

Gift Annuity Agreements  
of  
Charitable Organizations



INTEREST RATES and INVESTMENT OUTLOOK

MORTALITY EXPERIENCE

LIFE INCOME AGREEMENTS

TAXATION OF GIFT AGREEMENTS

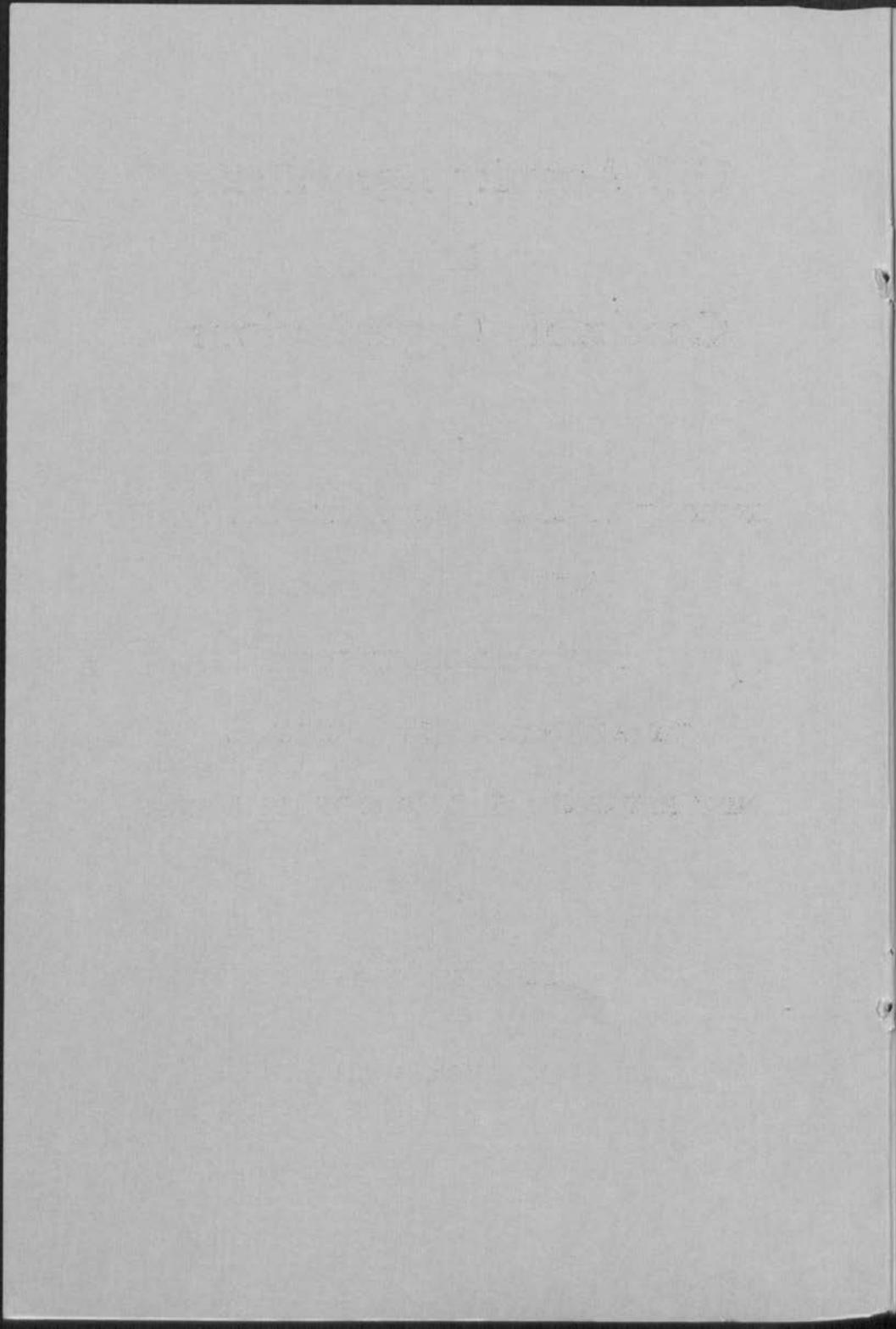
NEW STANDARD OF GIFT ANNUITY RATES



TWELFTH CONFERENCE

WISE PUBLIC GIVING SERIES, NO. 51

1965



# Gift Annuity Agreements of Charitable Organizations

PAPERS PRESENTED AT THE TWELFTH  
CONFERENCE ON GIFT ANNUITIES,  
HELD IN CHICAGO, ILLINOIS, TUES-  
DAY AND WEDNESDAY, APRIL 6-7,  
1965, UNDER THE DIRECTION OF THE  
COMMITTEE ON GIFT ANNUITIES



COMMITTEE ON GIFT ANNUITIES

450 Park Avenue . . . New York, N. Y. 10022

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## OPENING REMARKS

MR. CHARLES W. BAAS

*Chairman, Committee on Gift Annuities*

This Conference is by far the largest of the Gift Annuity Conferences both in terms of delegates and of organizations represented. Four hundred eighteen delegates and three hundred three organizations have registered.

One hundred twenty-eight of these organizations are represented at a Gift Annuity Conference for the first time. The greater portion of these recent additions are colleges or other educational organizations, having the effect of slightly changing the character of the supporting constituency.

For example: The average of institution attendance at the last three prior conferences compared with figures for the Twelfth Conference reads like this:

	<i>Three Conference Average</i>	<i>Twelfth Conference</i>
Colleges (All Educational Institutions)	38%	43%
Church Boards	38%	30%
Foundations	6%	9%
Professionals	5%	4%
Other Religious Groups	10%	11%
Other Secular Groups	3%	3%
	<hr/> <u>100%</u>	<hr/> <u>100%</u>

Of course, the comparison I have given you is measuring only the number of Sponsoring Organizations with no attempt to weight the percentages for the number and amount of outstanding agreements. If complete figures for such a weighted evaluation were compiled, I am sure the Church Boards category would carry the largest percentage.

At the time of registration, statistics on Gift Annuities and Life Income Agreements were requested. Responses were received from 102 of the 303 Sponsoring Organizations.

The 102 organizations representing 34 percent of our constituency reported outstanding Gift Annuities at a recent date totaling 47,517 agreements for \$99,889,673.

Similar figures for Life Income Agreements outstanding: 2,453 agreements for \$27,796,297.

Tax-Exempt Life Income Agreements outstanding: 158 agreements for \$3,362,233.

Trust Funds outstanding: 1,070 agreements for \$17,771,797.

The total amount outstanding for the four types of agreements, covering only 34 percent of the organizations represented here today, is \$148,819,990.

There are quite a few implications in these figures, particularly if a comparison were made with statistics of earlier conferences; but that is not the purpose in quoting these figures now.

The statistics *are* cited to impress you with the idea that important money has been and *is* being secured through Gift Annuities and Life Income Agreements.

The Twelfth Conference is the first held in Chicago and also the first held outside the New York area. Two members of the Committee on Gift Annuities are responsible for the physical arrangements of the Conference. We owe our thanks for the fine facilities to:

Dr. J. Homer Magee of the Council on World Service and Finance of The Methodist Church; and Dr. Roland C. Matthies of Wittenberg University.

However, much of the actual work fell on Mr. Harry Gibson of the Convention Bureau of The Methodist Church, to whom I am particularly grateful.

Perhaps the Chairman should explain why we are having a Twelfth Conference on Gift Annuities.

The Constitution of the Committee on Gift Annuities states that "The Committee shall call a Conference on Gift Annuities at least once each four years . . ."

The Committee, aware of this requirement and of the apparent desire of the supporting organizations for more frequent conferences, has recently scheduled Conferences in every third year. I believe the attendance at the last two conferences indicates that the Committee has evolved an acceptable pattern.

A brief review of the origin and functions of the Committee on

Gift Annuities may be in order, as many of you are attending a Conference on Gift Annuities for the first time.

This Committee was brought into existence in March, 1927, as a direct result of a paper presented by the late Dr. Huggins, former Committee member and Actuary, at a conference in Atlantic City. A small group of gift-annuity-issuing organizations had been co-operating to get proposed insurance laws for New York State amended to recognize the existence of gift annuities, which otherwise would not have been legal in the State. The Conference on Financial and Fiduciary Matters of the Federal Council of the Churches of Christ in America on March 22 through 24, 1927, received Dr. Huggins' report; and this Conference authorized the appointment of a continuing subcommittee on annuities with this resolution:

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

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

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

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

"Whereas the Committee on Annuities was originally a subcommittee of the Federal Council of Churches of Christ in

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

Then it goes on with the succeeding six parts of this seven-part resolution, found in the proceedings of the Ninth Conference on Annuities, outlining the framework within which the Committee and the Conference on Gift Annuities is expected to function.

Under this frame of reference, the Committee, now independent, has a Constitution and By-Laws which are included in the packet you received this morning. (appears on pp. 117-120)

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

The present Committee on Gift Annuities includes two members who attended the first conference: Gilbert Darlington and Forrest Smith, who, while still active, carry the title "Honorary" in their listing. I am pleased to announce that Forrest Smith is with us today. These men, in addition to a few others, notably the late long-time Conference Actuary, George Huggins, are responsible for our being able to meet today to consider how to make a successful gift vehicle even more successful.

The membership of the Committee as reported in the Conference folder is twenty, or five short of the By-Laws maximum of twenty-five.

I regret to report another committee vacancy through the sudden death of John Rosengrant on February 5, 1965. John was a faithful and hard-working Committee Member for more than fifteen years.

It is intended to bring the Committee nearer to full strength after this conference. By examining information secured at conference registration time, the Committee can select some of the larger, more active organizations in the Gift Annuity and Life Income Agreement fields who will be invited to name representatives. An effort will be made to obtain a balance that will adequately represent the Sponsoring

Organizations, for example, the proper proportion of Colleges versus Church Boards.

This is probably the place to remind you that our emphasis is on the management end of the Gift Annuity and Life Income business—promotion techniques are only incidental.

This conference has been planned, organized, and partly staffed by Committee on Gift Annuities members, who are wearing yellow name tags so delegates can recognize them easily. I would like the Committee Members present to rise and stand where they are.

These people spend time working for all of us—and don't even get reimbursed for carfare. I think they deserve your recognition.

I'd like to spend most of the remaining minutes of this orientation talk going over the Conference program.

First:—Annuity Rates—this is a major matter at every Conference. The rates are based primarily on the variables of interest rate and mortality experience.

The present gift-annuity rates were adopted in October, 1955, and are based on the 1937 Standard Annuity Table, female lives only, set back one year, loaded five percent for expense, expecting a fifty-percent residuum and with an interest assumption of three percent.

If you are a Conference neophyte, that was some sentence, but take heart—you will be led through it by the hand before the Conference is over. Just remember now that one factor was a three-percent interest assumption.

During the decade 1955 to the present, short term governments experienced quite an interest rate change; averaging about 1.7 percent at the decade's start to early this year when their yield was a bit over 3.8 percent. Moody's AAA Bonds, which produced about three percent in 1955, now yield over 4.4 percent. While there has been a significant interest change in the last ten years, it is important that the best advice be secured as to what lies ahead.

I remember the first Gift Annuity Conference I attended in 1946. On the program was Dr. B. H. Beckhart, Professor of Banking at Columbia University, who said some things about prospective interest rates that upset the Committee's recommendation for a rate change. Later it turned out to be a blessing, as Dr. Beckhart's views proved correct.

Once again we are fortunate in having a speaker well qualified to help us think about investment income prospects.

Mortality experience is the other major variable in the gift-annuity rate formula. Each of the eleven previous Conferences has had some kind of report on annuitant mortality.

The words "annuitant mortality" make me very cautious. There have been times when I was subjected to the severe criticism of my colleagues at Bible House in reporting to our Board that annuitant mortality experience was unfavorable. My associates seemed to get the impression that I wished our annuitants would relinquish their payments on time. Our Board was sympathetic to my plight. One member even provided me with a poem to read if ever mortality experience proved favorable—Here it is:

I now report the circumstance  
Concerning our annuitants  
That they no longer are with us  
But in a home more glorious  
It chances that with their release  
Our income shows a marked increase.

Only in recent years has the Committee tried to develop a mortality experience based on the actual gift annuities issued by the Sponsoring Organizations. Previously, the reports on mortality experience had been based on such things as Life Insurance companies' experience, or the U. S. Census.

The 1955 Conference was a first in that a five-year analysis of a group of the larger gift annuity funds produced a significant study based on our own experience. This was continued in 1959, with a new study including many more lives, but a full-scale study was omitted at the 1962 Conference because of the short lapse of time.

The current Conference program provides a new five-year study which, while including a somewhat reduced basis of sampling when compared with the 1959 study, is, I am informed, actuarially sound and less costly.

These studies in the last ten years are an important step forward in gift-annuity rate determination.

Your attention should be called to the economic value of working together.

If each organization had to work out its own gift-annuity rates,

each organization would face a cost running from two thousand to five thousand dollars in actuarial fees. By doing it together the cost of this vital project is included in the thirty-five-dollar Conference registration fee.

We are all getting the very best professional help at a bargain rate.

Tax matters will again be a program feature. We must keep informed on this subject to service our donors properly.

There have been some changes since the last Conference.

For example, The Internal Revenue Service has agreed to permit the valuation of agreements including annuitants over age eighty-five as if they were eighty-five years old, thus eliminating the need for a valuation table extension; and, in addition, we now have the five-year carry-over of donations.

Incidentally, I have word that this summer the Internal Revenue Service has scheduled a gift annuity valuation table review.

Considerable program time will be spent on Life Income Agreements. Like at the Eleventh Conference, Life Income Agreements will be a major presentation.

The Committee on Gift Annuities recognized the need and took action in 1961 recommending

"That the responsibility of the Committee on Gift Annuities be broadened so that it takes a similar interest in Life Income Agreements. . . ."

One fruit of this seed is the Life Income Manual which was put in your hands with the Conference papers. This is a first-class document that not only provides the tools for computing the Federal Tax implications of Life Income Agreements but has suggestions for administering Life Income Agreement Plans, including an approved form of Agreement.

The main effort in producing this manual was put forth by a Committee on Gift Annuities sub-committee led by Secretary Myrom and including Committee Members Christison, Locke, and the late John Rosengrant.

State Regulation of Gift Annuities is a subject on the agenda again. I believe twenty-seven of our number hold permits to issue gift annuities in New York State. Quite a few of our number report to the State Department of Insurance in California. More states are becoming interested in regulating gift annuities. Inquiries come not

only from State Insurance Departments but from State Commissions like Securities and Exchange Commissions or Banking Commissions. It is important that any organization being questioned on the subject of regulation keep the Committee advised and also make the matter known to the other Sponsoring Organizations in the same state.

Another perennial conference subject is Terminology in Promotion. Constant reminders appear to be necessary to keep us from using incorrect terminology in overzealous advertising. The use of such words as "interest," "dividend," or "bond" can result and has resulted in some embarrassing tax consequences for donors.

The Committee has arranged a good program with the right speakers on subjects which should be of interest to you, but this is not all you should get out of this Conference.

There are at least four Question and Answer opportunities:

*First*—You have contact with other delegates; I am inviting you to talk to each other about your problems and experiences.

*Second*—You can approach the members of the Committee on Gift Annuities, who are readily identifiable with their yellow name tags. Instructions are hereby given that Committee Members are to act as luncheon hosts and sit at separate tables. So, delegates, lunch with your favorite.

*Third*—Conference speakers have all been requested to reserve time for your direct questions immediately after their presentations.

*Finally*—You will note that near the end of the Conference, time has been allotted for a panel discussion of your questions.

These are the opportunities—it's up to you to take advantage of them.

Just a word on the gray conference packet. Included in the packet is some material to which I have already made reference and also other papers that will be called to your attention by conference speakers, as well as some items of general interest.

May I call your special attention to the little blue folder, Philosophy of Gift Annuity Agreements.

This statement, prepared by the Committee, is available with a blank back page which can be imprinted with a name or a message to make it your own piece.

I recommend you read, again, if you have read it before, the full text of this brief and clear statement on Gift Annuities.

The last paragraph reads—

“Annuity contracts have been written by some charitable organizations for a half century or more. They are in established use and are favorably regarded by those organizations as a proper method of securing gifts. Several leading educational and religious institutions as well as hospitals, have secured magnificent gifts under the annuity arrangement while at the same time returning to the donor both practical benefit and spiritual satisfaction.”

This is really why we're here, isn't it? To secure support for our causes and at the same time provide donors with both practical benefit and spiritual satisfaction.

Finally, a Conference housekeeping matter. At recent Conferences on Gift Annuities, the drafting of resolutions to be considered by a Conference has been placed in the hands of a Resolutions Committee. The Committee on Gift Annuities recommends this procedure be followed for the Twelfth Conference and suggests the following persons serve as a Resolutions Committee.

A list of these names appears on the program included in your Conference folder.

*The Suggested Resolutions Committee:*

Alf Jorgenson, Chairman

Jay Beede

Robert Greiner

Charles Burrall

James Cousins

Chester Myrom

and your Chairman ex-officio.

## INTEREST RATES AND INVESTMENT OUTLOOK

MR. JOHN M. TITTLE

*Senior Partner, Stein Roe & Farnham*

*(Delivered by Mr. John K. Hotchkiss, Stein Roe & Farnham)*

I suspect that there are few concepts in our modern world in which the average person has as little interest—as that of *interest* itself. This is despite the fact that interest rates and their structures affect all of us in one way or another. Whether it be in the form of our paying interest on a mortgage, auto, or household loan—or whether we be on the earning end by virtue of having savings accounts or insurance policies.

This lack of understanding of the cost and earning potential of money is demonstrated every day by the person who shops for hours or days to find the best car buy and then fails to consider the effective interest rate he pays on the loan. Yes, interest rates, which are in reality the cost of borrowing or the return from lending, do in fact, enter one way or another into nearly every financial transaction we undertake.

In a world marked by change and by the consequences of accelerating obsolescence, it is intriguing to note that interest rates have been with us for a long time. Mr. Sidney Homer, an acknowledged authority on interest rates, points out in his recent book *A HISTORY OF INTEREST RATES*<sup>1</sup> that the legal limit for interest was 12% in Caesar's time, and that it had been 20% per year on loans of silver back in 1800 B.C. That we do not know what it was before that date is not because there was no interest; it is instead probably because we can find no written record of it.

While interest rates have been with us for ages, some concepts have changed. As Sidney Homer further points out, during the period ranging from the Council of Nicea in 325 A.D. through the twelfth century and indeed almost until today, the argument of usury versus interest has been the subject of both ecclesiastical and civil debate. Early in the Dark ages, usury "where more is asked than given" was prohibited by canon law and widely condemned by the church. With

<sup>1</sup> *A HISTORY OF INTEREST RATES*, Sidney Homer; Rutgers University Press, New Brunswick, N. J., 1963.

the development of trade in the eleventh and twelfth century, the concept of interest as opposed to usury began to grow. Loans were no longer considered solely as acts of charity. Interest began to be thought of as honest compensation for the time and effort involved in making the loan, or as the compensation for giving up the earning power of the funds loaned, or as payment for the risk of making the loan. By the sixteenth century, credit was financing trade throughout Europe and interest was a generally accepted concept.

I might add, you should not be surprised by the 20% rate of 1800 B.C. This is well below the going rate on many small loans in this country today. Furthermore, in this century alone we have seen rates as high as 10,000% (in Germany) and as low as 1/100th of 1% (in New York); a range of one million to 1.

From this path of history we can make two clear observations. First, interest rates have been volatile. Second, the magnitude of the changes and, in fact, the changes in interest rates themselves have been nearly impossible to forecast. We measure changes in interest rates now in fractions of per cents. This does not mean, however, that the volatility aspect no longer exists. Nor does it mean that it is any easier to anticipate the changes. The one thing we know, and know for certain, is that the rates will change. For this reason, it is with both respect and humility that I approach the subject for today, *Interest Rates and Investment Outlook*.

I am not an economist and would not claim to be one. This is not because I hold them in low regard. Quite to the contrary. I have the highest respect for the profession and for the individuals who practice it conscientiously and with honesty. On the other hand, an economist, goes one definition, "Is one who is hazy about the present and uncertain about the future." A second definition says, "An economist is one whose forecasts are forgotten by the time circumstances prove them wrong." I'll make you a bargain on which I will be the winner. I'll play my side of the first definition—and be uncertain about the future, if you'll perform your side of the second—and forget these forecasts if circumstances prove them wrong.

I would like to reverse the order of my subject matter and first review briefly our outlook for business. This has more than a little to do with our near term guess on interest rates. Then, secondly, I would like to discuss the prospects for interest rates more from what the

economists call a secular or long term point of view than from a cyclical short term outlook.

*First, then, on business in general.* Our present forecast calls for improving business throughout this year. We see some slight hesitation in the middle of the year, but now believe a further improvement toward the end of the year is likely.

Before detailing this forecast, let me give you some of the background. It seems clear to us that there have been some basic changes in the courses of action taken by the Federal government in conducting economic policy. The first area of change is that of fiscal policy. It was once a generally accepted principal that sound fiscal policy demand that the Federal budget be balanced every year—whether general business be in an expanding phase or in a phase of contraction. Later the concept of balancing the budget over the business cycle evolved—that is, deficits in bad years and surpluses in good ones with the minus years and plus years offsetting each other. More recently, it was conceded that perhaps the budget could not be balanced even over a cycle but it was accepted that there should be surpluses in exceptionally good years. Only three years ago, in fact, President Kennedy suggested surpluses as being desirable in periods of prosperity. Now even this has changed. In this year, the year of perhaps the greatest prosperity the nation has ever known, the Government is likely to run at least a \$6 billion deficit.

Secondly, we believe there have been some changes in the area of monetary policy. We have now experienced 50 months of business recovery. While money is a little less plentiful, it is, nevertheless, available at a reasonable price to anyone with a good credit rating. The Federal Reserve Board, in concert with the needs of the Treasury, has deliberately kept it this way; to have done otherwise might well have resulted in a slowing down in business activity. To date, anyway, we have not experienced the tightening of money which one would have expected if he had been able four years ago to accurately forecast the magnitude of the present business expansion.

Taken together, these two policies, the fiscal and the monetary, represent a kind of commitment to prosperity which is more than simply the "Great Society." They are a reflection of the fact that the great overwhelming domestic problem may be that of unemployment.

In an Act which almost daily assumes increasing importance, the

President of the United States was given what was very nearly a mandate to maintain full employment. This Act, the *Employment Act of 1946* stated that it was the "responsibility of the Federal government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy . . . to coordinate and utilize all its plans, functions and resources" . . . for the stated purposes of the act which were to maximize production employment and purchasing power. President Truman when signing the Bill (which incidentally was passed unanimously by the Senate), said "*The Employment Act of 1946* is not the end of the road, but rather the beginning. It is a commitment by the Government to the people, a commitment to take any and all of the measures necessary for a healthy economy, one that provides opportunities for those able, willing, and seeking to work."<sup>2</sup>

This commitment to full employment, as President Truman put it, becomes more important today with the population boom. That it will, or may, become even more important is shown by the population estimates; estimates which call for an increase of 8% in the labor force over the next five years, and an increase over the next ten years of 18%.

Thus, in our business forecast, we have tried to reflect what we believe have been rather basic changes in Government fiscal and monetary policy. We have also had to make some specific near term assumptions. Of these, perhaps the five most important are: 1) that there will be no early devaluation of the pound sterling, 2) that there will be no change in the price the U.S. Government pays for gold, 3) that there will be no steel strike, or if one, only a short one, 4) that there will be no racial crisis of serious consequence, and 5) that there will be no important escalation of the Viet Nam crisis.

Based upon these general and specific assumptions then, our present projection calls for good business throughout the year. We are not estimating that the fourth quarter activity as measured by total Gross National Product will be up about 5% over that of the fourth quarter of last year. The strongest sectors of the economy are: consumer spending for durables, non-durables, and services; plant and equipment expenditures by businesses; and state and local spending for new

<sup>2</sup> Counsel of Economic Advisers, *First Annual Report to the President, 1946*.

schools, roads, sewers, etc. Our forecast calls for level residential construction, for only a slight increase in Federal spending and for a slight decline in net exports. The remaining area, that of inventory accumulation will probably fluctuate widely but should be in the direction of net accumulation throughout the year and we believe will end the year at a reasonable level.

I should say, if it is not already clear, that automobiles play an important role in the projection and one that is difficult, indeed, to forecast with accuracy. We did not foresee the tremendous first quarter rate of production and we do not now believe it can continue. The American consumer probably always will confound the economist as well as the industrial designer.

This forecast reflects confidence. It reflects confidence on the part of the consumer; it reflects confidence on the part of business; it reflects confidence on the part of the Government. If it eventuates, it will represent the fifth straight year of business expansion; the longest period of expansion in this country in the 100 years for which detailed data are available. If it does not materialize, it will probably be because something comes along to shake this confidence. There is only one thing certain about this forecast; that is that we will change it as the year progresses. Nevertheless, it is our best guess as of now.

*Now, back to interest rates.* In the near term we look for higher short-term rates, rather level long-term Treasury and mortgage rates, and level to slightly rising long-term corporate rates. But I would like to direct my comments primarily to the longer term outlook. You are long-term investors. Let's look at the long term.

You all know what has happened to long-term corporate rates in this country since the turn of the century. They trace a large letter "N" starting at about 3% in 1900, rising to above 5% in 1920, falling to 2½% in 1946 and rising again to well above 4½% in 1959. These three trend lines—20 years of rising rates, 26 years of declining rates and 13 years of rising rates were not uninterrupted. Indeed, they were often interrupted by cyclical fluctuations which from time to time obscured the longer term trend.

Since 1959, interest rates have moved in widely diverse patterns; patterns which have been consistent only in their surprise. Even the most knowledgeable students and analysts of monetary developments have been fooled. By 1964, this country was well into the fourth year

of a strong and pervasive business recovery, credit was expanding at a record pace, and there was great confidence that the boom would continue as expressed by the rise in the stock market which had persisted for almost  $2\frac{1}{2}\%$  years without any significant interruption. The fact that long-term corporate rates failed to rise during most of this period questioned the classical theory of rising rates during periods of expansion as expounded by the textbooks. In many respects it should not have happened; but it did.

What surprises, then, is not that long-term Treasury obligations are now at roughly  $4\frac{1}{4}\%$  but that over the last four years they have increased only 35 basis points. But what surprises even more is that during this same period rates for long-term corporates have in fact declined by about 10 basis points.

I'll leave it to future historians to explain this phenomenon in detail and erudition for I suspect that, only in retrospect, will all the factors become apparent. Let me, however, suggest a few reasons why I think it may have happened; reasons which, importantly, I believe are likely to continue to exert a stabilizing influence on interest rates despite our projection for improving general business over the remainder of the year.

First, on the demand side of the capital market. Along with our affluent society, we have become a society of the affluent corporation. Corporations, generally speaking, either have money or are capable of borrowing it on relatively short notice at a reasonable rate. More rapid depreciation schedules, the investment tax credit and the corporate tax cut have each improved cash flow. Modern management techniques have improved inventory control and have sharpened purchasing procedures. Pre-tax corporate profits are high. In short, the rich companies are very rich cash-wise. General Motors, which may admittedly be a poor example, had at last year-end over \$1.0 billion invested in short-term marketable securities. Consequently companies are able to finance a greater portion of their requirements internally. Despite expansion and modernization programs the volume of new corporate bond financing has not risen significantly over the last two years and has certainly not risen as much as one might have expected this late in the business cycle.

Further, the demand of the mortgage market, like that of the corporate market, did not increase importantly last year. One of the

economic phenomena of this country since 1950 has been the increase in residential construction. Indeed, in recent years, the mortgage market to finance this construction boom has been perhaps the most important demander of money. From 1957 to 1963, the annual net volume of new mortgages rose from \$11 billion to about \$30 billion. This increase did not continue into 1964 and it is doubtful that there will be any increase in 1965.

Finally on the demand side of the capital markets, while certainly not running surpluses, the net increase in marketable debt of the Federal Government has been relatively small during the last two years. Moreover, because of recent advance refundings, the average maturity of marketable debt is now the longest it has been since 1956. With the advanced refunding of January now out of the way, and with only a small volume of maturing issues this year, the Treasury has important flexibility in arranging its financing needs for the balance of the year.

Next, on the supply side of the capital markets. These past two years will go down in history as the years of the bank quandary. And I choose the word quandary with purpose for it was probably the change in Regulation Q which started it off. That change, which permitted increases in rates paid on savings deposits, has resulted in a major transfer of funds from demand to time deposits and has introduced the interest bearing certificate of deposit as a short term investment medium. The result has been on the one hand a large increase in time deposits and certificates of deposit. On the other hand, the result also has been more aggressive lending policies on the part of the banks to offset these increased interest expenses—lending policies which helped to provide increased funds to the capital markets.

The huge flow of direct and indirect savings which are those channeled through financial intermediaries such as banks, insurance companies and pension funds continues unabated. The pressure of investing this growing supply of investable funds during a period in which the demand side of the equation is increasing less rapidly, intensifies the competition from investors seeking to employ these funds. We have witnessed this increasing competition for marketable investments over the past two years. We believe it will continue.

Thirdly, and finally, monetary policy over the past two years has not been restrictive. Partly, and perhaps most importantly, monetary

policy has not been tightened because to have done so might have slowed down the business expansion and have aggravated the unemployment problem. Importantly also, however, the Federal Reserve Board has been willing to maintain a non-restrictive policy because the inflationary pressures which usually show up late in the business cycle have not yet shown up—or, at least, are not yet apparent. We have not experienced great inflationary pressures yet in this cycle, and do not expect such pressures to develop soon.

The price indices will, however, have to be watched closely. Monetary authorities will be particularly sensitive to any sudden rise in price levels. They will also be sensitive to the ever-worrisome balance of payments problem. Further deterioration in this area could also result in restrictive measures by the Federal Reserve. Assuming that does not happen, however, and assuming our business forecast, we visualize no important further tightening of money in the near term. I said that these several factors in the supply side of the capital markets, on the demand side of the capital markets and finally those reflecting monetary policy have been among those contributing to the interest rate pattern of the past four years. I think it is likely that these factors will continue to exert a leveling pressure on rates at a time in the business cycle when rates might normally rise. What may be more important in the pressure these factors may exert if, and when, general activity slows down. At that time they might well represent pressure of a longer term nature sufficient to create a downward trend in rates. While the timing is difficult to predict, and while other developments could come along to surprise me, it seems to me that the large capital "N"—the interest rate curve of the century to date which I described earlier—could, for awhile at least, look more like an "M."

The challenge of investing—whether it be in U. S. Treasury obligations, corporate issues or even common stocks—is, it seems to me, understanding and forecasting these longer term trends. Unfortunately, but also perhaps fortunately, the job becomes more difficult each year.

While I am sure that it has always been so, it seems to me that we have a broadening social and economic environment in which we exist as individuals, as an economic structure, and as a nation. My father knew only where Peking was; we must know much more. My father barely knew where Africa was; we must live daily with the new

African nations in the U.N. While we have influence over a wider sphere ourselves, it is not one way; a wider world has influence on us as well.

It is clear also, I think, whether we like it or not, that Federal, State, and Local governments are likely to exert increasing influence on our economic environment. Insofar as the influence is itself a reflection of long-term changes, it may be possible to predict it with some accuracy. However, insofar as it represents short term political expediency, it almost defies prediction.

Further, we are living in an age of rapid change—of accelerating change. This change is a technological change, we see this every day; it is also a social change and an economic change. This ever-changing environment increases the difficulty of projecting the future and also questions the relevance of past experience as a guide in interpreting present events.

Finally, we are, in an economic sense, becoming an increasingly sophisticated people. More and more study, and more and more effort, are being expended in trying to understand the forces operating on our economy and on our money markets. A borrower, a lender, or an investor is never alone in the market place. The market thrives and exists on competition. One of the challenges is simply that each borrower, each lender and each investor must try to be smarter and more alert than his competitor. Gardner Ackley, now Chairman of the Council of Economic Advisers, once said rather tritely, but knowingly: "I sometimes feel that we are becoming a nation of economic hypochondriacs. The pulse taking and fever-charting in which we engage; the scrutiny of monthly indicators; the learned and not so learned dissections of Gross National Product and industrial production sometimes remind me of a friend of mine who keeps a thermometer in his desk drawer, a calorie chart in his vest pocket, and litmus paper in his lavatory."

I do not ask you to become economic hypochondriacs. There is challenge enough in investing without that. If you want challenge, investing certainly has it.

Thank you for your interest in *interest*. It has been a pleasure to speak to you today.

## TERMINOLOGY IN PROMOTION

DR. T. K. THOMPSON

*Executive Director, Department of Stewardship & Benevolence,  
National Council of the Churches of Christ in the U.S.A.*

### Introduction

The Committee on Gift Annuities continues the work of the old Committee on Financial and Fiduciary Matters of the Federal Council of Churches. In the organization of the National Council of Churches, the promotion function related to annuities passed to the Committee on Wills and Special Gifts of the Department of Stewardship and Benevolence, while the technical, legal, and specialized functions of annuities passed to this Committee on Gift Annuities, which has a broader membership than the National Council of Churches. The Committee on Gift Annuities works closely with the Committee on Wills and Special Gifts of the Department with the distinction between the two committees largely that of "promotion," which is assigned to the Committee on Wills and Special Gifts, and the "technical matters," which are the responsibility of the Committee on Gift Annuities. I hope that members of this conference will take complimentary copies of the proceedings of the 1958 and 1964 fund-raising conferences sponsored by the Committee on Wills and Special Gifts. These books are available at the literature desk.

I have been asked to speak on "Terminology in Promotion." Promotion is largely concerned with conveying ideas by means of words. Words are notorious in their ability to confuse as well as clarify. In dealing with the promotion of wills, annuities, and life income agreements, correct terminology is highly important.

### Reasons for Careful Definitions

The first reason for precise terminology is the law. Wills, annuities, and life income agreements are legal documents. Gift annuities and life income agreements are contracts in the full legal sense. Gift annuities are usually supervised by the insurance departments of the states. The insurance law of New York State is quite specific in its regulations; it issues certificates of authority which permit an organization to engage in annuity activity.

A second reason for the importance of careful definitions is the

tax consequence. Gift annuities and life income agreements result in different tax consequences. Precise terminology is necessary in tax calculations.

A third reason is that of public relations. Both the philanthropic institution and the donor should understand exactly the proposals under consideration. Fortunately, gift annuities and life income agreements enjoy high prestige in the mind of the general public. Misunderstandings have hitherto been kept to a minimum and precise use of terminology will preserve this important public relations asset.

### I. Gift Annuity Agreements

Now let us turn to the terminology used in the gift annuity agreements.

#### 1. "Gift"

The insurance law of the State of New York requires gift annuities to be administered in such a way that there must be an average residuum of at least 50 percent for the philanthropic institution. Thus, in the State of New York, there is a precise meaning to the word "gift." In all of our publicity, we should emphasize the "gift" aspect of the annuity agreement. Occasionally, one discovers an uninformed person saying that "gift annuity agreements are underhand because actually the commercial annuity rates are higher." There is no question about the fact that annuity rates from commercial institutions are higher than those from philanthropic institutions, and the reason is very simple. Part of the gift annuity is indeed a *gift* to the philanthropic institution.

#### 2. "Annuity"

The word "annuity" is an annual rate paid out of interest and principal as long as the annuitant lives. Note that an annuity is not an insurance policy. But annuity programs are supervised by insurance departments of two states. While the annuity is based upon actuarial principles, it differs from an insurance policy in important ways. The most important distinction is that the annuity is paid during the lifetime of the donor, while in most life insurance policies, the benefit is paid at death.

#### 3. "Agreement"

The understanding between the philanthropic institution and the

annuitant is best known as an agreement. It is neither a "bond" nor a "security." It is technically a contract, but the word "contract" is too formal and too legal-sounding.

#### 4. "Rate"

The income derived from a gift annuity is best known as a "rate." Annuity income is not interest because it is derived from both interest and a portion of the principal. Perhaps this is the most common error in the promotion of gift annuities—the use of the word "interest" in this unacceptable way.

#### 5. "Enter" As Regarding Annuity Agreements

While it is not a matter of legal importance, the use of the word "buy" has problems when connected with gift annuities. It is much better to say "enter into an annuity agreement" than to say "buy" an annuity. An annuity is not negotiable and is not a "security."

Now let us turn to a second area, that of life income agreements.

## II. Life Income Agreements

With the prosperity of the last twenty years, many potential donors of larger means find the life income agreement more attractive than the gift annuity agreement. Their means are sufficiently large that they can get by satisfactorily on the sometimes (ages of sixty and over) smaller income provided in the life income agreement. They are attracted by the fact that 100 percent of the residuum goes to the charity, whereas, in the gift annuity, it is often as little as 50 percent.

I refer you to the Life Income Manual which was given to you today with your Conference packet, Page 5, definition of a life income agreement:

"A 'life income agreement' is an agreement between a donor and a religious, charitable, or educational organization. The organization, in return for a gift of cash, stock, land, securities, or other property, agrees to pay the donor, or designated beneficiary, for the lifetime of that person or survivor, an annual income computed by determining the yield on the organization's invested funds and applying that rate to the donor's gift. The agreement is terminated upon the death of the last beneficiary and the organization is thereby released from any further payments."

The 11th Conference on Gift Annuities adopted the following definitions:

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 be called the "Life Income Yield."

Now let me turn to suggestions for promotion.

### III. Suggestions for Promotion

In the light of the definitions indicated above, may I take the liberty of making several practical suggestions regarding terminology in promotion.

#### 1. Law

In all of the advertisements, brochures, and other promotional materials, the wording should be checked by attorneys or other competent persons so that all statements made are legally correct.

#### 2. Technically Accurate

Rates for gift annuities are standardized through the democratic process of the Committee on Gift Annuities. We hope that all American philanthropic institutions will use these rates. Care should be exercised not to use such words as "high value," "generous" and other laudatory terms.

#### 3. Supervision

The New York State insurance department does not like the use of the word "control." They prefer "supervision."

#### 4. Commercial Annuities

Do not compare gift annuities with commercial annuities or other types of investments. The best psychology is to stress the gift aspect of the annuity.

#### 5. Self-interest

Our Christian tradition has always laid great emphasis on re-

sponsible handling of personal and family affairs. Gift annuities and life income agreements provide means for personal security and Christian philanthropy.

#### 6. Opportunity

With the prosperity of this country over the last 25 years, millions of our citizens fifty years of age and over are awaiting the visit and the proposal of American Christian institutions as they present the special opportunities of wills, annuities, life income agreements, and other forms of capital giving. Congratulations on your role as Christian Stewardship leaders.

## STATE REGULATION OF GIFT ANNUITIES

DR. CHESTER A. MYROM

*Director, Lutheran Church in America Foundation*

### State Regulation of Gift Annuity Funds

In preparation for this report it was deemed advisable not to undertake this year an every-state survey, inquiring into the practice of each of them with respect to their regulation of gift annuity agreements. The reasoning behind this decision was that too frequent or too persistent inquiry into this matter might result in some states presently without regulation in this regard, coming to believe that they ought to have them. With the time of meeting of this Twelfth Conference being in early April instead of late November, the time lapse between inquiries would be hardly more than two years. Consequently, this report will be largely an up-dating of earlier papers on this matter.

One of these is the most interesting one by James A. Cousins, at the Eleventh Conference in 1962, which featured responses from the extensive survey undertaken at that time. The others to which reference will be made are those presented at the Tenth Conference in 1959, one by Dr. Gilbert Darlington, the other by Charles C. Dubuar, Chief Actuary, New York Insurance Department.

Incidentally, your speaker found it stimulating and informative to read again reports of earlier conferences on gift annuities, and commends such an occasional exercise to each of you.

From Mr. Cousins' report this information is restated as he presented it:

"In order to obtain the latest information 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"

It was reported at that time that only three states have specific laws covering the issuance of gift annuities: California, New York and Wisconsin. The first two named have had such regulations for over twenty years, while Wisconsin is a newcomer to this company.

In the case of the latter state, as Mr. Cousins reported, study of Bill #373 S, Chapter 90, Wisconsin Laws of 1961, would seem to indicate that this Bill merely outlines the procedures for issuing annuity contracts. It does not require licensing of the organization, nor does it provide for supervision.

For all practical purposes there are therefore only two states with specific laws covering the issuance of gift annuities, namely, California and New York.

With respect to California, the experience of our own organization, Lutheran Church in America, may be of interest, and possibly even of helpfulness. While our present church and one of its predecessor antecedents had been licensed under laws of New York State, we had never sought such licensing in California. It was deemed advisable to do so. After appropriate official action by the church's executive council, application was duly filed on November 13, 1964. Subsequently, notice was received that as of December 28, 1964, Lutheran Church in America had been granted a Certificate of Authority.

The application process was simple, the fee was a modest \$10.00, no questions were asked beyond those on the application form, and the process was handled, we thought, promptly and courteously. The first consequence of our having been so received is this:

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

11523. Such annuity agreement must show:

(a) The value of the property transferred.

- (b) The amount of annuity agreed to be paid to the transferor or his nominee.
- (c) The manner in which, and the intervals at which, such annuity is to be paid.
- (d) The age, in years, at or nearest the date of such agreement, of the person during whose life the annuity is to be paid.
- (e) The reasonably commensurate value, as of the date of such agreement, of the benefits thereby created. This value shall not exceed by more than 15 percent the net single premium for such benefits, determined in accordance with that standard of valuation set forth in subdivision (a) or (b) of Section 11521 which is applicable to such agreement as the minimum standard of valuation."

In fulfillment of the latter requirement, we have prepared a rubber stamp with this wording upon it, which will be imprinted upon each California contract as it is issued:

### LUTHERAN CHURCH IN AMERICA

Agreement No. ....

In accordance with Section 11523 of the California Insurance Code, the reasonably commensurate value as of the date of this Annuity Agreement to annuitant age ....., alternate annuitant age ....., of the benefits thereby created is \$.....

.....  
Director, LCA Foundation

We have not yet had occasion to file an annual report certifying to the maintaining of an adequate reserve fund. That experience awaits us at the end of 1965. We take comfort in the report of others licensed in both states that California requirements are adequately fulfilled through filing with the Insurance Commissioner of a photostatic copy of the report made to New York State.

In preparation for this report, request was made for a listing of authorized annuity issuing agencies, if such was available. An official publication entitled "Insurance Organizations authorized by the Insurance Commissioner to transact business of Insurance in the State of California during 1963" makes no reference to schools, churches or

charitable organizations; only to stock and mutual companies, to county mutual fire insurance companies, and to fraternal benefit societies.

Since New York State seems to have the more exacting requirements, it seems appropriate and adequate to more fully report our correspondence with that agency. With that thought in mind, request was made of Charles C. Dubuar, Chief Actuary, Insurance Department, State of New York, whether certain statements credited to him in 1962, and others made by himself in his 1959 paper, continued applicable to the present situation. His reply was as follows:

"March 2, 1965

Mr. Chester A. Myrom, Director  
Lutheran Church in America Foundation  
231 Madison Avenue  
New York, N. Y. 10016

Dear Mr. Myrom:

Reply to your letter of February 10, 1965, has been delayed on account of other matters before the Department. As requested, a tabulation of the reserves and surplus of our 27 authorized gift annuity societies as of December 31, 1963, is enclosed. For comparison purposes a similar tabulation is also enclosed for the year 1958 from which you can determine those societies which were added or deleted. The 1964 annual statements are in the process of being received and similar data will be tabulated and forwarded to you within the next two weeks.

There have been no new developments since my paper of 1959. However, you may be interested to know that the Department is currently sponsoring a bill in the Legislature to delete subsection 6 of Section 45 since we have construed the exemption therein to extend equally to any non-guaranteed annuity of the type described whether issued by a college or other organization holding a permit under Section 45. Otherwise, no change in the present law is contemplated inasmuch as our experience thereunder has been entirely satisfactory.

As a matter of additional interest to you, the Department

examiner (Mr. Harry Steinberg) has been contacted and his comments with respect to certain of his findings are attached. If you have any further questions please let me know.

Very truly yours,  
(signed) Charles C. Dubuar  
Charles C. Dubuar  
Chief Actuary"

#### Comments by Examiner Harry Steinberg

- (a) In three instances the use of a multiplicity of valuation standards for annuities seemed unnecessary and was questioned and particularly as regards old annuities where the standard while legal was unrealistic.
- (b) In one instance, the annuity granted was not in accordance with the scale in effect.
- (c) In numerous instances it was pointed out that the matter of Board and Committee minutes dealing with annuity activities should be complete and made accessible to the examiners by indexing or separation from other irrelevant (to us) matters. There is still room for improvement in this area.
- (d) High pressure promotion which promises liberal income and large tax benefits has attracted annuitants who are not necessarily interested in the charitable, religious, educational or other philanthropic aims of the respective societies. This is bound to have repercussions on such things as proof of age both of the primary annuitant as well as any joint life and survivors under the agreement. Furthermore, it is necessary to have procedures for verifying the survivorship of the annuitants. Complete and up to date signature cards of all beneficiaries should be obtained as a routine matter.
- (e) In one instance a benefactor was approached to contribute certain real estate as consideration for an annuity with the promise of considerable tax savings. In its eagerness to make a favorable impression for possible future gifts, the society made a number of unfortunate mistakes. They allowed a reasonable appraisal of the property to be inflated considerably. On the basis of this inflated value they issued an annuity although they could not obtain the property for over a year after. When they finally got possession,

there had been a further drop in the value of the gift which about three years after the date of the annuity was sold for about 50% of the appraised value. Department Counsel has held that Section 45 authorizes the issuance of gift annuities only upon receipt of monies which implies that property must first be converted into cash before the annuity can be guaranteed or commence.

- (f) More recently the Department has been concerned with such subjects as emergency measures to be taken to protect personnel and essential records in the event of some catastrophic occurrence. This requires consideration of some advance program or plan to continue operations.

The specific references about which I had invited Mr. Dubuar's comment, and concerning which he made observation in the letter quoted above were these:

Excerpts from letter dated August 14, 1962 to Mr. James A. Cousins from Mr. Charles C. Dubuar. (Second paragraph):

"I presume you already know that the maximum interest rate was increased from 3 to 3½% for individual and group annuity contracts issued on and after January 1, 1960, by authorized life companies and the same situation is applicable to gift annuity organizations. However, the mortality table i.e. Standard Annuity Table was left unchanged. No consideration is being given by the Department at the present time to making any further changes in the present standard for minimum reserve and maximum rates for gift annuities."

Excerpts from paper presented by Mr. Charles C. Dubuar at the Tenth Conference on Gift Annuities held in New York City, Tuesday and Wednesday, December 1-2, 1959 under the direction of the Committee on Gift Annuities. (Second and third paragraphs):

"Prior to January 1, 1940 gift annuity societies were specifically exempted from the insurance law provided they held the same type of annuity reserves required of life insurance companies. While the responsibility rested on the Insurance Department to verify that such reserves were held, the Department did not receive any filed reports and actually had no means of identifying the number of names of gift annuity societies operating in New York. It was for this reason that the original law was enacted. It has been changed only once since that time, primarily to exempt smaller gift annuity societies with required reserves of less than \$80,000 from the need of securing a permit.

However, such smaller societies must not only hold the required reserve but a surplus of 25%. The amendment recognized that insurance averages cannot be expected to work out too satisfactorily in the case of a small society.

From the Department's viewpoint the law governing gift annuity societies has been somewhat of an experiment. It calls for only a limited degree of supervision and not the detailed supervision required of life insurance companies. For example, gift annuity societies file a condensed annual statement (numbering 15 pages) as compared to the detailed statement (numbering 42 pages) for life companies. Gift annuity societies are examined at 5-year intervals rather than 3-year intervals for domestic life companies. Gift annuity societies are not required to amortize their bonds and investments in excess of the required annuity reserves plus 10% surplus are not restricted. The main concern of the law has been the segregation of assets and adequate safeguards as to such assets. The experience to date under the present law has been entirely satisfactory and no change in the present law is contemplated."

Mr. Dubuar's latest report as to annuities in force, etc. is incorporated, in summary form, with similar material provided at prior conferences. It is as follows:

<i>End Year</i>	<i>Number of Active Societies</i>	<i>Total Assets (In Millions)</i>	<i>Annuities in Force</i>	
			<i>Number</i>	<i>Amount</i>
1941	25	\$24.3	19,927	\$1,957,000
1950	25	28.8	28,382	2,014,000
1958	24	36.5	36,799	2,421,000
1961	27	42.6	40,731	3,386,000
1963	27	44.6	42,217	3,091,217

An observation by Dr. Darlington in his comprehensive paper of 1959 bears repeating at this time:

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

"If the Insurance Department of any state does not claim jurisdiction over it, this should not open the door to the Security Exchange

Commission or to any other agency of the federal or state governments. If any such attempt is made, please inform the Committee on Gift Annuities at once. As gift annuities guarantee the payment of a sum certain during the lifetime of the annuitant and as the rates, especially in the higher ages, are more than can be safely earned by current investments, there is good reason why some states may wish their Insurance Department to make sure that sound actuarial and financial experience and correct legal language is used in the rates offered, investments made, and publicity and promotion used. The Insurance Departments of the states have the knowledge and experience to safeguard the public in these matters. The Committee on Gift Annuities seeks by self regulation of its members to make state regulation unnecessary by the Insurance Departments of additional states, but any attempt by other agencies of the states or federal government should in my judgment be vigorously opposed by your Committee. Please keep the Committee informed."

In conclusion, I would simply observe that for some of us by reason of location state supervision of our gift annuity operation is a fact of life. It imposes burdens and responsibilities. Yet, we believe the compensations to our annuitants—soundness of procedure, stability, safety, competence, authority—more than make up for the effort and time involved. It would be the Committee's recommendation that all of you regardless of location conduct your gift annuity program as though it were already under the oversight of the insurance laws of your respective states. Administration of this character will reflect to the credit of your institution and may in itself be what is most needed to prevent further legislation from being enacted.

## REPORT ON THE MORTALITY EXPERIENCE STUDIES AND GIFT ANNUITY RATES

MR. CHARLES L. BURRALL, JR.

*Consulting Actuary, Huggins & Company, Inc.*

One of the primary goals of actuarial science is to develop guide lines for the future based on the experience of the past. Over an extensive period of years, the Committee on Gift Annuities has periodically sponsored studies of the mortality experience among large groups of persons receiving annuities under gift annuity agreements in order to provide appropriate guidance in the development of gift annuity rates to be recommended by the Committee. Such a study was authorized by the present Committee and one of the main purposes of this paper is to present the results of a study of mortality experience among gift annuitant lives for the 5-year period from January 1, 1959 through December 31, 1963. Before doing so, however, it would first seem in order to make a brief examination of what makes a gift annuity rate "tick" and thus to establish the appropriate relationship between this mortality experience study and gift annuity rates.

There are four primary assumptions that are involved in the calculation of a gift annuity rate. They relate to:

- (1) The rate of mortality among annuitant lives.
- (2) The rate of interest to be credited to invested reserve funds.
- (3) The loading for administrative expenses.
- (4) The portion of the total consideration received that is to constitute a gift or "residuum" for the work of the organization.

The present uniform gift annuity rates, which were adopted by the Ninth Conference on Gift Annuities in 1955 and reaffirmed by the Tenth Conference in 1959 and the Eleventh Conference in 1962, are based on the following assumptions with relation to the four components listed above:

1. *Rate of mortality*—1937 Standard Annuity Table, female lives, ages rated as one year younger.
2. *Rate of interest* —3% per annum, compounded annually.
3. *Expense loading* —5% of the total consideration.
4. *Residuum* —50% of the total consideration.

Using the components mentioned above, let us proceed to the

actual calculation of a gift annuity rate. As an illustration, let us assume that a donor aged 70 takes out a \$1,000 single-life annuity agreement. We first make provision for the 5% expense loading by removing \$50 from the total, thus leaving \$950 to take care of the annuity and the residuum.

The next step is to make provision for the 50% residuum for the organization, which in this case would be \$500. However, we can assume that even though this \$500 residuum must be on hand for the organization at the death of the annuitant, its interest earnings are available during the lifetime of the annuitant. Since we are assuming interest at the rate of 3%, this means that we have 3% of \$500 or \$15 per year available from this source. Out of our original \$1,000, therefore, we finally have \$450 which may be applied as a single premium, using both principal and interest, to provide annual annuity payments during the lifetime of the annuitant.

Using the 1937 Standard Annuity Table, with the female age set back one year and with interest at the rate of 3%, the cost at age 70 of providing a single-life annuity of \$1 per year, payable in semi-annual installments, is \$11.17. Since we have \$450 available to provide the annuity, we divide \$450 by \$11.17 and we find that this will provide \$40 per year. When this \$40 is added to the \$15 of interest earnings on the \$500 being held as a residuum, the result is \$55 which, on the basis of a \$1,000 gift annuity agreement, indicates an annuity rate of 5.5%. You will find that this is the rate which appears in the schedule of uniform rates at age 70.

As an extension of the illustration, it might be desirable to indicate the effect of modifying the interest assumption in this picture. For example, if we were assuming 3½% interest instead of 3%, there would be currently available during the life of the annuitant, \$17.50 per year of interest on the \$500 residuum in lieu of the \$15 mentioned in the previous illustration. Furthermore, with a 3½% interest assumption and retaining the existing mortality assumption, the \$450 would provide something in excess of \$42 per year of annuity instead of \$40. This would mean an annuity rate, therefore, of 6.0% instead of the 5.5% developed in the preceding paragraph.

In this illustration, it can be seen that the element of mortality is involved in the application of the \$450 to purchase an annuity. In this area, the assumption as to mortality experience in the future is important in determining how much in the way of an annuity can be paid on a

level annual basis during the future lifetime of an individual or the joint and last survivor lifetime of two individuals. Let us assume first that, making certain assumptions as to future longevity, we are setting up a reserve, of which both the principal and its future earnings are to be consumed completely in making annuity payments during the future lifetime of an individual. It is apparent that if the annuitant lives longer than anticipated on the basis of the mortality table used to establish the reserve, the reserve will be completely depleted before the obligation to make annuity payments has been fully discharged, unless the interest earnings are sufficiently in excess of those anticipated to make up the deficiency. Therefore, it is important that for a group of annuitants the mortality assumption be such as to enable the fulfillment of the promise to pay life annuities. It was in order to test the mortality assumption involved in the present uniform gift annuity rates that the Committee on Gift Annuities authorized the extensive mortality experience study which has been made in preparation for this Conference. Let us now proceed to an analysis of the results of that study.

A few procedural explanations should first be made. For the Tenth Conference on Gift Annuities, held in 1959, a study was made of mortality experience among gift annuitants during the 5-year period from January 1, 1954 through December 31, 1958. This study was based on 129,076 life years of exposure. This term is used in referring to the number of lives exposed to the risk of death for a period of one year. For example, an annuitant who received his annuity for the entire 5-year period studied was counted as one life year of exposure at each of 5 consecutive ages, for a total of 5 life years of exposure, while those who entered the annuity rolls during the 5-year period were counted as being exposed to the risk of death only during the time they were actually on the annuity rolls.

The 129,076 life years of exposure of the 1959 study were compiled from data submitted by 79 organizations. For many organizations, the number of lives involved was very small. The matter of data collection from these groups was time-consuming and expensive. For this reason, for purposes of the present study, the Committee decided that it would be appropriate to base the studies on data of the organizations administering the largest volume of gift annuity agreements and this is the procedure that has been followed.

For the present study, 20 organizations contributed data which

resulted in 106,645 life years of exposure. This is a reduction of only about 17% from the 129,076 life years of the previous 5-year study even though the number of organizations from whom data were secured dropped from 79 to 20. It is our opinion that this relatively minor reduction in total life years of exposure included has no serious effect on the validity of the results of the study.

In both the 1954-58 and the 1959-63 studies, only the primary life covered under a joint and survivor annuity agreement was included in the study while more than one life was living. The survivor was brought into the study, however, at the death of the primary life.

The results of the mortality studies are summarized in Schedules A(1), A(2) and A(3), where A(1) relates to female lives, A(2) to male lives and A(3) to the combination of A(1) and A(2). The schedules show comparative results of mortality experience during two successive 5-year periods according to age groups. In the case of each period, the procedure followed is to show first the results of the study on the basis of the mortality table which was used in determining the present uniform gift annuity rates; i.e., the 1937 Standard Annuity Table, female lives, with ages rated as one year younger. At each age group as well as in total, the actual deaths that occurred during the 5-year period are compared with the deaths that would be expected in accordance with the mortality table, with a ratio of the actual to the expected deaths being computed. It should be stated that if the actual deaths paralleled exactly the deaths expected according to the mortality table used as a measure, the ratio of actual to expected deaths would be 100% for each age group and in total. When the ratio of actual to expected deaths is less than 100%, it means that lighter mortality than anticipated has occurred and this is normally referred to as unfavorable annuity mortality experience. Conversely, if the ratio of actual to expected deaths is more than 100%, it means that heavier mortality than anticipated has occurred and the corresponding reference is to favorable annuity mortality experience.

It will be seen from Schedule A(1) that during the 1954-1958 period, there were 4,135 actual deaths among female lives as compared with 4,229 expected deaths according to the 1937 Standard Annuity Table with female ages set back one year, for a ratio of 98%. The corresponding result during the succeeding 1959-1963 period was 3,871 actual deaths versus 3,751 expected deaths, the ratio being 103%. It is very interesting to note that these results indicate a heavier rate of

death during the later 5-year period than during the preceding period. This is somewhat contrary to the trend in mortality experience that has been prevailing in general throughout recent years. It should be noted further, however, that most of the "favorable" experience on this table; that is, experience where the ratio of actual to expected deaths is in excess of 100%, occurs at ages over 80, and that at all other age groups, the ratio of actual to expected deaths is below 100%.

Because it has been the practice for many years in the issuance of gift annuity agreements to use the same annuity rates for both male and female lives, in the mortality studies of experience among male lives the actual deaths are still compared with mortality expected in accordance with the female rates of death. It will be seen from Schedule A(2) that during the 1954-58 period, there were 1,269 deaths among male lives versus 1,128 expected in accordance with the 1937 Standard Annuity Table with female ages set back one year, for a ratio of 113%. During the succeeding 5-year period, the corresponding figures were 1,073 actual deaths versus 921 expected, for a ratio of 117%. Here again, the rate of death during the most recent 5-year period was somewhat heavier than that during the preceding 5-year period.

Schedule A(3) shows that for all lives studied during the 1954-58 period, there were 5,404 actual deaths compared with 5,357 expected in accordance with the 1937 Standard Annuity Table with female ages set back one year, for a ratio of 101%. During the succeeding 5-year period, the corresponding figures were 4,944 versus 4,672, the ratio being 106%.

It might be emphasized again that Schedule A(3) reflects ratios of actual to expected deaths of less than 100% at all age groups below age 81 for both 5-year periods. This indicates, therefore, that although the present mortality basis appears to be satisfactory in total, it actually is not conservative enough for use at all ages up through 80 and it is doubtful that the super-conservatism provided at the higher ages represents a proper offset to the lack of conservatism at the younger ages.

Because of the latter fact, there were also applied rates of death in accordance with a mortality table which would seem to provide a somewhat better incidence of mortality at all ages. The table used for this purpose is the 1955 American Annuity Table which 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.

It will be seen from Schedule A(1) that on the basis of the 1955 American Annuity Table, female lives, there were 3,732 expected deaths among females during the 1954-58 period, with a ratio of actual to expected of 111%. It should be noted that the deaths expected at the younger ages are substantially lower than those in accordance with the 1937 Standard Annuity Table. For the 1959-63 period, there were 3,334 expected deaths, with a ratio of actual to expected of 116%.

Schedule A(2) shows that for male lives during the 1954-58 period there were 988 deaths expected on the basis of the 1955 American Annuity Table, female lives, with a ratio of actual to expected of 128%. During the succeeding 5-year period, there were 818 deaths expected, with a ratio of 131%.

Schedule A(3) shows for all lives, on the basis of the 1955 American Annuity Table, female lives, expected deaths of 4,720 during the 1954-58 period, with a ratio of 114%, and expected deaths of 4,152 during the succeeding 5-year period with a ratio of 119%.

It might be said that whereas the 1955 American Annuity Table does not provide a perfect incidence of actual to expected mortality, taking all lives into consideration, it provides a much better incidence than does the present basis of the 1937 Standard Annuity Table with female ages set back one year. It will be seen in Schedule A(3) that for the 1954-58 period, the ratios are only negligibly below 100% at the three age groups from 61 through 75. For the 1959-63 period, the ratios are only negligibly below 100% at the two age groups from 66 through 75. Furthermore, the over-all mortality ratios on this basis make some desirable provision for possible increases in longevity in future years.

At this point I want to discuss briefly Schedule B which is really a by-product of the development of life years of exposure for the mortality study but which has a certain amount of collateral interest. It shows by age groups, separately for the two successive 5-year periods studied, the number of lives introduced into the group studied. It should be emphasized here that this schedule gives an indication of the ages at which people *first* take out gift annuity agreements. It is not a complete picture of the ages at which all gift annuity agreements are issued since it does not reflect "successor" agreements issued. As you well know, many of your agreements are issued to persons who have previously taken out one or several other gift annuity agreements. The

data in Schedule B are shown separately for female lives and male lives and the number of lives entering the group at each age group is shown also as a percentage of the total entrants. One technicality related to Schedule B that should be mentioned is that the accessions include survivor lives where the primary lives died during the 5-year period studied, so that there are more lives involved than simply those entering upon a new single life or joint life and survivor annuity.

Let us now proceed to the portion of this presentation which is concerned with annuity rates. For this purpose, please refer first to Schedule C which sets forth a number of illustrations of gift annuity rates on a single-life basis. Column (1) shows the present uniform gift annuity rates. Column (2) shows the tabular basis of the present rates before any modification was made at younger and older ages. Column (3) indicates the extent to which the tabular basis of the present rates would be liberalized if all other assumptions were held as at present but with the interest assumption raised from 3% to 3½%. Column (4) presents a similar result with a somewhat more conservative mortality assumption in that the female ages are set back two years as compared with one year. Column (5) illustrates the extent to which the tabular basis of the present rates would be decreased if the 1955 American Annuity Table, female lives, were adopted, with all other assumptions being held as in the present rates. Column (6) shows results on the same basis as Column (5) except with a 3½% interest assumption instead of 3%. It will be noted that at all ages shown, the rates of Column (6) are greater than the rates of Column (2), which shows the tabular basis of the present rates.

Since many of the organizations represented here have permits to issue gift annuity agreements in the State of New York, Columns (7) and (8) show the maximum rates allowable under the New York Insurance Law. The reason for the two sets of rates is that the New York Insurance Law provides for two alternative minimum bases of annuity reserves. It will be seen that all rates shown in Columns (1) through (6) are lower than the corresponding rates on either of the New York maximum bases.

Finally, for purposes of comparison, Column (9) shows typical insurance company rates which, of course, make no provision for any residuum for the work of the issuing organization.

In Schedule D, there are set forth the present single-life uniform gift annuity rates and those which are being proposed for the con-

sideration of this Conference. Both present and proposed rates are shown on a tabular and also on a modified basis. In this case, the term "tabular" means the exact rate as calculated in accordance with the specified assumptions as to mortality, interest, expense loading and residuum. It has been the practice in the gift annuity field for many years to modify downward the tabular rates at younger and older ages.

It would be well to recall for the record that both present and proposed rates make provision for a 5% loading for administrative expenses and a 50% residuum for the work of the organization. However, the present rates are based on the 1937 Standard Annuity Table, female lives, ages rated as one year younger and with interest at the rate of 3%. The proposed rates are based on the 1955 American Annuity Table, female lives, no set-back in ages, and with interest at the rate of 3½%.

The proposed modified rates are identical with the present modified rates through age 41. At the next two ages, the proposed rates are .1 higher than the present rates. For ages from 44 on, the proposed rates are no less than .2 higher than the present rates at any age. Whereas the present rates are held at a maximum of 7.4 at ages 80 and over, the proposed rates have been graded up to a maximum of 8.0 at ages 84 and over.

Schedule E sets forth illustrations of gift annuity rates for two lives, joint and survivor, in a manner similar to that used for single lives in Schedule D. In modifying the tabular rates for two lives, there has been observed a principle that was followed in the development of the present uniform rates; viz., that a rate for two lives will always be at least .2 less than the corresponding single-life rate for the younger of the two lives.

In summary, it might be stated that the proposed rates introduce a reasonably substantial potential liberalization with the use of a 3½% interest assumption as compared with the present 3% assumption. The use of the 1955 American Annuity Table, female lives, as compared with the 1937 Standard Annuity Table, female lives, ages rated as one year younger, introduces some desirable conservatism as to mortality, particularly at younger and middle ages which, in effect, "uses up" a portion of the potential liberalization achieved through the interest adjustment. However, the net effect of the two adjustments is a set of rates which makes a significant and reasonably smooth liberalization of the existing uniform gift annuity rates.

**COMMITTEE ON GIFT ANNUITIES**  
**Gift Annuity Mortality Study**  
**FEMALE LIVES**

January 1, 1954 through December 31, 1958

January 1, 1959 through December 31, 1963

Age Group	1955 A.A., f.				1957 S.A., f-1				1955 A.A., f.			
	Life Years of Exposure	Actual Deaths	Expected Deaths	Ratio A/E	Expected Deaths	Ratio A/E	Expected Deaths	Ratio A/E	Actual Deaths	Expected Deaths	Ratio A/E	Expected Deaths
50 and Under	6,682	17	22	77%	10	170%	16	89%	8	200%	8	200%
51-55	3,783	21	27	78	14	150	8	35	12	67	12	67
56-60	6,330	32	67	48	37	86	22	40	30	73	30	73
61-65	9,465	74	146	51	89	83	70	59	74	95	74	95
66-70	13,332	197	297	66	214	92	174	67	188	93	188	93
71-75	15,034	361	487	74	390	93	324	69	379	85	379	85
76-80	17,299	723	815	89	709	102	620	86	630	98	630	98
81-85	15,555	1,049	1,047	100	968	108	968	112	801	121	801	121
86-90	8,481	988	806	123	780	127	964	126	742	130	742	130
91-95	2,798	504	376	134	377	134	540	148	367	147	367	147
96-100	579	138	109	127	113	122	470	164	94	159	94	159
101-105	99	31	26	119	27	115	31	200	8	178	8	178
106-110	10	0	4	0	4	0	—	—	—	—	—	—
<b>TOTAL</b>	<b>99,447</b>	<b>4,135</b>	<b>4,229</b>	<b>98%</b>	<b>3,732</b>	<b>111%</b>	<b>3,871</b>	<b>103%</b>	<b>3,334</b>	<b>116%</b>	<b>3,334</b>	<b>116%</b>

SCHEDULE A (1)

COMMITTEE ON GIFT ANNUITIES  
Gift Annuity Mortality Study

MALE LIVES

Age Group	January 1, 1954 through December 31, 1958			January 1, 1959 through December 31, 1963		
	Life Years of Exposure	Actual Deaths	1937 S.A., f-1 Expected Deaths Ratio A/E	Life Years of Exposure	Actual Deaths	1937 S.A., f-1 Expected Deaths Ratio A/E
50 and Under	4,259	5	13 38%	3,502	7	10 70%
51-55	1,560	5	11 45	1,154	8	9 89
56-60	1,928	21	20 105	1,332	23	14 164
61-65	2,593	32	40 80	1,788	31	29 107
66-70	3,463	70	78 90	2,530	54	59 92
71-75	3,968	122	129 95	3,084	100	104 96
76-80	4,585	220	216 102	3,560	169	163 104
81-85	4,030	341	271 126	3,044	259	213 122
86-90	2,403	272	229 119	1,956	267	194 138
91-95	682	146	92 159	717	116	99 117
96-100	153	32	28 114	95	32	19 168
101-105	5	3	1 300	26	7	8 88
TOTAL	29,629	1,269	1,128 113%	22,388	1,073	921 117%
			988 128%			818 131%

SCHEDULE A (2)

COMMITTEE ON GIFT ANNUITIES  
Gift Annuity Mortality Study

ALL LIVES

January 1, 1954 through December 31, 1958

January 1, 1959 through December 31, 1963

Age Group	1954 A.A., f.				1955 A.A., f.			
	Life Years of Exposure	Actual Deaths	Expected Deaths	Ratio A/E	Life Years of Exposure	Actual Deaths	Expected Deaths	Ratio A/E
50 and Under	10,941	22	35	63%	16	138%		
51-55	5,343	26	38	68	20	130		
56-60	8,258	53	87	61	48	110		
61-65	12,058	106	186	57	113	94		
66-70	16,795	267	375	71	270	99		
71-75	19,002	483	616	78	493	98		
76-80	21,884	943	1,031	91	897	105		
81-85	19,585	1,390	1,318	105	1,218	114		
86-90	10,884	1,260	1,035	122	1,001	126		
91-95	3,480	650	468	139	470	138		
96-100	732	170	137	124	142	120		
101-105	104	34	27	126	28	121		
106-110	10	0	4	0	4	0		
TOTAL	129,076	5,404	5,357	101%	4,720	114%		

1937 S.A., f-1		1957 S.A., f-1		1955 A.A., f.	
Life Years of Exposure	Actual Deaths	Expected Deaths	Ratio A/E	Life Years of Exposure	Expected Deaths
9,074	23	28	82%	12	192%
4,178	16	32	50	16	100
6,356	45	69	65	38	118
9,221	101	148	68	92	110
13,663	228	318	72	231	99
16,960	424	573	74	463	92
18,189	789	883	89	773	102
15,366	1,227	1,074	114	999	123
9,662	1,231	957	129	931	132
3,354	656	464	141	467	140
565	181	110	165	113	160
57	23	16	144	17	135
106,645	4,944	4,672	106%	4,152	119%

SCHEDULE A (3)

**COMMITTEE ON GIFT ANNUITIES**  
**Gift Annuity Mortality Study**

**Accessions to Group Studied During Period Studied**

Age at Entry	January 1, 1954 through December 31, 1958			January 1, 1959 through December 31, 1963		
	Female Lives	Male Lives	Total	Female Lives	Male Lives	Total
50 and Under	653	441	1,074	495	258	753
51-55	446	174	620	285	84	369
56-60	559	200	759	480	118	598
61-65	862	337	1,199	705	151	856
66-70	1,105	415	1,520	992	243	1,235
71-75	1,148	435	1,583	1,018	277	1,295
76-80	894	405	1,299	854	279	1,133
81-85	510	255	765	449	189	638
86-90	166	111	277	160	79	239
91-95	23	14	37	27	20	47
96-100	—	—	—	3	2	5
<b>TOTAL</b>	<b>6,346</b>	<b>2,787</b>	<b>9,133</b>	<b>5,468</b>	<b>1,700</b>	<b>7,168</b>
	100%	100%	100%	100%	100%	100%

SCHEDULE B

## COMMITTEE ON GIFT ANNUITIES

### Illustrations of Gift Annuity Rates—Single Life

<i>Column</i>	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
						<u>N. Y. Maximum</u>			
<i>Mortality Table</i>	1937 S. A.	1937 S. A.	1937 S. A.	1937 S. A.	1955 A. A.	1955 A. A.	1937 S. A.	a- '49	Typical Ins. Co.
<i>Sex</i>	f-1	f-1	f-1	f-2	f	f	f	f	f
<i>Interest</i>	3%	3%	3½%	3½%	3%	3½%	3½%	3½%	4%
<i>Age at Issue</i>									
30	3.0	3.4	3.8	3.8	3.3	3.7	4.0	3.9	3.9
40	3.5	3.6	4.0	4.0	3.5	3.9	4.3	4.1	4.3
50	3.9	3.9	4.4	4.3	3.8	4.2	4.7	4.5	5.1
60	4.5	4.5	4.9	4.9	4.3	4.7	5.4	5.2	6.3
65	5.0	5.0	5.4	5.3	4.7	5.2	5.9	5.8	7.3
70	5.5	5.5	6.0	5.8	5.3	5.7	6.6	6.5	8.7
75	6.3	6.3	6.7	6.6	6.1	6.5	7.5	7.7	10.7
80	7.4	7.4	7.8	7.5	7.2	7.6	8.7	9.6	13.3
85	7.4	8.8	9.3	8.9	8.8	9.2	10.5	12.6	17.3

#### NOTES

Rates in Column (1) are the present Uniform Gift Annuity Rates in which the unmodified tabular rates shown in Column (2) were modified at younger ages through age 40 and limited to 7.4% at ages 80 and over.  
All rates assume semi-annual installment annuity payments.

*Mortality Table Abbreviations:* 1937 S.A. — 1937 Standard Annuity Table  
1955 A.A. — 1955 American Annuity Table  
a- '49 — Annuity Table for 1949

Rates in Columns (1) through (8) provide for a 50% residuum  
Rates in Columns (1) through (6) provide for an expense loading of 5% of the total gift

SCHEDULE C

# COMMITTEE ON GIFT ANNUITIES

## Gift Annuity Rates—Single Life

Age at Issue	Present Rates		Proposed Rates		Age at Issue	Present Rates		Proposed Rates	
	Tabular	Modified	Tabular	Modified		Tabular	Modified	Tabular	Modified
30	3.4	3.0	3.7	3.0	60	4.5	4.5	4.7	4.7
31	3.4	3.0	3.7	3.0	61	4.6	4.6	4.8	4.8
32	3.4	3.0	3.7	3.0	62	4.7	4.7	4.9	4.9
33	3.4	3.0	3.7	3.0	63	4.8	4.8	5.0	5.0
34	3.4	3.0	3.8	3.0	64	4.9	4.9	5.1	5.1
35	3.5	3.0	3.8	3.0	65	5.0	5.0	5.2	5.2
36	3.5	3.1	3.8	3.1	66	5.1	5.1	5.3	5.3
37	3.5	3.2	3.8	3.2	67	5.2	5.2	5.4	5.4
38	3.5	3.3	3.8	3.3	68	5.3	5.3	5.5	5.5
39	3.6	3.4	3.9	3.4	69	5.4	5.4	5.6	5.6
40	3.6	3.5	3.9	3.5	70	5.5	5.5	5.7	5.7
41	3.6	3.6	3.9	3.6	71	5.7	5.7	5.9	5.9
42	3.6	3.6	3.9	3.7	72	5.8	5.8	6.0	6.0
43	3.7	3.7	4.0	3.8	73	6.0	6.0	6.2	6.2
44	3.7	3.7	4.0	3.9	74	6.1	6.1	6.4	6.3
45	3.7	3.7	4.0	4.0	75	6.3	6.3	6.5	6.5
46	3.8	3.8	4.0	4.0	76	6.5	6.5	6.7	6.7
47	3.8	3.8	4.1	4.1	77	6.7	6.7	6.9	6.9
48	3.9	3.9	4.1	4.1	78	6.9	6.9	7.1	7.1
49	3.9	3.9	4.2	4.2	79	7.1	7.1	7.4	7.4
50	3.9	3.9	4.2	4.2	80	7.4	7.4	7.6	7.6
51	4.0	4.0	4.2	4.2	81	7.6	7.4	7.9	7.7
52	4.0	4.0	4.3	4.3	82	7.9	7.4	8.2	7.8
53	4.1	4.1	4.3	4.3	83	8.2	7.4	8.5	7.9
54	4.1	4.1	4.4	4.4	84	8.5	7.4	8.8	8.0
55	4.2	4.2	4.4	4.4	85	8.8	7.4	9.2	8.0
56	4.3	4.3	4.5	4.5					
57	4.3	4.3	4.5	4.5					
58	4.4	4.4	4.6	4.6					
59	4.5	4.5	4.7	4.7					

**BASIS OF RATES:**

*Present:* 1937 Standard Annuity Table, female ages rated as one year younger; interest @ 3%; 50% residuum; expense loading of 5% of total gift; semi-annual installment annuity payments.

*Proposed:* 1955 American Annuity Table, female ages; interest @ 3½%; 50% residuum; expense loading of 5% of total gift; semi-annual installment annuity payments.

**SCHEDULE D**



50	3.9	3.7	4.1	4.0	3.8	3.7	4.1	4.0	3.8	3.7	4.1	4.0
45	3.7	3.5	4.0	3.8	3.7	3.5	4.0	3.8	3.6	3.5	4.0	3.8
40	3.6	3.3	3.8	3.3	3.5	3.3	3.8	3.3	3.5	3.3	3.8	3.3
35	3.4	2.8	3.8	2.8	3.4	2.8	3.8	2.8	3.4	2.8	3.8	2.8
30	3.3	2.8	3.7	2.8	3.3	2.8	3.7	2.8	3.3	2.8	3.7	2.8
60												
60	4.0	4.0	4.3	4.3	3.7	3.7	4.1	4.1	3.6	3.6	3.6	3.9
55	3.8	3.8	4.2	4.2	3.6	3.6	4.0	4.0	3.5	3.5	3.8	3.8
50	3.7	3.7	4.0	4.0	3.6	3.5	3.9	3.8	3.5	3.5	3.8	3.8
45	3.6	3.5	3.9	3.8	3.6	3.5	3.8	3.3	3.4	3.3	3.8	3.3
40	3.5	3.3	3.8	3.3	3.5	3.3	3.8	3.3	3.4	2.8	3.7	2.8
35	3.4	2.8	3.7	2.8	3.4	2.8	3.7	2.8	3.4	2.8	3.7	2.8
30	3.3	2.8	3.7	2.8	3.3	2.8	3.7	2.8	3.3	2.8	3.7	2.8
50												
55												
60												
65												
70												
75												
80												
85												
90												
95												
100												
45												
45	3.4	3.4	3.8	3.8	3.3	3.3	3.7	3.3	3.3	2.8	2.8	2.8
40	3.4	3.3	3.7	3.3	3.3	2.8	3.7	2.8	3.3	2.8	3.6	2.8
35	3.4	2.8	3.7	2.8	3.3	2.8	3.7	2.8	3.2	2.8	3.6	2.8
30	3.3	2.8	3.6	2.8	3.2	2.8	3.6	2.8	3.2	2.8	3.6	2.8
30												

**BASIS OF RATES:**

*Present:*

1937 Standard Annuity Table, female ages rated as one year younger; interest @ 3%; 50% residuum; expense loading of 5% of total gift; semi-annual installment annuity payments.

*Proposed:*

1955 American Annuity Table, female ages; interest @ 3½%; 50% residuum; expense loading of 5% of total gift; semi-annual installment annuity payments.

**SCHEDULE E**

## REGULAR LIFE INCOME AGREEMENTS

THE REVEREND A. PAUL WRIGHT

*Executive Secretary, American Bible Society*

A seminary professor of Homiletics once said that many ministers use a text like a gate to a field. Some open the gate and wander all over the field; others spend their time swinging on the gate.

Our consideration of the regular Life Income Plan this morning, I hope, will avoid both of these deplorable procedures, even though our Committee on Gift Annuities incurred some risk when it invited a clergyman to present this subject. Evidently they felt secure since they gave me a subject but no text. Having been conditioned, however, by years in the pulpit, it was inevitable that I should look for a text. This is what I found: "Didst thou not agree with me for a penny?" This was a temptation, but there has been inflation since that question was asked. Today we do not make agreements of any kind for a penny. Rejecting that to find another, I made this discovery in Isaiah: "Your agreement with hell shall not stand." But again I gave up since it is obvious that any agreement with Satan's domain could not possibly be beneficial to the religious, educational or charitable institutions we represent.

Let us proceed then, without benefit of text, to examine the regular Life Income agreement and to study its values and requirements for both donors and institutions in the climate of today's capitalistic economy and tax structure.

What is a regular Life Income agreement? It is an agreement or contract between a charitable organization and a donor, obligating the organization, as a consequence of a non-revocable gift, to pay the donor, or the donor and a second beneficiary, or to one or two people named, other than the donor, an income for life; the rate of income is determined by the net yield earned each year by the organization's invested funds.

What are the values of such an agreement for a donor? They enable a donor to give support to an organization, whose purpose and work he believes is worthy of his help. The support can be larger in amount than an outright gift, since the donor will derive a life income for himself and/or another. In addition to income received, the donor will benefit by the following tax privileges:

1. A substantial amount can be reported for tax purposes as a contribution to the organization when the agreement is made. As a rule of thumb, this amount will correspond roughly with the age of the beneficiary if the agreement is for a single life. A donor, age 50, will have a gift value of approximately 50 percent of his gift; age 60, 60 percent; age 70, 70 percent. Two lives on an agreement produce smaller gift values. Later I will refer to the manner by which the exact amount of the gift value is determined, according to the age or ages on an agreement.

2. A second benefit to the donor is produced when the principal for the agreement is provided by appreciated property rather than by cash. Appreciated property may be transferred for a Life Income agreement with the full elimination of the capital gains tax. For example, Mr. X age 50, transfers a common stock with a market value of \$10,000; his cost was \$5,000. If Mr. X sold his stock he would have a capital gain of \$5,000. By transferring it to the organization for a regular Life Income agreement, he avoids this capital gain. For a cost of \$5,000 therefore, he acquires a charitable contribution of \$4,803.00 to report as a deduction from adjusted gross income and places \$10,000 in an organization's pooled investment fund for a lifetime yield on that amount. If his average income for life from that agreement is 5 percent, he will be receiving an income of 10 percent on the cost of his agreement.

Internal Revenue Service authorizes this liberal privilege by interpreting the Life Income agreement as a non-revocable gift which does not have a right of definite value, as in the Annuity where there is a guarantee of future payments. (*Washington University Law Quarterly*—1957)

3. When the estate of a donor is settled, the amount provided by a Life Income agreement is entirely removed from the estate if it is a single Life agreement, and it is substantially reduced if a survivor-heir is to receive the payments for life. If the donor's gift is sufficiently large, requiring a Gift Tax return to be filed, that gift tax will be measured by the value of the life interest of the person, other than the donor, who is to receive the income payments and not by the principal amount of the agreement.

In addition to tax privileges there are other benefits which may have significant value to a donor.

1. A donor may anticipate greater security of income from the diversified investment pool of an organization than from his own relatively small portfolio.

2. When the donor owns a stock in which he is "locked in" by a low cost and a high market value and, therefore, confronted by a costly capital gain, he can use the Life Income Plan to release the stock without the capital gains penalty of a personal sale. Through the years stock dividends, splits, and a rising market have reduced the costs of some securities to almost zero.

3. A donor who has misgivings about the ability of a survivor to wisely manage inherited investments can avail himself of an organization's management of a fund to provide relatively safe and generous income for a survivor-heir with no deduction from the yield for management services. This is a spiritual benefit that may rightly be called "peace of mind."

Let us look at an example in which these three benefits I have just described were enjoyed by a donor. Several years ago a man and wife, with no children, came to the American Bible Society to investigate the Life Income Plan. They were Christian people, in sympathy with the purposes and work of the Society. The husband, in his early sixties, had had a heart attack which forced him into early retirement. His wife was not well and was unfamiliar with stocks. The husband owned two securities, one in a major amount and the other in a smaller amount. Both stocks had appreciated substantially during his years of ownership. This man was concerned that the major security, which was their primary source of private income might someday experience a reversal and cease to be a dependable and fruitful income for his wife, if she should survive him. By turning over the large security to the Society for a Life Income agreement, he accomplished these benefits for himself and his wife: (1) He escaped the expense of a heavy capital gains tax; (2) he exchanged the risk of a single security for participation in the greater safety of a large diversified fund; (3) he realized peace of mind concerning his wife's future; (4) he obtained a larger annual income than the yield he was receiving, or would now be receiving, on the stock which he transferred to the Society.

The benefit of this gift to the Society is, of course, deferred until two life spans have been lived but the benefits to the donor were imme-

diate, continuing, and of spiritual as well as material value. An organization, seeking support for its work through the Life Income Plan, can, therefore, have the privilege of rendering important service to its benefactors.

But why should a donor to an organization use the Life Income Plan rather than the Annuity Plan? What are their similarities? What are their differences?

Let us first note what they have in common. Each provides a donor with the privilege of supporting a cause he desires to help with a life income resulting from his gift. Each enjoys a gift value to report for tax purposes as a contribution deductible from adjusted gross income. Each may be established with cash or with transferred property. Each insures an immediate transfer of payments to a survivor without delay, publicity or expense. Each reduces the gross amount of an estate. Here the similarities stop and the differences begin.

What are these differences?

1. Annuity payments are determined by age and remain fixed for life according to the donor's age when the agreement was created. Life Income payments are variable, since they are derived each year from the fluctuating earnings of the organization on its investment fund.
2. Annuity payments are largely exempt from income tax, since they represent a partial return of principal to the donor. Life Income payments are fully taxed each year. They are reported on the Federal tax form as "other income," not as interest nor as dividends, for they are derived from a pooled portfolio that receives both interest and dividends in its yield.
3. The charitable contribution to report for tax purposes is larger on the Life Income agreement than it is on the Annuity agreement.
4. Property transferred for a Life Income agreement eliminates the capital gains tax. Property transferred for an Annuity agreement is subject to the capital gains tax. When the actuarial value of the Annuity is the same as cost value of the property transferred, no capital gain results. In most cases, the capital gains tax, if any, is more than offset by the deduction for contributions resulting from the gift annuity.
5. The Life Income agreement may or may not provide a donor with a larger income after taxes than an Annuity agreement. It is diffi-

cult to generalize about this since the age or ages of the beneficiaries, plus the donor's tax bracket have to be considered. An 80-year-old single woman, using cash instead of stock, and not in need of a substantial gift value, benefits more from a 7.4 percent Annuity income, largely tax exempt, than from a Life Income agreement. A man and wife, however, ages 50 and 48 respectively, with an adjusted gross income of \$25,000 and a good portfolio of appreciated securities, would undoubtedly have greater benefits from the Life Income Plan than from a fixed income of 3.5 percent from an Annuity.

In many situations it is wise to prepare complete figures for both the Life Income and Annuity Plans so the donor can select the plan which better serves his purposes.

6. Life Income Plan requires a minimum gift of \$1,000 but in some organizations more is required. The Annuity agreement may be established with a gift of \$100. In some other organizations \$200 or even \$300 is the minimum assistance acceptable.

With these similarities and differences in mind, who then is the constituency for the Life Income Plan? Generally speaking, it is people of greater than average wealth. They can use the Plan's larger-than-Annuity gift value and its relief from the capital gains tax. They will understand and appreciate that a well-managed institutional portfolio is preferable to their own smaller stock holdings and better protects a survivor against market risk and reversals.

Now let us look at the regular Life Income Plan from the point of view of the organization. What are the benefits?

1. The certainty of a deferred bequest. The death of one or two recipients of payment from a Life Income agreement releases the principal of the agreement for the work of the organization. Isn't this also the value of an Annuity agreement terminated by death? No, it is greater. The amount provided for an Annuity agreement is dissipated by an invasion of principal necessary for Annuity payments. In the Life Income Plan the principal is maintained fully as a part of a pooled investment fund with no necessity for invasion, since the agreement states that an organization will pay only what is earned annually, rather than a guaranteed fixed rate.

2. The Life Income Plan provides an organization with an additional cash flow for investment use without investment restrictions such as some States place on the investment of Annuity principal. A

Finance Committee, therefore, may receive securities which it wishes to hold in its own portfolio or funds with which to purchase securities it believes to be promising in yield and/or growth.

3. The Life Income Plan obligates an organization to make payments according to its earnings but does not require the distribution of capital gains. The donor may benefit in his income from the re-investment of capital gains, but the capital gains remain with the organization.

If these benefits look inviting as a source of income, let us immediately note that they place a major responsibility on an organization and, like marriage, are not, "to be entered into unadvisedly or lightly, but reverently, discreetly, advisedly, soberly, and in the fear of God."

Assume now that a charity, not now using the Life Income Plan, decides to do so. What are its duties to itself and to its benefactors?

1. It must decide whether or not it can afford a plan which delays the realization and use of gifts for a number of years. If the need for direct gifts is urgent, it is conceivable that the privileges of the Life Income Plan may divert contributions from direct gifts to Life Income gifts. It is also necessary to realize that there are expenses in the promotion and servicing of agreements.

2. It must be certain, through legal counsel, that the charter and by-laws of an organization and the statutes of the State in which it is incorporated, permit such a plan. Is the way legally clear?

3. If it is, then the third obligation is a capital investment fund that is conservatively strong and diversified, prudently managed and productively adequate in yield to have appeal to prospective participants. Such an examination should include the total financial stability of the organization, as well as its capacity to adjust to economic fluctuations sufficiently to safeguard its own resources and those which have been entrusted to it by donors.

4. A fourth responsibility is a decision concerning the method to be used in computing the organization's earnings each year. There are two major methods now in operation. One method, commonly practiced, is a computation of earnings based on the "book value" of a portfolio.

This may be determined by dividing the total income received on invested funds during the preceding calendar year by the average book value of the related investments with the result carried to three deci-

mals. The American Bible Society uses this procedure and operates in this manner. The book value of its General Investment fund on January 1st of the preceding calendar year is added to the book value of the Fund on December 31st of that same year. The total is then divided by two. The earnings of the preceding year are then divided by the resulting book value.

A second method, also commonly used, is known as the unit or the share plan. In this plan the total fund applying to Life Income agreements is divided into a number of units. Each unit is worth a certain number of shares on the day the fund begins to operate. Gifts received are credited with as many units as the donor's gift would buy at the unit value when the gift was received. At the end of a quarter, half year, or even annually a new value of the unit is arrived at by dividing the outstanding principal of the fund at market value by the number of outstanding units. Donors buying into the fund during the subsequent period would be credited with as many units as the gift would buy at the new rate.

Since both of these methods of computing earnings are in use, it is apparent that organizations differ in their evaluation of them. At the Eleventh Conference on Gift Annuities held in 1962, Mr. D. Allan Locke, Treasurer of the Board of National Missions of the United Presbyterian Church in the U.S.A., presented a helpful, detailed analysis of these two procedures. I recommend his paper to any organization considering the introduction of the regular Life Income Plan. It is in print in the "Wise Public Giving Series, No. 50."

5. An organization also has to decide on a minimum age as acceptable for a Life Income agreement. Since there is a lifetime payout of earnings, it is apparent that the Life Income Plan cannot accept the youthful ages for which an Annuity agreement is written. The Annuity Plan allows for long lifespan payments by a rate adjustment that provides payments which are less than its earnings. The Life Income Plan, lacking this adjustment, has to set a reasonable minimum age for its beneficiaries. Ages 35, 40, and 45 are now the lowest acceptable to organizations using a Life Income Plan.

6. It is essential that an organization be equipped to provide correct tax information to its Life Income participants. The one indispensable tool for this purpose has been a book issued by the United States Treasury Department. It is "I.R.S. Publication No. 11." It's

full title is "Actuarial Values for Estate and Gift Tax." Our Committee on Gift Annuities has prepared a new manual on the Life Income Plan which you have received. In addition to the tables of I.R.S. Publication No. 11, it contains instructions for their use, a recommended form of agreement, ways to compute earnings and determine payments and other essential information.

Some survivorship agreements are sufficiently large to require a donor to file a Gift Tax Report on the amount that constitutes a gift to a survivor. If that beneficiary is first, with the donor named as second beneficiary, a gift of "present worth" has to be determined. If the survivor is the second beneficiary, a gift of "future interest" has to be figured. An organization issuing Life Income agreements should be prepared to provide full information needed by a donor if he is required to file a Gift Tax Report.

The person responsible for the promotion and interpretation of the plan must be able to write or converse on several levels of financial understanding.

Some prospects will be knowledgeable in matters of finance. They will know stocks and even cite I.R.S. rulings by chapter and verse. It is disastrous to sound like an amateur in dealing with them. Some prospects will refer the information you provide to their attorneys, and you will find that subsequent correspondence will be with them, with legal evidence required to support the tax privileges claimed for the plan. Others will be quite baffled by the whole thing. They will confuse the Annuity with the Life Income agreement; they will try to send you their E Bonds for transfer or argue that the interest they have received on a Treasury Bond they wish to transfer should be exempt from the Capital Gains Tax. They will write, after receiving your literature, to tell you they do not understand the Plan and request an explanation.

The promotion of the Plan often calls for the wisdom of Solomon or the patience of Job; it calls for a skill in expression, not unlike the skill that one of our nation's most noted ministers described as necessary for effective preaching. "In the congregation," he said, "there will be Ph.D.'s, housewives, office workers, factory employees, students, high I Q's and low I Q's. The preacher's assignment is to corkscrew one important idea clearly into that great variety of minds."

Now just a few observations on the promotional methods for the

Regular Life Income Plan. A clearly written, readable brochure, with examples, is needed to begin with. There is now an abundance of brochures available for guidance in the preparation of such a document. When this brochure is ready, the manner by which it is put into the hands of prospects will depend largely on the nature of the institution presenting it. Magazine articles and ads in an organization's Journal, direct mail to constituents, enclosures with checks to annuitants, and sometimes paid ads are common practices now employed.

By whatever method the Plan is promoted, it is essential that the major emphasis be on its character as a non-revocable gift to serve the purposes and work of the organization. Income and tax privileges should have a secondary emphasis. The Plan may resemble an investment fund, but its purposes are quite dissimilar. It is a gift, with lifetime benefits retained.

Finally, what is the present experience of organizations that use the regular Life Income Plan? These facts emerge:

It is attractive to a constituency that may not be responsive to the Annuity Plan. It is made up of people with larger than average income, many of whom own stock. It appeals to men with a survivor to provide for, with the average age in the low 60's. The Annuity agreement is written primarily for single women with an average age of about 70. The Life Income Plan also attracts people who are fearful of the Annuity fixed rate in an economy with inflationary tendencies. These people believe that the Life Income Plan will keep pace with inflation through increased yields. It attracts those who see value in reducing the gross amount of an estate and thereby conserving the maximum inheritance for heirs. It solves the problem of obtaining fund management without cost when there is a survivor who is not knowledgeable in finance. It provides an organization with another string to its gift investment bow and does bring supporting gifts, in addition to Annuity agreements, direct gifts, trust funds, and legacies.

I conclude this paper with a hope that it will be useful and not provoke the same observation that H. L. Mencken made on Warren Harding's Inaugural Address. In his column, Mr. Mencken, commenting on that address, wrote, "It drags itself out of the dark abysm of pish, and crawls insanely up the topmost pinnacle of posh."

## TAX-FREE LIFE INCOME AGREEMENT

DR. HOLLIS L. TURLEY

*President of Pension Fund, Christian Churches  
(Disciples of Christ)*

In any discussion of "tax-free life income agreements" we should clearly understand that the "tax-free agreement" is only one possibility among several under the generic term "life income agreements" or "life income plans." What is often referred to as a tax-free life income agreement is technically called a tax-free life income trust and I shall use that term in our discussion.

It may be best to clarify first what a tax-free life income trust is not. It is not a life income contract, although there are many similarities which I shall discuss later. It certainly is not an annuity.

Since we are discussing a trust, let us review some basic trust terminology.

*A creator, settlor or donor* transfers money or property to a—  
*Trust*, which is a separate taxable entity and is the legal owner of the property. The trust functions through a—

*Trustee or fiduciary*, who manages, invests and re-invests the transferred money or property as the—

*Trust corpus or principal*, and pays the income therefrom periodically to the—

*Life beneficiary* or beneficial or equitable owner for the duration or period of the trust, and upon the—

*Termination* of the trust, the Trustee pays over the trust corpus to a—

*Remainderman*, who then becomes both legal and equitable owner of the property.

What is a tax-free life income trust? Donor transfers money or property irrevocably to trustees to hold in trust, paying the income to the donor (the life beneficiary) for life. On the death of the donor the trust property is delivered outright to the charity (the remainderman). Donor, his wife or anyone else he names can be the beneficiary of the tax-free life income trust. And the trust can pay income to a donor for life, then to his wife or another without reduction of income

to the donor during his life. The contribution deduction is lower, however, on a two-life trust.

Where a trust is interposed as a conduit for the gift, the character of the income earned by the trust is transmitted to the donor. Thus tax-exempt interest earned by the trust, when transmitted to the donor-beneficiary, is tax-free to him.

Where the income earned by the trust is tax-free, we designate the trust a tax-free life income trust. Donor either transfers state or municipal bonds (which are usually called tax-exempt bonds since no tax is payable on the interest earned) to the trustees when he creates the trust or more frequently transfers property to the trustee directing them to sell the property and invest the proceeds in tax-exempt bonds.

The prime advantage of a tax-free life income trust is shown by this example:

Mr. Douglas irrevocably transfers \$20,000 to a trust. He provides that the trustees he has named are to invest the \$20,000 in tax-free state or municipal bonds. The trust income will be paid to Mr. Douglas annually for the rest of his life. Then the trust corpus—the tax-free bonds—will be given to the charity outright. The income Mr. Douglas receives is tax-free. Assuming a 3.5% yield on the bonds, Mr. Douglas will receive \$700 annually tax-free. To net \$700 after taxes on nontax-exempt investments would require investments having a 7% yield for a donor whose top tax brackets average 50%.

Who can be the trustee? The donor, the charitable organization, or a corporation can be the trustee. The trustee need not be a bank. Often a treasurer and another officer of the charitable organization serve as trustees. The charitable organization need not be the trustee and, in fact, a donor can create a tax-free life income trust without the charity's knowledge. It is possible for the charity not to know of the trust until it is notified that the donor has passed away and the charity is entitled to the trust principal outright. Usually, of course, the charity knows of the trust because it helped bring it about. Often, the charity or its officers will be the trustees—usually without fee.

Where the charity or its officers are the trustees, the trust corpus must be segregated from the charity's other assets. However, once the charity receives its remainder interest (the trust corpus on the death

of the life beneficiary), it owns the property outright and may use it in its absolute discretion.

The tax-free life income trust is similar in several respects to the life income contract.

Donor receives an immediate charitable contribution deduction on his income tax return for the actuarial value of the charity's remainder interest, determined by official Treasury tables. In both the trust and the life income contract the Treasury factors for determining the amount of the gift are applied to the fair market value of the property at the time of transfer.

How does the tax-free life income trust differ from the life income contract? The big difference is that income received by the donor from the trust is tax-free while life income contract income is fully taxable. Trust property must be segregated, while property received for life income contracts may be co-mingled with the charity's other assets and the gifts of other donors. Funds invested in a life income contract earn a rate of return equal to the average net yield on the charity's pooled investment funds, while the donor who creates a trust receives whatever the trust investments earn.

For many years the tax-free life income trust was probably one of the most attractive and beneficial (yet the least promoted) of all the life income plans. Mr. Charles Baas, speaking before the "Conference on Modern Christian Philanthropy" in Cleveland, Ohio, in 1961, stated that a survey showed that the regular life income contract had an average value per donor of approximately \$5,000, while the tax-free life income trust had an average value of over \$15,000. This is in great contrast with gift annuities which average about \$2,000 per donor.

What are the tax consequences of transferring appreciated property for a tax-free life income trust? As you know, when a donor transfers appreciated property outright to a charity he receives a charitable contribution deduction based upon the fair market value of the property at the time of the transfer and completely avoids the capital gains tax on the appreciation.

The attractiveness of a tax-free life income trust was somewhat diminished by a December 2, 1960, ruling by the Treasury. The Treasury ruled that where appreciated property is transferred after December 2, 1960, to a trust which subsequently invests the proceeds

from the sale of appreciated securities in tax-exempt bonds, the donor is taxed on the difference between his cost of the appreciated property and its value at the time of the transfer. Where the trustee is under an express or implied obligation to sell the property and invest the proceeds in tax-exempt bonds and to pay the income to the donor, the gain on the sale by the trustee is taxable to the donor.

There are several important points which I believe deserve attention regarding the December 2, 1960, Treasury ruling.

1. The ruling did not render the tax-free life income trust invalid. Donor still receives a charitable contribution deduction in the year of the irrevocable transfer to the trust. As before the ruling, the contribution deduction equals the present value of the charitable organization's remainder interest (subject to the 30% of Adjusted Gross Income limitation and the 5-year carryover for "excess" contributions). The factor from the Treasury tables used to compute the value of the charity's remainder interest is still applied to the fair market value of the property at the time of transfer. And, most important, the tax-exempt income earned by the trust and distributed to the donor continues to be tax-exempt to the donor. Thus, the only effect of the 1960 ruling is to tax the appreciation on donated property where the trust subsequently (under an express or implied obligation) sells the appreciated property and invests the proceeds in tax-exempt bonds.

2. There is no tax when the donor transfers money or tax-exempt bonds to the trust. Also there is no tax when property which has not appreciated is transferred.

3. Even when appreciated property is transferred, the tax is at the favorable capital gains rates when donor owned the property for more than six months.

4. This ruling was undoubtedly brought about by too much publicity on the part of sponsoring organizations showing extraordinary tax relief as well as a desire on the part of the Treasury to take away some of the tax advantages of charitable contributions. This should cause us some concern in the promotion of all life income plans. While the tax element is very advantageous, it would appear to me that it is a point of wisdom to stress the gifts rather than the tax.

5. Finally, the ruling is only the Treasury's interpretation of the law. There are many tax experts who feel that the ruling would not

stand a court test, and there is evidence to believe that it may well be carried to the courts.

What are the advantages of tax-free life income trusts to donors? The first and most obvious, of course, is that the income paid to the donor-beneficiary is completely tax-free. The higher the donor's tax bracket, the more important this factor becomes.

Donor receives a sizeable contribution deduction. As in the life income contract, the amount of the gift to the charity is the present worth of the right to receive the remainder after the death of the life beneficiary. The charitable contribution is determined by the age of the donor-beneficiary or beneficiaries. The amount of the contribution deduction is determined by using the tables in Internal Revenue Service Publication No. 11. The contribution deduction available for a donation to a trust or life income contract is roughly a percentage, equal to the life beneficiary's age, of the amount transferred. For example, if the donor is age 55 and he is the only beneficiary, the charitable contribution would be 55% according to our rule of thumb. The Treasury table shows it to be 54%. Thus on a transfer of \$10,000 for a tax-free life income trust or life income contract, the donor has a \$5,400 charitable contribution deduction on his Federal Income tax return.

Another attractive feature of the tax-free life income trust, which is equally applicable to outright gifts and the other life income plans, is the significant recent change which allows a donor a five-year carry-over for contributions in excess of his 30% of Adjusted Gross Income limitation on deductible contributions. The "excess" or "unused" portion of the contribution is allowed as a deduction in each of the five following years up to 30% of Adjusted Gross Income in each year. This new provision is particularly important to investors in the various life income plans who before could not use the large contribution deduction normally generated by these plans.

A few words about offering the tax-free life income trusts are in order. In our literature and our interviews we should maintain the confidence of our potential donors. We should provide all possible information. Thus we should state that when appreciated property is invested in a tax-free life income trust, there will be a tax on the appreciation when the property is sold and the proceeds invested in tax-exempt bonds. As with the other life income plans, a portion of

the amount invested is included in donor's estate where there is a second life beneficiary.

Why should charitable organizations offer tax-free life income trusts? A well-rounded development program appeals to all types of gifts. The difference between a big gift and a small one (or none at all) often depends on our ability to meet the requirements and demands of a donor. To a donor in a high tax bracket, the idea of receiving tax-exempt income is most appealing.

The trust form (whether used for a tax-free life income trust or a charitable trust which pays taxable income) is appealing to many donors. It provides for the management of property which the owner cannot or does not wish to manage. It prevents dissipation of funds by family members incapable of managing. It controls the disposition of property after death and avoids the delay of administering a Will. Very important to some, it grants privacy by avoiding the publicity attendant to a Will probate.

In conclusion, I believe that the tax-free life income trust is a way, if properly used, of bringing to our organizations funds which otherwise would be lost and at the same time enabling people to fulfill their obligations as stewards under God.

## LIFE INCOME TRUST

MR. JAMES A. CHRISTISON, JR.

*Treasurer, American Baptist Home Mission Societies*

The Life Income Trust, also known as the Charitable Remainder Trust, is a well-established method for charitable and religious organizations to receive substantial gifts from their donors. The Life Income Trust is very similar to the Life Income Agreement; but there are differences, and we should be able to identify them. Both forms of receiving gifts from Donors, wherein the Donor reserves the right to retain the income from the gift for life, are valid and useful. Our responsibility is to know when and how to use each type.

### DESCRIPTION AND DEFINITION

The Life Income Agreement, as defined by the Committee on Gift Annuities, "is an agreement between a Donor and a religious, charitable, or educational organization. The organization, in return for a gift of cash, stock, land, securities, or other property, agrees to pay to the Donor, or designated beneficiary, for the lifetime of that person or survivor, an annual income computed by determining the yield on the organization's invested funds and applying that rate to the Donor's gift. The Agreement is terminated upon the death of the last beneficiary, and the organization is thereby released from any further payments."

The Life Income Trust may be defined as an irrevocable fiduciary relationship, manifested by a "trust instrument," subjecting the person by whom the property of the trust is held to invest and reinvest the property and to pay the income earned by the property to a person or to persons as designated by the trust instrument. The trust terminates upon the death of the last surviving life income beneficiary with the trust property thereupon passing to a charitable organization. The person establishing the trust is the Donor, and the person holding and managing the trust property is the "Trustee." The person receiving the income is the "Life Income Beneficiary," and the charitable organization receiving the trust property upon termination of the trust is the "Charitable Remainderman." The trust property is referred to as the "Corpus."

A Life Income Agreement creates a debtor-creditor relationship

between the organization and the Donor, whereas a Life Income Trust creates a trustee-beneficiary relationship between the trustee, beneficiary, and charitable remainderman. A Life Income Trust could be established in a very simple manner, so that the trust would appear to be a Life Income Agreement. It is still a Trust, but it is not possible to distinguish the Trust in operation from the Life Income Agreement in operation. This causes some confusion because many times those of us who manage both Life Income Agreements and Life Income Trusts tend to speak of them interchangeably. The purpose of this discussion is to set forth some distinctive uses of the Life Income Trust which cannot be easily accomplished by the Life Income Agreement.

Let me make one thing very clear. I am not a lawyer, and I do not have any special legal training. I must necessarily deal with certain legal aspects of trust instruments, but the jargon that I use comes directly from our attorneys. When you notice a situation which may require some type of trust instrument, I urge you to contact your own attorney. Bring him into the picture at the earliest possible point in your negotiation; and if possible, bring the donor's attorney into the negotiations also.

## TYPES OF LIFE INCOME TRUSTS

A Life Income Trust provides the Donor and the charitable organization considerable flexibility. There are many variations in the way the corpus can be managed during the Donor's life-time and subsequently distributed after his death. The fiduciary relationship between the trustee and the beneficiary can either be established during the lifetime of the Donor, called an *Inter Vivos Trust*, or after his death as a result of stipulations in his Will, which is referred to as a *Testamentary Trust*. The trustee can be the charitable remainderman, another individual, or an organization such as a bank; or it can even be the Donor himself. The income from the trust can be distributed to as many beneficiaries as the Donor wishes. The beneficiaries can be individuals or organizations. The corpus can be distributed to as many organizations and/or individuals and for as many purposes as the Donor may select. By utilizing various combinations of these variables of the trust instrument, there is an almost unlimited variety of trusts that can be established. It would be impossible to discuss very many of these variations, but there are a few fundamental aspects of the

Life Income Trust which can form the basis for being alert to possibilities that may lead to substantial gifts for your organization.

The Life Income Trust as a testamentary trust usually provides for the income to be paid to a named individual or individuals for the remainder of their lives, with the principal of the trust being distributed to charitable organizations after the death of the last survivor. The testamentary Life Income Trust is especially useful in those situations where the donor has accumulated a large estate and wishes to remember a particular charitable organization in his Will, but also wants to provide an income for his wife or other dependent for as long as she lives. The wife of the Donor is not normally expected to have the business ability to manage and invest large sums of money. By the creation of a trust through his Will, the responsibility for the management of his estate is passed on to a knowledgeable party, thereby assuring the continuation of income to his wife and also assuring that the principal of his estate is not dissipated, but rather is turned over intact to the charitable organization.

The inter vivos Life Income Trust is probably the most useful form of the Life Income Trust for charitable organizations. This form of Life Income Trust usually provides for the Donor to receive the trust income for life, with the remainder of the trust distributed to a designated charity or charities. The trust may provide for other beneficiaries after the Donor's death for as long as they live. The American Baptist Home Mission Society is still managing an inter vivos Life Income Trust that was established in 1921. This Trust provided for income to be paid to three individuals during their lifetime and to four separate Baptist organizations. As each individual died, the income paid to that individual was released and paid to four Baptist organizations in accordance with a formula. One of the life beneficiaries is still receiving her share of the income. The principal of this trust is to continue in perpetuity providing income for certain specific purposes designated by the Donor. The market value of this trust fund at the present time exceeds eight million dollars.

A variation of the Life Income Trust is the Short-Term Trust. The Short-Term Trust is set up to terminate on a specific date. In operation it is exactly the reverse of the Life Income Trust because the charity receives the income for the term of the trust, and the corpus is returned to the Donor or a named designee.

The Short-Term Trust has limited usefulness, but it is helpful in certain special circumstances. For example, if a Donor who is contributing 30% or more of his adjusted gross income to charity establishes a Short-Term Trust for a minimum of two years, designating a religious, educational, or medical organization to receive the income, then the income earned by that Trust is not includible in his gross income. The Donor has increased his contribution beyond the 30% maximum without losing the effect of a contribution deduction.

It is also possible to obtain a charitable contribution deduction from a Short-Term Trust. The stipulation is that the Donor must not have more than a 5% possibility of receiving the corpus of trust after it is terminated. The corpus could go to the Donor's children, or to some other named designee just so long as his possibility of ever receiving any of the assets of the trust is so remote that he stands less than a 5% chance.

Treasury Department Table II provides a factor for computing the charitable contribution deduction. The column headed "Income for a term certain" has a factor for number of years the Trust will operate. By applying this factor to the amount of the Trust, the amount of the allowable contribution can be determined.

### TYPICAL USES OF THE TRUST

Donors sometimes do not have complete confidence in the ability of charitable organizations to properly manage trust property. This is especially true when the Trust may be a relatively high percentage of the total assets of the charitable organization. By naming a bank or some other professional trustee, the individual has reasonable assurance that the trust property will be managed in accordance with the best business practices and would assure him a steady income during the remainder of his lifetime.

The Society had an interesting situation which may be of interest to you. We were recently negotiating with a Donor for the establishment of a Life Income Agreement. This was a very large potential gift. Everything was going nicely until we encountered the Donor's financial advisor and present custodian of the invested assets. The Donor, quite appropriately, had a great deal of confidence in the advice of this investment counselor, and it became quite apparent

that the counselor was not going to advise his client to enter into a Life Income Agreement. He undoubtedly felt that his organization would provide a safer assurance to his client of a steady income during her lifetime. I think it is also important to recognize that he was receiving a handsome fee for the management of these funds. We immediately changed the approach and suggested that the Donor establish a Life Income Trust, naming her financial advisor as trustee and our organization as remainderman. This accomplished exactly the same purpose as far as the Donor and the Society were concerned. The Donor received the Federal Income and Estate Tax advantages she was seeking, and she was assured that the Society would receive the bulk of her estate. It eliminated the objection the financial advisor had to the Life Income Agreement inasmuch as his organization continued to manage the Trust. The major difference is that under a Life Income Agreement the Society would have received the funds immediately, whereas we must now wait until the death of the Donor before the funds are available to us.

The Life Income Trust also provides the Donor with several alternatives in the matter of computing and distributing the income earned by the Trust. The Life Income Agreement normally provides that the income to be paid to the Donor is to be computed on the basis of a pool of investments. Occasionally, it is important to a Donor to have his assets segregated. An example of this type of situation is an individual with whom the Society is now negotiating. He owns an apartment house which he wants to contribute to the Society and retain the income from the gift for his life and the life of his sister. For various personal reasons, he does not want this apartment house sold at the present time. The apartment house is yielding a 10% annual income based on the appraised market value of the building. We are suggesting to this potential Donor that he transfer title of the apartment house to the Society under a Life Income Trust. We will agree to appoint a mutually acceptable firm as manager of the apartment house, and that firm will continue to pay to the Donor the net income earned from the rentals. The Trust agreement will necessarily be quite involved. We will have to negotiate a time period under which this management agreement would continue; and there are, of course, other problems that still need to be worked out. The important thing is that the Life Income Trust provides us with a

procedure by which we can include as many special clauses as may be necessary to handle this specialized type of situation. This would not be possible under a standard Life Income Agreement. An interesting development of these negotiations is that if we can agree on a fixed period of time that the apartment house will continue to be held in the Trust, then at the expiration of that period of time, we can agree to sell the apartment house and retain the proceeds of the sale in return for which we will issue a Life Income Agreement. If this can be accomplished, we will have achieved the best advantages of both types of contributions.

Another advantageous variable in the Life Income Trust is the ability of the Donor to have the Trust principal distributed to as many different church or charitable organizations and for as many different purposes as he may wish to accomplish. More often than not, wealthy Donors want to distribute their accumulated wealth to several religious, charitable, and educational organizations. They are naturally reluctant to have to go through the process of negotiating a Life Income Agreement with each organization. Each organization has its own method for computing income and its own policies with regard to its investment portfolio. Some investment portfolios are going to perform better than others. Some organizations will allow for the Life Income Agreement to appreciate in value and thereby earn a higher rate of return, whereas others will use the fixed investment procedure and pay an average rate of return over a long period of time. It may be that some of the organizations do not have a Life Income Agreement Plan. For these and many other reasons, the Donor may elect not to enter into any kind of life income agreement because of the confusion. This confusion can be avoided by setting up one Life Income Trust. A bank or one of the charitable organizations can be named as trustee. The Donor will receive one periodic check for the income earned by the Trust. The trust instrument would allocate the distribution of the trust principal upon his death to the several organizations in accordance with his desires.

## MANAGEMENT OF LIFE INCOME TRUSTS

The first thing you must do is ascertain whether your organization is qualified to act as trustee in your State. Most States have special statutes covering non-profit religious and charitable organizations. Your

attorney should research these laws and find out just what your legal position may be.

The management of Life Income Trusts by charitable organizations is easier to understand, but probably more difficult and more expensive to administer than management of Life Income Agreements. To begin with, trust assets must be segregated. State laws vary considerably in stipulating exactly what is meant by segregated assets. Many States permit the trustees to invest the assets of the Trust in a common investment fund. The Trust would then own units in the common investment fund representing the total assets invested by the Trust in the common fund. In other States, it is required that the Trust own a sole interest in the property of the Trust.

The investments, whether the assets are completely segregated or whether they represent units in a common investment fund, may or may not be restricted to those investments authorized for trusts. Several of the States exclude charitable and religious organizations from the "prudent man's investment rule." The two States that govern The American Baptist Home Mission Society's activities are New York and Pennsylvania. These States do have laws excluding religious organizations from the laws and rules governing the investment of trust funds by trustees.

The laws of New York State regarding investments by fiduciaries provide that "a fiduciary holding funds for investment may invest (in corporate stocks and bonds), provided that investment is made in only such securities as would be acquired by prudent men in such matters who are seeking a reasonable income and preservation of their capital." The law limits investments in corporate stocks and bonds to 35% of the value of the fund at the time the investment is made. This 35% investment is further limited to common and preferred stocks of three classes: (1) Those issued by banks and insurance companies; (2) Those traded on the New York Stock Exchange; and (3) Those fully listed with the Security Exchange Commission or any other national exchange. Bond investments are limited to those bonds listed on the "legal list" and any bonds issued, guaranteed, or assumed by corporations that have securities currently registered with the Security Exchange Commission.

These investment restrictions placed on fiduciaries *have no effect*

on religious corporations. The New York Religious Corporation Law, Paragraph 5-A, referring to investments, reads as follows:

"Subject to the disciplined use and usages of the corporation and of the ecclesiastical governing body, if any, to which the corporation is subject, and subject to the limitations and conditions contained in any gift devised or bequest, and subject to any applicable provisions of law with respect to the investment of funds for the perpetual care and maintenance of cemetery lots, the trustees of every religious corporation created by or under a general or special law, may invest the funds of such corporations in such securities, investment or other property, real or personal, located within or without the State of New York, as to them shall seem advisable without being restricted to those classes of securities which are lawful for the investment of trust funds under the laws of this state."

There are parallel laws in the State of Pennsylvania similar to the New York statutes. It will be necessary to review the laws of your respective States in order to discover what limitations, if any, are placed on trustees with regard to investments. *It is advisable to provide a paragraph in the Trust instrument excluding the trustee from the limitations imposed by law.* A suggested form of the paragraph appears later in this presentation.

Most States allow for a trustee commission for the management of Trust funds. Section 285 (a) of the Surrogate's Court Act of New York State provides as follows:

- (1) Annual income commissions payable in connection with a Trust established for and measured by the life of a named person:

6% on the first \$2,000  
3% on the next \$10,000  
2% on all income over \$12,000

- (2) Annual principal commissions payable in connection with a Trust established for and measured by the life of a named person:

\$1.00 for each \$1,000 of principal on the first \$50,000  
.45 for each \$1,000 on the next \$350,000  
.30 for each \$1,000 on all principal over \$400,000

The decision to charge or how much to charge for trustee com-

missions must be decided by the respective charitable organizations within the limitations placed on trustees by the laws of the various States. It may be the best decision to not charge trustee's commissions on those Trusts for which the charitable organization is the sole remainderman. A trustee commission would be entirely appropriate on those Trusts managed by the charitable organization which provide for distribution of the corpus to several charitable organizations.

The laws requiring segregation of assets and investment policies create management problems and expenses that do not pertain to a Life Income Agreement. For this reason, it behooves a charitable organization to be very careful about entering into a Life Income Trust when a Life Income Agreement would serve the same purpose. One or two Life Income Trusts do not create particular problems, but as the number of Trusts increase, administrative problems are compounded and can be very burdensome to the charitable organization. Usually, small contributions can and should be converted to Life Income Agreements.

## THE TRUST INSTRUMENT

There are certain key paragraphs that you should consider when drafting a Life Income Trust instrument. In many instances, the paragraph speaks for itself, and at other times, it will be followed by some comments with regard to the issue involved. We are indebted to Mr. Sydney Prerau of New York City, Tax Attorney for The American Baptist Home Mission Society, for these suggested paragraphs:

- (1) "The grantor may from time to time make additional transfers and conveyances to the trustees to be added to the trust principal."

This provision will allow the Donor to increase his gift to your organization without requiring new trust instruments, and, hence, new negotiations.

- (2) "The trustees, their survivors and successors, are authorized to continue the investment of the trust principal securities, which are the subject of this transfer in trust, or may sell said securities or property and invest and reinvest the trust principal in their absolute discretion in any manner that they

deem advisable without regard to the limitations imposed by law on investment of trust funds."

There is no legal or practical requirement for this paragraph in States that exempt religious organizations from the trustee investment rules. However, we feel that in order to avoid any misunderstanding and to deal in a forthright manner with the Donor, it is *wise* to state in the Trust instrument the basis on which the Trust will be invested. This paragraph is very important for organizations that are not exempt from fiduciary investment laws.

(3) "During the lifetime of the Donor, the Trustee shall pay to the Donor the entire net income of the Trust principal."

(4) "In the event that the Donor's wife survives the Donor, the Trustee shall, commencing from the date of the Donor's death and continuing so long as the Donor's wife shall live, pay the entire net income of the trust principal to such person or persons, and in such shares, as the Donor shall appoint in his Will. If the Donor shall fail validly to exercise the foregoing power of appointment, the Trustees shall pay the entire net income of the Trust principal to the Donor's wife for so long as she shall survive the Donor."

This paragraph is included to avoid the liability of a possible gift tax where there is a secondary beneficiary. The Donor's wife, in this example, is the second beneficiary. If she had been named in the Trust instrument, there may have been a gift tax on the value of the life interest. By naming her in his Will, the Donor accomplishes the same purpose and avoids the possibility of a gift tax.

Under present tax laws the entire Trust will be included in the Donor's estate. The advantage of the Trust corpus being included in the Donor's estate is that it increased the Adjusted Gross Estate for computing the 50% marital deduction. The estate is also permitted a charitable contribution deduction which is computed by determining the value of the remainder interest of the corpus of the Trust.

(5) "Upon the death of the survivor of the Donor and the Donor's wife, the then principal of the Trust fund, together with any and all then accrued income, shall be distributed and paid over to \_\_\_\_\_, to be used for any of its general purposes."

It is usually to the advantage of the charitable organization not

to have any restrictions on the use of the funds. This paragraph can be adapted to provide for the funds to be used for certain specific purposes. Restrictions on the use of the funds are not to be encouraged, but many times this may be the difference between receiving the gift or not receiving it.

(6) "No bond or other security shall be required for any reason whatsoever of the Trustee named herein or subsequently designated."

(7) "This Trust agreement shall be irrevocable."

## FEDERAL TAXES

The Life Income Trust has certain tax features which we should recognize. Most of the Federal income tax, estate tax, and gift tax advantages of the Life Income Agreement are applicable to the Life Income Trust. It is not necessary to go into the technical procedures of computing the charitable contribution deduction because this subject has been amply covered by the recent publication of the Committee on Gift Annuities entitled "Guide for Computing the Federal Income Tax Implications of Charitable Gifts Subject to Life Income Agreements." It is sufficient to recognize here that there is a charitable contribution deduction allowed to the Donor when he establishes an irrevocable Trust naming a charitable or religious organization, qualified under Section 501 (c) (3), as Remainderman.

The income paid to the Donor from the Life Income Trust is taxable income of the Donor, which is also the case with a Life Income Agreement. There is an important distinction, however. The character of the income from a Trust is the same in the hands of the Donor as it is in the hands of the Trustee. For example, if the income of the Trust includes dividends, the Donor can apply the \$100 dividend exclusion just as if he had received the dividends directly.

The Donor may also avoid a capital gains tax in the same manner that he would accomplish the same thing through a Life Income Agreement. The Donor receives a charitable contribution deduction computed on the basis of the market value of the property transferred to the Trust without being subject to a capital gains tax. However, if there is an express or implied agreement that the appreciated transferred property were to be sold by the trustee and reinvested in tax-exempt securities, then the capital gains realized on such sale as between

the Donor's tax basis and the proceeds of the sale by the trustee *would* be subject to a capital gains tax.

A Trust is necessary in order to establish Tax-Free Life Income Agreements. This subject has been fully covered in the "Tax-Free Life Income Agreements" presentation of Dr. Hollis L. Turley. The subject is mentioned here only to provide a cross reference.

The creation of a Life Income Trust on his own life imposes no gift tax liability on the Donor since gifts to charitable organizations are specifically held to be nontaxable. If a survivor beneficiary or a person other than the Donor receives the income, then there is a gift involved and a possible gift tax. The amount of the gift would be equal to the value, actuarially computed, of the beneficiary's right to receive income from the Trust. As has been mentioned earlier, the gift tax can be avoided with regard to survivor beneficiaries if no completed gift is made in the Trust instrument.

The Estate Tax consequences of a Life Income Trust are not much different from a testamentary charitable bequest. The principal of the Life Income Trust is includible in the estate of the Donor for Estate Tax purposes, but the amount included would also be deductible as a charitable contribution. If there is a second beneficiary provided for, the entire principal of the Trust is included in the Donor's estate, but the offsetting charitable deduction would be reduced by the value of the life income to the second beneficiary. The actuarial value of the second beneficiary's life interest would increase the Donor's taxable estate. As has been mentioned previously, if the second beneficiary is the Donor's wife, she is in a far better position having the Life Income Trust included in her husband's estate. Assume that the wife is 80 years of age at the time of her husband's death. Also assume that the Life Income Trust principal at the time of death of the Donor is \$50,000. By including the Life Income Trust in the Donor's estate, there will be a deduction for the charitable contribution in the estate of \$41,500 (83% of the \$50,000 trust principal), in accordance with the Treasury Department Table I. The \$50,000 Life Income Trust would increase the potential marital deduction so that another \$25,000 may be deducted from the estate before the Estate Tax rate is imposed. This gives a possible total deduction to the estate of \$66,500, which is \$16,500 more than would have been permitted if there had been a Life Income Agreement rather than a Life Income Trust.

## SUMMARY

This presentation is intended to provide some awareness on our part as to the usefulness of Life Income Trusts in obtaining gifts for charitable, educational, and religious purposes. The Life Income Trust has the advantage of providing many possible variations in order to meet the needs of specific Donors. Its primary disadvantage is in its unwieldy administrative processing. It can be a valuable tool if used selectively. It provides charitable organizations with much more flexibility and allows the organization to be of greater service to its Donors. The ability to know when and how to use the Life Income Trust will give charitable organizations a better opportunity to obtain more funds for the worthy purposes for which they are organized.

## SUMMARY OF GIFT ANNUITIES AND LIFE INCOME AGREEMENTS

THE REVEREND ROBERT B. GRONLUND

*Vice President for Development and Public Relations, Capital University*

I am pleased to be able to participate in this conference program for two reasons. First of all, it was just three years ago that I had my first introduction to gift annuities and life income agreements and just two and one-half years ago I attended my first gift annuity conference. I see many here today to whom I am indebted for what I know about this field of giving—Charley Baas, Paul Wright, Syd Prerau, Tommy Thompson, Chet Myrom, Roland Matthies, Clint Schroeder, Alf Jorgensen, Luther Hoopes, Walter Mortensen, Homer McGee, and others have all been of help to me and if I in turn can share the knowledge gained from them with others, I am happy to do so.

But I am also pleased to have a place in the program because I get everlastingly exasperated at the board member, administrator, or fund-raiser who continually uses the terminology of retained interest giving incorrectly and interchangeably. For example, one of our colleges brought in a donor considering a \$5 million trust to meet with the board. The donor had acquainted himself thoroughly with the correct terminology and knew what a trust was, but members of the board most embarrassingly kept referring to it as an annuity. A good part of the work involved in establishing a deferred giving program is in making clear to your board, your president, your staff, and your volunteers the difference between the various gift methods and helping them to understand the terminology.

We and our institutions must be professional about our work with gift annuity agreements, Life Income Agreements, and Life Income Trusts. We must read, study, ask, and learn. I often feel that the low regard in which some hold the fund-raiser is due to this very lack of professionalism. They sense we have not really mastered our craft. But, more important, how can you help your donor determine the best vehicle for his gift if you aren't clear about the various methods yourself?

Service to the donor is at the heart of successful gifts work.

We offer different gift methods because donors have varying needs and it is our responsibility to discover the gift method that best suits his circumstances and interests. Service to the donor is the key particularly in this area of retained interest giving. While there may be tax advantages in the outright gift and, of course, the satisfaction of having aided a worthy cause, that is all there is. But in a retained interest gift, the donor retains a benefit for life and we surely want to be certain that the life benefit is the one he desires and not another.

This is not to say that the donor may not choose a method which is less beneficial to him. Recently at Capital we had a donor enter into two substantial single and survivor annuities even though they provided less income than a Life Income Agreement and also subjected him to a rather heavy capital gains tax. But he wanted the fixed and largely tax-free benefits of a gift annuity agreement. And that certainly is his prerogative, but we never want to be in a position of having a donor with whom we have worked say, "Why didn't you tell me?" Our job as professionals is to present the alternatives in the clearest and simplest manner possible and then allow the donor to make his choice with the facts in hand.

Well, so much for my sermon on professional competence in gifts work. Let's look now in summary and review fashion at the gift annuity agreement, the Life Income Agreement, the Life Income Trust and the Tax-free Life Income Trust. For those already knowledgeable in retained interest gifts, this will be boring repetition; but for those new to this field, hopefully this will provide yet another opportunity for clarification. Let's look at each separately and then compare them from the viewpoint of the donor and then from the viewpoint of the institution.

### THE GIFT ANNUITY AGREEMENT

A gift annuity agreement is a giving plan whereby a gift of a principal sum or a piece of property or a block of securities is made in exchange for an agreement by which the donor receives a fixed annual sum for life. The rate of return is fixed actuarially by age, and it is this guaranteed or fixed nature of the income that characterizes the gift annuity agreement. The income does not fluctuate, come inflation, depression, war, pestilence or what-have-you. Gift annuity income is largely tax-free—from about 60% to 80% is tax excludable, depending upon, again, the age of the donor at the time of the gift.

A gift annuity agreement involves two things: the purchase of an annuity, referred to as the actuarial value, and an outright gift, referred to as the gift value. It is the gift value which is the charitable contribution deduction, and the actuarial value is employed in computing the amount of gain realized in the exchange. There is not complete freedom from capital gains tax liability in a gift annuity agreement, but gain is computed as the difference between the cost basis of the property or security and the actuarial value of the gift annuity.

Because age is a factor, the gift annuity agreement appeals largely to persons in their sixties and beyond. Because income is fixed, this method appeals as well to single women, either widowed or never married, and to those not sophisticated in fluctuating investments. From the standpoint of the issuing institution, a gift annuity agreement may well involve setting up reserves and complying with state regulations. Also, as the principal is generally invaded to make the annual return, the institution expects in its gift annuity agreements to retain a residuum of but 50% at the death of the donor. Gift annuity agreements are seldom written on more than two lives.

### A LIFE INCOME AGREEMENT

A Life Income Agreement is a giving plan whereby a gift of a principal sum or property or securities is made with a life income returned at a rate equal to the average net yield earned by the Life Income Fund of the issuing institution. This yield is not, as with the gift annuity agreement, fixed, but will fluctuate with market and economic conditions and will vary, of course, from institution to institution. Except in computing the charitable contribution deduction, age is not a factor in the Life Income Agreement; and because no guaranteed rate is involved, more than two lives are occasionally included. Life Income Agreement income, unlike that of the gift annuity agreement, is fully taxable as would be any ordinary interest income. However, there is complete freedom from any capital gains tax liability if appreciated property or securities are given, and the charitable contribution deduction available is greater for the same aged person than in a gift annuity agreement.

As age is not a factor in return, Life Income Agreements appeal to younger persons, the average Life Income Agreement holder prob-

ably being a successful business couple in their fifties who understand the fluctuating nature of investments. From the viewpoint of the institution, though, Life Income Agreements do require administration of a Life Income Fund, only the net yield is paid out, the principal is never invaded or eroded and, in a rising stock market as we have had, there could be considerable appreciation of the fund itself.

### THE LIFE INCOME TRUST

The Life Income Trust is a giving plan whereby gift property is placed in trust with the charitable organization to be administered and managed by the charitable organization for the benefit of the income beneficiary and the charitable organization. As we have heard, the Life Income Trust is similar in many respects to the Life Income Agreement in that income is fully taxable, it is not guaranteed at a certain rate or affected by age, full freedom from capital gains tax liability is achieved, and the charitable contribution deduction is identical.

But the Life Income Trust does differ markedly in one aspect: The gift property is not co-mingled as in the Life Income Agreement with other such gifts in the Life Income Fund of the institution, but is separated and administered and managed and accounted for separately. This obviously places more of a burden upon the charitable organization, and the question might well be asked—why write Life Income Trusts at all? The answer goes back to my introductory remarks—because it suits the needs and interests of the donor! For example, a donor may wish to give your institution an apartment house or motel but retain the income from the units for life. Or he may have a pet stock and wishes the return on that stock as his life income. Or it may be securities held for sentimental reasons, as my mother holds the stock my father left her in the company for which he worked thirty years. Or the donor may wish to exchange a low yield investment and not incur capital gains tax liability. Or he may wish the gift corpus separated for reasons such as a name scholarship fund at a college. You will find a Life Income Trust a good answer to the prospect who replies to your appeal on a gift annuity agreement or a Life Income Agreement, "Why, I'm earning more than that on my present investments." Propose that he give the investment intact through a Life Income Trust and retain the income for life.

<i>Item</i>	<i>Gift Annuity Agreement</i>	<i>Life Income Agreement</i>	<i>Life Income Trust</i>	<i>Tax-Free Life Income Trust</i>
Gift Amount	\$100,000	\$100,000	\$100,000	\$100,000
% Return	5%	Will Fluctuate with Economic & Market Conditions but Last Year Yield of Our Life Income Fund was 4.8%	Income From Stock You Wish to Give as Corpus of Gift will Fluctuate Just as it has in Past but last year a Dividend of 5% Was Paid	3%
\$ Return Annually	\$5,000	Will Fluctuate with Economic & Market Conditions But Based On Last Year's Experience Income Would Be \$4,800	Will Fluctuate as it Has in Past but Based on Last Year's Experience Income would be \$5,000	\$3,000
Tax Status of Income	\$1,045 is Taxable Income	Fully Taxable	Fully Taxable	Tax-Free
Charitable Contribution Deduction	\$42,655	\$66,580	\$66,580	\$66,580

Capital Gains Status if Appreciated Property or Securities Are Given	Gain is Difference Between Cost Basis and Actuarial Value Which is \$57,345	Full Capital Gains Tax Freedom	Full Capital Gains Tax Freedom	Full Capital Gains Tax Liability
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LET'S CONTINUE THE COMPARATIVE CHART NOW AND SHOW HOW EACH METHOD AFFECTS THE CHARITABLE ORGANIZATION RECEIVING THE GIFT

<i>Item</i>	<i>GAA</i>	<i>LIA</i>	<i>LIT</i>	<i>Tax-Free LIT</i>
Residuum	50%	100%	100%	100%
Management Requirement	Part of GAA Reserves or Fund	Maintenance of a Life Income Fund	Separate Management	Separate Management
Obligation	To Pay Fixed Rate for Life Even if Principal Entirely Eroded	To Pay Only the Net Yield of the Life Income Fund	To Pay the Net Return but Must Account for Management as Trustee	To Pay the Net Return but Must Account for Management as Trustee

## THE TAX-FREE LIFE INCOME TRUST

This leads us to our last method for consideration—a Tax-free Life Income Trust. All the things said about a Life Income Trust apply, for it is a trust, with two exceptions: 1) the principal sum is invested in tax-free bonds and thus the income passed to the donor is not subject to tax. 2) under an Internal Revenue Service Ruling, there is no freedom from capital gains tax if an appreciated asset is given in exchange for a Tax-free Life Income Trust.

Obviously, you must encourage your donor to give cash or an asset with the same present value as when he bought it; and obviously this method will appeal to the donor in a high tax bracket who can benefit from the rather low but tax-free yield of the municipals. Theoretically, it would be possible to have a Tax-free Life Income Fund; but generally the practice is to designate and segregate the gift corpus.

### SUMMARY

Now let's in brief outline form compare these four gift methods. I have found such a comparative outline helpful in clarifying my own thinking and commend the same technique to you for use with donors. However, I would not suggest that you provide comparative data on all four methods for a donor—that is apt to be too confusing, but I have found a comparative chart on the various benefits of two of the methods most helpful in gaining a favorable decision to make a gift. Let us say that our gift prospect's age is 65 and he has inquired about various forms of gifts that return an income for life. I have used \$100,000 as the suggested gift amount for it is easily divided or multiplied and I have also found it pays to keep the donor's sights high.

As you struggle with some of these distinctions or are inclined to say, "we only write one or the other type of gift," and thus dismiss off-hand the other methods, remember once more that service to the donor is at the heart of competent and successful gifts work. Your institution should offer a variety of gift methods because your donors have a diversity of interests and needs. And we must serve the donor, for without his interest and support the charitable cause we represent will suffer; but with his help and the help of thousands like him, all society will be benefited through thoughtful charitable giving. Thank you.

## TAXATION OF GIFT AGREEMENTS

DR. ROLAND C. MATTHIES

*Vice President and Treasurer, Wittenberg University*

After a very full day and a half of presentation of quite heavy material, after a full meal at luncheon, I could be on the verge of a third strike! It reminds me of my college days and the manner in which I faced my professor at the 1 o'clock classes. I gave the Prof a full 10 minutes to win me over and the rest of the period was usually a lost cause!

But, instead of bemoaning my fate at this time, let me assure you that I am in a unique and enviable spot—I *want* your undivided attention and you *need* mine!! So, in a good spirit of cooperation let us get at this business of taxation.

It would be good if we could take the time to explore the various attitudes currently being displayed toward charitable giving. The close call on the voting for the Long Amendment in 1964, the new Long Bill, the many requests of the Congress to write an entirely new tax law, the increasing surveillance exercised by the Internal Revenue Service, are matters of real interest and should be watched carefully by all of us. Thanks to agencies such as the National Social Welfare Assembly, the American Council on Education, the American College Public Relations Association, the National Council of the Churches of Christ in the U.S.A. and our own Committee on Gift Annuities, you are well represented. Therefore, let us leave the field of general consideration of taxation to other times and return to our specific assignment—taxation of gift agreements, more specifically, taxation of charitable gift agreements with income retaining features.

### IN GENERAL

Two recent publications should have our passing attention:

1. The New Treasury Regulations for Reporting on Form 1040 Gifts to Charity.

This is effective January 1, 1964, emphasizing 1964, and requires sizeable assumption of responsibility by the charity if it desires to be of real service to its donors. I give no details for they are well spelled out in the two tax services: *TAXWISE GIVING* for January 1965 and *TAXES FOR FUNDRAISERS* for February 15, 1965. The task

is a burdensome one both for you and for your donor. There will undoubtedly be many cases where local Internal Revenue Service agents will seek to enforce with some rigidity the reporting provisions called for during the year 1964. By the same token, other agents may be quite liberal in permitting less detail for the year 1964. Unfortunately, due to the three-year statute of limitations, this may not come to the attention of you or your donor until an audit is called for two to three years hence. Your donor should be told of this possibility. In the meantime, it behooves all of us to be very sure that our gift-report records and the records maintained in our accounting offices are in accord. For example, it is quite natural for you to wish to please your donor by having your gift records in accord with his claimed charitable deduction. Nevertheless, there may be a considerable discrepancy between the value of a stock on the day he delivered it to you and the cash results coming from a sale of the stock ordered by your accounting office. Certainly, the donor is entitled to a charitable gift deduction for the value of the property when delivered. On the other hand, your records must reflect the cash produced by such a gift.

2. The recent Report of the Treasury Department on Private Foundations is the other publication that you should read.

This was published in February 1965 and is still in short supply. I suggest that you write your Congressman for a copy. The report indicates a most interesting survey of private foundations; but it contains proposals which, if enacted or asserted, could adversely affect charities supported by public gifts. I repeat that this is *must* reading.

### THE CHARITABLE GIFT ANNUITY

Here is a suggestion for further reading. I recommend to all of you that time be taken to read an article on the *private* annuity, since there are involved the fundamental elements for which we have concern in dealing with the *charitable gift annuity*. An excellent article appears in THE JOURNAL OF TAXATION for September 1961 and is by Shelden V. Ekman.

The basic tax concepts of the charitable gift annuity are well covered in the "Greenbook" published by the Committee on Gift Annuities. Its formal title is TAX IMPLICATIONS OF AN ANNUITY GIFT as amended September 6, 1962. Even though we have the Greenbook at hand, let us take a very quick review:

**ACTUARIAL VALUE**—This is the price that the donor pays your institution for issuing his annuity. It is determined by the age factor published in the Greenbook multiplied by the amount of the annual annuity to be paid.

**CHARITABLE GIFT DEDUCTION**—This is determined by deducting from the appraised value of the transferred property the actuarial value just referred to.

Thanks to greater liberality shown by the recent Congress, almost all of our institutions here represented now come under the 30% rule for charitable gift deductions as against the 20% rule continuing for private foundations. Even so, in the past this has often been too restrictive for a donor to obtain the maximum benefit from his gift. Enter the new 1964 tax law. There now is a five-year spread beyond the tax year itself so that as many as six years may be used to obtain the maximum deduction.

**EXCLUSION RATIO**—This is obtained by dividing the actuarial value by the expected return under the annuity. The percentage figure produced by the division indicates that portion of the annual annuity that is excluded from Federal income tax for the life of the donor.

All of the foregoing tax implications for the charitable gift annuity are now quite well established. However, on page 32 of the Greenbook we come to something still in a state of controversy. This involves not what the capital gain tax is *to be*, but rather *how* and *when* the capital gains tax is to be paid by your annuitant. Beginning early in the 1950's attempts were made by a number of our institutions to get a decision from the Internal Revenue Service on this subject. Many charitable gift annuities had been written, over a period of years, where capital gains were involved and the donors were usually advised by the charity that the collection of the capital gains tax by the Internal Revenue Service would be deferred until the donor had received back his adjusted cost basis in the property transferred. For a more complete discussion of this see the article on Private Annuities referred to earlier.

On September 9, 1955, The Board of Christian Education of the Presbyterian Church in the United States of America received a private ruling from the Internal Revenue Service specifically adopting the private annuity concept. The private ruling letter, in its entirety, was printed by the Committee on Gift Annuities in the *Wise Public Giving*

Series No. 48 at Pages 52 to 55. Dr. Gilbert Darlington, then chairman of the Committee on Gift Annuities, believed that it was wise to make public this private ruling letter since it was the only indication that any of us had as to the attitude then being displayed by the Internal Revenue Service toward capital gains under a charitable gift annuity. Just two months after this letter, on November 10, 1955, the same Presbyterian Church Board received a second letter from the Internal Revenue Service to the effect that it had under reconsideration this question of capital gains tax and contemplated that a Revenue Ruling would be issued in the *near future* on the subject. That "near future" came to a head *seven years later!* The revenue ruling is known as Rev. Rul. 62-136 and was dated August 27, 1962. In the meantime, you and I and our predecessors in this work could not stop writing annuities. Nevertheless, the Internal Revenue Service is now seeking to enforce this regulation retroactively. We haven't enough problems with a cloud of radioactivity—now it is a cloud of *retroactivity!* Under date of May 22, 1964, in my capacity as Chairman of the Committee on Taxation and Philanthropy of the American College Public Relations Association, and speaking on behalf of the Committee on Taxation of the American Council on Education, I wrote to Mr. Mitchell Rogovin, then assistant to the Commissioner of Internal Revenue Service. Mr. Rogovin has since been advanced to the position of General Counsel for IRS. He had asked for a statement of our position with regard to the retroactive application of Rev. Rul. 62-136, and I gave him the story as I have given it to you. I am sorry to report that as recently as two weeks ago the Internal Revenue Service has again seen fit to apply retroactively the 1962 ruling.

The Baptist Foundation of Texas has also been involved with this problem for the past year and I have been informed by them that after a full review in the National office of the Internal Revenue Service, their appeal was turned down. This case will probably go into the Federal Courts.

In any event, for those of you who have not had a donor subjected to audit on this capital gains point, the tension should soon be over. The three-year statute of limitations will soon clear the decks.

#### FEDERAL GIFT TAX

Your attention is especially called to the possibility of Federal gift tax implications when a joint and survivor annuity is written. The

value for gift tax purposes is determined by computing the actuarial value of the two-life annuity and from that subtracting the actuarial value of the one-life annuity on the property owner's life. It is clear that in this situation not only is a gift being made to your institution but a gift of possible income is being made to the second person in the joint and survivorship arrangement. Since the gift to the second person is a present interest, no gift tax return need be filed if the value of that gift is less than the annual \$3,000 exclusion.

In *TAXWISE GIVING*, for March 1965, a specific suggestion was made as to how a gift tax implication can be avoided on a two-life annuity by utilizing draftsmanship.

### *ESTATE TAX*

On a single life annuity, there is no Federal estate tax implication. Where the annuity covers two lives, there is included in the gross estate the value of an annuity paying the same amount at decedent's death to the survivor at her then age. Credit may be given for Federal gift tax already paid.

Since laws vary so greatly between the various states, no comment is here made; but each of us should become familiar with the state inheritance tax or state estate tax implications of the states in which we do most of our annuity business.

### *LOCAL INTANGIBLE-PROPERTY TAX*

In the State of Ohio, for example, there is an intangible-property tax which is collected at the County level. Charitable gift annuities, as with commercial annuities, are considered taxable intangible property. Again, the various jurisdictions have a great variety of regulations.

So much for the field of charitable gift annuities.

## **LIFE INCOME AGREEMENTS**

### *BASIC TAX COMPUTATION*

Here we turn from the "Greenbook" of the Committee on Gift Annuities to the "Bluebook" of the Internal Revenue Service. I refer to a publication known as *ACTUARIAL VALUES FOR ESTATE AND GIFT TAX* published by the United States Treasury Department and known as Publication No. 11 revised May 1959. The tables contained in Part III of this book give the factors for single life

agreements, two-life agreements, and for a term of years. The first two tables together with very complete instructions are contained in the "Redbook" just released to you at this conference. As with the "Greenbook," the new "Redbook" will serve you well.

Should your institution wish to write an agreement covering more than two lives, it will be necessary to write the Internal Revenue Service for the necessary factors.

Using the factor from these tables, the charitable gift portion is determined. This method is firmly established.

Since all income under a Life Income Agreement, other than the tax-free type, is considered as regular income, no exclusion ratio is involved.

No capital gains tax is involved in the use of a regular Life Income Contract or Life Income Trust except on the tax-free type. However, there is the possibility of the Internal Revenue Service claiming that a capital gains tax is due where it can successfully assert that an agency relationship continues to exist between the donor and the institution in the handling of the contract or trust.

A new element has crept into the Life Income Trust picture by reason of implications in a recent Tax Court case (Darling, 43 TC No. 43). I refer you to TAXWISE GIVING for March 1965 and TAXES FOR FUNDRAISERS for February 15, 1965 for thorough discussions of this situation. TAXES FOR FUNDRAISERS levels this caution, "The possibility that the Treasury may repeat this charge in other cases should not be ignored by donors in setting up trusts involving real estate." Nevertheless, the Tax Court did not make an attempt to decide the novel question raised by the Treasury that the donor's failure to provide for a depreciation reserve in the trust renders the gift of future interests in depreciable properties unassured and unascertainable in amount.

It should be remembered that the 1964 tax law bars owners from taking an immediate charitable gift deduction when giving a future interest in *tangible* property while retaining possession. At least one incident has been reported where a local Internal Revenue Service agent confused *tangible* property with *intangible* property and the donor was forced to flee back to the refuge of his charity for an accurate interpretation.

FEDERAL ESTATE TAX—Whether and to what extent a Life

Income Contract is included for Federal estate purposes is a question that has been confused in the minds of many institutional representatives. The law is clear that under a one-life plan, the amount transferred for that contract is includable in the donor's estate but that there is also deductible as a charitable gift contribution the fair market value at decedent's death. In the case of two lives, however, the transferred amount is included in the donor's tax estate, with a deduction permitted for the charitable contribution involving the remainder value determined by the survivor's age at the date of decedent's death. In many cases, this taxable feature is counterbalanced by the potential increase in the amount available for the marital deduction. For a discussion of this point see *TAXWISE GIVING* for March 1965, Page 5.

This has been a fairly difficult area for most non-technicians to comprehend. Certainly, the asset that has been turned over to your institution in return for a Life Income Contract is removed from the probate features of the donor's estate but it is not removed from his estate for federal estate tax purposes.

*FEDERAL GIFT TAX*—Where the primary donor has title to the property transferred to your institution and asks for a two or more life agreement, there is a gift made of a future interest. Accordingly, a Federal gift tax return is required for any such gift even if for less than \$3,000. Contributions for Life Income Trusts or Life Income Contracts must be reported, even though they are not taxable by being deducted from the \$30,000 lifetime exemption of the donor. Here again is a point to watch with considerable care. The \$3,000 annual exclusion cannot be used for a future interest, but the \$30,000 lifetime exemption can so be used.

The possibility of a gift tax in a joint and survivor Life Income Contract or Trust may be avoided where the instrument does not name the survivor who is to receive the income but instead reserves to the donor the power in his will to appoint the recipient for a period measured by the wife's life.

It should be noted that under the Federal gift tax, a return is to be made even though the charitable portion makes it a nontaxable transaction.

For some time the IRS has expressed its concern that the operation of pooled investments by our institutions may expose us to the regular

corporation tax of a business enterprise. Such is not the case with separately invested trusts. Detailed information and testimony have been given IRS by the American Council on Education and the matter is now under study.

### CONCLUSION

In this session it has only been possible to touch upon the many facets of taxation involved in charitable gift agreements where income is retained. This is an area in which one must walk with caution and yet with courage. Almost without exception, the donor will rely upon you as the charity's representative to establish cleanly the tax implications of the agreement. General practitioners in the law and in tax accountancy do not have enough demand for this type of practice to warrant their taking the time to become proficient in this specialized field. As you become skilled in this area, or as you develop a retained attorney or tax consultant, it would be well to arrange for the passing on of this skill to other members of these professions. This is one of the obvious reasons why the tax implications booklet of the Committee on Gift Annuities has been of such great value in the field of charitable gift annuities and now will be of even greater value as it expands its scope into life income contracts. The Life Income Manual is ready, and it will prove a mighty helpful working tool for you.

A few parting suggestions may be in order:

1. In anything but the *standard* charitable gift agreement, be as firm as possible in urging your donor to be represented by counsel. It is your job to familiarize that counsel with the peculiar tax implications of the agreement.
2. Where property other than cash or marketable securities is transferred, be certain that your donor obtains the necessary appraisals for satisfying the Internal Revenue Service as to the market value of the asset transferred.
3. Eliminate as many hazards as possible, within the agreement, that would point to a continuing agency relationship between the donor and your institution.
4. All of us must maintain real vigilance in learning of changes in tax positions. I commend to you subscription for both of the tax advisory publications known as TAXWISE GIVING and TAXES FOR FUNDRAISERS.

TAXWISE GIVING, for instance, has issued a special supplement on a key to sources of code, regulations, and rulings governing the Federal Government's tax positions, this being issued as of November 1, 1964. The editors of these periodicals need to be kept informed by all of us when exceptional situations arise which need airing. In my tax work with the American College Public Relations Association and the American Council on Education, I would appreciate being kept informed of these exceptional situations as they develop.

5. It has been good to note a decrease in the use of commercial advertising in the promotion of charitable gift agreements with income retained. Commercialization of our significant tax-exempt status is surely not to our best interests.
6. We will do our cause a great service in taking deliberate efforts to keep our representatives in Congress informed about charitable gifts and the tax implications involved. An informed representative should be our greatest supporter.
7. And finally, important as the field of taxation may be to this area of gift getting, the cause represented by your institution is still the primary target upon which you need to focus.

TO THE MEMBERS OF THE CONFERENCE  
ON GIFT ANNUITIES:

Dear Friends:

In 1850, seven years after the American Bible Society issued its first Gift Annuity, the population of the world was estimated to be 1 billion. In 1925, 75 years later, the world population reached the 2 billion total. In 1960, 35 years later, the 3 billion total was reached. It is estimated that in 1975, if the present percentage of births less deaths continues, the total population will be 4 billion, and by the year 2000, provided again there is no substantial change in the percentage of births less deaths (per 1,000 population), the total will approach 7 billion.

What is important to those who are issuing Gift Annuities is the increase in the life span that has occurred during the past 115 years. This of course is due not only to better and larger quantities of food, but especially to the wonderful control of plagues and diseases that from prehistoric times took such heavy toll all over the world. Today, medical research, wonder drugs, and better mass communication as to how to control and improve man's health and environment are being supplemented by Medicare and socialized medical programs that are keeping many senior citizens alive for years even when they are bed-ridden.

Life insurance companies as well as religious, educational, and charitable societies and associations that issue Gift Annuities have been justified in being conservative in the mortality tables used to figure annuity rates. The life insurance companies, however, benefit from writing much larger amounts of life insurance than annuities, and have gained by the increase in the life span of the average individual insured. They also have helped constructively to increase the average life span by publishing and broadcasting valuable information. Those who issue Gift Annuities do not have this additional safeguard if they underestimate the average life span of the unusually select group of donors who wish to help some worthy cause or character-building agency by acting as their own executors through making annuity gifts.

The UNESCO Courier in its February 1965 issue, pages 13 and 14, has some very interesting information about the expectation of

life in various areas of the world. It reports that the largest average expectancy of life for males born today is almost 72 years for those born in Sweden, 71 years in the Netherlands and Norway, and 70 years in Denmark, Israel, and Iceland. Females born today in Sweden can expect to live slightly over 75 years. Those born in the Netherlands, Switzerland, and Norway can look forward to almost 75 years of life; those born in France can expect to live slightly over 74 years; and those born in Denmark, the United States, Czechoslovakia, and New Zealand have an average expectancy of life of between 73 and 74 years.

However, I am sure all of you who are present at this Conference know of some fine outstanding male and female citizens of the United States who are now over 100 years of age.

As I look back over the period after the first Committee or Conference on Gift Annuities in the 1920's, I am sure there were none of us who foresaw the great improvement in life expectancy that would occur in the United States and throughout the world. It seems to me, therefore, that we were fully justified in trying to be conservative in our estimates of the interest rates that could be maintained over each succeeding period of 40 or 50 years. In addition to this, by adjusting and lowering the rates in the lower ages where the projected estimate of interest earned extends for the longest number of years, and in also adjusting and limiting the top annuity rates for ages over 80 that are well above the projected interest earned each year, we made doubly sure that there would be no substantial failure to fulfill the generous and heart-warming desire of each donor of a Gift Annuity to make a sizeable contribution to the worthwhile work of the organization that received his Gift.

In the 10th verse of the 90th Psalm, we read the Psalmist's belief that: "The days of our years are threescore years and ten; and if by reason of strength they be fourscore years, yet is their strength labor and sorrow; for it is soon cut off, and we fly away." The estimates of average life expectancy given in UNESCO's *Courier* have already exceeded three score years and ten in over 28 countries.

The American Bible Society's 16th President, E. Francis Hyde, was always reminding our Finance Committee of the 3rd verse of the 6th chapter of Genesis, "And the Lord said, My Spirit shall not always strive with man, for that he also is flesh: yet his days shall be a hun-

dred and twenty years." Mr. Hyde believed that the Psalmist was pessimistic about the age of men because of their many weaknesses and sins. He felt that on the basis of Genesis 6:3 man's ideal life should be divided into the first 40 years spent in preparation for his second 40 years of skilled labor in God's Kingdom and that the final 40 years should be spent as an older citizen of the Kingdom to help others to carry on the important tasks to which he had dedicated his whole life. Perhaps some day this pious ideal may be fulfilled.

As I draw near to my 80th birthday the American Bible Society is approaching its 150th Anniversary in May 1966. It is also building a new Bible House in the Lincoln Center area of New York to consolidate all of its New York staff in one building instead of four separate locations. At the same time it is striving to meet the present world challenge of other ideologies and greatly increased translations and publications by other nations, religions, and power groups by increasing its 1962 distribution of 25 million copies of the Holy Scriptures to 75 million copies in 1966, or three times those of 1962.

The United Nations has called its attempt to help the developing nations of Africa, Asia, and Latin America to teach all young children of school age to read and also, within a ten year period, to make literates out of 330 million adults in these same areas, the most ennobling venture of our generation.

As I am far behind schedule in what I plan to do to meet this dramatic challenge, and as I am somewhat limited in the time I can dedicate to its accomplishment, I hope you will understand why I must miss this important Conference in Chicago.

With heartfelt congratulations to your experienced Committee and its able Chairman, and with every confidence that it will be the most successful, fruitful, and rewarding Conference, as well as the largest in size and influence, I am,

Sincerely,

GILBERT DARLINGTON

## MINUTES

Twelfth Conference on Gift Annuities

Hotel Conrad Hilton, Chicago, Illinois

Tuesday, April 6, 1965

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 Brigadier Lawrence R. Smith, Public Relations Secretary, The Salvation Army—Western Territorial Headquarters.

Chairman Baas welcomed the registrants and gave a preliminary statement as to the purpose of the Conference. His remarks are set forth in full elsewhere in this booklet. He noted with appreciation that attendance at this Conference was far beyond that experienced at any prior Conference.

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

*Chairman* ALF W. JORGENSON, Consultant, The American Lutheran Foundation

JAY BEEDE, General Secretary, Earlham College

ROBERT GREINER, Treasurer, General Brotherhood Board, Church of the Brethren

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

JAMES A. COUSINS, National Auditor, The Society for the Propagation of the Faith

CHESTER A. MYROM, Director, Lutheran Church in America Foundation

CHARLES W. BAAS, Treasurer, American Bible Society, *Ex-Officio*

Upon MOTION duly made and seconded, the proposed Committee was APPROVED.

An address on the subject "Interest Rates and Investment Outlook" was the next order of business. While it has been anticipated that this would be given by Mr. John Tittle, Senior Partner, Stein Roe & Farnham of Chicago, Illinois, the address was given instead by Mr. Tittle's associate, Mr. John K. Hotchkiss. His address was extremely well received and called forth an extended period of questions and discussion. The full text of the presentation appears elsewhere.

"Terminology In Promotion" was the subject of a paper next presented by Dr. T. K. Thompson, Executive Director, Commission on Stewardship and Benevolence, National Council of Churches. His remarks are reproduced elsewhere.

The final presentation in the morning session was entitled "State Regulation of Gift Annuities." It was given by Dr. Chester A. Myrom, Director, Lutheran Church in America Foundation. This paper likewise appears elsewhere in this volume.

Before the Conference recessed at 12:30 p.m. for luncheon in an adjacent dining-room Chairman Baas read a greeting sent by Dr. Darlington, Honorary Chairman of the Committee on Gift Annuities, the text of which appears in printed form elsewhere in the booklet. Prayer at luncheon was offered by Dr. James K. Quay, Assistant to the President, Princeton Theological Seminary. Luncheon was informal and without a speaking program.

The Conference resumed at 2:15 p.m.

Continuing a practice which has prevailed through previous Conferences, the entire afternoon session was given over to the "Actuarial Report and Discussion on Gift Annuity Rates," prepared and presented by Charles L. Burrall, Jr., Actuary, Huggins & Company, Inc., Philadelphia, Pennsylvania. In his informative report, Mr. Burrall effectively explained the procedures involved in developing a gift annuity rate schedule and established convincingly that there was justification for at least a modest upward revision in rates. Mr. Burrall's report appears in its entirety elsewhere in this volume. Following his formal presentation, there was wide participation in a question and answer period.

Action on the actuary's report and recommendation was deferred, as has been practice in this regard, until the morning session of the second day.

The afternoon session was recessed at 4:30 p.m. Prayer was offered by the Reverend Virgil T. Foss, Director of Development, St. Olaf College, Northfield, Minnesota.

There was no evening session.

### Wednesday, April 7, 1965

The Conference reconvened at 9:30 a.m. Mr. Alf W. Jorgenson, Consultant, The American Lutheran Church Foundation, led in prayer.

Chairman Baas then called upon Mr. Jorgenson, in his capacity as Chairman of the Resolutions Committee, to present to the Conference the Resolutions Committee's recommendation regarding Actuary Burrall's report of the previous day. The following resolution was then presented (copies of it had been distributed before the start of the session):

### RESOLUTION

BE IT RESOLVED that gift annuity rates based on the 1955 American Annuity Table, female ages; interest at  $3\frac{1}{2}\%$ ; 50% residuum; expense loading 5%; modified at the upper and lower ages and extending to age 84 at 8%, be adopted by the Twelfth Conference on Gift Annuities as the maximum uniform rates to be effective September 1, 1965.

Motion was made and seconded that the resolution be adopted.

Mr. Burrall then reiterated some of his observations of the previous day, and pointed out, for the sake of clarity, that the "Proposed Rates—Modified," which had been distributed in mimeograph form at the time of his report (ranging, on a single-life basis, from a low of 3.0% at age 35 and below to a maximum of 8.0% at age 84 and above) were the rates referred to in the Resolution.

The Chairman invited discussion. There was none. Question was called for. By a voice vote the Resolution was ADOPTED. There were no dissenting votes.

The Conference agenda was then resumed. The rest of the morning session was given over to a series of presentations dealing with Life Income Agreements. Participants and the respective program topic of each were the following:

Regular Life Income Agreements

THE REVEREND A. PAUL WRIGHT, Executive Secretary,  
American Bible Society

Tax-Free Life Income Agreements

DR. HOLLIS L. TURLEY, President of Pension Fund, Christian  
Churches (Disciples of Christ)

Life Income Trust

MR. JAMES A. CHRISTISON, JR., Treasurer, American Baptist  
Home Mission Societies

Summary Gift Annuities and Life Income Agreements

THE REVEREND ROBERT B. GRONLUND, Vice President  
for Development and Public Relations, Capital University

Their individual presentations appear elsewhere in this booklet. Questions from the floor were frequently occasioned. It was apparent that the presentations had been informative and helpful.

The Conference recessed for luncheon at 12:30 p.m. Again this was informal. Table prayer was offered by the Reverend George H. Pigueron, Jr., Executive Director, The Methodist Country House, Wilmington, Delaware.

The final business session got underway at 2:15 p.m.

"Taxation of Gift Agreements" was the title of the talk given by Dr. Roland C. Matthies, Vice President and Treasurer, Wittenberg University, Springfield, Ohio. He ably and authoritatively drew together the several tax aspects for both life income agreements and gift annuity agreements. His talk likewise is reproduced elsewhere.

The final program item of the day was a "panel of experts" composed of members of the Committee on Gift Annuities. They answered questions from the floor and also a number which had been submitted in writing in advance of the Conference. Moderator was Mr. Harl L. Russell, Director of Special Gifts, General Brotherhood Board, Church of the Brethren. Participation was lively and informative. Panel participants were the following:

Lt. Col. G. Blair Abrams  
Charles L. Burrall, Jr.  
John M. Deschere  
Dr. Roland C. Matthies  
Dr. William K. Newman  
Mr. Forrest Smith

The Resolutions Committee was then called upon for its report. It was presented by Chairman Alf W. Jorgenson. He reported that one of the appointees to the Committee had not been present, namely, Mr. Jay Beede of Earlham College. Mr. Leonard Hall of that same institution had functioned in his place.

Mimeographed copies of the Report of the Resolution Committee had been distributed during the noon-hour recess. They were approved as submitted with the exception of Resolution IV. Actual participants in the panel discussion were not in every instance those listed in the

Committee's report (which obviously had to be prepared "before the fact"). The Report of the Resolutions Committee, with the foregoing adjustment, appears following these Minutes.

Closing prayer and benediction were pronounced by the Reverend George M. Morrison, Secretary of the Board of Finance, The United Church of Canada.

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

Respectfully submitted

CHESTER A. MYROM

*Secretary*

REPORT OF THE RESOLUTIONS COMMITTEE  
TWELFTH CONFERENCE ON GIFT ANNUITIES

- I. BE IT RESOLVED that the Twelfth Conference on Gift Annuities express its deep appreciation to Mr. John Tittle and Mr. James Hotchkiss, Partners, Stein Roe & Farnham, for the informative and authoritative address, "Interest Rates and Investment Outlook."
- II. BE IT RESOLVED that the Twelfth Conference on Gift Annuities express appreciation to Mr. Charles Burrall, Jr., Actuary, Huggins & Company, for his continuing valuable services to the Committee and for his presentation, "Actuarial Report and Discussion on Gift Annuity Rates."
- III. BE IT RESOLVED that the Twelfth Conference on Gift Annuities express its appreciation to the several individuals who made notable contribution out of their experience in the fields of gift annuities and life income agreements to the Conference, namely the following:  
Dr. T. K. Thompson, Executive Director, Commission on Stewardship and Benevolence, National Council of the Churches of Christ in the U.S.A.; Dr. Chester A. Myrom, Director, Lutheran Church in America Foundation; The Reverend A. Paul Wright, Executive Secretary, American Bible Society; Dr. Hollis L. Turley, President of Pension Fund, Christian Churches (Disciples of Christ); Mr. James A. Christison, Jr., Treasurer, American Baptist Home Mission Societies; The Reverend Robert B. Gronlund, Vice President for Development and Public Relations, Capital University; and Dr. Roland C. Matthies, Vice President and Treasurer, Wittenberg University.
- IV. BE IT RESOLVED that the Twelfth Conference on Gift Annuities express its appreciation to Mr. Harl L. Russell for serving as moderator of the panel discussion period and to the following persons who shared in the answering of questions: Lt. Col. G. Blair Abrams, Mr. Charles L. Burrall, Jr., Mr. John M. Deschere, Dr. Roland C. Matthies, Dr. William K. Newman, and Mr. Forrest Smith.
- V. BE IT RESOLVED that the Twelfth Conference on Gift Annuities express to the Committee on Gift Annuities its deep appreciation for the preparation of the GUIDE FOR

COMPUTING THE FEDERAL TAX IMPLICATIONS OF CHARITABLE GIFTS SUBJECT TO LIFE INCOME AGREEMENT and making it available to the registrants at this Conference.

- VI. BE IT RESOLVED that the Twelfth 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 be carefully avoided.
- VII. BE IT RESOLVED that the Twelfth 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 "Life Income Beneficiaries";
  4. the rate of the life income payment be called the "Life Income Yield."
- VIII. BE IT RESOLVED that the Twelfth Conference on Gift Annuities recommend to all organizations and institutions issuing gift annuity agreements that an amount at least 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.
- IX. BE IT RESOLVED that the Twelfth 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 copies of any rulings by Federal or State authorities dealing with gift annuities or life income agreements.

- X. BE IT RESOLVED that the Twelfth Conference on Gift Annuities urge and encourage all organizations issuing gift annuity agreements to adopt the Uniform Gift Annuity Rates as maximum rates.
- XI. BE IT RESOLVED that the Twelfth Conference on Gift Annuities express its appreciation to Dr. Gilbert Darlington, Honorary Chairman, for his written greeting, pertinent observations, and wise counsel based on his many years in the gift annuity field, taking regretful note that this is the only conference he has missed since the first conference in 1927.
- XII. BE IT RESOLVED that the Twelfth Conference on Gift Annuities express its appreciation for the special helpfulness extended to this group by Mr. Harry Gibson, Superintendent, Convention Bureau, The Methodist Church; Mrs. Shirley Norling, Council on World Service and Finance, The Methodist Church; Mrs. Rose Burney, Mr. John Kuester, and Miss June Swanson, American Bible Society, Chicago Staff; and Miss Edith Soffel, American Bible Society, New York Staff.
- XIII. BE IT RESOLVED that the Twelfth Conference on Gift Annuities encourage the Committee on Gift Annuities to continue scheduling conferences at three year intervals.
- XIV. BE IT RESOLVED that the Twelfth Conference on Gift Annuities express to Mr. Charles W. Baas, Chairman, the other officers, and members of the Committee on Gift Annuities its appreciation for this splendid conference and for their many services since the last conference.

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Stanford University, Stanford, California	Mr. Myrl A. Meyer
Starr Commonwealth for Boys, Albion, Michigan	Mr. Howard Knorr
Superannuates Relief Association, Chicago, Illinois	Rev. Timothy B. Reeves
Syracuse University, Syracuse, New York	Mr. Harry E. Yeiser, Jr.
Tennessee Baptist Foundation, Nashville, Tennessee	Dr. Henry J. Huey
Trinity Christian College, Palos Heights, Illinois	Mr. Audley G. Lemmenes
Union Theological Seminary in Virginia, Richmond, Virginia	Mr. Kenneth B. Orr
The United Christian Missionary Society, Indianapolis, Indiana	Mr. Garland S. Farmer Mr. Charles C. Mills Mr. Wade D. Rubick Mr. L. O. White Mr. Harold Arnup Rev. George Morrison Mr. Rueben P. Koehler
United Church of Canada, Toronto, Ontario, Canada	
United Church of Christ Foundation of South Dakota, Huron, South Dakota	
United Church of Christ—Board for Homeland Ministries, New York City	Miss Paula Hamburger
United Church of Christ—Board for World Ministries, New York City	Dr. Everett A. Babcock
The United Presbyterian Board of Christian Education, Philadelphia, Pennsylvania	Rev. Paul H. Hazlett, Sr. Mr. James Neilson

### Organization

The United Presbyterian Church in the U.S.A.—Board of National Missions, New York City  
The United Presbyterian Church in the U.S.A.—Commission on Ecumenical Missions and Relations, New York City  
United Presbyterian Foundation, New York City  
United Theological Seminary, Dayton, Ohio  
University of Dubuque, Dubuque, Iowa  
  
University of Miami, Coral Gables, Florida  
University of Notre Dame Foundation, Notre Dame, Indiana  
University of the Pacific, Stockton, California  
  
Vassar College, Poughkeepsie, New York  
Voice of China and Asia, Inc., Pasadena, California  
  
Wabash College Development Board, Indianapolis, Indiana  
Wagner College, Staten Island, New York  
Washington Sanitarium and Hospital, Takoma Park, Maryland  
Waterloo Lutheran University, Waterloo, Ontario, Canada  
Wertheim Advertising Agency, Inc., New York City  
Wesley Theological Seminary, Washington, D. C.  
Western College for Women, Oxford, Ohio  
Western Reserve University, Cleveland, Ohio  
Westmar College, LeMars, Iowa  
Westminster Theological Seminary, Philadelphia, Pennsylvania  
Westmont College, Santa Barbara, California  
Wheaton College, Wheaton, Illinois  
  
Wheaton College, Norton, Massachusetts  
Whitman College, Walla Walla, Washington  
Wittenberg University, Springfield, Ohio  
Worcester Polytechnic Institute, Worcester, Massachusetts  
World Gospel Mission, Marion, Indiana  
World Literature Crusade, Studio City, California  
World Radio Missionary Fellowship, Miami, Florida

### Represented by

Dr. Denton M. Gerow  
Mr. Homer D. Jones, Jr.  
  
Mr. A. Eugene Adams  
  
Mr. Leland A. Pomeroy  
  
Mr. Henry W. Brooks  
Mr. John R. Knecht  
Dr. Thomas H. Johns  
Mr. Harry Turner  
Mr. Larry Warren  
Mr. Daniel L. Uffner, Jr.  
Mr. Frank G. Kelly  
  
Mr. Lloyd Stuckey  
  
Mr. John M. Deschere  
Rev. Glen Terry  
  
Mr. Albert M. Campbell  
  
Mr. Henry H. Heil  
Mr. H. S. Nelson  
  
Dr. Henry Endress  
  
Mr. E. Taylor Wertheim  
  
Rev. Richard L. Hamilton  
  
Mr. Philip F. Myers  
Mr. Orin L. Dahl  
Mr. Paul F. Jones  
Mr. Clayton Koth  
Mr. Robert G. den Dulk  
  
Mr. William Hannah  
  
Mr. H. G. Faulkner  
Mr. David L. Roberts  
Mr. Donald C. Anderson  
Mr. Larry A. Beaulaurier  
  
Dr. Roland C. Matthies  
Mr. Fred L. Broad, Jr.  
  
Mr. James T. Garrett  
Mr. W. E. McAlister  
  
Mr. C. Robert Sutherlin

### Organization

World Vision, Inc., Pasadena, California  
Young Life Campaign, Colorado Springs,  
Colorado  
Brigham Young University, Provo, Utah  
Delegates at Large

### Represented by

Mr. H. Lee Bernard  
Mr. R. D. Freleigh  
Mr. John Carter  
Mr. Raymond E. Beckham  
Lt. Col. G. Blair Abrams  
Mr. Forrest Smith

**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

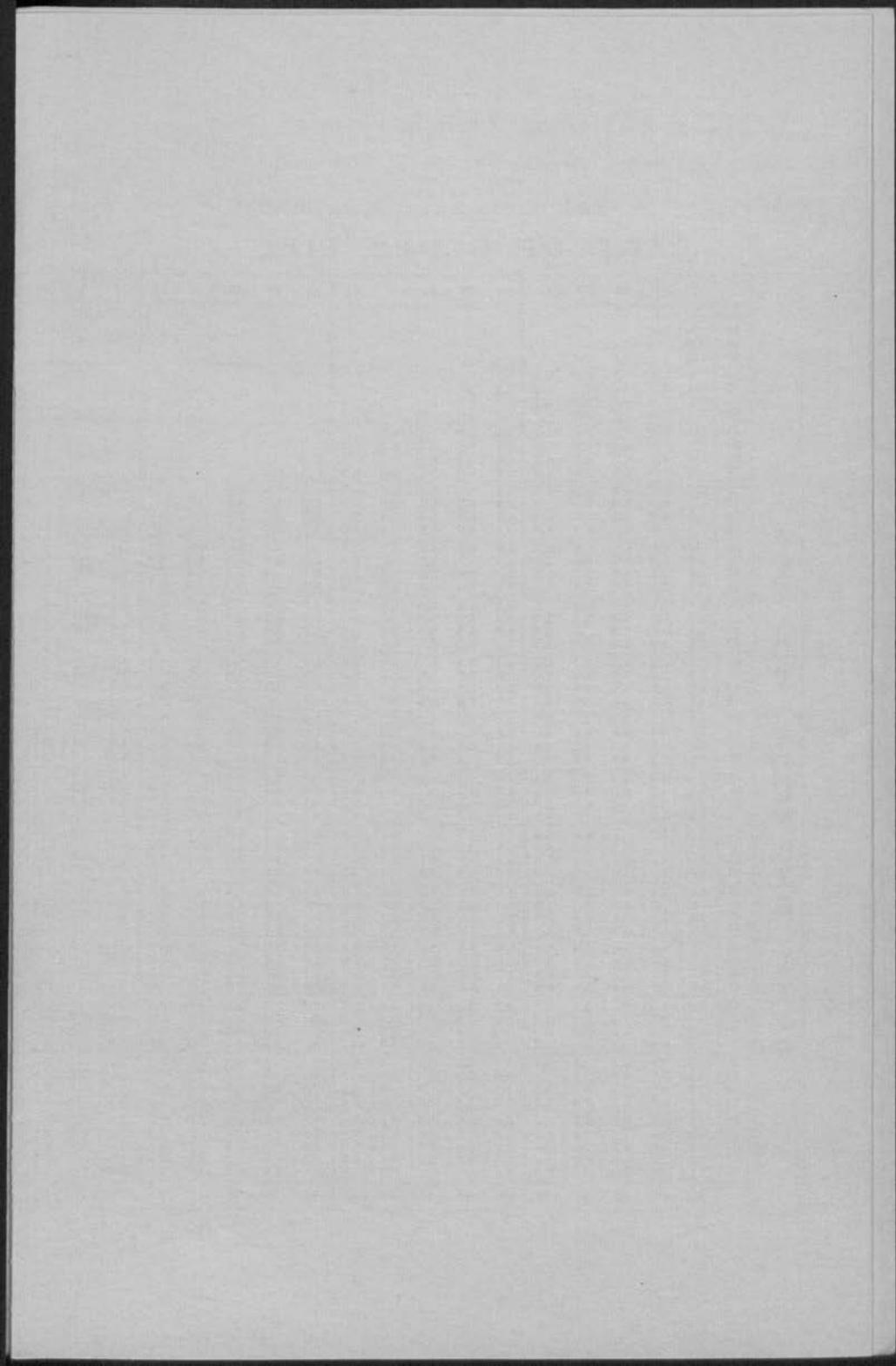
The Committee will cooperate with the National Council of the Churches of Christ in the United States of America, but it is entirely free to draw its members from other groups who are not members of the National Council.

## 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.





## MEMBERS OF THE COMMITTEE ON GIFT ANNUITIES

### Chairman

MR. CHARLES W. BAAS  
Treasurer, American Bible Society

### Treasurer

MR. JAMES A. CHRISTISON, JR.  
Treasurer, American Baptist  
Home Mission Societies

### Secretary

DR. CHESTER A. MYROM  
Director, Lutheran Church in  
America Foundation

### Honorary Chairman

DR. GILBERT DARLINGTON  
Consultant, American Bible Society

### Honorary Treasurer

MR. FORREST SMITH  
American Baptist Foreign Mission  
Society (Ret.)

LT. COL. G. BLAIR ABRAMS  
United Presbyterian Foundation  
(Ret.)

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

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

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

MR. JAMES A. COUSINS  
National Auditor, The Society for  
the Propagation of the Faith

MR. JOHN M. DESCHERE  
Comptroller, Vassar College

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

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

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

THE REVEREND  
GEORGE M. MORRISON  
Secretary, Board of Finance,  
The United Church of Canada

DR. WILLIAM K. NEWMAN  
Executive Vice President, The  
Annuity Fund for Congregational  
Ministers

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

MR. JOHN ROSENGRANT\*  
Director of Annuities, The Commis-  
sion on Ecumenical Missions and Re-  
lations, the United Presbyterian  
Church in the U.S.A.

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

DR. T. K. THOMPSON  
Executive Director, Department of  
Stewardship and Benevolence,  
National Council of the Churches of  
Christ in the U.S.A.

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

DR. HOLLIS L. TURLEY  
President of Pension Fund, Christian  
Churches (Disciples of Christ)

\*Died February 5, 1965