rates. The Federal Reserve Board must continue to be on guard to prevent a too-attractive environment here to add to the normal domestic demand for capital. An easy money policy is tantamount to an invitation to borrow in this market and thereby, of

course, dollar balances held by non-residents go up and claims on our gold are increased. As liquidity is created in this country and the availability of money is improved it now flows freely over national boundaries into other countries.

Foreign demand, consequently, has a double barreled effect—the demand itself works toward higher rates, and the outflow of funds induces the Federal Reserve to keep rates firm as a preventive measure.

Fiscal policy must also be sensitive to world response, but we do not as yet appear to have achieved the determination required for balancing our outgo against our income. That we will avoid recurring deficits in the Federal budget is, I fear, hoping for too much.

What of the domestic factors of supply and demand? The biggest absorbant of money in the eight years since the distortions caused by the Korean conflict came to an end was residential mortgages. At least $10 billion and sometimes as much as $19 billion have flowed into mortgages annually. Other uses of long-term funds have been borrowings for capital expenditures of corporations and flotation of debt by State and local governments. The Federal government has studiously avoided long-term borrowing and can hardly be considered as a direct factor in the long market.

The outlook for demand for mortgage money is reasonably strong over the next decade, especially as our growing population reaches the marrying age.

Business concerns, which have raised from $6 to $10 billion per year in the long-term market, will continue to require some such figure in spite of the cash flow related to acceleration of depreciation and rather conservative dividend policies. The Revenue Act of 1962 permits businesses to deduct 7% of the cost of newly acquired machinery and equipment from their taxes. These savings represent money which will not have to be borrowed. Cash flow will be further increased by the recent revision of Treasury regulations governing depreciation. At the same time, more billions will be raised for expansion and for much-needed equipment to cut costs in the face of constantly rising wages.

States, counties, cities and towns, accompanied by the burgeoning authorities of various kinds, will be steady customers of those who have money to lend and there can be little doubt that they will need more and more for schools, roads, water and sewer construction, electric

plants, airports and other public works. Municipalities are even borrowing for the purpose of constructing factories to be leased to privately-owned industrial concerns. Net borrowing by local governments has amounted to some $5 billion in the past 12 months.

On top of these long term demands are the domestic uses of short-term credit. In the field of commerce and industry, financing of inventory and receivables has absorbed as much as $8 billion in some recent years, while consumer credit adds another $6 billion when Mr. Public really feels like spending money. Total borrowing of $40 billion a year has become commonplace and the $50 billion mark will be exceeded in short order.

Where does all this money come from? From savings, of course, but what form do these savings take, and what do they amount to? Business corporations contribute to the formation of capital through the retention of profits at the rate of $10 billion a year and depreciation allowances are running in excess of $25 billion. A large part of these internally generated funds is used primarily by the very concerns which accumulate the money and a considerable amount of credit is advanced by one business to another. Business savings, on balance, do not appear as a *net* source of funds. Individual savings are, therefore, the fountainhead of the funds which appear in the capital market. Individuals no longer make substantial direct investments as our grandfathers were accustomed to do. We have provided institutions to do this for us—you who are gathered here today are among the professionals who look after individuals' savings.

In the past five years, savings and loan associations have been the conduit through which the largest segment of earnings has passed. (Some $10 billion estimated for 1962.) Life insurance companies have long led the field and are now second in providing close to $6 billion annually, although private pension plan accruals of $3½ billion taken together with state and municipal pension funds, with almost $3 billion, are increasing more rapidly.

It would appear that individual savings, in the aggregate, have supplied sufficient capital and credit to meet the needs of business, agriculture and home construction with only a small short-fall, which has been taken up by the commercial banks. Federal government borrowing has also been accommodated, at least initially, by the banking system

in such a way that there has been no long enduring stress caused by a demand for credit in excess of the available sources of supply. The banking system of the United States is in a position to provide enough funds to fill such a gap from time to time and to prevent a money crisis from developing. It is not the function of commercial banks, however, to supply long-term loans in large amounts and the demand for long-term money is currently of a magnitude which is not quite met by savings.

Deficit financing by the Federal government, like the poor, is always with us. Our economic advisors tell us that a deficit once in a while is a good thing and that "once in a while" is always now. Can we afford to have Russia exceed our rate of growth? Spend more! Can we let a million recent graduates of our colleges remain unemployed? Cut taxes! Is there a sign that business activity is faltering in an election year? A good deficit will provide the needed stimulus. Some day, we are told, we will have such a big surplus we won't know what to do with it. But we won't permit such problems to arise to plague us now.

Direction of savings into the right channels raises some new problems. We are told:

> "So long as the deficits of the government are not financed by the banking system the effects are not inflationary.
>
> "Therefore, we should mop up savings by sale of long-term bonds at sufficiently high rates to encourage individuals to buy them."

A few figures highlight some inconsistencies which are real beauties.

Commercial bank holdings of U. S. Government securities in December 1954 totaled $69.2 billion. In July 1962 they amounted to $65 billion. Obviously the accumulated deficits of that period, which resulted in a net increase in Government debt of $20 billion, were not financed with bank credit. Does this mean we had no inflation, or was the inflation caused by other forces?

Savings deposits at commercial banks have increased by billions of dollars in recent years. Are these the savings that are to be mopped up by sale of long-term bonds? If bonds are sold at high enough yields to attract buying by individuals won't banks be similarly attracted? If the banks at which these savings deposits are lodged should buy long-term bonds, is the effect on the money supply any different from

purchase of short-term issues? It is hard to see how an effort to sell long-term bonds to individuals can be successfully insulated from the commercial banking system. The answer might be that commercial banks do not buy long-term assets because their liabilities are on demand. Such a reply ignores history and disregards the investment policies of many leading banks which relate a portion of their bond and mortgage investments to their time deposits. Commercial banks are making more and more long-term commitments in order to meet the increasing cost of interest on time and savings deposits. Regulation Q was amended just a year ago—on December 1, 1961.

Were it not for U. S. Treasury needs we would have experienced a considerably smaller demand for money. The unlikelihood of consistently balanced budgets in the future may be one of the principal determinants of demand and may provide some clue to the trend of rates.

The trend will certainly be influenced by population growth in this country and abroad. The economic development of Asia and Africa should stimulate demands which do not now exist. In addition, the population statistics indicate that people who do not now exist will add to the demand. The composition of our own population broken down by age and sex will expand rapidly in the 18-to-25-year bracket. The Census Bureau figures indicate that family formations will be on the increase in the latter part of this decade. This does not mean that every couple will buy a house, but many new houses will be required, and rental space will be provided in the form of new apartment buildings or alterations to single dwellings in order to accommodate another family unit—in other words, the young couple may make alterations at the "old man's". The capital required for this construction will undoubtedly exceed the rate of savings accumulations on the part of these younger people by a wide margin.

Population pressures abroad will be of less direct significance, but one cannot ignore the tremendous impact on world demand which will result from the explosions in India, Africa and Japan. Probably we will not feel the Chinese population pressures for many years, but that is something to keep in mind for the distant future.

Demand for capital is not exclusively a demand for bond money, or to put it the other way, does not exert an influence exclusively in

the field of fixed obligations. Bonds are in competition with stocks. The pressure on bond yields is in inverse proportion to the degree of corporate financing in the form of stock issues. Here a direct comparison of yields is not the answer, for many other considerations play an important part in attracting money into equities.

The climate of the stock market is one. Attitudes of government are influential in investor decisions and in the action of stockholders. The buyer of stocks is more impressed by actual or prospective earnings than by the amount currently paid out in dividends. He might be satisfied with a 3% yield on a stock which earns for him as much as 6% or 8% on his investment. In this light an equity investment, albeit more risky, might look very good in comparison with a 4.30% return on a bond. Of course, there are not too many stocks to be had at 12 to 16 times earnings, but they have been increasing rapidly since last May! One might even inquire into the construction of the profit and loss statements of a number of companies and discover that a reasonable interpretation of the figures would indicate more liberal profits than are revealed. Accelerated rates of depreciation, conservative inventory policies and heavy charges for reseach and development tend to obscure earnings as they would have been reported in the good old days, when blue chips sold at 10 times earnings. Perhaps the virtues of present-day accounting will some day produce a preference for stocks over bonds, with an attendant upward effect on bond yields.

One basis for looking for an upward tilt in long-term rates cannot be supported so much by logic as by the historical record. We have a somewhat limited set of data from which to determine the cyclical periodicity of changes in interest rates in the U. S. However, we can piece our experience together with that of Great Britain, as did Professor John Harriman, who addressed this Conference in 1959.

British consols have been outstanding for some two centuries and their yields have fluctuated through rather wide ranges. Since early in the present century, yields on high-grade bonds in the United States have moved in a pattern similar to that of British consols. It is thus possible to trace a rhythm in the fluctuations of bond yields, which indicates turning points at average intervals of 54 years. We find that interest rates were relatively high in 1815 and again about 1870. A third major peak was found in 1921. If this is a true cycle we may

look for another peak around 1978. The actual turning point could easily be five years before or after that date, but it would indicate little likelihood of the beginning of a trend toward lower rates for another ten years or more.

We cannot ignore the influence of Federal Reserve policy on the money market nor the role of fiscal policy on the part of the U. S. Treasury Department. Certainly the Federal Reserve Board can contract or expand the volume of commercial bank reserves in such a way as to raise or depress the level of interest rates in the short-term sector. This does not mean that rates can be pushed around without any repercussions. A flood of bank funds will in time lead to inflation or to an outflow of funds to other countries. If easy money is maintained through a booming period damage done to the economy may be irreparable. Consequently an easy money policy may be regarded as a short-run matter.

The case has been clearly stated by Chairman Martin of the Federal Reserve Board and was stated emphatically by Under-Secretary Robert V. Roosa in his testimony before the Senate Finance Committee in January 1961:

> "If we begin to judge that the Federal Reserve or anyone else can make that market, and make it stick, then we are beginning to violate, it seems to me, one of the premises of a market economy and, perhaps, unwittingly we are beginning to invade the necessary fundamental conditions for a lot of other things. The broader implications for the functioning of the rest of the economy may not be visible at first, as an effort is made to set interest rates artificially, but these effects do spread out and, in time, eventually undermine the entire structure of our kind of economic system."

Even with a continuation of ease in the short-term area there is not necessarily a carry-over into the long-term sector. Demands for long-term capital, if robust, cannot be financed by bank credit to such an extent that really low rates for long-term money can be induced. The forces of supply and demand will prevail in the end.

Variations in debt management can also have a temporary effect but in the course of time the obvious observation is that the pattern of debt maturities can have little direct effect on long-term rates, except

in the unlikely event that the Treasury should decide to do all of its financing and refunding by means of long-term bonds.

In marshalling the arguments pro and con, it seems to me that one must conclude that we will see some firming of long-term rates as we emerge from the present recessionary period, and that over the next decade we may expect a continuation of relatively high interest:

1. Domestic demand and supply are presently in reasonably close balance. Future supply will be substantial but the combined demands of a growing economy and recurring government deficits will be even greater.
2. Foreign borrowers will continue to come to this market.
3. Monetary policy will be dominated by the international Balance of Payments, which calls for maintenance of rates which will prevent too wide a disparity with foreign markets. The discipline of gold will stand in the way of anything more than temporary easing of the credit structure to combat recessionary tendencies.

TERMINOLOGY IN PROMOTION AND ADMINISTRATION OF GIFT ANNUITIES

COLONEL L. M. SEHL
Secretary—Legacy, Annuity and Legal Department
The Salvation Army

This subject may sound familiar to some of you inasmuch as it has appeared in some form or other on the agenda of previous Annuity Conferences, and been presented much more ably and adequately than I feel able to do. Recently I had occasion to go through some old notebooks, etc. which I had been hoarding for years, with a view to discarding the unnecessary. Among the material I found my lecture notebooks covering some of the subjects with which we were concerned when I was a cadet in The Salvation Army Officers' Training College many years ago. I must confess it made for interesting reading at this distance. In those days lecture notes were not prepared and given to us by the lecturer, and in certain subjects all that we were able to preserve was what we were able to retain in our memory and get down in our own notes. Public speaking and platform material was one such subject. One bit of wisdom which apparently had made an impression on me had to do with "driving home the point". I find I had written in large letters across the page three times, with exclamation marks, these words:

REITERATE! REITERATE! REITERATE!
AGITATE! AGITATE! AGITATE!

I cannot at this distance recall what the "Agitate" was all about, but it does seem to me that the "Reiterate" is appropriate in connection with this presentation.

There are undoubtedly those present here who are attending a conference of this kind for the first time and who are still new in this particular field of activity. It would seem quite in order, therefore, to briefly *reiterate* some of those things which have been stated in previous Conferences, with the thought that they might prove helpful to the newcomers, as well as a sort of "refresher" to the more experienced, for it is possible to become a little careless in this matter of terminology.

The dictionary defines "terminology" as "nomenclature—the system of terms used in a specific field of business, art, science and the like."

In that sense, I suppose we use very little special terminology—in my opinion the less the better in our promotion of this activity, since it is desirable to use simple language every annuitant will understand. We should try to avoid the use of inappropriate or ambiguous words or phrases about Gift Annuity Agreements. Nevertheless there are certain terms that ought to be in common usage by all organizations engaged in this activity which mean the same thing to all of us. May we consider a few.

I.—The Product Itself:

That would seem to be a good place to begin. We read in printed material and hear it referred to by various terms, such as "Annuity Bonds"; "Gift Contracts"; "Bonds of Blessings"; "Gift Investments"; etc. Many of the inquirers who respond to our advertising ask for information concerning our "Insurance plan". Well, certainly it is not 'insurance' in the general meaning of that term. I suppose there is a sense in which some of these other terms might partially describe it. The Certificate of Authority issued by the State of New York Insurance Department permitting an organization to engage in this activity describes it this way:

". . . is hereby granted a special permit authorizing such corporation to receive gifts of money conditioned upon, or in return for, its agreement to pay an annuity to the donor, or his nominee, and to make and carry out such annuity agreement within this State as specified in Section 45 of the New York Insurance Law." "Gift Annuity Agreement" therefore seems to be the term which most aptly and accurately describes it. Unless there is some legal limitation in any given State or restriction in the corporate charter of an organization which would prevent doing so, it would seem wise to follow the suggestion made at previous Conferences and refer to the product as "Gift Annuity Agreement", so that there is no confusion as to just what we are promoting.

II.—Promotion of the Product:

In a broad sense "terminology" could be expanded to include the

language and form of correspondence and other material sent to annuitants or potential annuitants.

We endeavor to make our replies to inquiries from prospective annuitants in as simple, non-technical language as possible, that the prospect will readily understand. At the same time such correspondence is prepared in anticipation of probable referral to an attorney or certified public accountant. It is therefore desirable to try and use with accuracy and precision such terminology as is found in our State and Federal gift, income, inheritance and estate tax laws as may be relevant and necessary for a proper response to the inquiry. This is not easy to do, and the problem can most successfully be resolved wherever possible by having the attorney or C.P.A. get in direct touch with the organization when the more technical terminology not always clear to a potential annuitant, may be used to describe all that is involved in the transaction, especially tax-wise.

Organizations offering both immediate and deferred Gift Annuity Agreements, and also Life-Income Agreements, may, under some circumstances find a life-income agreement to be more beneficial both to the organization and the donor. While the terminology of gift annuity agreements and life income agreements is similar, the tax consequences are substantially different in several important respects. When discussing both types of agreements with a prospective donor, care needs to be exercised to distinguish clearly between remarks referring to the gift annuity agreements on the one hand and life income agreements on the other.

Those organizations which carry on their annuity program under the Certificate of Authority issued by the New York State Insurance Department have the benefit of periodic examinations by representatives of the Insurance Department. These examinations usually cover all that is involved in conducting this activity, including the content of advertising, printed material used to promote the program, and letters written to annuitants and potential annuitants. In one of the examinations made in recent years, a number of suggestions were made concerning this promotional material which had been in use with good success for a number of years. Inasmuch as I have read similar phrases and terms in the material of other organizations, and as it is related to this broader concept of "terminology" in promotional

material and correspondence, I thought it might be helpful to share with you the result of this particular examination in the form of suggested changes and deletions. The deletions suggested had to do with enthusiastic descriptions of the plan—or in other words the "superlatives". For example:

1. It was suggested that the phrase "income of high value" used to describe the income from a Gift Annuity Agreement might be misleading since the amount of income is limited by the Insurance Laws of this State.

2. It was suggested that the phrase "generous income" appeared to be an over-statement.

3. The statement that this activity is carried on "under the supervision and control of the New York State Insurance Department" was amended to delete the word "control" as it was felt this might be misleading.

4. In endeavoring to emphasize the ultimate safety of a Gift Annuity Agreement, in one pamphlet it was stated that "in addition to full compliance with the requirements of the Insurance Law as to the segregated reserve and surplus funds, the organization also pledges its entire unencumbered assets" for the protection of the annuitant. It was pointed out that an annuitant would not have a "preferred" claim against the entire assets of an organization unless they were the segregated assets of the Annuity Fund.

5. Description of income as being "generous" and "liberal" was considered an exaggerated overstatement.

6. The comparison of income from a Gift Annuity Agreement and that from some high grade securities was not acceptable on the basis that it was between two unlike things and therefore improper whether or not it could be substantiated.

7. Since, according to the Insurance Law the annuity income rates are so calculated as to leave a residue of at least equal to one-half of the original principal gift, the content of one ad containing the phrase "Here is proof . . . what you give away returns to you!" was not considered acceptable. Although possibly every organization has had some experiences where one or more annuitants have lived sufficiently long for this to actually happen and they have had returned to them in income very nearly all that they gave away in the first place.

We proceeded to comply with the suggestions made as a result of this examination, even though I must confess I viewed with some consternation the possible effect the deletion of the "superlatives" would have on the annuity promotion program. However, I am glad to report no adverse effects, in fact the years which have elapsed since have been the most successful of our annuity history.

III.—Administration of the Product:

For clarity of future correspondence it is desirable that each Gift Annuity Agreement, besides clearly spelling out the terms of payment, also bear a date and an identification number in a prominent location. Either simultaneously with the sending of the Gift Annuity Agreement to the annuitant, or as soon after as possible, the annuitant should be supplied, either by letter, or by information form, with all the income tax information needed for reporting the taxable portion of the annual annuity payments for federal income tax purposes, together with the amount of the charitable contribution deductible in the first year only. While it may be helpful to annuitants to include in this tax information the precise page and section of the Federal income tax return where the income is to be reported, and where the charitable deduction is to be entered; care should be exercised that such information is kept in step with changes made in the format of the Federal income tax return.

In correspondence with annuitants and particularly in the tax letter or tax information form, it is desirable to adopt standard sentences and paragraphs that state the facts clearly and that annuitants may understand, making changes only to the extent necessary in any given instance. Form letters accomplish this and save time as well; however, they lack the personal touch of an individually prepared letter utilizing standardized language which is the method my organization prefers to use.

Conclusion

Some of you may know that the Howell Advertising Agency of Elmira, New York recently completed an extensive survey in which a number of organizations represented here this morning, participated. Mr. Everts Howell, the President of the Agency, very generously has given me permission to use any portion of the survey in this presenta-

tion. It was, of course, primarily concerned with the advertising of the product—media used, costs, size, format and space required for ads, response in the form of inquiries, and results in new annuitants, etc., none of which would have any great relevance to this subject of terminology; however there were some statements made in the closing paragraphs which I would like to use in the conclusion of this presentation, having to do with the future outlook for the "Gift Annuity Agreement Program".

"Each participant in the survey discussed freely his ideas having to do with the present gift annuity market and the prospects for the future. All agreed that the potential for gift annuity agreements is tremendous, and that as more people understand what gift annuities offer the volume will increase greatly. They say what is needed most is a continuing program of education and promotion."

And in this process of education and promotion may we exercise care and caution as to the terminology used.

STATE REGULATION OF GIFT ANNUITY FUNDS

MR. JAMES A. COUSINS, C.P.A.
Society for the Propagation of the Faith, and Pace Institute

In order to save time I will confine my remarks to the period from the Tenth Conference in 1959 up until the present time. For those of you that are attending your first Conference, I recommend that you read Dr. Gilbert Darlington's article which is published in the booklet on the Tenth Conference. Dr. Darlington reviewed the history of the Committee on Gift Annuities from its start in March of 1927 until 1959.

In order to obtain the latest infomation for you, I sent a questionnaire to the Insurance Departments of fifty-two states and also to the Canal Zone, the District of Columbia and Puerto Rico. I received answers from forty-five Departments. These answers may be summarized as follows: Twenty-seven Departments informed me that their states did not have any laws or regulations concerning the issuance of Gift Annuities. Fifteen states, however, stated that although they did not have specific laws covering the issuance of Gift Annuities, they felt that the Annuities could not be issued unless the organization complied with the general Insurance Laws of the state. These states are as follows:

ARIZONA	OKLAHOMA	UTAH
DELAWARE	LOUISIANA	NORTH DAKOTA
HAWAII	MARYLAND	VIRGINIA
ILLINOIS	OREGON	WASHINGTON
KENTUCKY	PUERTO RICO	WYOMING

Only three states have specific laws covering the issuance of Gift Annuities. Two of these states you are already familiar with—California and New York. The third is a newcomer—Wisconsin. In the case of New York, Mr. Charles C. Dubuar wrote to me under the date of August 14th. He stated:

1. "I presume that you already know that the maximum interest rate was increased from 3 to 3½% for Individual and Group Annuity Contracts issued on or after January 1st, 1960, by authorized Life Insurance Companies, and the same situation is applicable to Gift Annuity

Organizations. However, the mortality table, that is, the standard Annuity table, was left unchanged. No consideration is being given by the Department at the present time to make any further changes in the present standard for a minimum reserve and maximum rates of Gift Annuities." (Since I understand that this information is being covered by a following speaker, I will not make any comment.)

2. Mr. Dubuar enclosed a table with respect to the operation of Gift Annuity Societies in 1961. I think you will find it interesting to compare these figures with those which the Insurance Department issued for the year 1941, the first year in which they published the statistics under the new law. In 1941 there were twenty-five organizations licensed by the New York State Insurance Department, and at the end of December 1961, there were twenty-seven, a net increase of two organizations, or an increase of 8%. In 1941 the total assets of the organizations amounted to $24,300,000.00. These assets have increased to $42,630,000.00, or an increase of 75% by the end of 1961. In 1941 there were 19,927 Contracts in force as compared with 40,731 at the end of 1961—an increase of over 100% in the Contracts outstanding. The annual amount paid in 1941 was $1,957,000.00, and in 1961 it was $3,386,000.00—an increase of 42%. These figures indicate a substantial increase in the activities of the organizations licensed by the State of New York.

On August 24th Mr. Dubuar sent me a second letter stating: "I have discussed your request for suggestions with the Supervising Insurance Examiner Krowitz of our New York City Office, and his reaction is that the Department does not have any further suggestions or recommendations beyond those contained in my talk before the Tenth Conference on Gift Annuities held in November, 1959. It is still true that our examinations can be considerably expedited if the relevant Board minutes or correspondence having to do with the general policy matters or Annuity Fund operations are in a ready form for the Examiner's review; likewise if the reserve data is in ready form for verification and calculated as of the date on condition of the examination rather than the fiscal year which may be in use by the particular Society."

In the case of the Insurance Department of California, I received a letter from Mr. Charles Mehlman, Chief Actuary, in which he

enclosed a copy of Sections 11,520 to 11,524 of the California Insurance Code. He reviewed these Sections in his letter. Since these Sections were published in the booklet on the Tenth Conference, I will not comment on them.

In the case of the third State, Wisconsin, I received a letter dated August 6th from H. T. Walberg, Actuary. He stated: "In response to your letter of July 27th, we wish to say that Chapter 90 of the Wisconsin Laws of 1961 constitutes the only legislation on the question of Donor Annuities in this State. Bill #373 S was passed without amendment and became effective May 28, 1961. A copy of the Bill is enclosed. It is our impression that the organziations which take advantage of this legislation already have corporate authority to accept gifts. As we do not supervise these organizations, we have not investigated that feature. For the same reason we do not know which organizations may be following the provisions of the Act. Prior to May, 1961, we had no legislation that clearly permitted or clearly precluded the operation of a Donor Annuity program. We believe that some such plans were in operation, but it was not felt that there was a need as a matter of public policy to curb such beneficial projects."

After a study of Bill #373 S, it is felt that this Bill merely outlines the procedures for issuing Annuity Contracts. It does not require licensing of the organizations nor does it provide for supervision.

Now the fifteen states which specify that the issuance of Annuity Contracts comes under the supervision of the general Insurance Laws. I will comment only on a few. The Insurance Department of the State of Illinois, in a letter dated August 8th, stated: "In reply to your inquiry of July 28th, 1962, we may say that there are no specific laws or regulations in the State of Illinois in regard to Gift Donor Annuities. Section 733 of Chapter 73 of the Illinois Revised Statutes states it is unlawful for any Company to enter into a Contract of Insurance as the Insurer or to transact any insurance business in this state without a certificate of authority." Please note that the emphasis is on the word "insurance". The letter continues: "We realize that there are certain transactions conducted within this state on the premise that the operation does not constitute the transacting of business of insurance. At the present time the Department has not challenged these transactions, but this does not preclude the possibility of their being challenged at

some future date." Apparently, there has been a slight change in attitude since 1959 in Illinois.

The States of Maryland and Oregon have amended their Insurance Laws to permit Educational Institutions to issue Annuity Contracts. The State of Oklahoma has a Bill covering Annuity Contracts introduced at the last Session. The Bill failed to pass, and as far as I can determine, there will be no attempt to resubmit this Bill.

Hawaii, in a letter dated August 14th, stated: "In reply to your letter of July 27th, we wish to advise you that the laws of this state do not provide for the licensing or regulation of Gift Annuity Funds. You may be interested to know that we recently received our first inquiry on this subject from the Salvation Army which is registered in this state as a foreign eleemosynary corporation. We have requested our Attorney General to render an opinion as to whether or not The Salvation Army would be deemed to be an "insurer" within the definition in our Hawaii Insurance Law, and will be happy to advise you of his opinion as we receive it." Up to last night, I have not received any further information from Hawaii.

The State of Washington informed me: "At the present time the Insurance Statutes of the State of Washington do not have any such governing provisions concerning Gift Annuities in the category types to which you have made reference. Since the last Legislative Session there have been some inquiries in regard to specific type operations about which you made an inquiry. This was probably more directly influenced by the growth in the number of homes for retired people which are being operated under a modified Annuity program and established through the operations of Religious Organizations. It could, therefore, very well be that some initial form of legislation in this field may be considered at the time of the next legislation Session in 1963."

Ten states stated that Variable Annuities are prohibited or that there are no Variable Annuities being issued in the state. These states are as follows:

CALIFORNIA	NEW YORK	TENNESSEE
ILLINOIS	OREGON	VIRGINIA
LOUISIANA	PUERTO RICO	WASHINGTON
FLORIDA		

If any of the Organizations are considering issuing Variable

Annuities, it is quite important that you first investigate thoroughly the various complications that may arise because of Insurance Department and other Government Agency regulations.

Now for some specific recommendations:

1. I assume that any new Organization attempting to enter the Gift Annuity Contract field, as well as all those now in the field, have established legal existence. This is of the utmost importance. Dr. Darlington, in his talk of 1959, brought out the difficulties that may be encountered because of law suits. If you have not legally established your right to issue these Annuities, you may find yourself on the losing side of the suit.

2. I would assume that each Organization has the advice of an Attorney, an Actuary, and a Certified Public Accountant. These three professions are in a position to enable you to comply with the regulations of the Insurance Department of your State and the Insurance Departments of other States in which you may wish to do business.

3. I would like to especially recommend to all Organizations to keep their eyes and ears open for signs of new laws affecting the issuance of Annuity Contracts. This may take place by a revision of present Insurance Laws in the State or in the form of an Amendment specifically covering Gift Annuity Contracts. As soon as you learn of any such contemplated change, may I ask you to notify the Committee on Gift Annuities as quickly as possible. It is the desire of the Committee on Gift Annuities, and I am sure of most of the Organizations, to operate their Annuity Departments with the least amount of restrictions. We desire to comply with all of the Laws now on the books, but we would like to avoid any additional restrictions placed upon us.

Occasionally, an unfortunate incident occurs, brought about by an Organization not a member of the Conference on Gift Annuities. This may start the ball rolling for an Amendment of the Insurance Act in the State in which the act occurred. The member Organizations in the particular State should be in a position to attend the hearings on a new Bill and be ready to testify in the event that some of the provisions are unreasonable. There are times when a competent Attorney, working together with the Insurance Commissioner, may attempt to correct the situation and in so doing, overcorrect. It is up to you people in this case to point out to the Lawmakers that any Act covering

Gift Annuities should be considered from the viewpoint, first, of the actuarial background, second, the necessary legal provisions to protect the Annuitants as well as the Organization issuing them, and third, the requirements for Bookkeeping and Accounting. I have found in the past that very often, not only in Gift Annuity regulations, but in many other fields, that due to the misunderstanding of the Accounting terminology, unnecessary work is forced upon Organizations that must comply with the Law or regulations.

Again in those States that at the present time have no control over Gift Annuities, a close watch must be kept on other Organizations such as the Banking Departments. As Gift Annuities guarantee the payment of a certain sum during the lifetime of an Annuitant, and as the rates, especially in the higher ages are more than can safely be earned by current investments, there is good reason why some States may wish their Insurance Departments to make sure that there is sound Actuarial and financial experience and correct legal language used in the rates offered, investments made, and publicity and promotion used. The Insurance Department of the State has 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 unnecessary by the Insurance Department 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 your Committee informed of any such move.

I might add that my last two sentences have been taken directly from Dr. Darlington's talk in 1959.

ACTUARIAL REPORT ON GIFT ANNUITY RATES

MR. CHARLES L. BURRALL, JR.
Consulting Actuary, Huggins & Company, Inc.

It is reasonable to assume that the primary goal in the issuance of gift annuity agreements by charitable organizations is the securing of significant amounts of gift money to further the work of those organizations. This is accomplished by way of the gift portions of amounts turned over as considerations for gift annuity agreements which eventually accrue to the credit of the organization.

It is obvious that gift annuity rates must be computed in a different manner from annuity rates used by commercial insurance companies where the goal is rates which will bring some profit to the company but which will still be competitive with comparable rates of other similar companies. Let us examine the manner in which a gift annuity rate is constructed in order to make provision for a gift portion.

There are four primary components that enter into the determination of a gift annuity rate. They are:

1. The rate of mortality among annuitant lives.
2. The rate of interest that can be expected to be earned on invested reserve funds.
3. The cost of securing and administering gift annuity agreements and funds.
4. The portion of the total consideration turned over under the agreement that is to constitute a gift to the organization.

The present uniform gift annuity rates, which have been in force since 1955, are based on the following assumptions with regard to the four components mentioned above:

1. *Rate of mortality*—1937 Standard Annuity Table, female lives, ages rated as one year younger.
2. *Rate of interest*—3%
3. *Expense loading*—5% of total consideration
4. *Portion of total consideration to be available as a residuum for the work of the organization*—50%

Let us proceed further to examine exactly how a gift annuity rate is developed, using the four components outlined above. For purposes of this illustration, we shall assume that a donor aged 65 is turning

over $1,000 under a single-life gift annuity agreement. Since we are making provision for an expense loading of 5% of the total consideration, we must take 5% of $1,000; that is, $50 and set it aside, assuming that it will be required, principal and interest, for expenses.

Next, if 50% of the total consideration is to constitute a residuum for the organization, in our computations we must set aside $500 to be available when the annuitant dies. However, we can use the interest earnings on this $500 for purposes of making payments to the annuitant during his lifetime. Therefore, we can assume that we have 3% of $500 or $15 per year available as the interest earnings on the eventual residuum. Out of the original $1,000, there finally remains $450 which may be applied as a single premium, principal and interest, to provide annual payments during the life of the annuitant.

Using the 1937 Standard Annuity Table with the female age set back one year, we find that the cost at age 65 of providing a single-life annuity of $1 per year, payable in semiannual installments, is $13.01. Since we have $450 to spend to provide the annuity, we divide $450 by $13.01 and we find that this will provide $35 per year. When this $35 is added to the $15 of interest earnings on the $500 being held as a residuum, the result is $50 which on the basis of $1,000 of total consideration indicates an annuity rate of 5.0%. You will see that this is the rate appearing in the schedule of uniform rates at age 65.

There is an alternative method of computing this rate which can constitute a mathematical check on the first computation. Here again, we would initially set aside the $50 assumed to be required for expenses. Our next computation would be to determine how much of the total consideration would need to be set aside as a single premium reserve to provide paid-up life insurance of $500 which would be payable to the organization at the death of the annuitant. On the basis of the 1937 Standard Annuity Table with female ages set back one year and with interest at the rate of 3%, the amount needed for an individual at age 65 to provide a paid-up death benefit of $500 is $304. If we deduct this from the $950 remaining after making provision for expenses, it means that we have $646 with which to provide a single-life annuity. If this $646 is divided by the $13.01 annuity cost referred to in the preceding paragraph, the result is $50 which confirms our original calculation of a 5.0% annuity rate at age 65.

It is important to realize here that the balancing item as far as the charitable organization is concerned is the residuum for the organization. If any item of experience with regard to the first three components is less favorable to the organization than has been assumed in the calculation of the annuity rate, then the residuum for the organization will be less than 50%, unless this unfavorable item of experience with regard to one component has been offset by a favorable item of experience with relation to another component. For example, if fewer deaths have occurred among the group of annuitant lives than would be expected on the basis of the 1937 Standard Annuity Table, female lives, with ages set back one year, it means that more payments must be made out of the gift annuity reserve funds than were contemplated in the determination of the rate. This will automatically mean that the residuum for the organization will eventually be less than 50% unless some of these additional payments are recouped by having earned more interest on the reserve funds than was counted on in the determination of the annuity rate. This will be illustrated in more detail later in this paper where specific examples will be given of the interplay of a rate of mortality with different rates of interest.

Let us at this point take a brief historical look at the schedules of gift annuity rates which have been adopted by earlier Conferences on Gift Annuities. The following table shows samples of single-life gift annuity rates recommended by the Committee on Gift Annuities at conferences at the date indicated, together with the basis of calculation of each set of rates.

Age	*A* 4/29/27	*B* 3/17/31	*C* 11/20/34	*D* 10/5/39	*E** 10/4/55
30	5.0%	4.9%	3.0%	2.5%	3.0%
35	5.1	4.9	3.0	2.5	3.0
40	5.2	5.0	3.5	3.0	3.5
45	5.4	5.2	4.0	3.5	3.7
50	5.6	5.3	4.5	4.0	3.9
55	5.8	5.5	5.0	4.5	4.2
60	6.2	5.8	5.3	4.7	4.5
65	6.8	6.2	5.7	5.1	5.0
70	7.6	6.7	6.2	5.5	5.5
75	8.7	7.3	7.0	6.2	6.3
80	9.0	8.0	8.0	7.0	7.4

**Present rates*

BASIS OF RATES:

A. McClintock Table of Mortality; male lives; interest at $4\frac{1}{2}\%$; 70% residuum; tabular rates modified at older ages; no expense loading.
B. American Annuitants Table of Mortality; female lives; interest at $4\frac{1}{2}\%$; 70% residuum, tabular rates modified at older ages; no expense loading.
C. Combined Annuity Table; female lives; interest at 4%; 70% residuum, tabular rates modified at younger and older ages; no expense loading.
D. Combined Annuity Table; female lives with ages rated as two years younger; interest at $3\frac{1}{2}\%$; 70% residuum; tabular rates modified at younger and older ages; no expense loading.
E. 1937 Standard Annuity Table; female lives with ages rated as one year younger; interest at 3%; 50% residuum; tabular rates modified at younger and older ages; expense loading of 5% of total gift.

The First Conference on Annuities was held on April 29, 1927, and the rates which were adopted ranged from 5.0% at age 30 to 9.0% at age 76 and over. Apparently, the objective of this first conference was to indicate the highest rates which could possibly be considered "respectable". Apparently, also, the Committee on Annuities at that point was not too successful in getting many organizations to adopt these rates.

A Second Conference on Annuities was held on November 9, 1928 which reaffirmed the rates of the first conference. A Third Conference on Annuities was held November 17, 1930 at which time the question of adopting a lower set of rates was considered but no specific action was taken.

A Fourth Conference was held on March 17, 1931 and a revised set of uniform rates was recommended which apparently were adopted by a fair number of organizations. These rates ranged from 4.9% at age 30 to 8.0% at age 79 and over.

It might be observed that the first two sets of rates were based on a $4\frac{1}{2}\%$ interest assumption, although the 1931 rates were based on a somewhat lower mortality assumption than those of 1927. The 1931 rates were the official uniform rates for a period of approximately $3\frac{1}{2}$ years.

At the Fifth Conference, held November 20, 1934, significantly lower uniform rates were adopted which were based on a 4% interest assumption and lower assumed mortality and with the tabular rates

modified at both younger and older ages. These rates started at 3.0% but the former 8.0% limiting rate at the higher ages was held. These rates were the official uniform rates for approximately 5 years.

At the Sixth Conference, held October 5, 1939, an even lower set of uniform rates was adopted, based on more conservative assumptions with relation to both interest and mortality. These rates, which ranged from 2.5% to a limiting rate of 7.0% at the higher ages, were in force as the recommended uniform rates for a period of approximately 16 years. It should be pointed out, however, that at a conference held in 1946, very careful consideration was given to adopting an even lower set of rates which would have reflected even more conservative assumptions as to interest and mortality. However, these rates were not adopted.

Let us now consider the conditions prevailing in 1955 which led to the adoption at the Ninth Conference on Gift Annuities, of the set of uniform gift annuity rates which are still in force at the present time. In the first place, on the basis of a study of mortality experience from the years 1947 to 1952, it was apparent that the Combined Annuity Table with female ages rated as two years younger was not an adequate mortality assumption and that a mortality basis which would reflect more properly the mortality experience to be expected would be the 1937 Standard Annuity Table with female ages rated as one year younger. In the second place, it was decided that a long-range 3½% interest assumption was too optimistic at the time and that the assumption should be lowered to 3%. Finally, in the gift annuity rates which had been used until that time, no specific provision was being made for administrative expenses. It was obvious that a portion of funds which were turned over under a gift annuity agreement had to be used for administration or else other funds of the organization would have to be used for that purpose.

It should be pointed out here that if the rates had been modified to reflect all of the three conditions mentioned and if provision had still been made for a 70% residuum to the organization, a very substantial reduction in the existing uniform gift annuity rates would have been made. It was finally determined that in establishing a new set of rates, the above three conditions would be recognized by the adoption of rates based on the 1937 Standard Annuity Table with

female ages rated as one year younger, with interest at 3% and with a 5% loading for expenses. However, in order to avoid a substantial reduction in rates, the planned percentage of residuum was reduced from 70% to 50%. It will be noted that the rates adopted in 1955 ranged from 3.0% to a limiting rate of 7.4% which prevailed at age 80 and upward. Therefore, the "more conservative" rates which were adopted in 1955 were actually more favorable to the annuitant at certain ages than were the 1939 rates, the balancing item being the percentage of residuum.

Let us examine now the conditions which prevailed in 1959 which led to a reaffirmation of the 1955 rates by the Tenth Conference on Gift Annuities held December 1-2, 1959. At that conference, Mr. George A. Huggins presented the results of an extensive study of gift annuitant mortality experience for the period January 1, 1954 through December 31, 1958. This study was based on data contributed by 79 organizations 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 included in the studies 4,135 female lives and 1,269 male lives who died during the five-year period, a total of 5,404. In all, therefore, the studies included 24,813 female lives and 7,871 male lives, a total of 32,684.

These mortality studies revealed that during the period studied, the actual deaths occurring among the total number of gift annuitants included in the study were somewhat less than those expected in accordance with the 1937 Standard Annuity Table, female lives, with ages set back one year. For the total number of annuitants studied, there were 5,404 deaths during the five-year period. On the basis of the mortality assumption used in the determination of the gift annuity rates, there would have been expected 5,556 deaths, so that the ratio of actual to expected deaths was less than 100%, being 97.26%.

As a part of the same study, there were applied to the life years of exposure of gift annuitants during the five-year period, rates of death in accordance with a more modern mortality table which appeared to conform somewhat more closely with the actual mortality experience of the period. This table, the 1955 American Annuity Table, was published in 1956 and was based on the immediate annuity mortality experience of commercial insurance companies for the years 1948 to 1953, with the crude rates of death being modified to incorporate the

conservatism of the a-1949 Table at the younger ages and that of the 1937 Standard Annuity Table at the older ages.

On the basis of the 1955 American Annuity Table, female lives, there would have been 4,922.7 expected deaths during the period with a resulting ratio of actual to expected deaths of 109.8%. Thus, with the mortality assumption that was used in the determination of the gift annuity rates, there was a mortality deficiency during the five-year period of 2.74%; whereas, with the more modern table, there would have been a mortality margin of close to 10%.

This situation could very well have suggested that the gift annuity rate structure needed to be revised to reflect a lower assumed rate of mortality. However, it was the conclusion of the 1959 Conference that investment conditions were sufficiently favorable that the adverse effect of unfavorable mortality experience could be offset by interest earnings at rates higher than the assumed 3% rate. Consequently, the Conference reaffirmed the 1955 rates as the official uniform gift annuity rates.

The Committee on Gift Annuities considered the advisability of a complete mortality study of the experience during the period since the date of the last study. After a careful study of the matter and upon the advice of our organization, it was determined that it would be possible to render a valid judgment as to the mortality aspect of the current gift annuity rates by using the results of the last study without going to all the effort and expense that would be involved in another complete study. It would then be contemplated that a complete mortality experience study would be made before the next Conference on Gift Annuities.

It is a well-recognized fact that over the past 50 years, there has tended to be a rather steady improvement in rates of mortality; that is, a tendency towards greater longevity. Actuarial procedures have been developed to estimate what the improvement in rates of mortality will be in future years, based on a study of what has happened in the past. By using such procedures, it is possible to estimate what might have been the results of a mortality study for a five-year period from January 1, 1957 through December 31, 1961, if exactly the same life years of exposure that were developed in the 1954-58 studies had prevailed during this later five-year period.

In the development of such hypothetical results, the figure that is changed is the number of actual deaths. In other words, if certain assumptions were made as to mortality improvement, with the same number of life years of exposure being used, the expected deaths in accordance with a certain mortality table would be the same, the actual deaths would be somewhat lower and, consequently, the ratio of actual to expected deaths would also be somewhat lower. There are shown in the table below the summarized results of the actual mortality experience for the period from January 1, 1954 through December 31, 1958, and then the hypothetical results for the period January 1, 1957 through December 31, 1961, assuming the same life years of exposure but assuming a three-year improvement in the rate of mortality:

			1937 S. A., f-1		*1955 A. A., f-0*	
	Life Years of Exposure	*Actual Deaths*	*Expected Deaths*	*Ratio of Actual to Expected*	*Expected Deaths*	*Ratio of Actual to Expected*
Actual Results for Period from January 1, 1954 *through December* 31, 1958						
Female Lives ..	99,446.15	4,135	4,387.0	94.25%	3,892.2	106.24%
Male Lives	29,628.5	1,269	1,169.0	108.56	1,030.5	123.14
Total	129,075.0	5,404	5,556.0	97.26%	4,922.7	109.78%
Converted Results for Period from January 1, 1957 *through December* 31, 1961						
Female Lives ..	99,446.5	4,070	4,387.0	92.77%	3,892.2	104.57%
Male Lives	29,628.5	1,248	1,169.0	106.76	1,030.5	121.11
Total	129,075.0	5,318	5,556.0	95.72%	4,922.7	108.03%

It will be noted from the table above that in the converted results for the period from January 1, 1957 through December 31, 1961, the actual deaths appear as 5,318 as compared with 5,404 during the actual 1954-1959 period. With these lower converted actual deaths, the ratio of actual to expected deaths appears as 95.72% on the basis of the 1937 Standard Annuity Table, female lives, with ages set back 1 year and 108.03% on the basis of the 1955 American Annuity Table, female lives, with no age set-back.

These projected results would indicate that in the 1937 Standard Annuity Table, female lives, with ages set back 1 year, we are using a mortality assumption which has a deficiency of 4% to 5%. If we were

using the 1955 American Annuity Table, female lives, we could have a mortality margin of approximately 8%. The problem then becomes one of deciding whether there is any source of offsetting the mortality deficiency arising from our use of the present table and thus operating on a basis which would provide at least a 50% residuum. Interest earnings on invested reserves at a rate higher than 3% would provide such a source. In order to illustrate what might be accomplished along these lines, we have prepared a table showing at sample ages what would be the percentages of residuum if we used the present gift annuity rates, if we had mortality experience in accordance with the 1955 American Annuity Table, female lives, if our expenses amounted to 5% of the total gift and if we had interest earnings at the alternative rates of 3%, 3¼% or 3½%. The results are set forth as follows:

	3%	3¼%	3½%
45	43.57%	56.07%	69.63%
50	43.78	53.80	64.53
55	42.48	50.40	58.79
60	44.54	50.81	57.36
65	44.09	48.96	53.99
70	46.93	50.73	54.62
75	47.58	50.49	53.41

It will be seen that, with mortality and administrative expense experience as indicated, interest earnings at the rate of 3% will result in a residuum lower than 50% at each age indicated. Interest earnings at the rate of 3¼% will result in an average residuum very close to 50% while interest earnings at a rate of 3½% will probably result in an average residuum of 55% to 60%. We may conclude, therefore, that if we can count on interest earnings on our gift annuity reserve funds of at least 3¼%, it will be possible to continue the use of the present uniform gift annuity rates and still achieve as a residuum the 50% goal stated in the basis of these rates.

FORM OF LIFE INCOME AGREEMENT

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

There are circumstances under which a Life Income Plan other than an Annuity might prove to be a decided advantage for both the organization and its donor. However, if an organization is considering the adoption of some such plan, there are at least two steps which should be taken. First, your lawyer should be contacted and you should request him to advise you as to whether or not under your charter and by-laws the organization could engage in such an activity; and second, as to whether or not there may be some prohibition in the statutes of your state which would prohibit an organization like yours to engage in this activity. Not so long ago an organization was considering plans to increase its publicity regarading a plan they had had in operation for several years. It was not until then that the Treasurer of the organization asked their attorney the two questions suggested above and discovered that in their constitution and by-laws there was a specific prohibition against such an activity. In addition the laws of the state also prohibited it specifically. That situation could possibly lead to serious trouble.

In your kit received this morning, you will find a suggested form for life income agreements (Page 45 and 46). This form has had careful study by the Committee on Gift Annuities, and has been submitted to competent counsel for approval, but in spite of this, if your organization is contemplating such a plan, this form of agreement should be submitted to your own legal advisor.

If you will take this approved form, I shall briefly call your attention to each section and try to emphasize its importance.

FIRST: It is an agreement or contract. Therefore, the date is a vital part of such an agreement. The names of the parties should be clearly stated, the donor and the organization.

For tax reasons alone, it is vital that such an agreement specifically declares the gift is "irrevocable" and therefore may not be changed or altered at any subsequent time.

The value of the gift should be clearly stated either in dollars or

a full description of the property involved, either securities or real estate at current market.

So much for the preamble. The terms and conditions under which the gift is made are also significant. Therefore, first it is important to spell out the manner in which the organization will invest this gift and the investment fund should be clearly described, with authority to "invest and reinvest" as part of that fund. There follows a disclaimer, but your lawyer should be specifically asked as to whether or not under the laws of your state such a disclaimer would have any force and effect.

SECOND: The name of the income beneficiary and alternate beneficiary, if there is one, is of course a vital part of such an agreement.

THIRD: The vital part of this paragraph is a full description of the method the organization intends to use in computing the life income payable to the beneficiary. There should not be any question or open end as to how the organization intends to compute these payments.

FOURTH: The date on which payments will be made, including a first payment and its amount should likewise be carefully stated.

FIFTH: The termination of the obligation assumed by the organization should be included so it will not be possible at a future date for anyone to question the time of termination and to avoid becoming involved in any possible lawsuit. It is wise also to state that at the termination of its obligation the gift property will be used by the organization for its corporate purposes.

This type of Life Income Agreement should be signed by the donor in the presence of a witness and then finally executed by the organization, such execution also witnessed.

Bear in mind that if such a plan is adopted, the organization assumes an obligation to act in a fiduciary capacity during the period of the obligation, so that it is important for the organization to consider not only the desirable features of such a plan, but the undesirable ones as well, before becoming involved in this type of activity.

COMMITTEE ON GIFT ANNUITIES
APPROVED LIFE INCOME AGREEMENT FORM

THIS AGREEMENT, entered into this day of

between

hereinafter called the Donor, and (Name and address of religious, charitable,

etc., corporation), hereinafter called the (Board),

Witnesseth that the Donor has irrevocably given, transferred, and paid over to the (Board):

having a total present value of $

hereinafter called the Gift Property, to have and to hold the same unto the (Board), its successors and assigns forever, under the following conditions:

FIRST: The Gift Property shall be added to or invested in (description of the Investment Fund) and during the period of income payments hereunder shall be invested and reinvested as part of such Fund as the property of the (Board) without regard to statutory or other restrictions applicable to fiduciaries.

SECOND: The (Board) shall pay to:

(Beneficiary and alternate beneficiary, if any.)

income on the total value of the Gift Property as determined under paragraph three of this Agreement.

THIRD: The income payment shall be (full description of method of computing the life income yield on the Gift Property). In any question with regard to the income payment the decision of the (Board) shall be final.

FOURTH: Such income payments shall be made to the beneficiaries on (i.e. quarterly on March 31, June 30, September 30, and December 31) in each year. The first payment of income from the date of this Agreement to the next payment date will be $

FIFTH: The obligation of the (Board) to pay income to the beneficiaries shall end with the payment next preceding the death of the last beneficiary, and at that time the (Board) may use the Gift Property for its general corporate purposes.

IN WITNESS WHEREOF, the Donor has hereto set ________________ hand and seal, and the (Board) has hereunto caused its name to be written and its corporate seal affixed by its duly authorized officer.

In the presence of:

______________________________	______________________________
as to Donor	Donor
	(Board)
______________________________	By ______________________________
as to (Board)	(Officer)

METHODS OF RATE COMPUTATION—LIFE INCOME AGREEMENTS

MR. D. ALLAN LOCKE

Treasurer, Board of National Missions, The United Presbyterian Church in the U. S. A.

This Conference has been concerned for many years with establishing a uniform set of rates for gift annuity contracts. There have been good reasons for doing so, and advantages to all of us to be able to use the same rate structure. These reasons and advantages may or may not be applicable to Life Income Agreements. But, now, in this relatively early stage in the development of such agreements, is a good time to look at the problem.

Life Income Agreements are by no means all alike. They can vary in the nature of the gift, in the donor's specified terms, in the type of investment required, in the promised return, and in other ways. Nor among the institutions presently accepting Life Income Agreements is there necessarily any similarity in their methods of administering or accounting for the agreements.

A simple form of Life Income Agreement is in the making when Mr. A says to his favorite college or other institution, "I will give you this 100 Shares of Telephone stock provided you agree to pay me the income it earns so long as I live," and the institution accepts it. He might have given his check for $10,000 with instructions to invest it in certain securities or, without specifying the securities, to keep it as a separately invested fund, paying him the income earned by the investments.

Mr. A, on the other hand, might have said, "I will give you this stock (or this check) to invest and keep invested at your discretion and pay me whatever income you can earn." If he knew you had a pooled investment portfolio for your endowment funds, which had a good investment record and earned a good return, he might request that his gift be added to this portfolio and that he be paid the rate of income earned thereon.

These few simple examples are illustrative of a variety of agreements, the terms or arrangements for which will have a bearing on

the amount of income return the donor is to receive. For our purposes, agreements can be considered in two groups: Separately Invested Agreements and Pooled Investment Agreements.

Separately Invested Agreements

An agreement may be classified as "Separately Invested" when the donor designates *what* shall constitute the investment of his gift, or when he requires his gift to be kept in a separate investment fund, even though he permits discretion in the choice of securities in the fund.

These agreements, in a sense, are individually administered trust funds. The investments of each must be separately accounted for, as is the income earned by the fund. There can be no co-mingling of the investments of these funds with other investments of the institution.

The income to be paid to the donor or beneficiary of Separately Invested Agreements is determined by the income earned by the particular investments held for each agreement.

The two most common examples of Separately Invested Agreements are:

A. *The Specific Property Gift.* The donor gives the recipient organization certain property with the provision that this property will be held as the investment of his fund, the income received on the investment to be paid to the donor or beneficiary for life. The property may be bonds, stocks, or other types of securities. It may be an apartment house, a store, a business, a farm, an oil well, or any other type of income producing property.

B. *The Tax-Free Life Income Agreement.* In this case the donor may give money or securities with instructions to invest the principal sum of the gift in tax-exempt obligations of a State or Municipality, and pay the donor or beneficiary the income earned by these investments.

The income-return to the donor of a Separately Invested Agreement, as noted above, is the amount of income earned by the investment. There is no previously agreed amount of income or rate of return to be paid. It is possible to compute a rate of return, but only after the amount of income is known. To compute the rate of return, divide the amount of income received by the principal sum of the gift. For example, income—$500; principal sum—$10,000; the rate would be 5%.

Pooled Investment Agreements

This type of agreement exists when a donor makes a gift of money, securities or other property and gives the recipient organization complete discretion over the investment or reinvestment of the money or the proceeds from the disposition of the property given, and agrees that these investments shall be co-mingled with and be a part of the pooled investment portfolio of the organization.

The income to be paid the donor or beneficiary for life would be the proportionate share of the total income earned by the pooled investment portfolio to which the agreement was entitled. The method of determining this proportionate share of income would depend largely upon the particular system used by the organization to administer and account for its funds.

There are two basically different systems currently in use: One may be described as the "Common Trust Fund" plan, in which the principal sum of every fund (or agreement) in the common investment pool is converted into a number of units, based on the market value of the total investment fund on the date the agreement is entered into the fund. The other method (called for convenience "Endowment Fund Method") is to set up the principal sum of the agreement as a fund and invest it with other funds making up the total pooled investment fund. These two methods of accounting treatment should be examined in some detail in order to understand the respective methods of determining income return on an agreement.

A. *Common Trust Fund plan*. The principle involved under this plan is that the value of any new fund shall be established immediately in relation to the market value of the total fund. Thus, every fund in the portfolio is a proportionate share of the total principal fund value of the Common Trust Fund.

The principal fund value of the Fund is the market value of all the assets of the Fund on a given date. This is computed periodically, generally quarterly, although it can be monthly, semiannually, or otherwise. The date of this computation is the date for entering new funds (or agreements) into the Common Trust Fund, and it is also generally the date for paying income earned during the previous period.

Each participating fund in the Common Trust Fund is represented by a number of units, the combined total of the units in all funds

being the number outstanding. The value of each unit is its proportional share of the total principal fund value on the date the computation is made.

The principal sum of a new Life Income Agreement is converted into a number of units on the date of entry into the Fund. The number of units is determined by dividing the principal sum by the value of each unit in the fund on the entry date.

The method of computing the unit value calculations referred to above are illustrated in Schedule A. (Page 54)

The income earned by the common investment portfolio is distributed periodically, generally quarterly, to the individual funds or agreements in the Common Trust Fund. The amount to be paid to any individual agreement is determined by first computing the amount of net income per unit outstanding, and then multiplying the per unit income by the number of units assigned to the agreement.

Note that the unit income, which is the basis of income distribution in the Common Trust Fund, is an amount, not a rate of return. It is possible to calculate a rate of return on the agreement simply by dividing the amount of income received by the principal sum of the agreement. But here again, as in the case of Separately Invested Agreements, it is a matter of computing a rate applicable to a single agreement.

An illustration of the process of computing the income distribution and a rate of return for an individual contract is shown in Schedule B. (Page 55)

The following is suggested as a description of the computation of income payment for use in the Life Income Agreement form:

The income payment shall be the amount of net income earned per unit by the common investment portfolio during the preceding quarter year (monthly, half-year, etc.) multiplied by the number of units assigned to this agreement; the net income per unit being determined by dividing the net income received by the total Fund by the total number of units outstanding at the end of the quarter (month, half-year, etc.). The number of units assigned to this agreement shall be the principal sum of the Agreement divided by the value of each unit outstanding on the entry date of the Agreement, such value to

be based on the total market value of the common investment fund at that date.

B. *Endowment Fund Method.* This term is used in a generic sense, having reference to any group of funds with a pooled investment portfolio and with which Life Income Agreements will be combined. Accounting procedures for such funds will vary somewhat among our institutions. Funds generally are recorded at the value of the assets on the date received. In some institutions, this recorded book value will remain unchanged, and in others it will be adjusted annually or periodically by realized profit or loss on the investment portfolio. There also are different methods in use for computing the rate of return earned on the "endowment" funds. For the purposes of this paper, we will consider one system currently in use.

All individual funds which may be a part of the pooled investment portfolio are recorded in the amount of the principal sum (i.e., the value of the assets of the fund) on the date received. The principal sum of a new Life Income Agreement would be so recorded and invested in the pooled investments portfolio.

Income is distributed monthly or quarterly to the Life Income Agreements, based on the rate of income earned in the preceding year. The rate of return is computed by dividing the net amount of income earned by the pooled investments by the average book value of the total endowment funds during the year. The average book value is determined by adding together the opening balance and each of the monthly balances during the year and dividing by 13. This method of determining the average book value is in common practice and generally satisfactory.

During the year any realized profit or loss from the disposition of investments in the pool is accumulated. At the year-end, the net profit or loss is prorated to all of the fund or agreements in the pooled fund. The proration is based on the ratio that each individual fund bears to the total pooled fund. The book value of each fund is adjusted by the amount of the prorated profit or loss. Thus, in the following year the rate of income earned is applied to the adjusted book value.

The above description is illustrated by Schedule C, (Page 56)

and shows its application to an individual Life Income Agreement when handled as a part of the pooled endowment funds.

For purposes of the Agreement form, the wording concerning income payments under this plan may be described as follows:

The income paid shall be determined by applying to the book value of the Agreement the rate of net income earned for the preceding calendar year on the investment portfolio of the (description) Fund. The rate of net income earned by the (description) Fund shall be determined by dividing the net income received on the total investments of the Fund by the average book value of the total Fund.

SUMMARY COMMENTS

In reviewing the foregoing examination of types of agreements and procedures several significant points may be called to attention:

(1) The distinctive feature of the Separately Invested Agreement is that it does not become a part of any group of funds, and its investments are not co-mingled with other investments of the institution. The income paid on such an agreement, therefore, can only be that which is earned by the specific investments of the agreement.

(2) The Common Trust Fund plan is based on a continually adjusting market value of its total fund. Accordingly, the principal sum value of an individual Agreement and the income received thereon are determined by market values.

(3) The Endowment Fund method of procedure is based on carrying all funds at book value, which accordingly becomes the basis for income payments.

(4) Because of this difference in basis, the income payments on agreements with identical amounts of principal sum will be smaller initially in the Common Trust Fund than in the Endowment Fund, even though the rate of earnings on the total fund may be the same in each Fund. The reason for this is that in the Common Trust Fund the distribution of income payments will be higher to earlier entrants into the Fund than to later entrants, whereas in the Endowment Fund the rate applied will be the same to all funds.

(5) Realized profit or loss on the disposition of investments is automatically reflected in the principal fund value of the Common

Trust Fund and in the unit value of the individual agreement. In the Endowment Fund, however, provision should be made to periodically adjust the original book value of the Agreement.

(6) In neither the Separately Invested Agreements nor the Common Trust Fund Agreements is the income payment based on the computation of rate of return. It is an amount, i.e., either the amount earned by a total fund or a proportion of the amount earned by a total fund. The income payment on the Endowment Fund Agreement, on the other hand, *is* based on the computation of a rate of return.

One concluding thought. It is quite possible that identical LIA gifts given today to any half-dozen of our institutions could result in just about as many different amounts of income payment. It seems clear from this review that any desire to develop reasonable uniformity in income payment results for Life Income Contracts is not so much a problem of finding common methods of rate computation as it is a matter of resolving differences in administrative procedures, accounting methods, and investment policies and skills. While the latter is probably not in the scope of this Conference, administrative procedures and accounting methods are matters that could profitably be considered at length by future conference meetings. Such consideration should prove helpful to all of us.

SCHEDULE A

Common Trust Fund—Unit Value Calculations

1. Assume on an entry date of Sept. 30th, the following:

Total principal fund value at market	$760,000
Total units outstanding	40,000
Value of each unit= $760,000 ÷ 40,000 units	$ 19.00

2. Principal sum of funds or agreements to be added to Fund on Sept. 30 — $ 76,000

Unit value at Sept. 30 (above)	$ 19.00
Number of units represented by new funds $76,000 ÷ $19.00	4,000

3. Assume LIA #20, in the amount of $15,200, was one of agreements included in $76,000. The number of units assigned to LIA #20 would be:

$15,200 ÷ $19.00	800

4. On next entry date, Dec. 31, assume an increase in market value of $25,000. The computation would be:

Total principal fund value at market ($760,000 + $76,000 + $25,000)	$861,000
Total units outstanding	44,000
Value per unit: $861,000 ÷ 44,000 units	$ 19.57

SCHEDULE B

Common Trust Fund—Income Computation

1. Distribution of quarterly income earned by the Total Fund, 10/1—12/31, would be computed as follows:

Total net income earned in quarter 9/30—12/31	$ 7,392
Income per unit:	
$7,392 ÷ 44,000 units outstanding	$ .168

2. Income to be distributed to Life Income Agreement #20 (Exhibit A)

Total units assigned to LIA #20	800
Income per unit (above)	.168
Total income—(800 units × $.168)	$ 134.40

3. Assume identical quarterly payments for full year

LIA #20 quarterly income	$ 134.40
Annual income ($134.40 × 4)	$ 537.60
Rate earned on principal sum of LIA #20	
$537.60 ÷ $15,200	3.5+%

SCHEDULE C

Endowment Fund Method—Computation of Rate of Income

1. Computation of rate earned on pooled investments:

(a) Total book value of pooled funds averaged for year (opening balance + 12 monthly balances ÷ 13)	$625,000
(b) Net income earned on pooled investments during year	$ 28,750
(c) Rate of income earned: $28,750 ÷ $625,000	4.6%

2. The above rate will be applied to LIAs received in the following year:

LIA #20 received Jan. 1	$ 15,200
Rate earned previous year	4.6%
Total income distributed to LIA #20 for year	$ 699.20

3. Year-end computation of share in realized profit or loss on disposition of investments:

(a) Funds or agreements in total fund	$700,000
(b) Net realized profit on investments for year	21,000
(c) Percentage distribution to each fund: $21,000 ÷ $700,000	3%
(d) Distribution of profit share to LIA #20 $15,200 × 3%	$ 456.
(e) Adjusted LIA #20 fund total, on which income will be paid at rate earned in previous year	$ 15,656

TERMINOLOGY IN PROMOTION AND ADMINISTRATION FOR LIFE INCOME AGREEMENTS

MR. FRANK C. KEMER

Director, Division of Funds Development, Board of National Missions, The United Presbyterian Church in the U. S. A.

"Let your own discretion be your tutor.
Suit the action to the word,
The word to the action;
With this special observance
That you o'erstep not the modesty of nature . . . ."

With this advice which Hamlet gives to the players who have come to the castle, I introduce you to my subject for discussion: "Terminology in Promotion and Administration for Life Income Agreements". Let us, as representatives of churches, colleges, and other charitable institutions, "o'erstep not the modesty of nature" in the administration and promotion of Life Income Agreements. I hope my comments will raise questions and promote discussion among the conference delegates.

First, regarding the nature of the Life Income Agreement, I suggest that you distinguish it from the Gift Annuity Agreement and from the Trust Agreement used as a method of making gifts to your institution.

The Gift Annuity is an agreement between a donor and the charitable institution in which the institution in return for a gift of money or property agrees to pay to the donor, and/or some other person the donor names, a stated income for life. The rate of income under the Annuity Agreement depends on the age of the annuitant on the day the agreement is made. We have discussed at this conference the schedule of rates which participating members of the conference have agreed on. These rates are guaranteed and do not change during the existence of an annuity agreement. This type of gift agreement is properly called a Gift Annuity because part of the principal is truly a gift and part of the principal is truly the cost of providing the annuity for those who are to receive the guaranteed income for life.

Under a Trust Agreement a donor may transfer cash, or other property, to a trustee who holds the legal title to the gift principal in trust for the benefit of those named in the agreement who are to receive the income earned by the trust fund for as long as they live. Those who are to receive the income are called beneficiaries and are said to own the equitable title to the trust property. In the trust agreement the title to property therefore is divided. The trustee owns the legal title and the beneficiary or beneficiaries have a beneficial interest which is called the equitable title. Following the death of the life beneficiaries, the property or the fund established by the trust becomes the outright property of the charity, the remainderman under the trust instrument. Under a trust agreement the trustee has imposed on him fiduciary duties and must handle the trust funds in a particular way prescribed by state laws which vary from jurisdiction to jurisdiction. Generally it is a duty of the trustee to keep the trust property segregated from other property he may hold. He has a duty to care for the property so as to prudently preserve it for the remainderman, and to prudently provide income for the life beneficiaries. Some institutions accept gifts of this kind and serve as trustees. You will see then that a charitable institution may be at the same time a trustee and the remainderman under a trust agreement. Likewise the donor under the agreement may also be the beneficiary of the agreement, either alone, or with others who survive him. It is not within the scope of this discussion to discuss tax consequences, the legal duties placed on trustees, or other facets of a trustee-beneficiary relationship. Nor is it within the scope of this discussion to discuss the powers and duties of the trustee to invest and reinvest the trust principal. However, in promoting gifts in which the donor or someone he names is to receive the income earned on the fund which is established, it is most important that the nature of the agreement be made very clear to the donor as well as to the administrators of the institution. We heard Colonel Sehl tell us yesterday regarding gift annuities, that each institution should carefully check its charter and the laws of the states where it is domiciled in order to make sure that the state law does not prohibit charitable institutions from accepting such trust agreement gifts and also to make sure that your own charter of incorporation does provide for the acceptance and the administration of gifts of this kind.

Considering now the Life Income Agreement, let us see what the terms of this kind of gift arrangement are. Under a Life Income Agreement a donor transfers property to a charity which agrees to pay to the donor, and/or someone he names, an income based on the principal of the gift. The rate of income which is paid is equal to the net rate earned on the institution's general funds. You heard earlier Mr. Locke's presentation on the various ways which Life Income rates and Life Income payments are calculated. But note the difference between the Life Income plan and the Annuity Agreement. Under the Annuity Agreement, the income payments are stated in the agreement when issued. The income is based on a set of rates which have been established and depend on the age or ages of the individuals who are to receive the annuity income payments. These rates never vary as long as the agreement is in force. The rate of return under the Life Income Agreement however depends on the earnings of the institution's funds, not on the age of the annuitant or income recipient at the time the agreement is made.

You may say that this sounds very much like the trust agreement which we discussed a few minutes ago. But, note the important distinguishing characteristics of the Life Income Agreement. First, if you will refer to the Committee on Gift Annuities' Approved Life Income Agreement form which was discussed earlier by Colonel Abrams, (Page 45) you will note that the gift property may be added to, or invested in, the general fund of the institution. Also note that the agreement specifically states that investment shall be made without regard to statutory or other restrictions applicable to fiduciaries. It seems to me that these points provide significant differences between the Life Income Agreement and the trust agreement. I offer these suggestions, which to many of you will appear to be "hair-splitting," in order to promote some discussion and questions regarding the nature of the Life Income Plan.

Furthermore, if we examine the committee-approved agreement, we see that the relationship of the institution to the donor is one of obligation. In other words, the recipient of the gift is under an obligation to pay to the donor or someone else named in the agreement an income which is to be calculated in a manner stated in the agreement. I submit to you that this is not the same kind of relationship which

exists between a trustee and a beneficiary under a trust agreement. In the latter case of a Trust, we have a relationship which is fiduciary in nature. In the case of the Life Income Agreement, we have a relationship which is in the nature of a personal obligation of the Institution and a personal right of the income recipient.

With this in mind, I would like you now to turn your attention to some specific terminology which the subcommittee on Life Income Plans of the Committee on Gift Annuities set down earlier in the year. The Committee suggests that the agreement may be called a Life Income Agreement or a Life Income Contract. In a broad sense a contract is an agreement in which one or more of the parties acquire a right in relation to some person, thing, or act. Under the Life Income Plan the donor acquires a right to receive income in relation to charitable institution. A contract is executory where an obligation is assumed by one or both parties to do some act. The rights of the party are "in personam." That is, they are personal rights as distinguished from rights "in rem" which are property rights.

More narrowly defined, contract means an executory contract which results from the concurrence of an agreement and an obligation. So we see that a contract is an agreement enforceable by law, made between the parties by which rights are acquired by one to act on the part of another. Simply put, under a contract there is an agreement and an obligation.

An agreement is broadly defined as the expression by two or more persons by words or conduct of a common intention. An agreement resulting in a contract is one which directly contemplates and creates an obligation. In other words, the obligation springs from the agreement and binds the party to act on behalf of the other party. In our discussion the Life Income Agreement puts on the charitable institution an obligation for some act flowing to the donor, and/or someone the donor names. The obligation is to pay in income which shall be calculated in a particular manner prescribed in the agreement for as long as those named as income recipients live. It seems to me that the Committee's suggested terminology is quite clear, and that either "Contract" or "Agreement" is satisfactory nomenclature for promotional and administrative purposes.

The second term which the committee has approved for general usage is, "The amount paid under the agreement shall be called Life

Income payment." This seems perfectly clear. Payment means that which is paid. The income means that which proceeds from the agreement and which is spelled out in the Life Income agreement as to how it is calculated and how the investment is made. One caution is in order here. In promoting and administering Life Income agreements we should never use the word "interest" in describing what the donor is paid each year or what we say he can expect to receive each year. Interest is the price or the rate paid by a borrower for the use of money he borrows. I suggest to you that the Life Income Plan is not a loan and that we should not intimate, by using a term which is associated with a loan, in discussing, writing about, or administering the Life Income agreement.

The third term which the committee suggests for general usage is "The persons to be paid shall be called beneficiaries, joint and/or survivor beneficiaries." I have some trouble with this term because, you will recall, I described one of the parties of a trust agreement as being a beneficiary. A beneficiary is defined as one for whose benefit a trust is created or one receiving a benefit or an advantage or one who is in receipt of benefits, profits or advantage. Herewith again you may accuse me, if you wish, of "splitting hairs". However, when the donor makes a gift under the Life Income agreement, does the charity provide a benefit or advantage to him or has the donor held back some interest that he has in the property transferred? Put another way, do we give the donor something back as compared with something the donor has retained? That is, something which he did not relinquish in the first place and which the Institution is obligated to pay over to the donor, that is, the income.

To follow through on the distinction between a Life Income agreement and the trust agreement, I would prefer that the parties in the agreement be called "the Donor" and rather than beneficiary, that they be called "Income Payment Recipients" or some other term which is not a word of art or a technical word alluding to a party to a trust agreement. Preferably, the parties should be named in the agreement by their legal name. The matter of promotion in printed material and in letter writing does present some problem, because you cannot refer to the donor or to some other person who is to receive the life income payment by name. Having suggested that the word beneficiary not be

used in connection with the Life Income agreement, perhaps "Income payment recipient" or "the Second life income payment recipient" would be appropriate.

The fourth term which the committee suggests is "The rate at which the Life Income payment is calculated shall be called the Life Income yield." Mr. Locke in his presentation covered this particularly well. The term "the yield" means a return upon an investment. To yield, means to pay, give, restore, to produce, or to return.

Terminology regarding Life Income yield is to be guided by the section of your Life Income agreement which sets forth the method of calculating the Life Income payment. The rate of return is said to be the Life Income Yield. How the rate is determined depends on the individual institution, its investments, and its bookkeeping procedures. I suggest that the term Life Income yield is satisfactory providing it is explained in relation to the specific method of determining Life Income payments as calculated by individual institutions.

Before closing, I would like to comment briefly on other terms which I think we should steer clear of in promoting the Life Income agreement. The first one which many of us use is "investment". To invest means to loan money upon securities of a more or less permanent nature, or to place it in business ventures or real estate or otherwise lay it out so that it may produce a revenue or income. I want to stress that we are dealing in the Life Income agreement with a gift and that the promotional emphasis must be on the idea that the donor is making a gift and not an investment.

In this connection I would like to suggest again that we not use the words "buying" and "selling" in relation to our work in developing gifts of the Life Income agreement variety. I believe that we do not sell and the donor does not buy anything. We cultivate gifts for our work and the donor makes gifts to help us carry on our work in the future. May I also state that generally any offer or the promotion of any aspect of the Life Income agreement that detracts from the gift nature of this particular method of making a gift is not good promotion. In promotion we should not give the donor the idea that he is doing anything other than making a gift of money or property in which he retains a certain interest which can be described as the obligation of the institution to pay an income in accord with the method

of computation stated in the agreement. I would also like to suggest that we do not promote with too much pressure benefits to a donor other than the satisfaction of having made a gift for the work of the Church, for the work of your college, for the work of your society, or other institution.

Having started these brief comments with a quotation from Shakespeare's *Hamlet,* I would like to close with a quotation from an equally profound classic, *Alice in Wonderland*. Humpty Dumpty is reported to have said, "When I use a word, it means just what I choose it to mean, neither more or less." As representatives of charitable, educational, and religious institutions, I believe it is our responsibility to define and explain clearly for promotional purposes, and for internal and administrative functions, what we mean when we use old words in new contexts and when we make up new words which may not be clear to our clients and prospects. For this reason, I hope my comments will produce some discussion and will induce further study before standard terms and words are used in the promotion and administration of Life Income agreements.

TAX ASPECTS OF LIFE INCOME AGREEMENTS

MR. GEORGE WELCH
Treasurer, Vassar College

You have heard explanations of the form, methods of rate computation and the terminology of Life Income Agreements. We will now consider the tax aspects.

As in the case of annuities there is a deduction from a donor's Federal Income Tax return for a gift to a qualified charitable corporation in the year the Life income agreement is established. The Internal Revenue Service considers that the amount paid to a charity is a donation subject to a retained life estate. Consequently what is really donated is the present value of the right to receive the remainder after the death of the beneficiary. The actuarial values of the remainder are set out in the United States Treasury Department, Internal Revenue Service Publication No. 11 (Rev. 5-59) in Table I under the column headed "Remainder" for one life and in Table III under the column headed "Present Worth" for two lives. Table I begins on Page 34 of the above publication and Table III begins on Page 36. It should be noted that the tables are based on ages nearest birthday without regard to whether male or female lives are involved. For example for a single life, age 50, an amount given of $1,000 has an actuarial remainder value in Table I of .48030 per dollar or $480.30, the charitable gift value deductible on the donor's income tax return. A similar gift for two lives, ages 50 and 40 respectively, is shown in Table III as .31889 per dollar or a charitable gift value of $318.89 for a donation of $1,000. So the remainder, the deductible charitable gift portion, is more simply determined than for annuities. It is subject to the 30% of adjusted gross income limitation for such gifts when made to a qualified church or convention of churches or an educational institution. Since the life estate has been retained, all income received by the beneficiary is reportable as income each year fully subject to tax. So much for the Federal Income tax.

If the recipient of the income is other than the donor, there may be gift taxes involved in the setting up of the life income agreement. If the value of the donee beneficiary's life estate (i.e. the value of

the entire donation less the value of the remainder) exceeds $3,000, then the donor would have to file a gift tax return. However if the donor is married and the spouse joins in filing the return, no tax would be payable on such return unless the total amount of the beneficiary's life estate exceeds $6,000. This $3,000 exclusion ($6,000 in case of married persons) is available each year and for each donee. Thus assuming five life income gifts were made for the benefit of five different persons, each having a life estate value of $3,000 or less to the donee, no gift tax return would have to be filed except for cases where a future interest is involved. In addition there is a once in a lifetime gift tax exemption also to be considered in this connection. As the gift tax involves so many possibilities, it is advisable to suggest to the donor that he consult his own lawyer for advice about filing a gift tax return.

In the Exhibit on page 66 you will find computations, made in accordance with the actuarial value tables found in IRS Publication No. 11, assuming the donor's age nearest birthday was 50, and if the beneficiary was someone other than the donor, that his age was 40, and if there are two lives involved they are donor age 50 and donee age 40.

The term "remainder" in Table I, column 3, means the same as "Present Worth" listed in Table III. Column 2 in Table I gives the life estate value but in Table III values shown as Present Worth have to be deducted from 1.0000 to determine the life estate. The sum of Table I Life Estate (Col. 2) and Remainder (Col. 3) is always equal to 1.0000.

The "charitable gift value" is the amount the donor can deduct as a gift on his Federal Income tax.

The donee's "life estate" is the value of gift the donor makes to the donee.

There are values given for both one and two lives lettered A to E. Since certain items are the same in several cases, the items are numbered consecutively under the letters A to E. The numbers in parentheses after certain items refer to the corresponding numbers. For example Item 4 (2 x 3) means Item 4 is derived by multiplying Item 2 by Item 3. Item 5 (3-4) means Item 5 is derived by subtracting Item 4 from Item 3.

LIFE INCOME AGREEMENTS

Computations for

CHARITABLE GIFT AND LIFE ESTATE VALUES

	Actuarial Value Per $1.00	*Total Value*	*Summary Total Amount*
A. One Life Donor Beneficiary			
1. Age nearest birthday Donor 50			
2. Remainder value (present worth) Table I	.48030		
3. Amount given for agreement		$1,000.00	
4. Charitable gift value (2 times 3)			$ 480.30
5. Donor's Life Estate Table I or (3 minus 4)	.51970		519.70
			$1,000.00
B. One Life Donee Beneficiary			
6. Age nearest birthday Donee 40			
7. Remainder value Table I	.37092		
8. Charitable Gift value (3 times 7)			$ 370.92
9. Donee's Life Estate (3 minus 8) (Table I)	.62908		629.08
			$1,000.00
C. Two Lives—Survivorship			
10. Ages nearest birthday 50 and 40			
11. Present Worth (Remainder) Table III	.31889		
12. Charitable gift value (3 times 11)		$ 318.89	
D. Survivorship—Donor first beneficiary, Donee survivor interest			
13. $1.00 minus (11)	.68111		
14. Donor's Life Estate (Table I Age 50)	.51970		
15. Donee's Life Estate value (13 minus 14)	.16141		
16. Donee's Life Estate (3 times 15)		$ 161.41	
Summary of Survivorship Values for D			
Donor's Charitable gift value (12)			$ 318.89
Donor's Life Estate (5)			519.70
Donee's Life Estate (16)			161.41
			$1,000.00
E. Survivorship—Donee first beneficiary, Donor survivor interest			
17. Donee's Life Estate (Table I Age 40)	.62908		
18. Donor's Life Estate (13 minus 17)	.05203		
19. Donor's Life Estate (3 times 18)		$ 52.03	
Summary of Survivorship Values for E			
Donor's Charitable gift value (12)			$ 318.89
Donor's Life Estate (19)			52.03
Donee's Life Estate (9)			629.08
			$1,000.00

Actuarial values from Publication No. 11 (Rev. 5-59) by U.S. Treasury Department, Internal Revenue Service, Washington entitled "Actuarial Values for Estate & Gift Tax".

Figures in parentheses after an item refer to the items so numbered for the use of the factors involved.

CAPITAL GAINS UNDER LIFE INCOME AGREEMENTS

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

At the time of writing this presentation, it appears quite certain that there are a few distinct areas of decision involving the attitude of the Internal Revenue Service toward life income agreements. My emphasis will be upon the capital gain situations involved.

1. As to how any capital gain will be computed, the case is clear at the moment. It is simply the difference between the donor's adjusted cost basis of the property given and the fair market value of such property on the day given. If the adjusted cost basis is less, there is a gain.

In the case of two lives, the computation is the same.

In neither case is there an actuarial value as there is in a charitable gift annuity.

The adjusted cost basis is what the donor paid for the property less any allowable depreciation claimed.

2. It is clear that for the present the Internal Revenue Service will not claim a tax upon such gain in the customary life income agreement situation where the donor transfers his property, whether it be securities, real estate, or any form, and permits the charity to co-mingle this property in its general investment portfolio.

Basic, of course, is the fact that under a life income agreement the charity pays the donor only what it earns.

The Internal Revenue Service holds that in this instance the donor is in no way requiring the charity to act as his agent in disposing of the property in any certain manner and in putting the proceeds of the sale into any particular type of investment. Accordingly, the current attitude is to consider this is not a taxable capital gain situation.

3. In the case of the *tax-exempt* life income contract, it is just as clear that the Internal Revenue Service now considers any capital gain to be taxable. See Rev. ruling 60-370. Under this ruling, the sale of property transferred under an express or implied obligation upon

the trustee to sell and invest the proceeds in tax-exempt securities results in capital gain to the donor and this is taxable. The I.R.S. holds this to be an agency arrangement and therefore a sale in the hands of the donor.

In this Rev. ruling 60-370, the I.R.S. left an inference that it may move further in taxing capital gain wherever an agency relationship between donor and the charity can be proved.

4. Very clear is the position of the I.R.S. as to the manner of establishing the fair market value of property given by the donor to the charity. Technically, fair market value is the price at which the property would change hands between one who wishes to buy and one who wishes to sell, both willing for a fair price, and both having reasonable knowledge of relevant facts. How can a donor translate these words into a position acceptable to the I.R.S.? There is no sure method. It is probably better for the organization to give the donor a receipt describing the property contributed without showing a dollar amount. Since we are not experts in appraisal the matter of embarrassment may be avoided.

Not as clear are the areas in which we cannot find obvious distinctions. I suggest these:

1. Donor gives the charity a rental building and the contract calls for this being operated as a separate trust by the charity as trustee. The charity is to have the complete discretion as to when it might sell the building and into what investment it will put the resulting proceeds. Donor is to receive the net income from this trust. Can the I.R.S. successfully say here that the charity is acting as the agent for the donor in eventually selling the property and thus tax any gain as capital gain? Suppose the charity sells the property a few days after entering into the contract? I believe that the I.R.S. would fail in such an assertion if there is no wording in the contract *requiring* the charity to sell the main asset.

2. The valuation of securities of a closely held corporation is a difficult matter. The I.R.S. will look at a number of factors in determining its position and the donor will usually be on the defensive. There is no clear-cut rule in establishing such value to determine whether a capital gain is involved.

3. Although this matter is not involved with the capital gains

tax, as such, this should be noted as a matter of concern: Rev. ruling 60-385 states that if a trust agreement provides that dividends from a mutual fund may include capital gains realized, and such are paid to the life tenant, the charitable interest for the remainder is not severable from the non-charitable interest since no known formula has been advanced for ascertaining the value of the charitable interest. Therefore, there would be no deduction permitted for income, estate or gift tax purposes with respect to the transfer to the charity.

It is clear from this ruling that extreme care should be taken in drawing up the agreement where investment in a regulated investment company is involved so that any capital gain shall be reserved for the charity.

Conclusion

The Internal Revenue Service Bulletin, 1962-47, for November 19, 1962, contains elaborate and detailed procedures for approaching the Service for rulings and lesser letters. Be sure you become familiar with those directions.

Lastly, it is surely to be recommended that life income agreements be drawn with as great discretion in the charity as it is possible to give. Agency relationships must be avoided completely.

COMPUTATION OF TAX IMPLICATIONS OF A GIFT ANNUITY

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

I am faced with the formidable task (at least it has weakened stronger hearts than mine) of helping us to reassure ourselves that we can give to our annuity clients the correct information regarding tax deductions resulting from their gift annuities. Since we as institutions issuing annuities are responsible for furnishing this information, and since this is a new field to many of us, those of you to whom this is old stuff can take a nap while the rest of us sweat our way through to a correct answer.

All the information we need is found in the manual, "Tax Implications of an Annuity Gift," which we will call "the manual." It contains the necessary instructions and schedules, and is liberally sprinkled with typical calculations. Our equipment will consist of the calculation form, "Gift Annuity Federal Income Tax Calculation Sheet," plus a sheet of scratch paper, plus a sharp pencil.

Basically all that we have to do is to follow carefully the steps given in the "Tax Implications" manual, using page 5 for the instructions for a single life and pages 7 and 8 for a two-life annuity. We will take a situation which makes use of various complications coming from an annuity covering two lives.

Take a sheet for the Federal Income Tax Calculation, (Page 74), which we will get to know well as "the calculation sheet" and fill in the following information from the annuity agreement which we are using as our problem. This agreement is No. 250. It was issued April 1, 1962. It is payable semiannually. The first annuitant is John Q. Doe, born March 15, 1897, which makes him a male, 65 years old on his nearest birthday. The alternate annuitant is his wife, Jane Doe, who was born on August 12, 1900. Consequently she is a female 62 years old.

Also enter the principal donated for the annuity, $5,000.00 on line 3 and the annual annuity payment $210.00 on line 2. Note that

the same item has the same number wherever it appears, and line #2 is found in three places,—in the right hand column, in the box to the left, and at the bottom under "Computation of Expected Return." This is Step A as found in the instructions on page 7. Now we begin our calculation.

First we must find the value of a dollar of annuity. A single life annuity can be read from Schedule 3, but since two lives are involved, turn the calculation sheet over. Step A of the instructions in the manual tells us to "Insert the ages on lines 13 and 14 (Male 65, female 62). Refer to Schedule 4 of the manual (page 11a)." M65 has a present value per annum of 11.343; F 62, of 13.822. List these values on lines 13 and 14 so that line 13 will read: "M, 65, 11.343"; line 14 "F, 62, 13.822." Add these last figures and place the total, 25.165 on line 15.

Now we must compute the partial value, using lines 24-28 on the form. Instruction 1.B. of the manual says: "Compute partial value. Insert on lines 24 and 25 in the appropriate order, the ages shown on lines 13 and 14 after converting to male ages." The age of the older on line 24 is 65, and the male equivalent of F 62 is 58, (obtained by subtracting 4 years from the female age.) Insert 58 on line 25. "Subtract to determine the Difference in Ages for line 26" (65 minus 58 equals 7 years.) Now "Refer to Schedule 4B (page 13) where the Addition to Younger Age for a 7 year difference in ages is reported as 4.121 years. Insert 4.121 on line 27 and add to Age of Younger (line 25, 58, recording the total, 62.121—Equivalent Equal Age on line 28."

Following the instructions, we list on lines 29 and 30 the nearest whole year under and over the equivalent age on line 28. This is 62 on line 29 and 63 on line 30. Refer to Schedule 4A, page 12. The partial value of Male 62 is 9.682. Insert it twice on the right portion of line 29. The similar figure for male 63 is 9.324. Insert it once on line 30. Subtract 9.324 from 9.682 and write the difference (0.358) on line 31.

The instructions now say, "Copy the fractional year shown on line 28 as part of Equivalent Equal Age in the space labeled '———— years' on line 32." This figure is .121. "Multiply the fractional year (.121) by the Difference for the Whole Year, line 31 (.358), report

the result on line 32 (.043), subtract the value of the fractional year (line 32), .043 from the Partial Value (line 29), 9.682, and show the result on line 33 (9.639). This is the Partial Value Equivalent Age and should be entered on line 16 as the Partial Value of Joint Annuity."

We continue with the instructions, now on page 8 of the manual, "Subtract the value shown on line 16 (9.639) from total on line 15 (25.165); record the Difference (15.526) on line 17. Refer to Schedule 4 (page 11a) (male or female adjustment factor column as appropriate), and insert the age (as shown on lines 13 and 14) which has the larger factor on line 18." Since M 65 has .126 and F 62 has .874 as its factor, the latter figure is inserted on line 18 which now reads Age-F 62, factor .874. Now take one-half of the smaller adjustment factor and insert it on line 19. One-half of .126 is .063, so line 19 will read M 65-.063. All the adjustment factors on lines 18 and 19,—(.874 plus .063 equals .937) and insert this on two places on line 20. Add this to the Difference in line 17 and record the figure on line 21 (15.526 + .937 = 16.463). This is the value of one dollar for an annual annuity. Line 22 of the calculation sheet gives an additional adjusting factor for other than annual payments. Since our contract calls for semiannual payments, insert .263 in the proper place in the column and we come at last to line 23, Value of $1.00 is $16.726. This we transfer to line 1 on the front of the calculation sheet.

It has taken quite a process to get this figure, but it at least tests our ability to follow instructions and to read tables. One thing is certain to me,—however popular two-life annuities may be with clients, they will never be as popular with the people who have to provide the tax information as single life annuities, where this figure may be read directly from Schedule 3.

From here on, the methods are the same for single- or two-life annuities. Instruction 2 on page 8 of the manual tells us to multiply the value of a dollar (line 1) 16.726 by the annual annuity payment (line 2) $210.00 to produce the Actuarial Value (line 4) $3,512.46. Instruction 3 subtracts the Actuarial Value (line 4) from the Principal donated for Annuity (line 3). The remainder, is the Gift Value, $1,487.54, which is recorded on line 5.

Instruction 4 of the manual covers the computation of the Ex-

pected Return, and is done in the bottom third of the calculation sheet. The Annual Annuity on line 2 is $210.00. Refer to Schedule 6. (For a single life, schedule 5 would be used.) The older age is at the top and the younger at the side. On page 20 the intersection of M 65 and F 62 gives the multiple of 23.5. Enter it on line 10. Since this is for monthly payments, and our contract calls for semiannual payments, turn to Schedule 7 on page 25 for the adjustment. It will be six months from the date of the annuity until the first payment, and the payments will be made semiannually, which gives an adjustment figure of —.2. Put this figure on line 11, subtract it from 23.5 on line 10, and record the difference, 23.3 on line 12. Multiplying this figure by the Annual Annuity of $210.00 (line 2), gives an Expected Return of $4,893.00. Enter this on line 6 below, and in the right hand column above.

Instruction 5 of the manual tells us to divide the Actuarial Value of $3,512.46 (line 4) by the Expected Return of $4,893.00 (line 6). The resulting percentage is the Exclusion Ratio, 71.8% (line 7).

Instruction 6 applies the Exclusion Ratio to the Annual Payment. In the box at the left on the Calculation Sheet, enter the Annual Annuity payment of $210.00 on line 2. Multiply this by the Exclusion Ratio (71.8%) and enter the product, $150.78 on line 8. This is the non-taxable portion of the annuity income. Subtracting $150.78 from $210.00 gives us a difference of $59.22 which we record on line 9. This is the taxable portion of the income for every year except the first.

Since there will be only one payment in the first year and two in each succeeding year, the partial payment must be worked out. The same Exclusion Ratio is applied to the first year payment of $105.00 (line 2A) to give $75.39 for the first year's excluded income (line 8A and $29.61 for the taxable income for the first year (line 9A).

The purpose of this calculation is, of course, to give the client information which is needed for his income tax reports. Line 5, Gift Portion, gives the amount ($1,487.54) which is deductible as a contribution in the year in which the annuity principal is donated. Schedule B of Form 1040 of the 1961 Federal Income Tax Return, under "Part III—Pension and Annuity Income" indicates the additional information we must furnish the client. The lines, with the information for Mr. John Q. Doe, are as follows:

1. Investment in contract, $3,512.46 (from line 4 of our calculation sheet).
2. Expected return, $4,893.00 (from line 6)
3. Percentage of income to be excluded (line 1 divided by line 2), 71.8% (from line 7 of our calculations).
4. Amount received this year, $105.00 for 1962, $210.00 for remainder of the life of the contact (from lines 2A and 2 of our calculations).
5. Amount excludable (line 4 multiplied by line 3), $75.39 for first year, $150.78 for all other years (from our calculation lines 8A and 8).
6. Taxable portion (excess of line 4 over line 5), $29.61 for 1962, $59.22 for all succeeding years (from lines 9A and 9 of our calculation sheet).

The information we give our client does not change, and so we need to make the calculations only once.

Our manual gives various illustrations of single- and two-life calculations, with various types of payments, and with various combinations of male and female ages. The procedures are the same in each case, and each institution issuing annuities has in the "Tax Implications of an Annuity Gift" all that is necessary to give each annuitant the information which he needs.

No. 250

GIFT ANNUITY
FEDERAL INCOME TAX CALCULATION

	Date of Birth	Sex	Age
Date Issued April 1, 1962			
Payable Semiannually	March 15, 1897	M	65
First Annuitant John Q. Doe	August 12, 1900	F	62
Alternate Jane Doe			

Regular Payment

2. Annual Annuity	$210.00
8. Exclusion (7) 71.8% of 2	150.78
9. Taxable income	59.22

Partial Payment Year of 1962

2A. First year annuity payment	105.00
8A. Exclusion (7) 71.8% of 2A)	75.39
9A. Taxable income first year	29.61

1. Value of $1.00 (Refer to Schedule 3 or use reverse side for two lives)	16.726
2. Annual annuity	$210.000
3. Principal donated for Annuity	$5,000.00
4. Less actuarial value (1 x 2)	$3,512.46
5. Gift value	$1,487.54
4. Actuarial value	$3,512.46
6. Expected return (compute below)	$4,893.00
7. Exclusion ratio (4÷6)	71.8%

Computation of Expected Return

2. Annual annuity		$210.00
10. Multiple (Schedule 5 or 6)	23.5	
11. Adjustment if not monthly	—.2	
12. Expected return per $1.00 annual payment (10 adjusted by 11)		23.3
6. Expected return (2 x 12)		$4,893.00

To Obtain Value of Two-Life Annuity

	Sex	Age	Value of $1.00
13. First life (Schedule 4)	M	65	11.343
14. Second life (Schedule 4)	F	62	13.822
15. Total			25.165
16. Deduct partial value of joint annuity (Value computed below-line 33)			9,639
17. Difference			15.526

ADD adjustment factors: (Schedule 4)

(Use ages on lines 13 and 14)

18. Larger adjustment factor F62 Age		.874	
19. One-half smaller adjustment factor M65 Age		.063	
20. ADD total adjustment factors		.937	.937
21. Value of $1.00 for annual annuity			16.463
22. ADD appropriate adjustment			
Monthly payments	.482		
Quarterly payments	.395		
Semiannual payments	.263		.263
23. Value of $1.00 (Transfer to line 1 other side)			16.726

PARTIAL VALUE COMPUTATION

(Convert female age to equivalent male age by subtracting *4 years* from female age)

24. Age of older	65 years	
25. Deduct age of younger	58 years	58 years
26. Remainder (Difference in ages)	7	
27. Addition to younger age (Schedule 4B) for difference in ages		4.121 years
28. Equivalent equal age		62.121 years

If equivalent single life is a fractional number of years, compute value of fractional year as follows:

29. Partial value (Schedule 4A) of nearest whole year under equivalent age	62 years	$9.682	$9.682
30. LESS partial value (Schedule 4A) of nearest whole year over equivalent age	63 years	9.324	
31. Difference in partial value for whole year		0.358	
32. Partial value in fraction of the year required as given - line 28	.121 years	0.043	.043
33. Partial value equivalent age (line 29 minus line 32) - (enter on line 16 above)			9.639

CAPITAL GAINS UNDER GIFT ANNUITIES

MR. GEORGE W. RENNEISEN

Treasurer, Board of Christian Education, The United Presbyterian Church in the U. S. A.

My responsibility in connection with this part of the program—"Taxation on Gift Annuities"—is restricted to the area of capital gains which has been considerably simplified by Revenue Ruling 62-136 issued August 27, 1962.

Under no circumstances do I consider myself an expert on taxes in respect to gift annuities or taxes generally. The only apparent reason for my selection for this part of the program is the fact that in July, 1955, almost seven and a half years ago, the Board of Christian Education of The United Presbyterian Church requested a ruling on this subject. A ruling was received rather promptly on September 9, 1955, but on November 10, 1955, approximately two months later, we were advised that the Service "has under reconsideration the question of 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."

Since a Ruling was to "be issued in the near future" we applied our customary "follow-up" procedures and wrote the Service within a few months. As a matter of information, we did write every six months until July, 1962, and each time we were advised that "no Revenue Ruling has been issued . . . since the study being conducted by the Service on this question has not been completed." However, under date of September 11, 1962, we did receive a letter from the Internal Revenue Service in which was enclosed a copy of Revenue Ruling 62-136. Certainly the study given this subject by the Service over approximately seven years must have been a complete and thorough one and, therefore, Revenue Ruling 62-136 must be clear, wise and sound.

A simplified explanation of the September, 1955, Ruling may be described as: When the present value of an annuity or the invest-

ment in the contract exceeds the taxpayer's cost or adjusted basis of the property exchange, a taxable gain results, but such taxable gain is not to be reported as realized in the year the transfer and the contract were executed. The gain is to be reported in future years after the total of the amounts excluded from the annuity payments received equal the investment in contract. Thereafter, the amounts so excluded are to be annually included as a capital gain until the amounts so included equal the excess of the investment in the contract over the taxpayer's cost or adjusted basis of the exchanged property.

Please bear in mind that the explanation given is a simplified version of the September, 1955 Ruling.

A simplified explanation of the August 27, 1962 Ruling—No. 62-136—may be described as: When the present value of the annuity or the investment in contract exceeds the taxpayer's cost or adjusted basis of the property exchanged a taxable gain results and such taxable gain is reported in the year the transfer and the contract were executed.

Let me use an example which might more clearly explain the major differences in the two Rulings.

For purposes of the example, let us assume a male benefactor, who is sixty years of age, is interested in making a gift to a charitable organization subject to an annuity contract and he wishes to use as the principal for such contract a certificate of stock which cost him $500 and today has a market value of $1,000.

Based on the described assumptions, the cost of the annuity would be $620.90 or $120.90 more than the cost of the property to be transferred; the resulting annuity payment would be $45.00, of which $34.50 would be excluded from and $10.50 would be included in the benefactor's Federal Income Tax return for the year when he received the annuity.

Under the September, 1955 Ruling, the excess of the cost of the annuity over the cost of the property to be transferred, or $120.90, would represent a capital gain, but it would not be reported as such until the amounts excluded annually, that is the referred to $34.50, aggregated $500. This would take about fourteen and a half years. Thereafter, the excluded amount, that is the $34.50, would be reported as a capital gain until these amounts so reported aggregated $120.90.

Under the August, 1962 Ruling, the referred to $120.90 would

be reported and included as a capital gain subject to the appropriate tax in the year the exchange was made.

I understand there has been considerable interest and discussion stimulated by the August, 1962 Ruling. Some informed persons are of the opinion that under certain circumstances it will probably have an adverse effect on potential donors interested in making gifts subject to an annuity. Some of the members of this Conference are considering plans which would attempt to "line up" certain Senators to press for consideration of the subject of capital gains on gift annuities in the discussions of the amendments and revisions to the present Federal Income Tax Laws. At this time any amendments or revisions of the Federal Income Tax Laws appear to have a rather rough road ahead before final actions are taken.

Pending possible revisions, we should not overlook the advantages still accruing to the prospective donor under the new Ruling. In the example I have cited the capital gains tax, assuming it to be a "long-term capital gain", could not exceed 25% of $120 or $30. On the other hand, if the donor sold the security and purchased a gift annuity with the proceeds, the capital gains tax under the same assumption would be $125 or about four times as great. It is true, however, that under the former ruling the payment of the capital gains tax would have been delayed for many years if it were ever paid in full.

As an accountant and a treasurer, and not one directly involved in the solicitation of gift annuities, the position taken by Revenue Ruling 62-136 appears reasonable and logical. Since the gift, i.e. the excess of the market value of the transferred property over the present value of the annuity payments, is deductible as a contribution in the year of transfer, it appears reasonable that the gain, i.e. the excess of the present value of the annuity payments over the cost or adjusted basis of the transferred property, should also be reported as a taxable capital gain in the same year.

In closing, we must remember that this Ruling is based on seven years of study by the Internal Revenue Service and, therefore, it must be wise and sound.

MINUTES

ELEVENTH CONFERENCE ON GIFT ANNUITIES

Hotel Park — Sheraton, New York City

Tuesday, November 27, 1962

Mr. Charles W. Baas, Chairman of the Committee on Gift Annuities, called the meeting to order at 10:00 a.m. Invocation was given by Dr. T. K. Thompson, Executive Director, Department of Stewardship and Benevolence, National Council of the Churches of Christ in the U. S. A.

Chairman Baas stated that before making his usual preliminary remarks he wished to call upon Dr. Thompson to present a special resolution honoring the memory of the late Dr. George A. Huggins, long-time consulting actuary to the Committee on Gift Annuities, who died on December 30, 1959. The resolution appears elsewhere in this volume.

Upon motion, the resolution was adopted by a rising vote.

Chairman Baas then briefly addressed the Conference, giving a word of welcome, stating the purpose of the gathering, and introducing members of the Committee on Gift Annuities. The text of his remarks appears elsewhere.

The Secretary of the Conference, Chester A. Myrom, Director, Lutheran Church in America Foundation, was then called upon to make a statement concerning one of the pieces included in the Conference packets. His remarks are recorded in the section of this volume containing the Chairman's address.

The Chairman then proposed that the following persons constitute the Resolutions Committee:

Chairman—Curry B. Hearn, Treasurer, Board of World Missions of the Presbyterian Church in the U.S.;

Lyndon O. Adams, Manager, Treasury Department, Northwestern University;

D. W. Smythe, Comptroller, DePauw University;

Charles L. Burrall, Jr., Actuary, Huggins and Company, Inc.;

Chester A. Myrom, Director, Lutheran Church in America Foundation;

Hollis L. Turley, President of Pension Fund, Christian Churches (Disciples of Christ);

Charles W. Baas, Treasurer, American Bible Society, Ex Officio

Unanimous approval was given by the Conference delegates.

Mr. Alfred H. Hauser, Senior Vice President, Chemical Bank New York Trust Company, was then called upon to address the Conference. The title of his presentation was "The Long-Term Trend of Long-Term Interest Rates." The full text of his address appears elsewhere. A lively period of discussion and questions followed his informative address.

The final event of the morning session was a presentation by Colonel L. M. Sehl, Secretary—Legacy, Annuity and Legal Department, the Salvation Army, on the subject "Terminology in Promotion and Administration of Gift Annuities." The full text of her remarks appears elsewhere.

At 12:00 noon the Conference recessed for lunch. Prayer was said by Dr. Gilbert Darlington, consultant, American Bible Society.

A feature of the luncheon period was a "Surprise Recognition and Tribute" for Mr. Forrest Smith, Treasurer, American Baptist Foreign Mission Society, who for many years has served as Treasurer of the Committee on Gift Annuities.

Dr. Gilbert Darlington, honorary chairman of the Committee on Gift Annuities, recalled that of those present he and Forrest Smith were the only ones in attendance at the 1927 Conference on Gift Annuities. That had been the first conference of this character. Dr. Darlington pointed out that Dr. George A. Huggins, honored in the opening resolution, had also been there. Only two remain.

Speaking of Mr. Smith's long service to the Committee on Gift Annuities, Dr. Darlington said, "I want to say what a great asset he has been and what a great treasurer he has been!" As a personal gift Dr. Darlington presented Mr. Smith with an illustrated Bible, suitably inscribed.

Chairman Baas then read the following commemorative resolution

which had been prepared for the occasion and presented it to Mr. Smith, together with a gift:

RESOLUTION

WHEREAS: FORREST SMITH has been interested in Gift Annuities, having participated in the first and many subsequent conferences, and having served as Treasurer of the Committee on Gift Annuities for many years;

BE IT RESOLVED:

That the Committee on Gift Annuities sends greetings and salutes FORREST SMITH AS:

TREASURER of Mission Agencies
ACCOUNTANT with highly developed professional skills
INTERPRETER of missions and missionary strategy
LEADER of interdenominational Christian institutions
TRAVELER knowing the economic problems of many nations
ANNUITY ENTHUSIAST ever conscious of the unique stewardship opportunities of the gift annuity
CHRISTIAN concerned with the nurture of children, the development of youth and the full maturity of adults.

The Committee on Gift Annuities expresses its gratitude to God for the gift of FORREST SMITH to this generation.

In a brief response, Mr. Smith said he was mindful of three things over the years about the Committee and Conferences on Gift Annuities. They are these:

1. "We are able to bring together people interested in a common problem; 2. as a group the work has all been done by volunteers, something that is unique among organizations today; 3. many developments and helps stem from what has transpired through this fellowship."

The Conference agenda was resumed at 2:15 p.m.

The first speaker of the afternoon session was Mr. James A. Cousins, C.P.A., Auditor, The Society for the Propagation of the Faith; Pace Institute. He presented a report of his extensive inquiry

into the area of "State Regulation of Gift Annuities". His paper appears elsewhere in this volume.

Mr. Charles Burrall, Jr., Actuary, Huggins & Company, Inc., then presented the actuarial report and led a discussion on Gift Annuity Rates. The full report may be found beginning on page 34. Action on his report was deferred, as is practice, to the second day's opening session.

The Conference recessed at 4:30 p.m. with closing prayer given by Mr. John Rosengrant, Director of Annuities, The Commission on Ecumenical Missions and Relations, the United Presbyterian Church in the U. S. A.

Wednesday, November 28, 1962

The Conference resumed session at 9:30 a.m. Mr. Harl L. Russell, Director of Special Gifts, General Brotherhood Board, Church of the Brethren, gave the invocation.

Mr. Burrall was then called upon to make summary remarks about his presentation of the day before. He commented as follows, "If we were looking at mortality experience alone, this would indicate we should lower our rates. On the other hand, the rates of 1955 and 1959 were based on interest of 3%, while the opportunity for favorable interest earnings will likely be with us a long time. This would seem to indicate there is reason not to change the rates at this time. There is reason not to lower them. There is reason not to raise them."

In concluding he said, "I think it will be advisable, before the next Conference, to make a complete mortality study, on experience rather than artificially projected."

Chairman Baas then called for further discussion, if any, and for action by the Conference on the actuary's report.

Curry B. Hearn, Chairman of the Resolutions Committee, stated that the Resolutions Committee had given thought to this matter during the evening before and that, on their behalf, he was presenting the following motion:

> MOVED that the present gift annuity rates, as adopted by the Ninth Conference on Gift Annuities on October 4, 1955 and as reaffirmed by the Tenth Conference on Gift Annuities on December 2, 1959, be continued as the Uniform Gift Annuity Rates recommended by the Conference on Gift Annuities.

The motion was promptly seconded.

A period of discussion followed. The motion was unanimously adopted.

The rest of the morning session was given over to a series of presentations related to receiving charitable contributions under "life income agreement"; in contrast with those received under gift annuity agreement. At the suggestion of the Tenth Conference, and by subsequent action of the Committee on Gift Annuities, the Committee's field of interest and responsibility had been broadened to include all manner and method of life income gifts.

Papers were presented as follows, all appearing elsewhere in full:

"Form of Life Income Agreement"—Lt. Col. G. Blair Abrams, Staff Consultant, United Presbyterian Foundation;

"Methods of Rate Computation Life Income Agreements"—Mr. D. Allan Locke, Treasurer, Board of National Missions, The United Presbyterian Church in U. S. A.;

"Terminology in Promotion and Administration of Life Income Agreements"—Mr. Frank C. Kemer, Director, Division of Funds Development, Board of National Missions, The United Presbyterian Church in U. S. A.;

"Tax Aspects of Life Income Agreements"—Mr. George Welch, Treasurer, Vassar College;

"Capital Gains Under Life Income Agreements"—Dr. Roland C. Matthies, Vice President and Treasurer, Wittenberg University.

These presentations were all well received and helpful, calling forth considerable comment and discussion.

The Conference recessed for lunch at 12:00 noon. Prayer at luncheon was given by Dr. R. Alton Reed, Executive Secretary, Annuity Board, Southern Baptist Convention. There was no formal program during this luncheon session.

The afternoon session reconvened at 2:00 p.m.

Two papers were presented on the taxation of gift annuities. Dr. J. Homer Magee, Associate Secretary, Council on World Service and Finance, The Methodist Church, using the booklet "Tax Implica-

tions of an Annuity Gift", led the Conference through the process of computing the Federal Income Tax implications of a representative two-life gift annuity agreement.

Mr. George W. Renneisen, Treasurer, Board of Christian Education, The United Presbyterian Church in the U. S. A., discussed the taxation of capital gains incurred through gift annuity contributions.

The papers of both speakers appear elsewhere.

This was followed by a question and answer period in which a panel of "experts" moderated by Dr. William K. Newman, Executive Vice President, The Annuity Fund for Congregational Ministers, made answer to questions, submitted mostly in advance by registrants to the Conference but also from the floor. It was reported that nearly fifty questions had been received. Discussion was lively and fruitful. Panel members were the following:

Charles L. Burrall, Jr., Gilbert Darlington, J. Homer Magee, Roland C. Matthies, Chester A. Myrom, Sydney Prerau, and Forrest Smith.

The Chairman of the Resolutions Committee, Curry B. Hearn, was then called upon to present the report of the Committee. Mimeographed copies of the report had been distributed earlier in the session. The report was adopted as submitted. The report of the Resolutions Committee appears following these Minutes.

Closing prayer was given by the Reverend Bernard S. King, Treasurer, The Christian and Missionary Alliance.

The Eleventh Conference was declared adjourned at 4:00 p.m.

Respectfully submitted,

CHESTER A. MYROM, *Secretary*

REPORT OF THE RESOLUTIONS COMMITTEE

I. BE IT RESOLVED that the Eleventh Conference on Gift Annuities express its deep appreciation to Mr. Alfred Hauser, Senior Vice President, Chemical Bank New York Trust Company for his informative and authoritative address, "The Long-Term Trend of Long-Term Interest Rates".

II. BE IT RESOLVED that the Eleventh Conference on Gift Annuities express appreciation to Mr. Charles Burrall, Jr., Actuary, Huggins and Company, for his presentation, "Actuarial Report and Discussion on Gift Annuity Rates"; and that the Conference give expression to its view that in the preparation and presentation of this report Mr. Burrall carries forward in an exemplary way the high standard of professional competence which had characterized over the years similar presentations by his eminent predecessor, the late Dr. George A. Huggins.

III. WHEREAS it has been reported to the Eleventh Conference that the Committee on Gift Annuities on April 12, 1961 gave approval to the proposal

> "that the responsibility of the Committee on Gift Annuities be broadened so that it takes a similar interest in the field of life income agreements as it does on gift annuities"

and WHEREAS subsequently appropriate change was made in the Committee's constitution, BE IT RESOLVED that the Eleventh Conference express its appreciation to the Committee for taking the action that it did and for arranging to make consideration of this plan of giving a feature of this Conference.

IV. BE IT RESOLVED that the Eleventh Conference on Gift Annuities express its appreciation to the several persons who made notable contribution out of their experience in the field of life income agreements to the Conference, namely, the following: Lt. Col. G. Blair Abrams, Staff Consultant, United Presbyterian Foundation; Mr. D. Allan Locke, Treasurer, Board of National Missions, The United Presbyterian Church in U.S.A.; Mr. Frank C. Kemer, Director, Division of Funds Development, Board of National Missions, The United Presbyterian Church in U.S.A.; Dr. Roland C. Matthies, Vice President and Treasurer, Vassar College.

V. BE IT RESOLVED that the Eleventh Conference on Gift Annuities express its appreciation to the several individuals who made parallel and similarly significant contributions to this

Conference in the field of gift annuities, namely, the following: Col. L. M. Sehl, Secretary, Legacy, Annuity and Legal Department, The Salvation Army; Mr. James A. Cousins, C.P.A., the Society for the Propagation of the Faith; Dr. J. Homer Magee, Associate Secretary, Council on World Service and Finance, The Methodist Church; and Mr. George W. Renneisen, Treasurer, Board of Christian Education, United Presbyterian Church in U.S.A.

VI. BE IT RESOLVED that the Eleventh Conference on Gift Annuities express its appreciation to Dr. William K. Newman for serving as moderator of the panel discussion period and to the following persons who shared in the answering of questions: Charles L. Burrall, Jr., Gilbert Darlington, J. Homer Magee, Roland C. Matthies, Chester A. Myrom, Sydney Prerau and Forrest Smith.

VII. WHEREAS the Tenth Conference on Gift Annuities, meeting in December 1959, requested by the following resolution that a tax implication booklet be prepared:

> "Be it resolved that the Conference ask 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."

and WHEREAS such a booklet was completed in August 1961, the Eleventh Conference on Gift Annuities gives thanks and commendation to the Committee for having carried this assignment through to completion and also for having accomplished the task in such a noteworthy way.

VIII. BE IT RESOLVED that the Eleventh Conference on Gift Annuities express to the Committee on Gift Annuities its deep appreciation for the dispatch and efficiency with which they so quickly brought to the attention of the members of the Conference the implications of Federal Revenue Ruling No. 62-137, 9/6/62 and for providing amended pages for the booklet, "Tax Implications of an Annuity Gift".

IX. BE IT RESOLVED that the Eleventh Conference on Gift Annuities recommend to the various societies, agencies, boards and colleges that, for the purpose of uniformity and a better understanding of gift annuity agreements:

1. the agreement between the donor and the issuing agency be referred to as a "Gift Annuity Agreement";
2. the periodic payment under gift annuity agreements 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.

X. BE IT RESOLVED that the Eleventh Conference on Gift Annuities recommend to all organizations and institutions issuing gift annuity agreements an amount equivalent to the required actuarial reserve, plus a reasonable margin for contingencies, be segregated and be held only for the purpose of making the required annuity payments.

XI. BE IT RESOLVED that the Eleventh Conference on Gift Annuities recommend that, for the purpose of uniformity and a better understanding, the following terminology be used in discussion, promotion and administration of contributions made for the establishment of life income agreements:

1. the agreement between the donor and the issuing agency be referred to as a "Life Income Agreement";
2. the amount paid under the agreement be referred to as a "Life Income Payment";
3. persons paid under the agreement be called "Beneficiaries";
4. the rate of the life income payment shall be called the "Life Income Yield".

XII. BE IT RESOLVED that the Eleventh Conference on Gift Annuities recommend that religious, educational and charitable groups which cooperate with the Committee on Gift Annuities

be requested to send in to the Chairman of the Committee on Gift Annuities copies of any rulings by Federal or State authorities dealing with gift annuities or life income agreements.

XIII. BE IT RESOLVED that the Eleventh Conference on Gift Annuities express its thanks to the Committee on Gift Annuities for having developed suggested forms of gift annuity agreement and life income agreement.

XIV. BE IT RESOLVED that the Eleventh Conference on Gift Annuities urge and encourage all organizations issuing gift annuity agreements to give consideration to the adoption of the Uniform Gift Annuity Rates as a maximum.

XV. BE IT RESOLVED that the Eleventh Conference on Gift Annuities suggest that the Committee on Gift Annuities consider the advisability of having another conference in approximately three years and also consider the advisability of having it in a location other than New York City.

XVI. BE IT RESOLVED that the Eleventh Conference on Gift Annuities express to Chairman Charles W. Baas and the officers and members of the Committee on Gift Annuities its appreciation for this splendid conference and for their many services since the last conference.

Mr. Curry B. Hearn, *Chairman*
Mr. Lyndon O. Adams
Mr. D. W. Smythe
Mr. Charles L. Burrall, Jr.
Mr. Chester A. Myrom
Dr. Hollis L. Turley

Ex-Officio:
Mr. Charles W. Baas

DELEGATES TO THE ELEVENTH CONFERENCE

Organization	Represented by
Albion College, Albion, Michigan	Mr. E. H. Babbitt
American Advent Mission Society, Charlotte, North Carolina	Mr. Kenneth T. Leist
American Baptist Convention—Board of Education and Publication, Valley Forge, Pennsylvania	Mr. Paul C. Carter Mr. C. Herbert Lindewall
American Baptist Foreign Mission Society, Valley Forge, Pennsylvania	Mr. Forrest Smith Mr. Walter C. Konrath
American Baptist Home Mission Society, Valley Forge, Pennsylvania	Mr. James A. Christison, Jr. Mr. Albert C. Johnson
American Baptist Convention—Ministers and Missionaries Benefit Board, New York City	Mr. Malcolm R. Cary Mr. Frank L. Taylor
American Bible Society, New York City	Mr. Charles W. Baas Dr. Gilbert Darlington Rev. A. Paul Wright
American Leprosy Missions, Inc., New York City	Mr. Hans Breitung
American Lutheran Church, Minneapolis, Minnesota	Rev. Robert B. Gronlund
American Society for the Prevention of Cruelty to Animals, New York City	Mr. Stanley A. Link
American Tract Society, Oradell, New Jersey	Dr. Henry G. Perry
Annuity Fund for Congregational Ministers, New York City	Dr. Wm. Kincaid Newman Mrs. Alma K. Quimby Dr. Harold N. Skidmore
Asbury Theological Seminary, Wilmore, Kentucky	Mr. Wm. E. Savage
Assemblies of God—General Council, Springfield, Missouri	Mr. C. W. Ringness
Augsburg College and Theological Seminary, Minneapolis, Minnesota	Mr. B. P. Fosse
Baldwin-Wallace College, Berea, Ohio	Mr. Harold Beyer
Baptist Foundation of Oklahoma, Oklahoma City, Oklahoma	Dr. Auguie Henry
Baptist Foundation of Texas, Dallas, Texas	Mr. George L. Shearin
Baptist General Convention of Texas, Dallas, Texas	Mr. Calvin B. Reeves
Baptist Hospital Fund, St. Paul, Minn.	Dr. G. Horace Wood
Baptist Mid-Missions, Cleveland, Ohio	Mr. Arthur G. Fetzer
Barrington Bible College, Barrington, Rhode Island	Mr. Charles Peters
Berkeley Baptist Divinity School, Berkeley, California	Dr. John A. Ramsay
Bethany Biblical Seminary, Chicago, Illinois	Mr. E. Floyd McDowell
Boston University, Boston, Mass.	Mr. James P. Berluti
Bryn Mawr College, Bryn Mawr, Penna.	Mr. Paul W. Klug
Carroll College, Waukesha, Wisconsin	Mr. Robert D. Steele
Central Baptist Theological Seminary, Kansas City, Kansas	Mr. Gordon E. Smith

Organization	Represented by
Christian Churches (Disciples of Christ)—Pension Fund, Indianapolis, Indiana	Dr. Hollis L. Turley Dr. William Martin Smith
Christian and Missionary Alliance, New York City	Rev. Bernard S. King Mr. John O. Carlsen Mr. John Samson
Christian School Educational Foundation, Grand Rapids, Michigan	Mr. Gerald Knol
Church of the Brethren, Elgin, Illinois	Mr. Harl L. Russell Mr. Robert Greiner
Church of God—Board of Church Extension and Home Missions, Anderson, Indiana	Mr. E. F. Adcock Mr. Ralph W. Phile
Church of God—Executive Council, Anderson, Indiana	Mr. Glenn Falls
Church of the Nazarene—General Board, Kansas City, Missouri	Mr. John Stockton
College of the Scriptures, Louisville, Kentucky	Mr. Tibbs Maxey
Culver-Stockton College, Canton, Missouri	Dr. Paul C. Carpenter
Dartmouth College, Hanover, New Hampshire	Mr. J. Ross Gamble
Denison University, Granville, Ohio	Mr. Burt T. Hodges Mr. Calvin K. Prine
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CONSTITUTION

of the

COMMITTEE ON GIFT ANNUITIES

Article I

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 for gift annuities and the accepted methods of yield computation for life income agreements.

The Committee shall also study and recommend the form of contracts, the amount and type of reserve funds, and the nomenclature to be used in describing, advertising and issuing gift annuities and life income agreements.

The Committee shall ascertain and report as to legislation in the United States and in the various states regarding gift annuities and life income agreements, 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 and/or life income agreements. 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 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 weeks' 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.

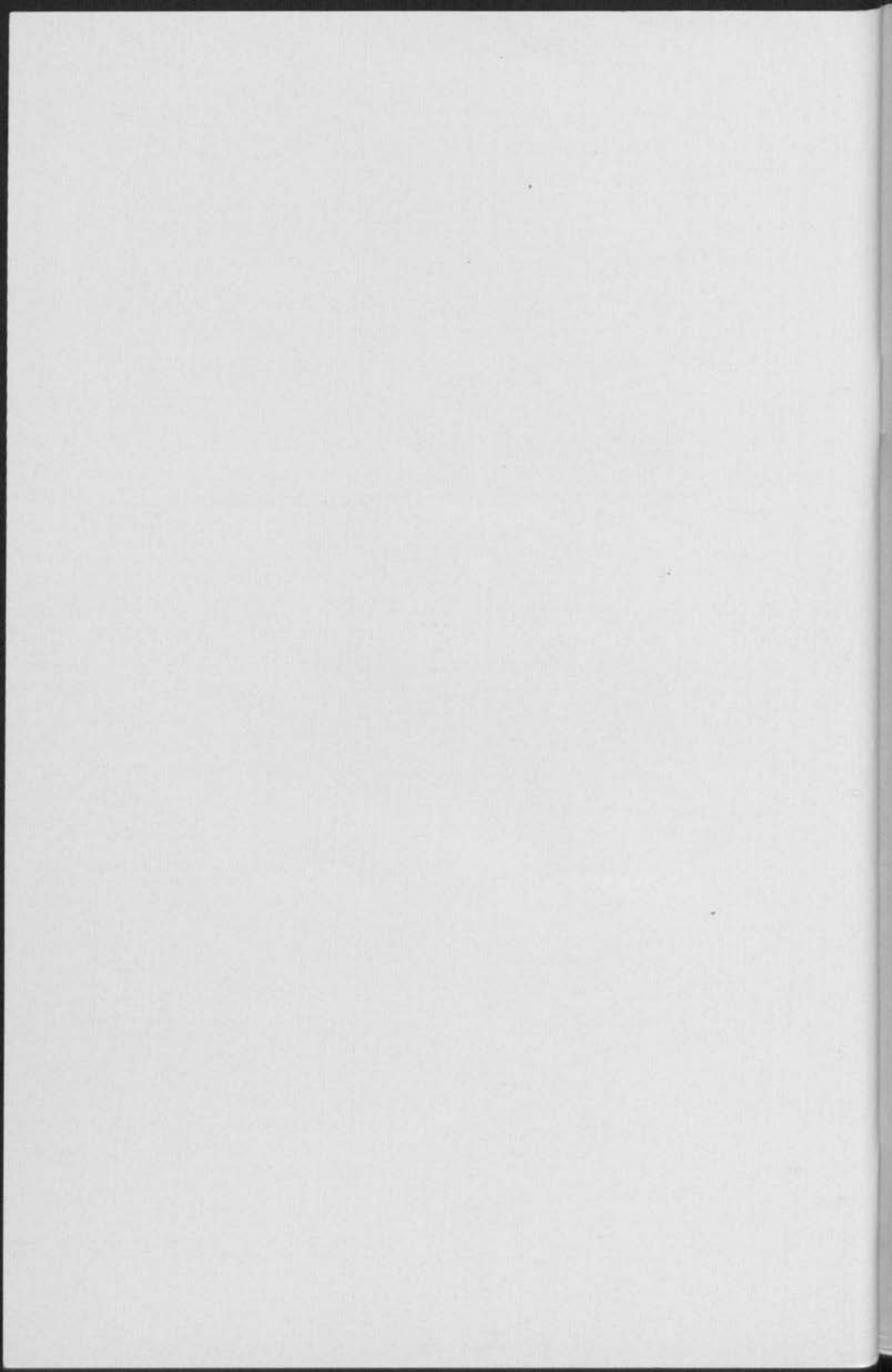
VI. Members of the Committee on Gift Annuities shall serve for three years, or until their successors are elected by the Committee as provided in the Constitution.

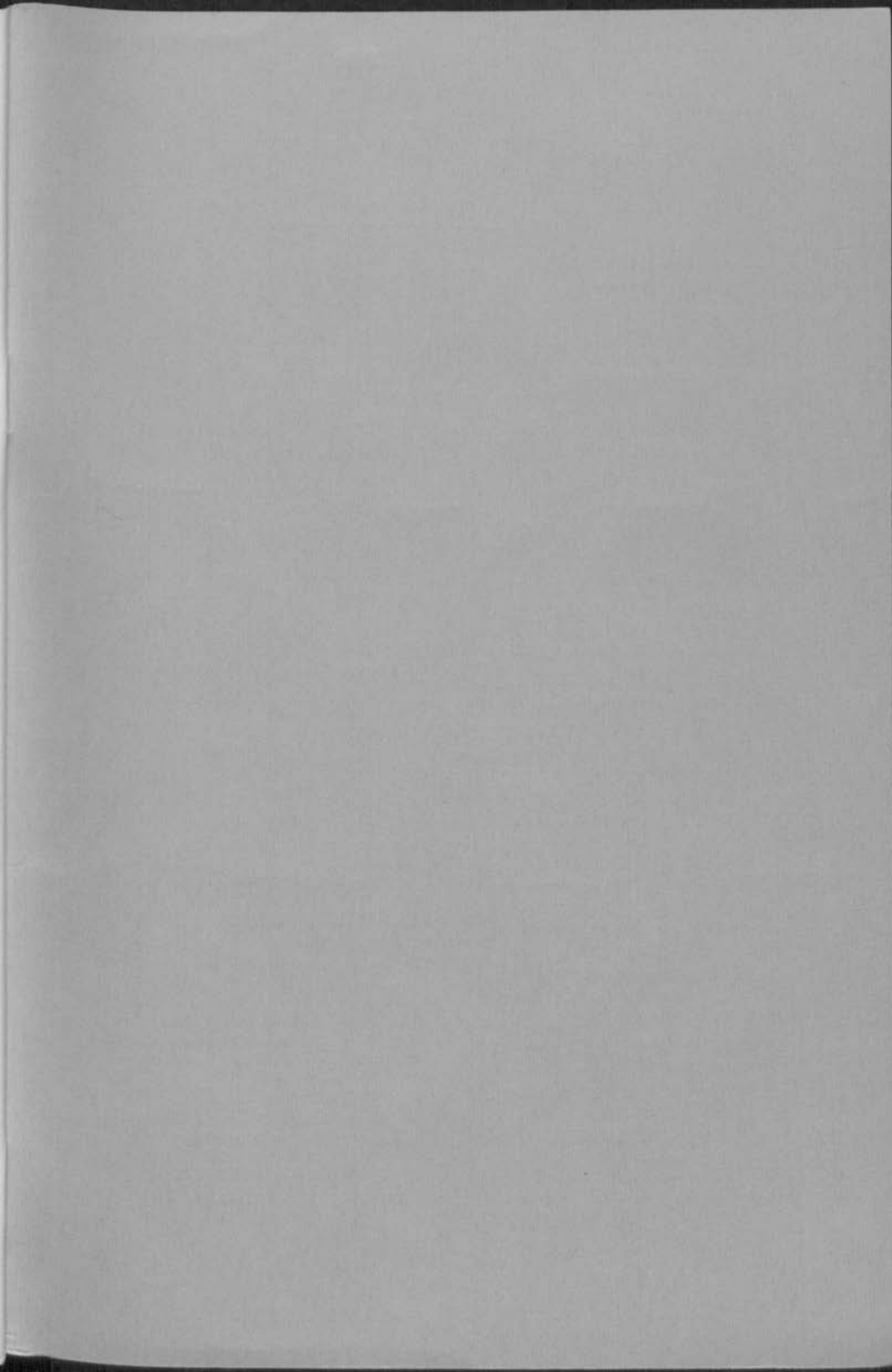
VII. A quorum necessary for the conduct of business of the Committee shall consist of five members.

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.





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

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Executive Vice President, The Annuity Fund for Congregational Ministers

DR. R. ALTON REED
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President of Pension Fund, Christian Churches (Disciples of Christ)

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