

Gift Annuity Agreements
of
Charitable Organizations



INTEREST RATES and INVESTMENT OUTLOOK

MORTALITY EXPERIENCE

LIFE INCOME AGREEMENTS

TAXATION OF GIFT AGREEMENTS

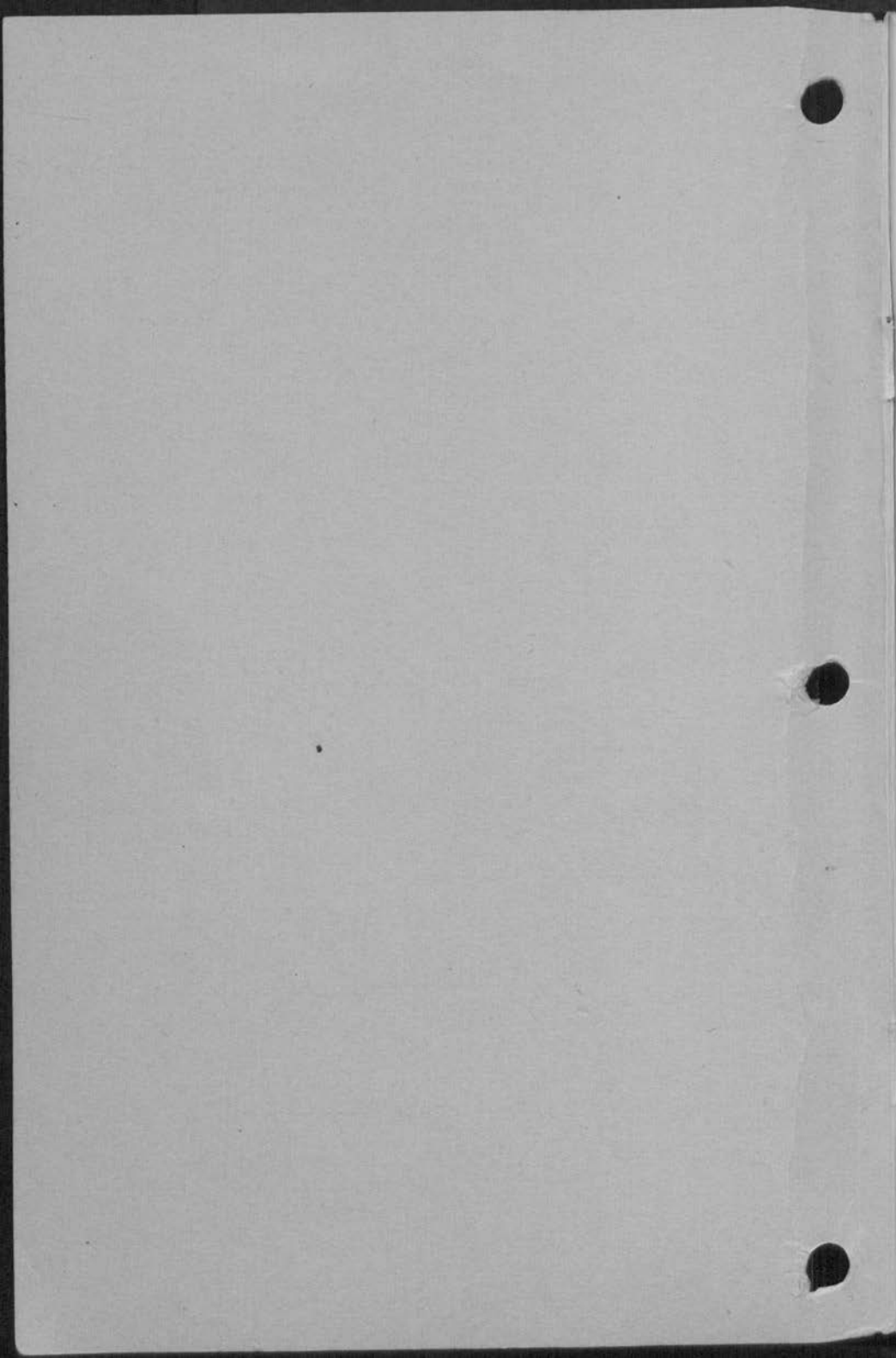
ADMINISTRATIVE PROCEDURES



THIRTEENTH CONFERENCE

WISE PUBLIC GIVING SERIES, NO. 52

1968



Gift Annuity Agreements of Charitable Organizations

PAPERS PRESENTED AT THE THIRTEENTH
CONFERENCE ON GIFT ANNUITIES, HELD
IN DETROIT, MICHIGAN, TUESDAY AND
WEDNESDAY, FEBRUARY 6-7, 1968, UNDER
THE DIRECTION OF THE COMMITTEE ON
GIFT ANNUITIES



COMMITTEE ON GIFT ANNUITIES

1865 Broadway

New York, N. Y. 10023

WISE PUBLIC GIVING SERIES, NO. 52

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OPENING REMARKS

MR. CHARLES W. BAAS

*Chairman, Committee on Gift Annuities
(delivered by Vice Chairman Matthies)*

The number of delegates on hand for this Conference leads me to believe that few of the Conference on Gift Annuities' family suffer from triskaidekaphobia. I confess I was not at all superstitious about the number thirteen, but after some of the experiences involved in making this conference a reality, I'm starting to wonder. Why are we having a Thirteenth Conference on Gift Annuities? This is easier to explain than why we are meeting in Detroit in the middle of the winter. The main reason for the Conference is that our constituency seems to want frequent meetings. According to the Constitution, a copy of which is on page 120, a conference must be held at least every four years. Your Committee decided that every third year would be a good compromise as the work involved prohibits more frequent sessions, except when warranted by an extreme emergency thrust upon us by some outside influence. As you no doubt have noted, the Conference program contains some of the usual subjects such as Investment Earnings Prospects, an Actuarial Report, Reviews of various tax and regulatory data, as well as admonitions about terminology. I'd like to call your attention to some new features relating to the administration of gift investment programs. There will be a discussion of investment management practices, payment and termination procedures, as well as a look into the future on data processing prospects. Note carefully that this evening there will be an optional information sharing session on life income agreements.

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 the Conference. There are at least four question and answer opportunities: first, you have contact with other delegates, I'm inviting you to talk with 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 gold name tags, (it is my hope that, when possible, Committee members will act as luncheon hosts and sit at separate tables to give the delegates an opportunity to lunch with their favorites); third, Conference speakers have been requested to reserve time for your direct questions immediately after their presentations; and 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 is up to you to take advantage of them.

This Conference has been planned, organized, and partly staffed by Committee on Gift Annuities members. Will the Committee members present please rise and stand where they are? The Committee on Gift Annuities has no paid staff, these are the people who run the Committee, who expend time and effort on behalf of the whole constituency; I believe they deserve your recognition.

Attending this Conference are 362 representatives of 282 Sponsoring Organizations. The full roster of Sponsors now totals 605.

48% of the delegates at this Conference represent Educational Institutions.

- 23% Church Boards
- 15% Other Religious Groups
- 7% Foundations
- 3% Professionals
- 4% Other Secular Groups

The 13th Conference is a bit heavier in Educational Institutions than the 12th Conference; but, in general, we have about the same mix.

A single white sheet labeled "Thirteenth Conference Statistics" (reproduced on page 5 & 6, is in your folder. Only 1/6th of the Sponsoring Organizations contributed to this study, yet I think some significant observations can be made:

Gift Annuities

The latest year was not as productive as either of the earlier two.

The rate on outstanding agreements is considerably lower than current issues. We are paying higher rates today.

94% of the face value is still on hand. This is surprising because in accumulating the Funds on Hand figure any amount in excess of the face value of outstanding agreements was ignored.

Life Income Agreements

Current issues show a rate lower than rate on outstanding agreements which is the opposite of Gift Annuities. Note that the annual value is approaching Gift Annuities.

Tax Exempt Agreements

Still a few agreements being issued.

Trust Funds

The only type of agreement in this study showing improvement for current year.

Rate of return has been fairly stable at 4-1/3%.

Four Types of Agreement Combined

Little change in the three-year period for rate or principal.

The popularity of the Gift Annuity appears to be declining when compared with Life Income Agreements and Trusts.

Average Size of Agreements

Gift Annuity	\$ 2,213
Life Income Agreement	\$13,217
Tax Exempt Life Income	\$26,915
Trust	\$27,402

These brief comments are intended to stimulate your own analysis of the statistics.

THIRTEENTH CONFERENCE STATISTICS

110 Organizations Reporting

Gift Annuities

99 Responses

FUNDS ON HAND \$88,259,041

	<i>Agreements</i>	<i>Face Value</i>	<i>Payments</i>	<i>Average Rate</i>
Outstanding	42,597	\$ 94,254,134	\$5,195,942	5.51%
Current	2,946	8,930,416	539,390	6.04
Last	3,161	11,137,950	674,127	6.05
Prior	3,015	10,024,156	596,279	5.95

Life Income Agreements

53 Responses

	<i>Agreements</i>	<i>Face Value</i>	<i>Payments</i>	<i>Average Rate</i>
Outstanding	3,073	\$ 40,616,000	\$2,268,264	5.58%
Current	510	7,245,622	368,607	5.09
Last	520	7,370,164	392,061	5.32
Prior	400	5,759,583	299,257	5.20

Tax Exempt Agreements

14 Responses

	<i>Agreements</i>	<i>Face Value</i>	<i>Payments</i>	<i>Average Rate</i>
Outstanding	213	\$ 5,732,867	\$ 216,244	3.77%
Current	20	328,054	13,863	4.23
Last	17	475,836	19,610	4.12
Prior	14	146,913	5,282	3.60

Trust Funds

33 Responses

	<i>Agreements</i>	<i>Face Value</i>	<i>Payments</i>	<i>Average Rate</i>
Outstanding	599	\$ 16,413,830	\$ 702,372	4.28%
Current	186	4,836,064	210,533	4.35
Last	165	3,645,529	162,720	4.46
Prior	147	3,695,754	158,738	4.30

Grand Total

	<i>Agreements</i>	<i>Face Value</i>	<i>Payments</i>	<i>Average Rate</i>
Total Outstanding Agreements	46,482	\$157,016,831	\$8,382,822	5.34%
Current	3,662	21,340,156	1,132,393	5.31
Last	3,863	22,629,479	1,248,518	5.52
Prior	3,576	19,626,406	1,059,556	5.40

Face Value Only

	<i>Total</i>	<i>Current</i>	<i>Last</i>	<i>Prior</i>
Gift Annuities	60.03%	41.85%	49.22%	51.07%
Life Income Agreements	25.87	33.95	32.57	29.35
Tax Exempt Agreements	3.65	1.54	2.10	.75
Trust Funds	10.45	22.66	16.11	18.83
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

As in the past, the Committee recommends that the drafting of resolutions to be considered by the Conference be placed in the hands of a Resolutions Committee. The following persons have been suggested to serve as a Resolutions Committee; their names appear on the program included in your Conference folder:

W. Walter Groesbeck, Chairman
Alva R. Appel
Alf W. Jorgenson
Charles L. Burrall, Jr.
Chester A. Myrom
R. Alton Reed

and your chairman as an ex-officio member.

The Committee responsible for arranging the Conference program is headed by Jim Cousins who had able assistance from Chet Myrom and Allan Locke. These men are capable, dependable, and a joy to have on the Committee.

INTEREST RATES AND INVESTMENT OUTLOOK

MR. CARSON GREENE

Assistant Vice President, Moody's Investors Service

INVESTMENT PROSPECTS—A LONG VIEW AHEAD

It has been said that the safest thing in the world to talk about is the future. That's one subject about which nobody can contradict you.

At the same time, I don't suppose I will be contradicted when I say that the future is important to investment. Certainly, the better our forecasts, the better our results are likely to be.

The future is what I want to talk about today. I intend to stretch out my telescope a little further out than most of us usually do. In the process I want to try to give you a picture of the economy and the stock market through 1980, and an appraisal of interest rates through 1974.

Now I suppose that anyone who sets out to do things like this had better explain at the outset just what his credentials are. So I will digress for a moment to tell you something about our business.

Moody's Investors Service is a nationwide organization engaged in two principal activities—financial publishing and investment counseling. You may know us best for our Moody's Manuals, which provide basic financial information on corporations and municipalities—and on the securities they have issued. Also, in the publishing area are our various advisory surveys which recommend purchase and sale of specific stocks and bonds.

In the investment counseling area, we handle accounts with aggregate holdings of about 6 billion dollars. Our clients are both individual and institutional.

Moody's maintains one of the largest investment research establishments in the financial community and for many years has been evaluating and assigning ratings to bonds. We also operate two mutual funds. Finally, I might tell you that we are now in the process of setting up a computerized Data Bank to be used by both financial organizations and corporate management generally.

What all of this boils down to, of course, is the gathering of information and the use of it to size up future investment prospects. In doing this over the years at Moody's we have become convinced of

one thing: we cannot do the kind of job we want by simply using information that is generally available. So we have made our own forecasting tools.

Here is one example. Some years ago, our economists became dissatisfied with the large number of so-called leading economic indicators. They took some of the more significant of these and combined them into Moody's Business Barometer. We have found it to be a rather good means of learning about major changes in industrial production before they occur. Meanwhile, our economists have extracted a very sensitive component from the Business Barometer which we call the Early Warning Indicator. In other words, what we have now is a leading indicator of a leading indicator.

These devices, however, are tools for short-range economic investigation. Since this presentation is pitched many years into the future, I want to make use of another Moody's research tool. We call it the Normal Trend of Civilian Production. The Normal Trend is an expression of the ability of our economy to produce and to consume. I will give you some figures on it shortly, and tell you what we think they are likely to mean to the stock and bond markets.

What can be expected between now and 1980? In very general terms, this is what we foresee:

- The over-all economy of this nation will grow at about the same rate as it has in the past decade.
- Inflation will continue to be a fact of economic life, but the average pace of the price rise will be below that of the last few years.
- Common stocks will keep gaining favor as a means of investment.
- Interest rates will remain on a general long-term upward trend.

As we view the economy today, it is not hard to identify the two dynamic forces which are responsible for current growth—and which will cause that growth to persist for many years to come. One is the persistent drive toward a higher standard of living. The other is the rapid advance of technology. In an environment influenced by these factors, population growth is not to be regarded as a curse but as a blessing.

The technological revolution has seen spending for research and development jump up to more than 3% of Gross National Product

this year from 1.6% a decade ago. This has opened the floodgates for new products, creating new appetites and new values—turning the luxuries of yesterday into the necessities of today. Higher capital spending, enlarged productive capacity, new manufacturing techniques and increased efficiency have all followed in the trail of growing consumption. Given new input of knowledge, particularly from such relatively untapped sources as space technology, both the standard of living and industrial sophistication seem certain to continue the swift development seen in the past.

Within the coming decade, the war babies of the 1940's will become young parents, and behind them are huge numbers of even younger persons. Thus household formations are accelerating, and they give every indication of remaining at a high level. Expansive demand for durables, services, housing and various kinds of financing will surely ensue.

This thumbnail portrait of things to come does not presuppose that the decade ahead will be untroubled. Many things threaten: limited wars in various parts of the world, civil rights conflict, international monetary difficulties and Communist subversion. None of these problems, however, seems likely to force this nation off its course. Cyclical swings in business and periodic psychological unsettlement must be allowed for, but we think it reasonable to assume that there will be no far-reaching disruptions of a military or business nature which will halt the longer term growth of the U. S. economy.

This, of course, is a very general view of our expectations. If any forecast is to have real value it must be expressed statistically. This is where our Normal Trend comes in. As I pointed out earlier, the Normal Trend is a long trend projection which is intended to show our economy's ability to produce and to consume. This projection does not attempt to trace cyclical fluctuations. What it does give us is some future target figures for the economy from which we can derive various yearly rates of growth. In other words, it gives us a long-term framework for investment planning.

In extending the Normal Trend into 1980, we have made four principal assumptions: The first of these is that the population will grow at an annual rate of 1.4%. This figure is taken from Census Bureau projections. It foresees a total population of 240 million for this nation in 1980.

Our second assumption is that productivity in manufacturing will go up at an average rate of 3.7% a year.

The third is that the work week in manufacturing will drop from about 41 hours at present to 37 hours in 1980.

Our final assumption is that national defense requirements will average out to about what they were before intense military activity got under way in Vietnam.

Now, when we make our calculations on the Normal Trend, this is the picture that emerges.

Industrial production—as measured by the Federal Reserve's Industrial Production Index—will go up from a 157 average last year to 270 in 1980. This would represent average growth of roughly 4.3% a year, just a shade under the 4.5% average annual gain of the past decade.

Gross National Product will rise from 845 billion dollars last year to 1.7 trillion dollars in 1980. The average annual increase would be 6%, compared with 5.9% over the past decade. Rising prices will account for 2% of this expected gain. If we express the growth of GNP in real terms, the annual increase would be 3% compared with 4% over the last ten years.

Before I move ahead to explain what we believe this projection means to common stock prices, I would like to say something about Moody's Industrial Stocks Average, or simply Moody's Industrials. This is not only a means of measuring over-all stock market performance but it is also a useful analytical tool. It is a relatively broad average, containing 125 stocks, more than four times as many as the Dow-Jones Industrials. Unlike the Dow, it is weighted by the number of shares of each issue outstanding. This factor and others enable us to make calculations on it which help bridge the wide gap between economic performance and stock market behavior. For example, when we work out sales, earnings, dividends and cash flow on Moody's Industrials, we are talking about aggregate figures which are fairly representative of the economy at large.

Now, the basic reason why we believe that common stocks will gain even more favor as investments is that our longer-term economic projections point toward continued economic growth, a generally rising earnings trend and more or less persistent inflationary pressure. In line with our expectations for industrial production and Gross National

Product, we envision that sales on Moody's Industrials will go up from 225 dollars per share in 1967 to 490 dollars in 1980. Meanwhile, earnings on our Industrials will advance at an average rate of roughly 6% a year. Cash dividends will also go up by about 6% a year.

At their current price levels, common stocks have certainly not anticipated such earnings and dividend growth. Let's take a look at *price/earnings ratios*. If we again use Moody's Industrial Stocks average as a guide and go back for nearly a decade, we will find that price/earnings ratios have run about as high as 22 and about as low as 14. The average price/earnings ratio has been 18. Last week, Moody's Industrials were priced at about 19 times current earnings. In other words, they were moderately above the average P/E ratio of recent years.

Now, let's do a little pencil work. If we buy stocks at 19 times current earnings today, hold them while earnings are rising at 6% a year and then sell them in 1980 at 18 times their advanced level of earnings, our capital would have doubled. If we assume that half of those earnings are paid out in dividends, and add these sums, total appreciation would then be more than 150%. Return over the five years would be even higher than 150% if dividends were reinvested.

That is the simple mathematics underlying stock investment. To be sure, things can go wrong with it. But the things that go wrong are usually short-term in nature. About the only reason why this proposition might fail to work out on a long-term basis is if there is a far-reaching and adverse change in the U. S. economy.

Looking some years ahead, we at Moody's believe that price/earnings ratios on common stocks will remain relatively high and that stock yields will stay relatively low. I have suggested two reasons for this: growth in values underlying stocks, and a persistent inflationary trend. But there are other factors in the market itself which have been at work to create demand for common stocks.

Consider these statistics. From 1955 through 1966, the number of individuals owning stocks in this country has grown from 8 million to about 21 million. Over the same period, the number of registered representatives dealing in stocks has gone up from 57,000 to 101,000. On the institutional side, we find that since 1955 private pension funds have increased their holdings of stock at a compound rate of

18% a year. Mutual funds and closed-end investment companies have enlarged their equity ownership at a rate of nearly 11% a year. State and local trust funds, while still holding only small amounts of common stock, have been building up that sector at the astonishing rate of 57% a year.

In short, we have seen the creation of a huge mechanism of demand for stocks. By and large, it is both a farsighted and a sophisticated market. In this respect, I might mention that in the depressed third quarter of 1966, when some in the financial community were on the verge of panic, the private pension funds were net buyers of common stocks by a wide margin. By taking a long-term view and buying low, they not only were of service to themselves but to the market as a whole.

A close look at the market's behavior in recent years suggests that the growing institutionalization of investment has served to moderate psychological swings in stock prices. This, too, is a trend which we think will continue. Nevertheless, psychology will play an important part in the market for as far ahead as we can see, and as the so-called crash of 1962 indicated, it can upon occasion have considerable impact. There is no way I know of to deal with psychological influences other than keeping in close touch with the market and thereby developing a "feel." This is not always too compatible with long-term investment operations, but we think that it is necessary.

Now let us survey the longer-term prospects for interest rates.

Broadly conceived, interest rates are determined by both economic conditions and monetary policies. Therefore, in making estimates about what interest rates may be in the future, we must make assumptions not only about the trend of economic activity but also about other less tangible factors. I am referring, of course, to the psychological and political forces which affect policies of the Government and the credit authorities.

As I have pointed out in discussing the Normal Trend, we expect that the long-term secular upturn in the economy will continue, rising at a somewhat faster rate than in the past decade. The accent on growth and the desire to improve the standard of living has found reflection in Government policies designed to promote full employment. Largely because of the implementation of these policies, business cycles have been growing shorter and milder. I think we must recognize

the fact that in such a socio-political environment, deep and prolonged recessions are quite unlikely.

Some skepticism, of course, is permissible with respect to the ability of the Federal Government to avoid recessions and to maintain a persistent economic uptrend.

The record since 1961 provides rather convincing evidence that managerial expertise has been growing as a result of practice. There was a pause or hesitation in the latter part of 1962, and another in the first quarter of 1967. Especially in the latter episode, prompt and powerful measures were instituted, with the result that what might have been a recession, initiated by a large inventory swing, was limited to a small fractional decline in real GNP for a single quarter.

It is only realism to note that, in the light of present-day attitudes, political officials are far more sensitive to a threat of deflation than they are to signs of inflation—and much more prompt to move against it. The speed with which the Federal Reserve System abandoned a policy of restraint in 1966, and the vigor with which it pushed an easy money policy last year must be given credit for softening the economic adjustment of 1967. These actions resulted in an explosive expansion of bank credit and money supply, which have grown at rates practically without precedent. This inflated money stock still exists and is still growing, and its full effects on economic activity have not yet been felt.

Inflation, as some British observer noted years ago, is nine-tenths of any full-employment policy. Experience to date bears this out. Efforts by government to control or limit the inflation of prices are much less vigorous than the basic push to maintain prosperity.

Thus it appears that in the years ahead periods of pause and economic slack will be few, brief, and mild. At most times activity will be rising strongly. Upward pressures on wage costs and prices will persist. At most times the demand for loan funds and for financial capital will exceed the volume of current savings accumulations. This is not a phenomenon confined to our own country—the demand for capital expansion is worldwide, and everywhere there is a relative shortage of savings.

In these circumstances there will continue to be a gap between financial savings and investment which will be filled by expanded commercial bank credit. And the maintained growth of money supply

will, at the very least, provide a strong support to the other forces pushing prices higher for both goods and borrowed money.

About the only factor that would interfere with realization of this prospect would be a shattering of confidence within the business community, comparable to that of the early years of the 1930's. We do not believe this will occur. We cannot foresee in the period ahead a depression of the sort which could reduce demand for loan funds to the level of current savings.

Apart from that there will be at most some brief intervals of pause and relaxation in the upward progress. Such an interruption probably would follow an ending of hostilities in the Asian war. But moderate cutbacks in war spending would result in only temporary reductions in total outlays by the Federal Government. Aggregate spending shortly would resume its advance as retarded welfare programs were brought up to desired speed and new ones, now restrained by lack of funds, were instituted freely. Another reduction in Federal taxes, it may be assumed with confidence, would be given high priority.

All such things considered, here is what we think interest rates may look like between now and 1974. I am using the target date 1974 rather than 1980 simply because we have recently completed a study for that period.

Yields on long-term U. S. Treasury bonds may be taken as a basic measure of rate trends. They can be considered as representing pure interest, since there is no risk factor involved.

At present the average for these bonds is about 5.15%, and some issues yield more than 5.50%. That is more than twice the figure of twenty years ago, even if that fact proves only that change is possible. Between now and 1974 a decline to 4% seems to us to be practically out of the question. Even a 4.50% basis will probably be seen only rarely. On the up side, the current 5.20% average yield will be considered less startling as time goes on, and by 1974 a yield as high as 6.50% or 7% will be easily conceivable.

Thus a practical range of yield fluctuations for Treasury bonds seems to us to lie between 4.50% and 6.50%, with the trend upward.

If present conditions affecting the status of state and local government bonds remain unchanged, it might be feasible to guess that tax-exempt yields will continue to average between 100 and 150

basis points lower than those on Governments. This, however, is by no means certain. Changes in Federal income tax rates obviously will affect the value of tax exemption. The outcome of the argument about whether industrial aid bonds should be permitted exemption likewise will have an important bearing, since if the heavy volume of such financing were removed, a diminished total supply of new tax-exempt issues would tend to improve market conditions.

At this point, I am concerned about being overlong in my presentation. So I will simply make an abrupt stop. However, I will be happy to answer—or try to answer—any questions you may have.

ACTUARIAL REPORT AND OUTLOOK

MR. CHARLES L. BURRALL, JR.

Consulting Actuary, Huggins & Company, Inc.

I recently heard a short and rather interesting definition of an annuity as a "stream of equal payments ending at death." When an annuity is entered upon, it is naturally very important that nothing be done either to divert or to dry up that stream until it has run its proper course. When a life insurance company sells an annuity, it must be careful that the premium charged is appropriate to feed the stream of payments for the lifetime of the annuitant, to cover an appropriate share of the expenses of operation of the company and to make a reasonable margin of profit. The situation confronting non-profit organizations issuing gift annuity agreements is somewhat similar except that, instead of "profit," these organizations are seeking significant amounts of gift money to carry out their purposes.

It must be constantly emphasized that non-profit organizations should not be in the gift annuity business merely to sell annuities. A person who enters into a gift annuity agreement with a charitable organization does so with the expectation that he is making a gift to that organization in addition to buying an annuity. Therefore, in the construction of gift annuity rates, this dual purpose must be held constantly in mind.

The manner in which a gift annuity rate is calculated is illustrated in Schedule A. (Shown on page 24.) It will be seen that, in order to calculate an annuity rate, it is necessary to make certain assumptions as to what is likely to be future experience in such areas as the rate of income that can be earned on invested reserve funds and the years of future lifetime that may be expected among a group of annuitant lives. The various actuarial assumptions which have been used in the calculation of the present uniform gift annuity rates which were adopted at the Twelfth Conference on Gift Annuities held in April, 1965 are listed as the first item in the schedule.

Schedule A actually sets forth two methods of calculation of a gift annuity rate, with the second constituting a check on the correctness of the first. A slightly different concept is used in the two calculations but the final result is the same. In both calculations, the first

step is to deduct from \$1,000 consideration paid under a gift annuity agreement the 5% expense loading, thus leaving \$950 to provide for annuity payments and a residuum or gift for the organization. In the first calculation, the approach taken is, in effect, to set aside the 50% residuum of \$500 but use the interest thereon during the lifetime of the annuitant. The remaining portion of the \$950 is then applied as a single premium, using both principal and interest, to provide an annuity during the lifetime of the annuitant. At the death of the annuitant, the \$500 which had been held at interest in the interim is available for the work of the organization.

In the alternative calculation, instead of assuming that the full residuum is set aside at the time of issuance of the gift annuity agreement, the concept is one of using a portion of the consideration paid under the agreement to purchase the equivalent of a paid-up life insurance policy, with the face amount being the amount of the 50% residuum. The remaining portion of the consideration, net of the expense loading, is then applied as a single premium, using principal and interest, to provide annuity payments during the lifetime of the annuitant. It will be seen that this amount of annuity is the same as the amount of combined annuity and interest on residuum as is indicated by the first calculation.

I would again call your attention to the actuarial assumptions that are set forth in the upper portion of Schedule A. Schedule B (Shown on page 25) shows the results of a study to determine the effect on the present uniform gift annuity rates of variations in these items of actuarial assumption. Please note that the figures shown in the middle rate column of each of the four tables are the present uniform gift annuity rates. The figures shown in the first and third rate columns show the effect on these rates of greater liberalism (first column) and greater conservatism (third column) in the components of actuarial assumptions described in the respective table headings. It needs to be emphasized that in the four tables of the schedule only one of the actuarial assumptions on which the present rates are based is varied in each table, that one being the one described in the table heading.

The present uniform rates are based on the assumption that mortality among annuitants will occur in accordance with the 1955 American Annuity Table, female lives, which is indicated in the

schedule by the designation of "1955 AA f." It would be well here to explain the "f + 1" and "f - 1" designations in the headings of the first and third rate columns. It is a common actuarial practice in the use of certain mortality tables to provide for a more liberal or more conservative mortality assumption by making an age adjustment when using the tables. In the first rate column of Table 1, the "f + 1" designation means that it has been assumed that an annuitant would have the future longevity of a person one year older; in other words, a shorter future lifetime. Conversely, the designation "f - 1" assumes that an annuitant of a given age would have the future longevity of an individual one year younger; that is, a longer future lifetime. Table 1 illustrates the fact that this type of age adjustment would have a relatively negligible effect on annuity rates at the younger ages but a more significant effect at the higher ages.

The present uniform rates are based on an interest assumption of $3\frac{1}{2}\%$; that is, it has been assumed that during the entire future annuity paying period of a given annuitant, the rate of return on investments of the actuarial reserve funds will be $3\frac{1}{2}\%$ per annum, compounded annually. The first and third rate columns of Table 2 show the effect on annuity rates of interest assumptions of 4% and 3%, respectively. It will be seen that the interest assumption has a very powerful effect on a gift annuity rate because it is involved not only in the rate of return that can be earned on the actuarial reserve applied to provide the annuity, but also that which can be earned on the gift portion.

Table III of Schedule B illustrates the effect of assuming that less money would be required for administrative expenses (first rate column) and also that more money would be required for such purposes (third rate column). The manner of determining the appropriate rate of expense loading for gift annuity rates has to be one almost of judgment rather than a study of actual experience. This is so because of the great variety of types of organization issuing such agreements and also the great variety in volume of agreements issued among the various groups. The nature of certain organizations may be such that relatively little additional expense is incurred in operating a gift annuity program; whereas, for other organizations such a program may become a rather specialized operation requiring considerable additional expense. Furthermore, it could be expected

that an organization issuing a large volume of agreements would require a lower percentage of expense loading because of "volume savings." The size of gifts would also affect this situation. It is hoped that, in general, the 5% allowance in the present rates represents a reasonably adequate expense allowance but it may very well be inadequate for some organizations. A change to the extent illustrated in Table III would have a moderate effect on the uniform rates.

Table IV shows the effect of changing the provision for a 50% residuum to corresponding provisions of 40% and 60%. It should be emphasized that the showing of results with a 40% contemplated residuum is done merely for purposes of illustration. It would not be wise for the Conference on Gift Annuities to advocate rates based on a 40% residuum since the New York Insurance Law specifically provides that rates shall be constructed to provide a residuum of not less than 50%. Table IV does indicate, however, that a modification of 10 percentage points in either direction makes a very significant change in gift annuity rates.

The present uniform rates were adopted in 1965 following an extensive study of gift annuitant mortality experience for the period January 1, 1959 through December 31, 1963. Since less than three years have elapsed since the Conference held in April 1965, it was considered unnecessary by the Committee on Gift Annuities, upon the advice of our organization, to make a complete mortality study of the actual experience during the period since the date of the last study. Actuarial procedures have been developed to estimate the effect of reasonable improvements in rates of mortality to occur in future years, based on a study of what has happened in the past. By using such procedures, it is possible to estimate what might have been the results of a mortality study for a five-year period from January 1, 1964 projected through December 31, 1968, if exactly the same "life years of exposure" that were developed for the 1959-63 studies had prevailed during this later five-year period. It might be well here to explain the term "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. Thus, in a mortality study of a five-year period, an annuitant who received his annuity for the entire period studied would produce one life year of exposure at each of five consecutive ages, for a total of five life years of exposure. Any annuitant who

came on the annuity roll during the five-year period would be counted as producing life years of exposure only during the time and at the ages when he was actually on the annuity roll.

In Schedule C, (shown on page 26) there are presented first the actual results of the mortality study for the period January 1, 1959 through December 31, 1963, which were presented at the Twelfth Conference. There are then shown in the last three columns of this schedule some hypothetical results for a period January 1, 1964 through December 31, 1968, assuming the same life years of exposure but assuming a five-year improvement in the rate of mortality. These hypothetical results represent something of a scientific fiction but they are useful in judging the adequacy of the mortality assumption used in the present uniform gift annuity rates. In the development of these hypothetical results, the figure that is changed is the number of actual deaths. It will be seen that the "expected" deaths in both the actual results and the hypothetical results are the same, since these have been determined for identical periods of exposure in accordance with the same mortality table; viz., the 1955 American Annuity Table, female lives. However, in the hypothetical results for a 1964-68 period, the actual death figures for the 1959-63 study have been artificially modified to produce what are called "projected" deaths in the hypothetical results, which reflect improvements in longevity during the five-year period.

It will be seen that for the actual 1959-63 period, there were 3,871 actual deaths among female lives and when this number is compared with 3,334 expected deaths, in accordance with the mortality assumption being used, the result is a ratio of actual to expected deaths of 116%. A ratio in excess of 100% in these situations means that more deaths have occurred than would be anticipated on the basis of the table, which is an indication that the table is a "safe" one to use for annuity purposes. Again looking at the results for female lives for the hypothetical period, the artificial modification of 3,871 actual deaths into 3,782 projected deaths reduces this ratio of actual to expected deaths to 113%. This would seem to indicate that, even with a logical five-year improvement in rate of mortality, the 1955 American Annuity Table would still represent an appropriate mortality assumption.

A word of caution might be made to anyone who might think

that the 13% "cushion" provides too much conservatism. Here it would be well to point out that this is a total result which is affected very strongly by the rather high ratios of actual to expected deaths at the very high ages. When the results are viewed by age groups, it will be seen that from ages 51 through 80, the ratios of actual to expected deaths among female lives are less than 100%. This result is helped somewhat by the more "favorable" experience among male lives where the ratios of actual to expected deaths are well in excess of 100% for every age group, so that in viewing the results for all lives combined, the ratio of actual to expected deaths is only slightly below 100% in the age groups 61 through 70 and 71 through 80.

What does all this analysis and study seem to indicate with relation to the appropriateness of the present uniform gift annuity rates? With regard to mortality assumption, the study would seem to say to me that we are on generally sound ground in continuing to use the 1955 American Annuity Table, female lives, for rate purposes. With regard to expense loading, although the 5% presently being used may well be inadequate for certain types of organizations and organizations doing a relatively small volume of gift annuity business, it probably represents a reasonably fair provision for this contingency. The interest assumption, which has a most powerful effect on gift annuity rates, is the one area where it would appear that our rates reflect considerable conservatism with relation to the rate of return on invested reserves that can generally be achieved currently. However, when we issue an annuity agreement, we must be concerned not merely with the current potential for rate of investment earnings but also the outlook for a relatively long period in the future and here it would appear that we might be well advised to take a reasonably conservative position.

Let us assume that we are fortunate enough to achieve a higher rate of investment return on reserves than the $3\frac{1}{2}\%$ contemplated by the present uniform rates. We have made some additional studies to determine the effect of such a higher rate of return on the percentages of residuum that might be achieved through the use of the present uniform rates. If we had mortality experience in accordance with the 1955 American Annuity Table, female lives, and if our expenses amounted to 5% of the total gift, the following table indi-

cates the percentages of residuum that would emerge if the rate of investment return over the long range were 4% and 4½%.

<i>Age at Issue</i>	<i>Percentage of Residuum if Earnings Are at Rate of</i>	
	<i>4%</i>	<i>4½%</i>
60	66.0%	81.5%
65	60.7	72.2
70	60.1	68.8
75	57.8	64.4
80	56.3	61.2

(Note: The apparent lack of complete consistency in the progression of the above percentages of residuum is the result of the rounding of the present uniform rates to the nearest first decimal.)

It will be seen that earnings at a 4% rate would produce a percentage of residuum ranging from 56.3% to 66.0% at the range of ages included in the above table with a corresponding range from 61.2% to 81.5% if interest earnings of 4½% can be achieved. In this connection, I want to recall the fact that the uniform gift annuity rates recommended by the Committee on Gift Annuities from 1927 until 1955 were constructed to produce a residuum for the use of the organization of 70% of the consideration paid. This percentage was dropped to 50% in the rates adopted in 1955 because, at that time, it was advisable to adopt rates based on more conservative assumptions with relation to both interest and mortality, and to have held the planned residuum at 70% with the additional conservatism being introduced in these two areas would have caused a very substantial reduction in annuity rates.

The above table suggests to me that, if the organizations represented here are fortunate enough to achieve interest earnings at a rate in excess of the 3½% rate in use at the present time, you may simply be returning to a level of gift accomplishment where you ought to be anyhow. I started this paper with an emphasis on the importance of constructing annuity rates so as to produce appropriate amounts of gift money. I shall conclude it with the statement that if, primarily because of a favorable rate of investment return, the use of the present uniform gift annuity rates produces gift money representing something between 50% and 70% of the consideration paid, this will bring the organizations represented here closer to accomplishing the goal of the entire gift annuity program.

COMMITTEE ON GIFT ANNUITIES
Annuity Rate Study for 1968 Conference

ILLUSTRATION OF CALCULATION OF A GIFT
ANNUITY RATE

Actuarial assumptions on which present uniform gift annuity rates are based:

1. *Rate of mortality* — 1955 American Annuity Table, female lives
2. *Rate of interest* — $3\frac{1}{2}\%$ per annum, compounded annually
3. *Expense loading* — 5% of the total consideration
4. *Residuum* — 50% of the total consideration
5. *Annuity payments* — At end of each semi-annual period

I. *Calculation*

- (a) Assume a donor aged 70 enters into a \$1,000 single-life gift annuity agreement.
- (b) Deduct the 5% expense loading of \$50, leaving \$950 to provide for annuity payments and residuum.
- (c) Set aside the 50% residuum of \$500, on which, however, interest at $3\frac{1}{2}\%$, or \$17.50, is available annually during the lifetime of the annuitant.
- (d) The remaining \$450 is available as a single premium, using both principal and interest, to provide an annuity during the lifetime of the annuitant. On the basis of the 1955 American Annuity Table, female lives, with interest at the rate of $3\frac{1}{2}\%$, the cost at age 70 of providing a single-life annuity of \$1 per year, payable in semi-annual installments, is \$11.28. When the available \$450 is divided by \$11.28, the result is \$39.89 of yearly annuity.
- (e) Add the \$17.50 of interest from (c) to the \$39.89 of annuity from (d) and the sum is \$57.39 of total income available during the lifetime of the annuitant. On the basis of \$1,000 of consideration, this represents a rate of 5.7% which is the rate appearing at age 70 in the schedule of uniform rates.

II. *Alternate Calculation as a Check*

- (a) Start with the same net \$950 as is shown in I (b).
- (b) On the basis of the 1955 American Annuity Table, female lives, the amount needed at age 70, using both principal and interest, to provide \$500 at death is \$302.64. Thus, \$647.36 of the \$950 would remain available as a single premium, using both principal and interest, to provide a single-life annuity.
- (c) The \$647.36 from II (b) divided by the \$11.28 from I (d) produces the same \$57.39 that appears in I (e).

SCHEDULE A

COMMITTEE ON GIFT ANNUITIES

Annuity Rate Study for 1968 Conference

Effect on Annuity Rates of Variations in Actuarial Assumptions

TABLE I—*Effect of Variation in Mortality Basis*

<u>Age at Issue</u>	<u>Mortality Basis</u>		
	<u>1955 AA $f + 1$</u>	<u>1955 AA f</u>	<u>1955 AA $f - 1$</u>
60	4.8%	4.7%	4.7%
65	5.3	5.2	5.1
70	5.9	5.7	5.6
75	6.7	6.5	6.4
80	7.9	7.6	7.4

TABLE II—*Effect of Variation in Interest Rate*

<u>Age at Issue</u>	<u>Interest at Rate of</u>		
	<u>4%</u>	<u>3½%</u>	<u>3%</u>
60	5.1%	4.7%	4.3%
65	5.6	5.2	4.7
70	6.2	5.7	5.3
75	7.0	6.5	6.1
80	8.1	7.6	7.2

TABLE III—*Effect of Variation in Expense Loading*

<u>Age at Issue</u>	<u>Expense Loading as a % of Total Consideration</u>		
	<u>3%</u>	<u>5%</u>	<u>7%</u>
60	4.9%	4.7%	4.6%
65	5.3	5.2	5.0
70	5.9	5.7	5.6
75	6.7	6.5	6.3
80	7.9	7.6	7.4

TABLE IV—*Effect of Variation in Percentage of Residuum*

<u>Age at Issue</u>	<u>Residuum as a % of Total Consideration</u>		
	<u>40%</u>	<u>50%</u>	<u>60%</u>
60	5.0%	4.7%	4.4%
65	5.6	5.2	4.8
70	6.3	5.7	5.2
75	7.2	6.5	5.8
80	8.6	7.6	6.7

NOTE: Figures shown in middle rate column of each table are present Uniform Gift Annuity Rates.

Figures shown in first and third rate columns show the effect of greater liberalism (first column) and greater conservatism (third column) in the components of actuarial assumptions described in the respective table headings.

SCHEDULE B

COMMITTEE ON GIFT ANNUITIES
Gift Annuity Mortality Study for 1968 Conference

Life Years of Exposure	Actual Results for Period 1/1/59 through 12/31/63			Hypothetical Results for Period 1/1/64 through 12/31/68			
	Actual Deaths	Expected* Deaths	Ratio A/E	Projected Deaths	Expected* Deaths	Ratio P/E	
FEMALE LIVES							
50 and under ..	5,572	16	8	200%	15	8	188%
51-60	8,048	30	42	71	28	42	67
61-70	18,566	244	262	93	229	262	87
71-80	28,705	944	1,009	94	902	1,009	89
81-90	20,028	1,932	1,543	125	1,903	1,543	123
91 and over ...	3,138	705	470	150	705	470	150
Total	<u>84,057</u>	<u>3,871</u>	<u>3,334</u>	<u>116%</u>	<u>3,782</u>	<u>3,334</u>	<u>113%</u>
MALE LIVES							
50 and under ..	3,502	7	4	175%	7	4	175%
51-60	2,486	31	12	258	29	12	242
61-70	4,318	85	61	139	80	61	131
71-80	6,444	269	227	119	257	227	113
81-90	5,000	526	387	136	518	387	134
91 and over ...	838	155	127	122	155	127	122
Total	<u>22,588</u>	<u>1,073</u>	<u>818</u>	<u>131%</u>	<u>1,046</u>	<u>818</u>	<u>128%</u>
ALL LIVES							
50 and under ..	9,074	23	12	192%	22	12	183%
51-60	10,534	61	54	113	57	54	106
61-70	22,884	329	323	102	309	323	96
71-80	35,149	1,213	1,236	98	1,159	1,236	94
81-90	25,028	2,458	1,930	127	2,421	1,930	125
91 and over ...	3,976	860	597	144	860	597	144
Total	<u>106,645</u>	<u>4,944</u>	<u>4,152</u>	<u>119%</u>	<u>4,828</u>	<u>4,152</u>	<u>116%</u>

SCHEDULE C

*Expected deaths in accordance with 1955 American Annuity Table, female lives.

LIFE INCOME AGREEMENTS

MR. JOHN M. DESCHERE

Comptroller, Vassar College

At the last Conference on Gift Annuities, the principal address on the subject of Life Income Agreements was given not by a business or development officer, but by a clergyman. He stated that the Committee surely must have realized that it incurred some risk when it invited a minister of the gospel to speak on secular business matters. Now, before we begin I thought you should hear about the other side of the coin. Once upon a time I, a plain ordinary college business officer, delivered a full length sermon to our Presbyterian congregation on a Laymen's Sunday. That was *ten* years ago. Apparently it must have been quite a sermon, because the governing body of the church soon thereafter voted to discontinue Laymen's Sunday. Maybe the ministry was worried about the competition.

The main emphasis of this Conference is on the subject of Gift Annuities, and rightly so. There have been so many new participants to these conferences (the attendance has gone up 150% in ten years) that the Committee decided to provide several work sessions on various aspects of the Gift Annuity.

This talk is the only one scheduled on Life Income Agreements. As a result I will not be able to go into all ramifications as thoroughly as in previous conferences. I refer those of you who are particularly interested to the record of the proceedings of the Twelfth Conference held in 1965 and recorded in Wise Public Giving Series No. 51. At that Conference, there were four addresses devoted to types of Life Income Agreements and another dealing with taxation of Deferred Giving, including Life Income Agreements. So you will understand the limitations of the present talk. For those of you who have questions that will not be covered now, we have scheduled a question and answer period tonight at 8:00 at which time two of the distinguished members of the committee will be on hand to help me provide you with the answers, we hope.

DEFINITION

Life Income Agreements were approved as a vehicle for charitable donations by the Internal Revenue Service in 1955 in Revenue Ruling

55-275, which is reproduced in the report of the Proceedings of the Ninth Conference, Wise Public Giving Series No. 48. Since then they have grown to play an increasingly important role in the Deferred Giving program. The Committee defines a Life Income Agreement as an agreement between a donor and a charitable 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. It is advisable to include a statement in the original agreement that the obligation of the organization ceases with the last regular payment prior to the death of the beneficiary. This avoids pro-ration of a final payment from that date to date of death.

The last conference adopted a resolution recommending, for the purpose of uniformity and a better understanding, that 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." (You will also hear the term Life Income Contract, which is the same thing; however, Life Income Trust is different.)

2. the amount paid under the agreement be referred to as a "Life Income Payment." (Avoid using "dividend" or "interest.")

3. persons paid under the agreement be called "Life Income Beneficiaries." Frequently, the Donor is also the Life Income Beneficiary. There may be more than one beneficiary under a Life Income Agreement.

4. the rate of the life income payment be called the "Life Income Yield". Don't use "rate of earnings", "interest rate", etc.

COMPARISON WITH ANNUITIES

A favorite topic at these conferences is the comparison of Life Income and Gift Annuity Agreements. Several years ago, Dr. Matthies,

like Woodrow Wilson before him, developed 14 points. Since this talk is a condensed version, I will limit myself to nine:

1. Nature of agreement. The annuity is a purchase of a contract to provide a guaranteed fixed income for the lifetimes of one or two persons. The life income agreement is a transfer of money or property in exchange for your organization's promise to pay annual income, whatever it may be, to designated beneficiary or beneficiaries for life.

2. Rate of return. Annuity payments are based on life expectancy tables developed by actuaries, so that an annuitant aged 84 will be paid 8% while a 35 year old beneficiary will receive only 3% under Uniform Gift Annuity Rates adopted at the Twelfth Conference. Bear in mind that these payments are guaranteed for life and never vary. On the other hand, no actuarial tables determine the Life Income Yield. \$1,000 donated for a 30 year old beneficiary will earn and pay exactly the same amount as \$1,000 given at the same time for an 80 year old beneficiary. The income paid out is the net income earned by the Life Income Fund. It is NOT guaranteed and WILL vary from year to year.

3. Tax recognition of original gift. Payment for an annuity is divided into two parts: the actuarial cost value and the charitable gift deduction. The cost value is comparable to a purchase of an annuity from a commercial carrier and runs from about 74% of the consideration paid for a male annuitant aged 50 to 37% for a male annuitant aged 85. The excess paid to you over the actuarial cost value is the charitable gift deduction.

Payment for a life income agreement is also divided into two parts: Retained life interest and the remainder interest. The remainder interest determines the amount of charitable deduction that may be allowed for income tax purposes. For single life agreements, the percentage of gift qualifying as a charitable contribution is about the same as the age of the beneficiary. For example, the charitable gift deduction for a life income agreement for a beneficiary aged 60 is 60.321%, so that a \$1,000 agreement would provide a deduction of \$603.21. For an 80 year old beneficiary, the charitable deduction on a \$1,000 life income agreement would be \$832.41. Complete tables have been issued by the Treasury Department in IRS Publication No.

11, entitled "*Actuarial Values for Estate and Gift Tax.*" The Treasury Department has permitted the Committee on Gift Annuities to reproduce these tables in the Maroon Covered Booklet entitled "*Guide for Computing the Federal Tax Implications of Charitable Gifts Subject to Life Income Agreement.*" There is a best seller title for you. One final point to note: the charitable deduction is larger for life income agreements than for annuity contracts.

4. Tax recognition of income received. About 75% of the income received from Gift Annuities is excluded from tax, based on government tables. On the other hand, all income from REGULAR life income agreements is fully taxable. Note the emphasis on the word "regular." There are tax-free Life Income Trusts that may be established under certain conditions. Life Income Trusts, also called Charitable Remainder Trusts, were discussed in detail at the Twelfth Conference by Dr. Turley and Mr. Christison. I refer you to the proceedings of that conference in Wise Public Giving Series No. 51, and will not try to analyze them here, except to mention in passing that the avoidance of capital gains, which is my next point, does not apply to agreements providing for tax-free income.

5. Recognition of capital gain. In the event securities turned over to your organization for a gift annuity have a cost basis to the donor which is less than the annuity's actuarial cost value, capital gain is recognized on the excess of the actuarial cost value over the cost basis in the donor's hands. Let me give you an example: A donor turns over to you for an annuity, securities which cost him \$400 but are now worth \$1,000. According to government tables, the actuarial cost value of the annuity you will write for him is \$650. Capital gain is recognized to the extent of \$250, the amount by which the actuarial cost value exceeds the donor's cost basis of the securities.

No capital gain is recognized on REGULAR life income agreements. In the example above, if the donor had taken out a life income agreement, not only would he have avoided tax on the \$600 capital gain he would have realized on a sale, but his charitable contribution deduction would be based on the \$1,000 current value of the stock. These tax savings features make this form of agreement particularly attractive to donors who would like to dispose of securities in which they have been "locked in" by a substantial increase in market value

and would have to pay a big capital gains tax if they sold the stock directly. Please bear in mind, the above does not apply to any agreements providing for tax-exempt income since the issuance in 1960 of Rev. Rul. 60-370.

6. What will be left at termination? Annuities, which pay a guaranteed income regardless of earnings will, if the beneficiaries don't live too long, have at least half of the original fund still intact at death of the annuitant. The technical, actuarial name for the portion of the principal remaining at death is "residuum." The principal is never invaded on a life income agreement since, by definition and under the terms of the gift, only the income can be paid. Therefore, life income agreements will always have a 100% residuum. They may have a little more than that if you include the clause that the obligation of your institution ceases with the last regular payment prior to the death of the beneficiary.

If I may digress from this for a moment, it has always seemed to me ironic that the same commercial carriers will write both life insurance policies and annuitant contracts. On life insurance policies, the companies will try to keep you alive as long as possible. Some of you may have seen pamphlets issued by Metropolitan Life entitled "Good Hints for Good Health." On the other hand, with annuities, the sooner you die, the better off they are. Has anyone ever seen health pamphlets for annuitants? When the companies speak of favorable mortality experience, they mean one thing when referring to life insurance policies and the exact opposite for annuities. Well, enough of that.

7. State Regulation. In 1965, only 3 states—New York, California and Wisconsin—had specific laws covering the issuance of gift annuities. I can testify from personal experience that the Annual Report for the New York State Insurance Department calls for an incredible amount of detailed information and takes a long time to prepare. As far as I know, there are no state regulations for regular life income agreements.

8. Multiple donors. Annuities may be written on a survivorship basis. The Committee on Gift Annuities has two-life tables for determining rate of return. Tax information is also set forth in government issued two-life tables. Life Income Agreements may be written

covering two or even more lives. The charitable deduction will be less, but the payment will still be the same amount, since the income from a \$1,000 agreement will not be any more or less if it is written on a single-life or a joint-and-survivorship basis.

9. Donor appeal. Since annuity rates are based on actuarial tables, annuities generally appeal more to older donors. The guaranteed income and income tax exclusion features are desired by most elderly people.

The life income agreement has more to offer younger donors on a single or plural life basis, since it has greater growth potential in an expanding economy. It also is attractive to donors seeking a larger charitable contribution deduction and those seeking to avoid capital gains tax on securities where they have been "locked in" by substantial appreciation in market value.

FORM

What does a Life Income Agreement look like? In the proceedings of the 1962 Conference, Wise Public Giving Series No. 50, Colonel Abrams mentioned several points that should be included. The maroon-covered guide also has a sample form. (Incidentally, I do not get any commissions on the sale of any of the materials I have borrowed or plagiarized from so liberally today.) It is important to bear in mind that the agreement is a legal contract and should contain the effective date and names of parties. There must be an irrevocable gift; no donor control, expressed or implied. The value of the agreement must be clearly stated. The agreement should specify the manner of investment and authority to invest and reinvest. The dates of payment should be stated and the way in which income is to be determined. Finally, disposition of the principal upon termination of the obligation should be included.

MANNER OF INVESTMENT

Should principal of funds be invested separately or pooled with other life income agreements or other institutional investments? Generally, separate investment should be avoided, since it would require an entirely segregated account for recording all principal and income transactions, with high administrative costs. Besides, most religious

and charitable organizations are against all forms of segregation these days.

There are two general types of pooled agreements: Common Trust Fund and Endowment Fund. The Common Trust Fund entails assignment of units to each participating fund, based on market value at date of entry into the fund. The yield is determined by the proportionate share of income earned by the pooled investment portfolio, as is done with a mutual fund. No capital gains are distributed—only income.

Under the Endowment Fund Method, Life Income Agreements are combined with other types of funds in a pooled investment portfolio. Funds are carried at book value, which is the basis for income payments.

PROMOTION

There are just two points I want to make in discussing the matter of promotion. The first is that the basic appeal should be on the grounds that your donor is interested in and wants to do something for your institution because he believes in it and in what it stands for. The New York Times obituary of Sydney Prerau, the outstanding authority on the tax aspects of philanthropic giving, who died last month included the following quotation from one of his lectures.

"Our income tax law formalized and confirmed the public policy of giving. Always remember that except in most unusual cases a donor sacrifices economic worth—that is, he gives up something of value to himself, when he makes a gift.

"His prime motivation is to be of assistance; tax advantages are subordinate. One should never emphasize taxes except to prove the Government's approval of an encouragement to the concept of voluntary support."

The other point is that care must be taken to avoid using terminology that might be construed to indicate that an agency relation exists between the donor and your organization. The gift must be *absolute* and *irrevocable*. The Form must be drawn correctly and carefully. The donor must not exercise any control over the gift after the agreement has been signed.

ADVANTAGES

Why should your organization write Life Income Agreements? What are some of the advantages to donors and beneficiaries and, indirectly, to your organization?

1. The original gift can frequently be much larger than an outright donation because of the retention of right to receive income. Incidentally, most of these advantages, in greater or lesser degree, also apply to Gift Annuity contributions.

2. Substantial charitable contributions.

3. Elimination of capital gains tax for *Regular Agreements*.

4. Removal of amount donated entirely from estate in case of single life agreement, and substantially reduced in case of contract providing for a second beneficiary.

5. Greater security of income than from personal investment portfolio.

6. Release from "locked-in" situation where cost basis of securities is low in relation to current market value.

7. Provision may be made for income for life for survivor, whose ability to manage investments wisely you may doubt.

CAVEATS

Finally, before you all rush out to initiate or improve life income plans, a few words of caution. Set a reasonable minimum age for beneficiaries because of the long period of administration required before the funds will be available for institutional purposes. Try to avoid the proud grandparents who will want to give you \$500 or \$1,000 for a contract covering a recently born grandchild. An organization going into deferred giving plans for the first time as a major avenue for fund raising must realize that some money that would have come as outright gifts may be diverted into these plans and current unrestricted giving adversely affected. And there will be paper work involved in managing these gifts that you would not have if you received them free and unencumbered. On balance, however, I believe you will find that Life Income Agreements are a worthwhile addition to your fund raising arsenal.

Thank you very much for your kind attention.

TAX INFORMATION

MR. CONRAD TEITELL

Partner, Prerau & Teitell

(The following material is excerpted from TAX MANUAL, Philanthropy Tax Institute, copyright 1966, 1967, Sydney Prerau & Conrad Teitell, New York City.)

HOW TO FURNISH INFORMATION FOR YOUR DONORS' TAX RETURNS

Letter to donors simplifying reporting requirements.

Dear Donor:

(Introductory paragraph thanking donor for his gift, etc.)

You will want to deduct your charitable contributions when you file your income tax return. This letter is intended to clarify the Treasury's reporting requirements so that you may properly claim your deductions.

Contributions of money. Report the name of each organization to which you contributed and the amount and date of the actual payment of each contribution. But if you made numerous cash contributions to an organization, you may state the total cash payments made to the organization instead of listing each cash contribution and the date of payment.

Contributions of property of \$200 or less. Report the name of the organization receiving the property, the kind of property contributed (i.e., used clothing, painting, securities) and the method used in determining its fair market value.

Contributions of property in excess of \$200. When a property contribution is over \$200, attach to income tax Form 1040 a statement with this information:

1. The name and address of the organization to which the contribution was made.
2. The date of the actual contribution.
3. A description of the property in sufficient detail to identify it. For tangible personal property (paintings, sculpture, office equipment, furniture, etc.) describe the physical condition of the property

at the time of contribution. For securities, specify the name of the issuer, the type of security, and whether it is regularly traded on a stock exchange or over-the-counter.

4. The manner in which (i.e. purchase, gift, inheritance, exchange, etc.) and the approximate date you acquired the property. If you created, produced, or manufactured the property state the approximate date it was substantially completed.

5. The fair market value of the property at the time the contribution was made, showing the method used in determining the fair market value. If the valuation was determined by appraisal, a copy of the signed report of the appraiser should also be submitted.

6. For property (other than securities) held by you for *less than five years* before your contribution, you are required to report the cost-basis. The cost-basis of property (other than securities) *held for more than five years* before the contribution should be reported if available.

7. For contributions of depreciable personal and real property, state the reduction of your contribution for "recaptured depreciation."

8. The terms of any agreement or understanding relating to the use, sale or other disposition of the property contributed. *But you need not specify the terms of any agreement which merely earmarks contributed property for a particular charitable use—i.e., the use of donated furniture in a reading room of a library.*

9. The total claimed as a deduction for the property contributed. If less than the entire interest (i.e., a $\frac{1}{2}$ interest) during the year, the deduction claimed in any earlier year or years for contributions of other interests in the property; also,

—the name and address of each organization to which any such contribution was made;

—the place where the property (if tangible) is located or kept;

—the name of the person having actual possession of the property (if other than the charitable organization to which the property giving rise to the deduction was contributed).

(Final paragraph thanking donor again—telling of importance of his gift).

Sincerely,

YOUR TAX-EXEMPT ORGANIZATION

Gift Annuity—transfer of money

Information for Deducting Your Charitable Contribution on Your 19 Federal Income Tax Return

Name of Annuitant:

Amount of funds transferred: \$

Date funds transferred:

Your charitable contribution deduction: \$

Note: You may deduct your contributions up to 30% of Adjusted Gross Income. Should your contributions exceed 30% of Adjusted Gross Income you may deduct the excess over the five following years until exhausted—up to 30% of Adjusted Gross Income each year.

Deduct your contribution on Form 1940, Page 2, Part IV, "Contributions", as follows:

"Your tax-exempt organization —\$
See attached statement"

Attach a statement to your tax return, similar to the one below.

— — — — —

Your name and address as it appears on your tax return
Statement attached to Form 1040, Page 2, Part IV, Contributions

On _____, I contributed \$ _____ to YOUR TAX-EXEMPT
ORGANIZATION

Your City and State, _____ for a gift annuity.

Amount contributed \$

Less: Actuarial value \$

My name and date of birth:

If two life annuity, second beneficiary's
name and birth date: _____

Charitable contribution deduction \$

YOUR TAX-EXEMPT ORGANIZATION

Gift Annuity—transfer of securities Information for Deducting Your Charitable Contribution on Your 19 Federal Income Tax Return

Name of Annuitant:

Fair market value of securities delivered: \$

Date securities delivered:

Your charitable contribution deduction: \$

Note: You may deduct your contributions up to 30% of Adjusted Gross Income. Should your contributions exceed 30% of Adjusted Gross Income you may deduct the excess over the five following years until exhausted—up to 30% of Adjusted Gross Income each year.

Deduct your contribution on Form 1040, Page 2, Part IV, "Contributions", as follows:

"Your tax-exempt organization —\$

See attached statement"

Attach a statement to your tax return similar to the one below.

— — — — —
Your name and address as it appears on your tax return
Statement attached to Form 1040, Page 2, Part IV, Contributions
(Furnish information for blanks)

On _____, I delivered _____ shares
(date) (number) (type, i.e., common, preferred, etc.)
_____ stock of _____ to YOUR TAX-
(name of corporation)

EXEMPT ORGANIZATION, your City and State _____,
for a charitable gift annuity. The stock is regularly traded on _____
or

(name of stock exchange) (over the counter)

Fair market value of securities on date delivered: \$

(average selling price on date of delivery)

Less: Actuarial value of annuity \$

My name and date of birth:

If two life annuity, name and birth date
of second beneficiary: _____

Charitable contribution deduction: \$

Cost-basis of securities: \$

State date and how you obtained securities (i.e., purchase, gift, inheritance, exchange, etc.)

YOUR TAX-EXEMPT ORGANIZATION

Gift Annuity—transfer of property
(other than securities traded on an Exchange or over the counter)

Information for Deducting Your Charitable Contribution on Your 19 Federal Income Tax Return

Name of Annuitant:

Fair market value of property delivered: \$

Date property delivered:

Your charitable contribution deduction: \$

Note: You may deduct your contributions up to 30% of Adjusted Gross Income. Should your contributions exceed 30% of Adjusted Gross Income you may deduct the excess over the five following years until exhausted—up to 30% of Adjusted Gross Income each year.

Deduct your contribution on Form 1040, Page 2, Part IV, "Contributions", as follows:

"Your tax-exempt organization — \$

See attached statement"

Attach a statement to your tax return, similar to the one below.

— — — — —
Your name and address as it appears on your tax return
Statement attached to Form 1040, Page 2, Part IV, Contributions
(Furnish information for blanks)

On , I delivered

(date)

(describe property in sufficient detail to identify it
and describe physical condition of property)

to YOUR TAX-EXEMPT ORGANIZATION for a gift annuity. On the date I delivered the said property, it had a fair market value of \$. The valuation was determined by signed appraisal, a copy of which is attached.

Fair market value of property on date delivered: \$

Less: Actuarial value of annuity \$

My name and date of birth:

If two life annuity, name and birth date
of second beneficiary:

Charitable contribution deduction \$

Cost-basis of property: \$

State the date and how you obtained the property (i.e., purchase, gift, inheritance, exchange):

YOUR TAX-EXEMPT ORGANIZATION

Gift Annuity

Information for Reporting Annuity Income on Federal Income Tax Return

Name of annuitant:

Amount of funds (or fair market value of property) transferred: \$

Date funds or property transferred:

Amount of yearly annuity:

Information for Schedule B (Form 1040), Part I A of your
U.S. Income Tax Return for years indicated.

	19—	19— and Later Years
1. Investment in contract	\$	\$
2. Expected return	\$	\$
3. Percentage of income to be excluded (Line 1 divided by line 2)	%	%
4. Amount received this year	\$	\$
5. Amount excludable (Line 4 multiplied by line 3)	\$	\$
6. Taxable portion (excess of line 4 over line 5)	\$	\$

YOUR TAX-EXEMPT ORGANIZATION

Gift Annuity—transfer of securities or other property Information for reporting on Schedule D (Form 1040)

The law requires donors who contribute securities or other property for a gift annuity to report the transfer on Schedule D (Form 1040) Gains and Losses from Sales or Exchanges of Property. There is no gain (although you must still report) when the property's cost-basis equals or exceeds the actuarial value of the annuity. Should the cost-basis be less than the actuarial value, there is a gain only on the excess over the cost-basis up to the actuarial value. The gain is completely avoided on the difference between the actuarial value and the fair market value of the property transferred. Even if there is a gain on Schedule D, it is more than likely offset by your contribution deduction. Every one dollar of allowable contribution deduction offsets two dollars of capital gain.

Note: When your cost-basis exceeds the actuarial value you may not deduct as a loss the difference between your cost-basis and the actuarial value.

Report on Schedule D. (Form 1040), Line 5*, as follows:
(Furnish information for blanks)

Line 5

- a. Kind of Property:
- b. Description:
- c. How acquired:**
- d. Date acquired:
- e. Date sold (date delivered for annuity):
- f. Gross Sales price (actuarial value):
- g. Depreciation allowed or allowable (if any):
- h. Cost or other basis:
- i. Gain: If cost-basis equals or exceeds the actuarial value, insert zero.

If cost-basis is lower than the actuarial value, your gain is the difference between the cost-basis and the actuarial value.

*If you held the assets (securities or other property for six months or less before you delivered them to TAX-EXEMPT ORGANIZATION NAME, complete Line 1 (a-i) (Schedule D) instead of Line 5 (a-i).

**Letter symbol: A—purchase on open market; B—exercise of stock option, or employee stock plan; C—inheritance or gift; D—exchange involving carryover of prior asset basis; E—other.

On Schedule D after completing line 5 a-i write: "See attached statement" and attach a statement similar to the one below:

Your name and address as it appears on your tax return
Statement attached to Schedule D (Form 1040) Line 5
(Furnish information for blanks)

On _____, I delivered _____ to TAX-EXEMPT
(date) (describe property)

ORGANIZATION NAME

City and State, _____, in exchange for a gift annuity.

Actuarial value of Annuity \$ _____

My name and date of birth:

If two life annuity, second beneficiary's
name and birth date:

Less: Cost-basis of property _____

Capital gain \$ _____

YOUR TAX-EXEMPT ORGANIZATION

Life Income Contract—transfer of money Information for Deducting Your Charitable Contribution on Your 19 Federal Income Tax Return

Name:

Amount of funds transferred: \$

Date funds transferred:

Your charitable contribution deduction: \$

Note: You may deduct your contributions up to 30% of Adjusted Gross Income. Should your contributions exceed 30% of Adjusted Gross Income you may deduct the excess over the five following years until exhausted—up to 30% of Adjusted Gross Income each year.

Deduct your contribution on Form 1040, Page 2, Part IV, "Contributions", as follows:

"Your Tax-Exempt Organization — \$
See attached statement"

Attach a statement similar to the one below:

— — — — —
Your name and address as it appears on your tax return
Statement attached to Form 1040, Page 2, Part IV, Contributions

On _____, I contributed \$ _____ to YOUR TAX-EXEMPT
(date)
ORGANIZATION

City and State, _____ for a Life Income Contract.

My name and date of birth:

If two life contract, second beneficiary's name and date of birth:

The charitable contribution to YOUR TAX-EXEMPT ORGANIZATION (value of remainder) is \$

YOUR TAX-EXEMPT ORGANIZATION

Life Income Contract—transfer of securities Information for Deducting Your Charitable Contribution on Your 19 Federal Income Tax Return

Name:

Fair market value of securities delivered: \$

Date securities delivered:

Your charitable contribution deduction:

Note: You may deduct your contributions up to 30% of Adjusted Gross Income. Should your contributions exceed 30% of Adjusted Gross Income you may deduct the excess over the five following years until exhausted—up to 30% of Adjusted Gross Income each year.

Deduct your contribution on Form 1040, Page 2, Part IV, "Contributions", as follows:

"Your Tax-Exempt Organization — \$
See attached statement"

Attach a statement to your tax return, similar to the one below.

— — — — — — — — — —
Your name and address as it appears on your tax return
Statement attached to Form 1040, Page 2, Part IV, Contributions
(Furnish information for blanks)

On _____, I delivered _____ shares of _____
(date) (number) (type, i.e., common, preferred, etc.)
stock of _____ to YOUR TAX-EXEMPT ORGANI-
(name of corporation)

ZATION in exchange for a Life Income Contract. The stock is regularly traded on _____ or _____
(name of stock exchange) (over the counter)

Fair market value of securities delivered: \$
(average selling price on date of delivery)

My name and date of birth:

If two life contract, second beneficiary's name and date of birth:

The charitable contribution to YOUR TAX-EXEMPT ORGANI-
ZATION (value of remainder) is \$

State the date and how you acquired the securities (i.e., purchase, gift, inheritance, etc.):

YOUR TAX-EXEMPT ORGANIZATION

Life Income Contract—transfer of property
(other than securities traded on an exchange or over the counter)
Information for Deducting Your Charitable Contribution on
Your 19 Federal Income Tax Return

Name:

Fair market value of property delivered: \$

Date property delivered:

Note: You may deduct your contributions up to 30% of Adjusted Gross Income. Should your contributions exceed 30% of Adjusted Gross Income you may deduct the excess over the five following years until exhausted—up to 30% of Adjusted Gross Income each year.

Deduct your contribution on Form 1040, Page 2, Part IV, "Contributions", as follows:

"Your Tax-Exempt Organization — \$
See attached statement"

Attach a statement to your tax return, similar to the one below.

— — — — —
Your name and address as it appears on your tax return
Statement attached to Form 1040, Page 2, Part IV, Contributions
(Furnish information for blanks)

On _____, I delivered

(date)

(describe property in sufficient detail to

to YOUR TAX-EXEMPT ORGANIZATION

identify it and describe the physical condition)

City and State, _____, in exchange for a Life Income Contract.

On the date I delivered the property to YOUR TAX-EXEMPT ORGANIZATION it had a fair market value of \$ _____. The valuation was determined by signed appraisal, a copy of which is attached.

Fair market value of property on date of transfer: \$

My name and date of birth:

If two life contract, second beneficiary's name and date of birth:

The charitable contribution to YOUR TAX-EXEMPT ORGANIZATION (value of remainder) is \$

State the date and how you obtained the property (i.e., purchase, gift, inheritance, exchange, etc.):

If you held the property less than five years you are required to report the cost-basis: \$

If you held the property for more than five years report the cost-basis if available: \$

YOUR TAX-EXEMPT ORGANIZATION

Life Income Contract

Information for Reporting Income for Life Income Contract on Your 19 Federal Income Tax Return

Name:

Amount of funds (or fair market value of property transferred): \$

Date funds or property transferred:

Amount of income paid to you in 19 : \$

Report your Life Income Contract payments on Form 1040, Page 2, Part II, Line 7, "Miscellaneous Income" as follows:

"Your Tax-Exempt Organization
Life Income Contract—\$ "

YOUR TAX-EXEMPT ORGANIZATION

Life Income (Charitable Remainder) Trust—transfer of money
Information for Deducting Your Charitable Contribution on
Your 19 Federal Income Tax Return

Name:

Amount of funds transferred: \$

Date Funds transferred:

Your charitable contribution deduction: \$

Note: You may deduct your contributions up to 30% of Adjusted Gross Income. Should your contributions exceed 30% of Adjusted Gross Income you may deduct the excess over the five following years until exhausted—up to 30% of Adjusted Gross Income each year.

Deduct your contribution on Form 1040, Page 2, Part IV, "Contributions", as follows:

"Your Tax-Exempt Organization — \$
See attached statement"

Attach a statement similar to the one below:

— — — — —

Your name and address as it appears on your tax return
Statement attached to Form 1040, Page 2, Part IV, Contributions

On _____, I, as grantor, by written instrument created a trust
(date)
naming YOUR TAX-EXEMPT ORGANIZATION, City and State,
, as trustee. The trust provides
that the trustee is to pay the trust income to me for life (and to
(fill in if second beneficiary)). Upon (my death) (the death

of the survivor) the trust principal is to be delivered outright to
YOUR TAX-EXEMPT ORGANIZATION. On the date I created
the trust I transferred \$ _____ to the trustee.

My name and date of birth:

If trust for two lives, second beneficiary's name and date of birth:

The charitable contribution to YOUR TAX-EXEMPT ORGANIZATION (value of remainder) is \$ _____

YOUR TAX-EXEMPT ORGANIZATION

Life Income (Charitable Remainder) Trust—transfer of securities Information for Deducting Your Charitable Contribution on Your 19 Federal Income Tax Return

Name:

Fair Market value of securities delivered: \$

Date securities delivered:

Your charitable contribution deduction:

Note: You may deduct your contributions up to 30% of Adjusted Gross Income. Should your contributions exceed 30% of Adjusted Gross Income you may deduct the excess over the five following years until exhausted—up to 30% of Adjusted Gross Income each year.

Deduct your contribution on Form 1040, Page 2, Part IV, "Contributions", as follows:

"Your Tax-Exempt Organization — \$
See attached statement"

Attach a statement to your tax return, similar to the one below.

— — — — —
Your name and address as it appears on your tax return
Statement attached to Form 1040, Page 2, Part IV, Contributions

On _____, I, as grantor, by written instrument created a trust
(date)
naming the YOUR TAX-EXEMPT ORGANIZATION, City and
State, _____, as trustee. On the date I created
the trust I delivered _____ shares of
(number) (type, i.e., common, preferred, etc.)
stock of _____ to the trustee. The stock is
(name of corporation)
regularly traded on _____ or _____. The
(name of stock exchange) (over the counter)
trust provides that the trustee is to pay the trust income to me for
life (and to _____). Upon (my death)
(fill in if second beneficiary)
(the death of the survivor) (fill in if second beneficiary) the principal
is to be delivered outright to YOUR TAX-EXEMPT ORGANIZA-
TION.

Fair market value of securities delivered: \$
(average selling price on date of delivery)

My name and date of birth:

If trust for two lives, second beneficiary's name and date of birth:

The charitable contribution to YOUR TAX-EXEMPT ORGANIZATION (value of remainder) is \$

State the date and how you acquired the securities (i.e., purchase, gift, inheritance, etc.):

YOUR TAX-EXEMPT ORGANIZATION

Life Income (Charitable Remainder) Trust—transfer of property (other than securities traded on an exchange or over the counter)

Information for Deducting Your Charitable Contribution on
Your 19 Federal Income Tax Return

Name:

Fair market value of property delivered: \$

Date property delivered:

Note: You may deduct your contributions up to 30% of Adjusted Gross Income. Should your contributions exceed 30% of Adjusted Gross Income you may deduct the excess over the five following years until exhausted—up to 30% of Adjusted Gross Income each year.

Deduct your contribution on Form 1040, Page 2, Part IV, "Contributions", as follows:

"Your Tax-Exempt Organization — \$
See attached statement"

Attach a statement to your tax return, similar to the one below.

Your name and address as it appears on your tax return
Statement attached to Form 1040, Page 2, Part IV, Contributions

(Furnish information for blanks)

On _____, I, as grantor, by written instrument created a trust
(date)
naming the YOUR TAX-EXEMPT ORGANIZATION, City and
State, _____ as trustees. On the date I
created the trust I delivered

(describe property in sufficient

to the trustee. The

detail to identify it and describe the physical condition)

trust provided that the trustee is to pay the trust income to me for
life (and to _____). Upon (my death) (the death

(fill in if second beneficiary)

of the survivor) the principal is to be delivered outright to YOUR
TAX-EXEMPT ORGANIZATION.

On the date I delivered the property to the trustee it had a fair
market value of \$ _____. The valuation was determined by signed
appraisal, a copy of which is attached.

Fair market value of property on date of transfer: \$

My name and date of birth:

If trust for two lives, second beneficiary's name and date of birth:

The charitable contribution to YOUR TAX-EXEMPT ORGAN-
ZATION (Value of remainder) is \$

State the date and how you obtained the property (i.e., purchase,
gift, inheritance, exchange, etc.):

If you held the property for less than five years you are required
to report the cost-basis: \$

If you held the property for more than five years report the
cost-basis if available: \$

LIFE INCOME (CHARITABLE REMAINDER) TRUST

Name and address of income beneficiary

Information for Reporting Trust Income on Federal Tax Return

Name of Trust: _____

Address: _____

Identification Number of Trust: _____

Domestic Dividends \$ _____

Report on Form 1040, Part II, Page 2, Line 1a as follows:

_____ \$ _____
Trust name, address and identification number

Other Trust income (interest, rents, royalties, business
income, etc.) \$ _____

Report on Schedule B, Form 1040, Part III, Line 3 as follows:

_____ \$ _____
Trust name, address and identification number

Non-Taxable income \$ _____
Not reportable

LIFE INCOME PLANS

INFORMATION RETURNS REQUIRED OF CHARITABLE ORGANIZATIONS

The letter and the forms (preceding pages) are to aid your donors in preparing their tax returns. The Treasury does not require you to furnish the letter and forms to donors. You do so because you want to help them. But the Treasury does require you to send yearly reports to donors. Here is what the Treasury requires:

I. Life Income Contracts.

- a. You report life income contract income of \$600 or over paid to each donor during the year on Form 1099 (obtainable from your District Director). Form 1099 should be mailed to the donor by the following February 28th.
- b. On Form 1096 list all payments to those receiving Form 1099. Form 1096 should be filed with the Director, Internal Revenue Service Center, at the address specified on Form 1096 (page 2) by February 28th.

II. Charitable Remainder Trusts.

Trustee reports on Form 1041 for year ending December 31st by following April 15th (or within 3½ months after end of fiscal year.)

III. Annuities.

- a. You report taxable annuity income of \$600 or over to each donor during the year on Form 1099 (obtainable from your District Director). Form 1099 should be mailed to the donor by February 28th of the following year.
- b. On Form 1096 list all payments to those receiving Form 1099. Form 1096 should also be filed with the Director, Internal Revenue Service Center, at the address specified on Form 1096 (page 2) by February 28th.

EVALUATION OF GIFT PROPERTY

MR. FRED BECKER

Internal Revenue Service, Washington, D. C.

I want to thank you for affording me the opportunity to appear before you this morning.

Before making any comments that may be directly pertinent to charitable gifts in the annuity or life-income form, I think it may be appropriate to backtrack a bit and place this matter in the type of perspective that seems relevant to us in the Treasury Department.

In numerous ways, as you are all aware, our Government is strongly committed to the support and encouragement of private charitable efforts and private charitable institutions. In the tax law this commitment is expressed in two different ways. First, charitable organizations (I use the term charitable broadly to encompass all 501 (c) (3) organizations) are exempt from Federal income tax. Second, individuals contributing to charitable organizations are permitted to claim the amount of their contributions as a deduction in computing their Federal income tax. In this context, the only justification for such a deduction is that it provides an incentive to individuals to contribute to charity and therefore facilitates the charity's receipt of money to carry out its worthwhile objectives.

The hard fact of the matter is that a deduction for charitable contributions is a form of Federal subsidy. It is unquestionably true that there would be more dollars in the Treasury without the deduction than there are with it. In this sense the deduction costs all taxpayers money. To put the matter concretely, when an individual in the 70 percent marginal tax bracket, our highest tax rate on individuals, contributes \$1,000 of his income to charity and deducts this amount in computing his Federal income tax, the cost of the gift to him in terms of the amount of dollars that he would have had in his pocket after taxes had he not made the gift is only \$300. But for the contribution, \$700 of the gift would have been paid to the Federal Government in the form of taxes. I say this not to suggest that the charitable contribution deduction is wrong as matter of policy. Indeed, I think the system can be defended on the grounds that it gets Government support to philanthropic activities, but keeps Government control out.

In other words, if a particular individual thinks enough of a specific form of charitable activity to commit his resources to that activity, the Government can rely on his commitment as the basis for sharing in his gift by agreeing to forego a related amount of money that the individual in question would otherwise have paid in taxes. Thus, the Government does not attempt to independently assess the merits of any particular activity, instead it relies upon individual contributors to determine the activities they believe should be supported and by their support direct a related amount of Government aid to these activities.

In view of these basic judgments underlying our system, several difficult but important policy questions are posed. First, we must concern ourselves with the efficiency of the contribution deduction as an incentive for philanthropic activity. In which areas is the incentive operating effectively? In which areas can it be strengthened? In which areas does it appear not to be operating at all, or only very ineffectually?

For example, as I am sure most of you know, a taxpayer who uses the standard deduction in computing his tax liability is not entitled to separately deduct his contributions. More than half of our Federal taxpayers are in this position. For this group the deductibility of contributions provides not the slightest incentive for charitable giving. Yet, as you know, these individuals do contribute to charity. On the other hand many persons, for reasons other than the size of their charitable contributions, find it advantageous to itemize their individual deductions. Thus, the size of their non-charitable deductions entitles them to deduct even nominal or routine contributions which—judging by the behavior of standard deduction users—would have been made whether they were deductible or not. Indeed the average contribution is about three percent of income and this varies very little up to about \$100,000 a year income level. This poses some very difficult questions for it would seem to indicate that the charitable contribution deduction, as an incentive, has a good deal of slippage or wastage. Again, this is not meant as a condemnation but rather as an observation which should be useful in assessing ways in which the deduction could be strengthened and improved.

I don't want to dwell on this subject because I recognize that the type of substantial gifts that this Conference is concerned with

involve situations in which it is undeniably true that tax considerations are an important inducement. In this case we are concerned with a somewhat different set of questions. Since our tax law seeks to encourage contributions by defraying a portion of each contributor's cost, we must concern ourselves with the relationship between the amount the charity receives, the cost to the individual and the cost to the Federal Treasury.

Let me pose this problem more concretely. Were you aware that under existing law there are cases in which the Government ends up bearing more than 100 percent of the cost of a charitable contribution? One instance in which this occurs is when the rule which allows a charitable deduction of gifts of appreciated property, equal to the fair market value of the property, without any recognition of gain or income on the property to the donor is applied to ordinary income assets. An individual having property, the income from which would be taxable to him at ordinary income rates if sold, may well from a purely selfish motive prefer to give rather than sell. To take an extreme case—an individual in the 70 percent tax bracket will realize, after taxes, \$300 from the sale of an ordinary income asset which will produce ordinary income of \$1,000. If, on the other hand, he gives that asset to a charity his tax deduction will net him \$700 after taxes in his bracket, a clear profit of \$400 from his "philanthropic activity." This might appear to be an ideal situation in that the recipient has received an asset worth \$1,000. The donor is ahead by \$400. The only loser is the Government. It has, in effect, not only completely paid for the contribution but given a bonus to the donor in addition.

In view of our progressive rate structure one can accept a tax system which subsidizes contributions from the highest bracket taxpayer to the extent of 70 percent of the gift, but yet I think we can all agree that there is something indefensible about those aspects of the system which pay a donor for contributing to a charity by giving him a profit over and above what he otherwise would have received if he sold a particular asset and kept the proceeds.

To be sure, a system which permits a contributor to receive a net after-tax profit in his pocket as a result of a contribution is a very effective incentive, but I hope that I don't have to apologize for stating that the Treasury Department feels that while; it is entirely appropriate to provide tax deductions in order to encourage charitable

giving, and entirely appropriate for a donor to take tax considerations into account in making the gift, a donor should be motivated in making a contribution primarily by charitable impulses. We should not have the peculiar situation where 100 percent financial considerations rather than the slightest charitable consideration underlies a gift.

In starting my discussion on a somewhat broad plane I have tried to raise some questions which I hope will give you a basis for assessing the Treasury Department's views on the charitable contribution deduction. The specific type of gifts that this Conference is concerned with are really only one aspect of a very broadly based system of Federal support and encouragement to private philanthropy and I feel that it is appropriate to view the problems it raises in this over-all context. In the few minutes remaining I would like to translate the somewhat broader policy implications into considerations directly relevant to the type of charitable gifts that this conference is concerned with, with special emphasis on the valuation questions involved.

In general, both gifts in the annuity form and gifts in the life-income form can be thought of as split-interest gifts. That is, only a portion of the gross amount involved is being donated to a charity. In the life-income case a portion is regarded as being retained by the donor, namely the income from the gross amount of the property for his lifetime. The annuity case is really a part-gift, part-sale since the donor is in part purchasing an annuity contract similar to that which is commercially available and at the same time making a charitable gift.

In both cases the donor wishes to claim his charitable deduction in the year that the transaction is entered into. This requires us—first, to value the gross amount transferred and second, to value which portion of the gross amount that is physically transferred to the charity is in fact the gift element.

As to the first question I am afraid that I can offer no pat solution. The principle is clear. If a contribution is made in property other than money, the amount of the deduction is determined by the fair market value of the property at the time of the contribution. The fair market value is the price at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge

of relevant facts. But when a donor purchases his annuity or funds a life-income plan with real estate or non-marketable securities we inevitably have the seeds of a potential dispute, for individual judgments will certainly vary.

Once the gross value of the transferred property is determined, we must then determine the value of that portion of the gross amount that constitutes the charitable contribution. This must be done because one of the major purposes of the donor in making a split-interest gift during his lifetime, rather than a testamentary gift, is to get a present contribution deduction. In the annuity case which calls for a fixed return we have the experience of commercial annuities to look to in order to determine the fair market value of the donor's purchased interest and the charity's interest. On the other hand, the life-income case raises far more difficult policy problems. Mechanically I can tell you quite simply how a life-income contract is valued. We first determine the individual's life expectancy in order to estimate the point in time at which the charity will be entitled to the fund, and then apply a $3\frac{1}{2}$ percent discount rate to determine the present value of the charitable interest. However, this mechanical test is based on two interrelated assumptions. First, it is assumed that it is appropriate to use $3\frac{1}{2}$ percent as the discount factor in determining the present fair market value of the fund that will pass to the charity in the future. Second, there is implicit the far more questionable assumption that the property will earn $3\frac{1}{2}$ percent return over the donor's lifetime. This latter assumption is implicit because our problem is to divide a single sum—the transferred property—into two parts—the charity's interest and the donor's interest. The value of the whole should not exceed the sum of these parts. However, we all know that depending on the type of investments involved it is possible to administer a fund that will yield either more or less than that $3\frac{1}{2}$ percent return.

Since one of our prime considerations is in insuring that there is an appropriate relationship between the amount going to the charity, the cost of the gift to the donor, and the cost of the gift to the Treasury, this second assumption can cause a substantial amount of conceptual difficulty.

I think I can best illustrate my case by posing a situation which is the converse of the one you generally deal with. Suppose an individual transfers property to a trust to pay the income to the charity

for his life and the remainder to his wife or children. He is permitted a charitable deduction for the charity's income interest. The present value of that interest is predicated on the assumption that the trust will pay $3\frac{1}{2}$ percent a year to the charity and the present fair market value of this pay-out is determined by discounting these annual amounts at $3\frac{1}{2}$ percent. On the surface this seems straightforward enough. However, in the hands of some of our more manipulation-minded donors there is a great potential for somewhat unsavory tax planning. Many growth securities yield considerably less than a $3\frac{1}{2}$ percent income return. By retaining some control over the trust, or by transferring certain types of property to the trust and stipulating that this property be retained, the donor is in a position to insure that the charity will receive considerably less than the $3\frac{1}{2}$ percent return that was used in calculating his deduction.

The same result is possible in the case where the donor retains a life income interest. The property may be invested in a manner that will yield considerably more than a $3\frac{1}{2}$ percent return to the donor. Moreover, the donor may not care that the highest current return may be secured by an investment policy that involves a considerable risk to the security of the remainder which is earmarked for charity.

I think we can recognize that outright manipulation of this sort is far less likely when we are dealing with broadly based life-income plans involving a common fund being invested for the benefit of numerous donors. However, it should also be recognized that the trustees of a common fund have an obligation to secure an ample return on the fund. When the trustees, following their obligation, pursue an investment policy that yields more than $3\frac{1}{2}$ percent return, we have a situation where the present value of the donor's interest added to the present value of the charity's interest exceeds the total amount contributed.

The important point is that since our tax system seeks to encourage charitable gifts by defraying a portion of the cost of each gift, we must constantly examine specific types of gifts to insure that there is an appropriate balance between the amount received by the charity and the cost of the gift to the donor and the cost to the Federal Government. Since the basic purpose of the contribution deduction is to encourage gifts for philanthropic purposes, and since the most desirable form of gift would seem to be one that can be immediately

devoted to philanthropic purposes, one may wonder whether there should not be a greater inducement for outright gifts than deferred gifts. However, when we are confronted with situations that appear to permit donors to extract financial benefits from a deferred gift that substantially exceeds the benefits that would result from an outright gift of like amount, we are inevitably confronted with the feeling that this system may be getting out of balance. Now I realize that in using a term like balance, I am invoking questions of degree as to which judgments may vary. It is for this reason that I really cannot propose solutions to some of the problems I have raised. However, I hope that by discussing this question in these rather broad terms I have given you some insight into the type of considerations that trouble the Treasury Department.

STATE REGULATION OF GIFT ANNUITIES

MR. JAMES A. COUSINS, C.P.A.

*The Society for the Propagation of the Faith,
Pace College*

In 1962 in preparation for my talk at the Eleventh Conference, I sent a letter to the Insurance Commissioners of all states. Early this summer I sent a similar letter to all Insurance Commissioners and I find that the overall picture has changed considerably. In 1962 there were three states that had specific laws concerning the issuance of gift annuities—fifteen states were contemplating amending or issuing new laws. On the basis of the letters that I received, I find that there are over fifteen states at the present time that have some sort of regulation or law concerning the issuance of gift annuities and the possible supervision by the Superintendent of Insurance. As in the past, some of the Commissioners informed me that they were not familiar with gift annuities.

Quotations from Insurance Commissioners, State Insurance Laws and Opinions of State Attorney Generals are printed beginning on page 61. I will refer to some of these quotations in the talk but most of it I will leave to your own reading. I would prefer to spend the little time that I have on the real importance of "State Regulation of Gift Annuities." The question is, is "State Regulation of Gift Annuities" good or is it bad?

From my own experience, under the New York State Law since 1940, and also the State of California Law, for the most part the Regulations have a good effect. They standardize rates, issuing procedures and administration. There is a certain element of nuisance in the preparation of the Annual Report and also being subject to periodical physical examinations as we have in New York State. On the other side, State Regulation cannot only be bad but extremely harmful if the law is drawn by people who do not know what gift annuities are. For instance, in the State of North Dakota, the Insurance Department informed me that although they are discussing the regulation of gift annuities, nothing, however, has gone past the discussion stage. And yet in the same State, the Deputy Insurance Commissioner informed the American Bible Society that the North Dakota Securities

Act establishes annuities as securities, and even though religious, educational, benevolence, fraternal and charitable organizations may have secured an exemption, nevertheless, their annuities can only be sold through registered dealers and salesmen licensed in the State. What can be done about this?

It is most important that each and every one of the organizations present should request his attorney or someone who has contact with the local Legislature to be constantly on the lookout for new Bills or Amendments that would subject your organizations to State regulation. If such a Bill is discovered you should make it a point to have competent representatives, that is your attorney, plus an officer of the corporation, attend the Hearing and make sure that the Bill or the Amendment of a present law is worded in such a way that it will be helpful and not harmful.

Another example is the State of Illinois, which I understand is now considering regulation of the issuance of annuities. They wrote to me, "We do not know the term gift annuities and do not find that term in any legal or English dictionary available in any of our libraries in our City of Springfield, Illinois. Our dictionaries define a gift as something for nothing, a transfer of property from a donor to a donee without anything being transferred or expected or promised in return. Our dictionaries define annuity as an investment to purchase a return, annual or more frequent payments to the donor. (Compare Random House Dictionary 1966.) If you know of any document which put together these two opposite legal ideas, please send us a copy for our examination."

Several of the Commissioners have asked in the letters that they wrote to me that the Conference, through its Committee, keep them informed of the wishes of the Conference. For example, Oregon has a full page of suggestions. Quoting just one paragraph, Paragraph B, they suggested that the "Committee on Gift Annuities make legislative activity a regular function. The purpose could be to obtain some degree of uniformity in state laws on gift annuities and to obtain more liberal eligibility on the requirements of States having restrictions such as Oregon. Also this would be a means of the states keeping their laws on this subject up to date and in such matters as reserve standards and maximum rates."

A few of the Commissioners admitted that they were not satis-

fied with their present law but said it was up to the various organizations to bring pressure to bear on the legislative bodies to have these laws amended. They are not happy in some cases in having to enforce the laws as written, so in summarizing my recommendation, please, each organization be active in helping to prevent improperly drawn Bills becoming laws. It will not only help you as an individual organization, it will help all of us.

If you have any questions concerning the quotations that I have given you from the letters that I have received, I will be only too happy to talk to you after any of the sessions and if you wish to write to me for further information, I will try and obtain it. However, may I point out that where you wish information concerning the laws of your own state, your local attorney is in a much better position to obtain this information for you. However, the Committee as a whole, and myself as part of it, are willing to help in any way that we can.

Following, arranged in alphabetical order by State, are quotations from State Insurance Commissioners, from State Insurance Laws, and from opinions of State Attorney Generals:

CALIFORNIA

"At the end of 1966 there were 97 grants and annuities societies operating under certificates of authority issued by this Department. The Department does not have any suggestions or recommendations that it would like to present to the Committee at this time."

CONNECTICUT

"There are no societies operating under a permit issued by this Department other than actual insurance companies licensed here in this State. In other words, the selling or soliciting annuities is insurance and anyone or any organization or incorporation engaged in the insurance business should be licensed by this Department."

DELAWARE

Quotation from a copy of an Attorney General's opinion to the Commissioner of Insurance in 1963.

"The powers of insurance commissioners are purely regulatory and not legislative, and are confined to those expressly conferred by statutes, except as to such as are absolutely necessary to carry out the powers expressly granted. Those statutes conferring authority to regulate the insurance business are strictly construed, and the limited powers delegated to an insurance commissioner by statute cannot be translated into arbitrary powers to act accordingly. Therefore, since annuities are not insurance per se, since the gift annuity con-

tracts in question are definitely not insurance (there being no element of risk involved, no indemnity features), and since there is no statutory direction or authorization in our law that directs or requires you to regulate the proposed business, and since your powers are limited by the statutes of this State and must be strictly construed, I am forced to conclude that you cannot issue the regulation proposed by Mr. Sullivan on behalf of the Country House, and you cannot presume to regulate the annuity business they propose to enter into."

FLORIDA

Quotation taken from a letter by Attorney General to Insurance Commissioner, November 19, 1965.

"In view of the above authorities, it is my opinion that religious, educational or charitable organizations issuing contracts under which a specified annual payment for a period of time measured by the life of one of the parties to the contract is paid either to the donor of a present gift of cash or negotiable securities, or to a designated beneficiary, engage in the insurance business and are subject to the applicable provisions of the Florida Insurance Laws."

HAWAII

"In answer to your letter of May 24, 1967, our Hawaii Insurance Law does not permit the issuance of "Gift Annuities" other than by licensed insurance companies. Hawaii has not enacted special legislation in this area."

ILLINOIS

"We have read your letter dated May 24, 1967 by which you inquire *whether a gift annuity is insurance* and under control of this Department.

We do not know the term *gift annuity* and do not find that term in any legal or English dictionary available in any of the Libraries in our City of Springfield, Illinois.

Our dictionaries define a *gift* as something for nothing—a transfer of property from a donor to a donee without anything being transferred or expected or promised as return.

Our dictionaries define *annuity* as an investment to purchase as return, annual or more frequent payments to the donor. (Compare Random House Dictionary 1966)

If you know of any document which puts together these two *opposite* legal ideas, please send us a copy for our examination."

MARYLAND

Taken from Chapter 615 of the Acts of 1965.

"(a) Commissioner may issue special permits authorizing such agreements. The Commissioner, upon application and in his discretion, may issue a special permit to make annuity agreements with donors to any educational or religious organization not conducted for profit and engaged solely in bona fide educational

or religious activities which shall have been in active operation in this State for at least ten years prior thereto and which shall have been granted exemption from federal income taxation under the provisions of Section 501 of the Federal Internal Revenue Code of 1954; provided, however, that such special permit shall be in effect only so long as such educational or religious organization shall be exempt from Federal taxation under the provisions of Section 501 of the Federal Internal Revenue Code of 1954. Such permit shall authorize such educational or religious organization to receive gifts of money or other property conditioned upon, or in consideration of, its agreement to pay an annuity to the donor or his nominee, and to make and carry out such annuity agreement.

(c) Permit required; revocation or suspension of permit. No such educational or religious organization shall make or issue in this State any annuity agreement unless or until it has obtained from the Commissioner a permit issued in accordance with the provisions of this section. If the Commissioner finds, after notice and hearing, that any such organization having such a special permit has failed to comply with the requirements of this section or is not exempt from federal income taxation under the provisions of Section 501 of the Federal Internal Revenue Code of 1954, he may revoke or suspend such permit or he may order such organization to cease making any new annuity contracts until such requirements have been satisfied. In case of such revocation or suspension, outstanding annuity contracts shall remain in full force and effect. The action of the Commissioner in revoking or suspending any such permit or in making any such order shall be subject to judicial review as provided in this article."

MASSACHUSETTS

"Section 118 of Chapter 175 of the General Laws prescribes that a corporation incorporated for any religious purpose shall not be deemed a life company, and accordingly, such an organization may issue life policies or annuities and not be subject to any regulations by this Department."

MINNESOTA

"At the present time, there is no intention on the part of the Insurance Division to regulate the writers of gift annuities. There is an awareness that at least two other states do regulate the writing of gift annuities, both California and New York."

MISSISSIPPI

"Acknowledgment is made of your letter dated May 24, 1967 on the subject of Societies writing Gift Annuities within the State of Mississippi. To the writer's knowledge, there are no such Societies holding privilege license issued by this department for the exclusive purpose of writing annuities. However, many of our licensed insurance companies do write an annuity program.

Further, the State of Mississippi has not, as yet, approved or authorized the writing of Variable Annuities within this jurisdiction in view of the fact that our existing statutes require all such contracts to have and provide 'fixed' benefits."

NEW JERSEY

"The section of our Insurance Laws prohibiting the transaction of the business of insurance of any kind unless authorized, NJSA 17:17-12, contains the following provision:

"This section shall not prohibit the granting of annuities by corporations or associations organized without capital stock or not for profit whose funds are derived principally from gifts or bequests and which are used for eleemosynary or charitable purposes,"

OREGON

"The following suggestions come to mind as fruitful areas for the Committee on Gift Annuities:

- (a) Acquaint members with the provisions of the various state laws, so they will not operate illegally even though inadvertently in any state, such as appears to have been the case in Oregon.
- (b) Make legislative activity a regular function. The purpose could be to obtain some degree of uniformity in state laws on gift annuities, and to obtain more liberal eligibility requirements in states having restrictions such as Oregon's. Also, this would be a means of the states' keeping their laws on this subject up to date in such matters as reserve standards and maximum rates.
- (c) Make the services of the Committee known and available to the insurance departments and perhaps the income tax departments of the states. We have been hungry for information, and have made repeated requests regarding the Committee to the representatives of member institutions who have called on us, without results. In our opinion, if religious, educational and charitable organizations are going to be privileged to issue annuities under some type of exemption from the general insurance laws, they must have a strong 'trade organization' to help police the field, to secure and maintain the appropriate legislation, and to work closely with the insurance departments of the states to obtain the proper regulation of gift annuities.
- (d) As one possible and important phase of the foregoing, assist in the development of uniform, adequate financial reports to the states and in the education of the issuing institutions in the correct procedures for completing such reports.
- (e) Freely make available to state insurance departments the manual to which reference is made in Mr. Baas' letter of May 2 as being 'available to sponsoring organizations of the Conference only.' We appreciate the financial interest the Committee has in preserving the exclusive advantages for members. But the individual states need the benefit, in some form or other, of detailed information about the activity being exempted from the regular insurance laws, if they are to feel such continued exemption is proper and consistent with the best interests of the general public.
- (4) None has been authorized to issue variable annuities, as we normally understand the term."

SOUTH CAROLINA

"This is with reference to your letter of May 24 concerning gift annuities. The Department has never issued licenses to religious, educational or charitable corporations authorizing activities in connection with gift annuities. Nevertheless the Attorney General is authorized to make investigations into the activities of non-profit corporations (Section 12-745 of the South Carolina Code).

Senate Bill 268, a copy of which is attached, was passed this year. If you write us in several months, we may be in a position to give you some information concerning this matter as a result of the 1967 legislation.

AMENDED

April 18, 1967

Calendar No. S. 268

Introduced by SENATORS HESTER and WADDELL

S. Printer's No. 174-S.

Read the first time March 15, 1967

A BILL

To provide for Certain Charitable, Religious, Benevolent and Educational Corporations to be Authorized to Receive Transfer of Property Conditioned Upon Their Agreement to Pay an Annuity Without being Subject to the Insurance Laws of this State.

Be it enacted by the General Assembly of the State of South Carolina:

Section 1. Any charitable, religious, benevolent or educational corporation, not operating for pecuniary gain and in active operation for at least five years, may receive transfers of property conditioned upon its agreement to pay an annuity to the transferor or his nominee without being subject to the insurance laws of this State. No corporation operating for pecuniary profit, including nursing homes or any other type of business, shall be permitted to issue charitable or gift annuities without the approval of the Chief Insurance Commissioner.

Section 2. This act shall take effect upon approval by the Governor."

RHODE ISLAND

"There is no provision in the Insurance Laws of this State that would permit the issuance of variable annuities by colleges, religious, charitable or educational organizations. Under the laws of this State, only life insurance companies may issue fixed or variable annuities. Accordingly, the four questions are not applicable to the subject in Rhode Island."

NORTH DAKOTA

Department of Insurance

"This letter is in reference to your inquiry concerning state regulation of gift annuity funds.

This department does not maintain statistics in this area and thus can furnish

you with no valid information. There are no present plans for definite regulations in this area because of the small demand for such in the past, but there has been some discussion of the matter between our department and several companies dealing in annuities. Nothing however has as yet gone past the discussion stage.

Yours very truly,

K. O. NYGAARD
Commissioner of Insurance

Gust P. Economon
Administrative Supervisor

Letter to American Bible Society

We have reviewed the enclosures of the letter from your secretary of May 19, 1967, and addressed to this office.

The North Dakota Securities Act exempts the registration of annuities from the Act if they are contracts of an insurance company subject to supervision by another agency of this state. It does not appear that your society is subject to the supervision of any other agency in this state.

If your society is organized and operated exclusively for religious, educational, benevolent, fraternal, charitable, social or reformatory purposes and not for pecuniary profit its securities (annuities) may be exempt from the registration requirements of our Act. However, even if the annuities are so exempt, they may be sold only through registered dealers and licensed salesmen.

If your society wishes to submit evidence that they qualify for the religious or charitable exemption, it may do so. The society may apply for a securities dealership in the society's name and qualify those who offer the annuities as salesmen for the dealership. We will also require the officers that deal with annuities to take our securities examination as evidence of their knowledge of the securities business before issuing a dealership to the Society.

If the society chooses to become registered as required we will furnish all necessary forms. We trust that the society has ceased to offer its annuities to North Dakota residents and will refrain from doing so until they are properly licensed.

K. C. Nygaard
Insurance Commissioner
Donald Stocking
Regional Administrator
S.E.C.

Donald R. Holloway
Deputy Securities Commissioner
and Legal Counsel"

TEXAS

"In response to your second question, we advise that 548 legal reserve companies are licensed in this state. We do not know how many of these are actively writing annuities, but any of them would be authorized to do so. The total assets of these companies and the annuities in force could be determined

only by review of the annual statements. We regret that we do not have personnel to compile this information.

The institutions to which we have referred are commercial insurance companies. An organization known as College Retirement Equities Fund has been active in issuing variable annuities in this state. The last session of the Legislature has now authorized all insurance companies, upon meeting requirements prescribed by administrative regulations, to sell variable annuities."

VERMONT

"We have no regulations or experience with gift annuities here at the State of Vermont, at least to my knowledge.

At least on one occasion, since I have been Commissioner, we have discouraged what I might term a "Bible College" from issuing something described as a "Gift Annuity". We are not enamored of non-insured annuities and would expect to argue, if anyone tried issuing them, that such an organization was doing the business of insurance without a license."

NORTH CAROLINA

"At the end of 1966 we had no active societies operating under a permit issued by this Department in connection with Gift Annuities. The Insurance Laws of North Carolina do not permit the writing of variable annuities in this State."

WISCONSIN

"Chapter 199, Wisconsin Statutes, relating to donor annuities, permits corporations engaged in bona fide charitable, religious, missionary, educational or philanthropic activities to receive gifts of money conditioned upon an agreement to pay an annuity to the donor. Reserves must be established at least equal to those required for annuities issued by life insurance companies in Wisconsin. However, section 199.04 exempts such donor annuity associations from all other statutes applicable to insurance companies, so that the commissioner of insurance has no authority for the operation of these associations nor does he have authority to examine them or require that they make financial filings with him. Therefore, we have no information in this office on which to base answers to any of the questions presented in your letter of May 24."

INVESTMENT PRACTICES

DR. WM. KINCAID NEWMAN

*Executive Vice President, The Pension Boards
United Church of Christ*

There is one sure rule with regard to experts in investments. That is, the more they know, the more careful they are in committing themselves. Therefore, if I were an expert I would accept the gracious introduction and sit down thus placing myself at the head of the list. However, since my knowledge is very limited, I am the more ready to share what I have with you.

A "gift annuity" is created when a donor gives a sum of money or securities or other property to a charitable, educational or religious organization in return for the agreement by that organization to pay him an annuity in a fixed sum for the balance of his life. The annuity to be paid is so calculated that if the organization earns the assumed rate of return and the donor lives the number of years forecast by the organization's actuarial counsel, about half the gift will remain for the benefit of the organization. When the gift is received, the organization sets up a reserve to assure its ability to pay the annuity. The amount of the reserve may be the entire sum given or it may be the actuarial value of the annuity plus 10% or whatever additional amount is needed to satisfy legal and prudential requirements.

The worth of the transaction depends upon the success or failure of the investment of this reserve. If the return is inadequate to pay the annuity, the charity must use its other funds for this purpose thus reducing its charitable activity, or the donor will have been shabbily rewarded for his generosity. If the charity has no residue or a very small residue, it has gone to a great deal of trouble for no purpose.

There is one sure rule in investment matters. The same rule applies in almost all human affairs. Before you determine your investment policy, decide where you are trying to go. This is not an area where you can mount a horse and ride off rapidly in all directions. You need to think out very carefully what you are trying to do with your investment and why, before you start investing. Some persons are interested entirely in income and invest in those securities which

produce the most cash income. Others are mainly interested in growth and invest in securities which give less income, but which hopefully will sell at a much higher price in a few years. Others are interested in neither income nor growth but safety, and take the maximum precautions for safety ignoring other factors.

If you are investing an endowment, or if you have a very large amount of money to invest, you usually consider all three factors and arrive at a proper balance. When investing gift annuity money, the primary object is to fulfill your contract with the donor and to have the maximum amount left over when the donor dies for the religious or charitable purpose for which the gift is given. Your primary objectives are not growth, but safety and the maximum return consistent therewith.

As a matter of fact, the laws governing gift annuities in New York, and some other states, prescribe such a policy for you. The law of New York, for example, provides that investment must be in specified types of securities such as obligations of the United States, or guaranteed by it; obligations of state governments not in default; corporate bonds which meet certain tests; and mortgages and preferred stock as described in the statute. Common stock may be held in an aggregate amount not to exceed 5% of the assets, or one-half the unassigned surplus, whichever is less. It also must meet certain standards. There are no legal restrictions regarding surplus funds in excess of the minimum required by law. Therefore, if you are operating in New York State you must follow this rule. If you are not operating in New York, you may be bound by the rule of some other state, or you may be in a state which has no rule at all. In the latter situation, it is wise to follow a sufficiently conservative policy to come within the New York law in case you desire to qualify at some future time to sell gift annuities in New York or other regulated states. Remember that you may be called upon to qualify at a time when it might prove inconvenient or embarrassing to do so because of the state of the market.

Some investment men feel that the severe limitation as to common stock is unfortunate. We have seen that the low coupon bonds of excellent corporations can, during a period of high interest rates, sink very low. While they will return to par at maturity, many investors would like to have some common stocks with good growth to offset

them in the meantime. Fortunately, in most instances the need for liquidity in the typical gift annuity reserve portfolio is not so great as to cause a problem.

Entirely apart from the law, a charitable or religious organization should hold itself to the highest standard possible of integrity and discretion. Your clientele, the donors of the gift annuities, are often people for whom you have a special responsibility. These are not sophisticated investors where the rule of "caveat emptor" applies. These are often elderly people, and people with very little investment experience. They may not be able to take chances or undergo risks in investing their money. They have to shepherd it carefully in their declining years. If you induce them, as a part of their preparation for those years, to enter into a gift annuity contract with you, you are particularly responsible to see that they do not suffer in any way through your lack of foresight.

We should recognize also that this is a rather special situation for all of us. It is an unusual type of contract. If one charitable or religious or educational organization fails to exercise the proper standard and donors suffer losses in consequence, the whole group is hurt. This is one reason that we have the Gift Annuity Conference. We come together to pool our experience and test it by the experience of others, to be certain that we are operating in the most prudent possible manner.

In investing gift annuity reserves, you should follow the principle of the "single eye." Invest with one purpose and only one purpose in mind, namely your ability to fulfill the contract with the donor and that you choose your investments for the way in which they fit this purpose. Most of us have been tempted to violate this principle by our friends. I do not mean by our personal friends, for I think we have passed the stage of being tempted to make loans to our in-laws, but by our friends who have a common interest in the work for which our particular religious or charitable body is chartered. For example, if your Fund is related to a religious body, some local congregations would like to borrow from you to erect a new building. Hospitals or colleges will wish to put up additions. There is nothing wrong with the purposes of these would-be borrowers, but you must be ready to say a flat and firm "no" to them. You are not able to judge objectively their ability to repay the loan. There is danger that

your desire to help them will overcome your good judgment of their financial stability.

In making any loan, you must look carefully at the ability of the borrower to repay and at the collection methods available to you. If you are making a loan secured by a mortgage, consider what you would do if forced to foreclose. Many of you remember the plight of financial institutions which had to foreclose mortgages on religious and charitable organizations during the Depression. I was once charged with enforcing a mortgage securing a loan which my denomination had made to one of its colleges. The purpose had been laudable—to build a college chapel. We had been given as security a mortgage on the entire campus of the college. In the middle of the Depression, the college had to close its doors, owing debts to everyone for miles around. We foreclosed our mortgage on the campus. Half the buildings were falling apart and of no value to anyone. It was some time before we could find anyone to bid on the property. When we sold it, we took a substantial loss. A loan to a congregation of your own religious denomination may put you in a similar situation. Not only may the property be doubtful security for your loan, but you might be subjected to all sorts of political pressures to compromise the debt and to avoid foreclosure. If you act hardboiled, there may be a terrible uproar in the next Synod or Annual Conference.

Even when the prospective denominational borrower is solvent and you are reasonably certain to receive your principal and interest, you may be asked to make the loan at a lower interest rate than you could get through regular channels. Even a fraction of a percent of interest means a great deal to you in the long run. The higher return you can get on the money during the period of the investment, the more profit you will make on your gift annuity and the more money you will have for the ongoing purpose of your organization.

Having determined the objectives in your gift annuity investment program, the next question is who is to do the investing? There are many answers. What is best for one organization may not be best for another. If, for example, you are a comparatively small organization with little capital and you do not have many gift annuity contracts, you are probably better off to reinsure the annuities with commercial insurance companies. You then avoid the problems of setting up the necessary machinery for efficient operation and the adminis-

trative problems connected with the gift annuity. The company does the work of making actuarial assumptions and investing and paying out the money. You have the balance over and above the actual cost of the annuity for immediate expenditure.

If you have a somewhat larger number of annuities, you may wish to work out an arrangement for a trust company to handle the investing. Many trust companies perform a valuable service in this way. Possibly the trust company is already handling the investing of your endowment and can take on this extra responsibility with little or no effort.

Some trust companies maintain commingled funds of various types, some of which are restricted to the type of investment approved by the state regulatory bodies. By investing in these funds, a small fund can get the advantage of diversification and the economies of management which pertain to a large fund.

If you have substantial invested funds and many gift annuity agreements, you may decide to do the investing yourselves, employing competent people to manage your portfolio, and securing a strong group of laymen in the banking field as your advisors. Many bodies represented here do their own investing, especially those with a constituency in the metropolitan areas who can draw upon competent talent to serve on committees.

For small organizations, especially those located away from the banking centers of the country, handling their own investments involves a greater problem. Banking facilities may be limited. It may be difficult to gather a good investment committee. There is always the risk that because fewer men are available from whom to pick, one or two men may dominate the group. Your investment policy will rise and fall on the basis of their prejudices or judgment. If one of them becomes ill or moves to another part of the country, you may be in trouble.

The financial position of your organization may dictate increased conservatism in handling gift annuities. The budgets of some organizations are balanced very precariously. Some are even in debt. Every organization faces times when it has to take risks. If, perchance, you have taken all of the risks you can afford to take, you need to be especially cautious to invest gift annuity reserves so that they cannot

be touched by creditors and that your contract with your annuity gift donors will not be jeopardized by any financial problems of your institution. In the early days of gift annuities there were a few organizations which spent the entire amount of the gift immediately and relied on future revenue to pay the gift annuitants. Such an arrangement, of course, is illegal in New York and is certainly imprudent and risky in any state, whether it is legal or not.

A concluding consideration is measurement. Measurement is the "in" word today. Investors are very conscious of it. While most investors have measured the results, measurement is becoming increasingly sophisticated. It is not easy. It is possible for two funds, each amounting to a million dollars to be equally well invested and still to be producing quite different returns because money went into the funds at times when prevailing interest rates were greater or less. Today's interest rates are high, so that a fund set up in 1967 might have a much higher return on its money than one set up a number of years ago. Some funds have a high rate of return because they are well invested. Others have a high rate of return because they are speculatively invested and the return has been purchased by taking too great a risk.

What measurements should you make? First you should keep some simple charts of the total amount in your gift annuity reserve, both by book value and by market value, charting the percentage earned each year both on book and on market, along with the annual increase or decrease in market value. This may then be studied by your investment advisors and compared with returns in comparable situations. There are more elaborate systems of checking and some of the banks have done a very interesting job in developing methods of measuring performance. Their formulas are complicated but their computers are efficient.

Pension fund investors have been studying a book entitled "Pension Funds: Measuring Investment Performance," by Peter O. Dietz, published by the Free Press, a division of MacMillan. It should be stimulating to those investing gift annuity reserves also.

To summarize, these are the principles to keep in mind:

1. Decide what the objectives of your investment policy are to be, bearing in mind your very special relationship with

people who are donating the gift annuity and placing a high degree of trust in you.

2. Pursue your investment goals with a single eye, not being diverted to other purposes, no matter how laudable.
3. Decide who is to do the investing, having in mind the problems of your own organization, its opportunities for good investment management as well as factors which might render good management difficult.
4. Measure your results periodically to be sure that you are coming as close as possible to achieving your goal.

TERMINOLOGY

DR. ASHTON A. ALMAND

*Treasurer, World Division of the Board of
Missions of The Methodist Church*

Our English language provides us with words which are the vehicles we use to convey ideas, facts and fiction from the mind of one to the mind of another. These words, like all vehicles, can be used or misused and may operate for good or evil. One of the well-known characteristics of our language is that the same words can mean so many different things. I heard a story a while back which I think illustrates this. A young man had a job on which he was paid weekly. He also had a girl friend in the village who he loved very much and who loved more than anything else beautiful, fresh flowers. On a Wednesday evening as he was going to see his girl friend he stopped by the florist to get a dozen red roses. He wanted them to be very fresh and wanted to impress the girl with their freshness so he asked the florist to sprinkle a little water on the flowers. The florist gave him the bouquet but he lacked \$2 for enough to pay and promised to pay the florist on Saturday. When he reached the home of his girl friend she met him at the door and saw the flowers and said how beautiful they were and how fresh. As she pressed her face on one and felt the dampness she said, "I see there is still a little dew on them" to which he replied, "Yes but I am going to pay it on Saturday night." In a similar way, for instance, the words conversion and redemption would be equally at home in a discussion by theologians or security brokers, but the meaning conveyed would be totally different. The word bowl may suggest to the busy housewife a crockery dish, while at the same time suggesting a game for recreation to a large segment of our population. Many of our words, while conveying a similar meaning to all hearers, are dependent on other words to establish their relative values. For instance, an advertisement says an item is cheap—cheap compared to what? Adjectives are our handiest tools for describing our products, but often our enthusiasm may result in our superlatives overshadowing our facts. For the purpose of this presentation I am using the word "product" to describe our deferred giving programs.

Advertising copy and materials have in some instances been so successful in conveying exaggerated pictures that our Federal Government has even considered the necessity for a truth in advertising law.

We who represent the educational, charitable and benevolent agencies must remember we are aiming our promotional material at a diversely oriented readership. We, of all people, are under a moral as well as legal mandate to express our messages in words which as adequately as possible describe our product while leaving a minimum of possibility for misinterpretation. Those of us who operate under the watchful eye of the New York State Insurance Commission are less likely to go astray than those who do not have the benefit of this constant surveillance. Seriously, we are indebted to this and other regulatory agencies for their fair and competent assistance in reviewing our total program. Confidence is developed in our prospect not only by our product, but by the manner in which we describe and present this product.

It is assumed we who are here are all interested in the field of deferred giving in some way. Terminology has been the source of more misunderstandings in this field than any one of us can imagine so let's look at some of these words we so frequently employ. The best known form of this deferred giving is variously referred to as "Annuity Bonds;" "Gift Contracts;" "High Income Contracts;" and even "Insurance Plans" but only when it is described as a "Gift Annuity Agreement" is it properly titled. The Certificate of Authority issued by the New York State Insurance Commission authorizing corporations to receive gifts in exchange for its Annuity Agreements, suggests to us the term which most aptly and accurately describes the document—"Gift Annuity Agreement." The use of other terms, though possibly acceptable where no regulatory body has ruled otherwise, may have grossly misleading connotations which can ultimately result in serious repercussions for the issuing agency. Other types of deferred giving documents may be defined as "Life Income Agreements;" "Living Trust Agreements;" "Special Agreements," etc., depending largely on the nature and terms of the agreement itself.

In securing some data for this discussion I reviewed some advertisements appearing in a number of publications over the past several years and would lift some of these out for you now. Bear in mind we are under mandate to present the facts of our program with

accuracy and with the least possible opportunity for misinterpretation. One ad reads "High Returns from your Investment;" another promised "Generous Income;" still another "Get more Income for Life." These were all terms which had at least some element of truth and accuracy, but were filled with possibilities for misleading the reader. The offer of "High Return" would be quite accurate for the prospective annuitant of 80 years of age who would get a return of 7.6% but the one just turned 50 would receive only 4.2%.

Likewise, the term "generous" is a relative term as was the "get more." The question is "More than what?" and until the "what" is spelled out, the whole story is not told. The phrase "Guaranteed Income for Life" describes the long-range security which most people desire without confusing the quantity feature. This is an accurate description and perhaps the most important benefit of the Gift Annuity Program.

Not all our opportunities for accurate expression come to us in the advertising media. They frequently show up in our correspondence with donors, prospective annuitants, other institutions, etc. Recently a letter of inquiry came to me asking what our "interest" rate was on Annuity contracts. We are aware that Section 45 of the New York Insurance Law authorizes the issuance of gift annuity "Agreement" and makes no use of the word contract. This clearly indicates their preference of terms. So in the first place, I replied, it is not a "contract" but an "agreement" and the semiannual check we send is not "interest" but a rate of return predicated on the annuitant's age, single or multiple life agreement, etc. Another letter suggested the income from the Gift Annuity Agreement as "tax-free income." This, of course, could be grossly misinterpreted for only a portion of the income, computed on the schedule prepared by the Internal Revenue Service, is not subject to income tax. The deferred giving program should never be suggested as a method of tax evasion or postponement. It should be clearly described as a means approved by the Internal Revenue Service whereby a person may make a gift to a chosen, recognized beneficiary during his lifetime yet not surrender a reasonable income thereon for life. At the death of the Annuitant, or the last beneficiary in case of a multiple beneficiary agreement, the matured value or residuum of the Annuity Agreement already belongs to the issuing agency and unless some State Law provides otherwise,

is not considered a part of his estate. Since it is not involved in estate tax, there may be, therefore, some long-range tax advantages, but these are not the motivation for gift annuities, or at least they should not be.

All too often our enthusiasm over our own program of deferred giving spills over into the use of unjustified superlatives. Frequently it prompts us to assume the role of advisors of many kinds: investment, legal, tax accountants, to name only a few. It is extremely important to realize that we must always live with our words. Misunderstanding of our letters and our ads can cause trouble for a long time to come. Not only will the regulatory agencies of our States breathe down our necks; but that person who entered into the agreement is likely to be around a long time. If he was misled, intentionally or otherwise, by our use of words he will lose confidence in us, will harass us with correspondence and will discourage his friends and relatives from doing business with us.

Let's use all the words we can to convey all the ideas we can to all the folks we can, but let's be sure they say what we mean.

PAYMENT PROCEDURES

DR. CHESTER A. MYROM

Director, Lutheran Church in America Foundation

Purpose of the Panel

The purpose of this presentation, as the panel members understand it, is to deal with the internal or home-office procedures related to the administration of a gift annuity program. This is by way of contrast with those aspects of a gift annuity program which are not within the issuing agency's control. Tax implications, state regulations, fluctuations in the market, actuarial trends—these are factors that make a difference, to be sure, that have to be reckoned with, but they are not within the administrative control either of financial officers or development directors. These are facts of life, so to speak, within which annuity managers must operate and with which we must contend.

What factors then are within the control of management? Designers of the program for this Thirteenth Conference believed some of them to be these: 1. Payment Procedures; 2. Termination Practices; 3. Data Processing.

To say it another way, our panel is concerned with the more or less routine procedures that relate to a gift annuity contribution, from the time it arrives in your office until the time that agreement is terminated, either voluntarily by the donor or through report of the annuitant's death by a relative, by the executor of a will; or by the administrator of an estate. I shall deal with the first of these; namely, "Payment Procedures."

This report is based on six questionnaire replies

The material subsequently set forth is based on information derived through a "Questionnaire Regarding Payment Procedures" which was directed recently to five representative church-related gift annuity issuing agencies. Our own organization's experience is likewise included, making a total of six. Four of the agencies surveyed are New York City based, while two are located in the Middle West.

The research represented does not therefore presume to be either exhaustive or extensive. However, this observer does believe the

findings to be fairly representative of what a broader study would reveal. This report is submitted now in the hope that for some of you the information shared may provide new insights. For others this may simply confirm understandings already held. In any event, I now publicly extend my sincere thanks to those amongst you who so readily responded to my request for information about your respective organizations.

Scope of report is broader than Payment Procedures

In addition to detailed information as to frequency with which annuity payments are made, the dates for such payment, adjustments made in first payments, etc., request was also made along somewhat broader lines, in the belief that the information sought might not be brought out elsewhere during the conference and that including it here might contribute something more to the benefit of all of us. Questions of this broader character have to do with range in size of gifts received, most frequently received amount, ratio of repeat donors to first-time givers, description of typical first-time annuity contributors. In summary, the survey findings are as follows:

1. *Minimum Annuity Gift Accepted*

Five of the reporting organizations write annuities in the amounts of \$100 and up; only one (our own) has a publicized minimum of \$500.

2. *Range of Gifts Received*

a. *During 1966:*

- 1) \$100 to \$16,800
- 2) \$100 to \$20,000
- 3) \$500 to \$81,000
- 4) \$100 to \$50,000
- 5) \$500 to \$15,000
- 6) \$100 to \$10,000

b. *During 1967:*

- 1) \$100 to \$10,000
- 2) \$100 to \$25,500
- 3) \$200 to \$127,200
- 4) \$100 to \$60,000
- 5) \$500 to \$46,000
- 6) \$100 to \$100,000

With one exception, it will be noted that in 1967 gifts to these six organizations ranged to higher amounts than in 1966.

Is this borne out in the experience of others? Does this suggest the possibility of a trend toward greater philanthropy?

3. *Most Frequently Given Amount*

- a. Five of the six reporting organizations indicated \$1,000 as their most frequently given single amount while one said \$500.
- b. The ranges within which most annuity gifts tend to be were reported thusly:
 - 1) \$500 to \$10,000
 - 2) \$500 to \$1,000
 - 3) \$1,000 to \$15,000
 - 4) \$100 to \$20,000
 - 5) \$1,000 to \$5,000
 - 6) \$1,000 to \$10,000

It can be pointed out in this connection that, with one exception, the range of most frequently received amounts has as the lower figure a larger amount than the published minimum gift. In every instance the most frequently given single amount was larger than the published minimum.

4. *Schedule for Annuity Payments*

Four of the six reporting organizations stated that, *on gifts of minimum amount*, annuity would be paid semi-annually; two make such payments only on an annual basis.

- ☞ Three of the six reported that the payment schedule for *gifts of any amount* would be on a *semi-annual* basis. The other three offered other possibilities, such as quarterly or monthly payments. The expressed preference of the donor is the deciding consideration. Two organizations publicize that on gifts of \$10,000 or more, annuity payments will be made monthly; on gifts of \$2,500 to \$10,000, in one case, and on gifts of \$2,000 to \$10,000 in the other, quarterly payments are possible; otherwise semi-annual is the rule.

5. *Dates of Annuity Payment*

Four of the six reporting organizations apparently make annuity payments as of the anniversary date of the gift. (The responses, or possibly the questions themselves, are not as clear in this regard as they might have been.)

Two organizations report that semi-annual payments are made as of the first day of January and July.

Only one reporting organization (our own) makes payments as of the last day of the month.

6. *Effective Date of Agreements and "Grace Period"*

Allowances in computing the first payment

a. For five of the six reporting organizations the *effective date* of an agreement is the *date of its receipt* in the office. The one exception in this regard reports the effective date for all agreements is the *first day of the month in which the gift is received*.

b. Four organizations report that no "grace period" is allowed in computing payments.

The exception cited in "a" above implies a grace period to the first of the month.

The sixth organization (our own) as a matter of practice allows a grace period of fifteen days. While agreements are issued as of the date of receipt, the amount of the first payment, for whatever period is involved, is computed as though it had arrived on the first of the month.

c. All organizations report that where the first payment involves anything more than a normal payment period, pro rata addition is made to such payments.

7. *Date of Mailing and Tax Information*

a. All six reporting organizations mail annuity payments two to three days in advance of the due date.

b. All six organizations, as a matter of routine, provide income tax information regarding a gift at the time the agreement is issued.

8. *Typical First-time Annuity Contributor*

These answers were received in response to my request for a description of their typical first-time contributor:

a. "Widow, 65 to 70, average means."

b. "Nearer to age 60, single, a dedicated person."

- c. "Usually over sixty, above average circumstances, single, widow or widower, retired, searching for lifetime income with continuing tax benefits."
- d. "Age 65 or more. Unmarried or widowed. Financially moderately comfortable."
- e. "Persons in their early 70's, single, married couples or surviving spouse. Moderately circumstanced. Unassuming in manner of living. Quietly committed to their church and its work."
- f. "The majority are females between the ages of 60 and 85, both widows and single, in moderate financial circumstances, having an interest in the mission of the church."

9. *Annuity Givers Are Repeat Givers*

The final question asked in the survey form had to do with *first-time gifts* as against *repeat gifts*. These answers are reported:

In 1966:		In 1967:	
<i>First Gifts</i>	<i>Repeat Gifts</i>	<i>First Gifts</i>	<i>Repeat Gifts</i>
a. 50%	50%	a. 40%	60%
b. 47%	53%	b. 18%	82%
c. 57%	43%	c. 40%	60%
d. 60%	40%	d. 75%	25%
e. 51%	49%	e. 37%	63%
f. 60%	40%	f. 67%	33%

The "best prospect" for an annuity contribution is the person who has given before!

Conclusion

Every annuity or life-income gift carries with it the expectancy of a continuing relationship of indefinite length, possibly long-term, between the issuing agency and the contributor, or his designated life-income beneficiary. The issuing agency's payment procedures during this period of time—or general administrative attitude, if you please—in large part will determine whether for an individual contributor the relationship is the altogether satisfying experience it can and should be.

I conclude with a personal observation. The organization with

which I am associated seeks to convey to each of our donors that Lutheran Church in America Foundation, for its part, enters into every gift annuity or life income agreement with a genuine sense of privilege and a feeling of deep appreciation. From time to time and in various ways we find opportunity to reaffirm this expression. A greeting card on each annuitant's birthday, a greeting at Christmas, an occasional "newsletter" type of communication about the developing life of our organization—these are ways in which we seek to convey to our annuitants, in a continuing way, a sense of their belonging to a kind of family. We believe these simple acts are manifestations of good human relations. They seem also to contribute to good fund raising.

I am sure we are not alone in this belief. The record of repeat-giving set forth in our little survey gives evidence that human nature is pretty much the same everywhere. A respected friend of many of us here today, Dr. F. Eppling Reinartz, one time gave eloquent testimony that, "Nothing is appreciated like appreciation." This is the premise from which gift annuity administration must begin.

A gift has been made! Human nature has reversed itself! Instead of grasping, of hanging on, someone somewhere has given! In the Judeo-Christian view of life, this is evidence of God at work in the hearts and minds of sinful human beings. It is appropriate in the face of such a happening to be at one and the same time both humbled and exalted. "Payment Procedures" in gift annuity administration can be a continuing, God-given reminder that we are partners in His divine purposes.

TERMINATION PRACTICES

MR. LELAND A. POMEROY

Assistant Director, United Presbyterian Foundation

Last May, when I was asked to join this panel and discuss Termination Practices, I accepted because I was confident I knew all about this phase of our business. Since then I have learned the definition of confidence. CONFIDENCE = that feeling you have just before you find out the problem.

And Termination Practices are a problem and in my search for some material that I could share with you, I talked to many people who deal with life income agreements and gift annuities. Our administration is quite uniform while the income beneficiaries live, but we have many different methods of determining what to do when the agreements terminate.

Ten years ago, when I started working in this particular field of fund raising, I was invited to attend one of these conferences. We are fortunate that the proceedings of that conference and succeeding conferences have been printed by the Committee, for within the covers of those books I have found most of the basics that I have had to apply to our promotion, development work and administration of the gifts we have received. To those of you who are attending your first conference, I recommend all of these published proceedings for they contain most of the answers to the questions you will be asked.

Previous speakers have discussed in detail the various types of agreements now in common use, and Dr. Almand has stressed in particular the terminology that has developed and which must be understood by all concerned development people, treasurers, administrators and executives.

Thus, in a discussion of Termination Practices, it will not be out of order to state once again that we are dealing with:

1. Life Income Agreements
2. Separately Invested Agreements
3. Charitable Remainder Trusts
4. Gift Annuity Agreements

The Committee on Gift Annuities has developed, over the years,

agreement forms for each of these plans. Examination of these samples will reveal that each contains, in one form or another, these four important facts:

1. Acknowledgement of the gift
2. How the life income payment is to be paid, how it is to be determined, to whom it is to be paid and how long it is to be paid
3. How the institution will invest the gift during the lifetime of the income beneficiary(ies)
4. What the institution will do with the principal, or residuum, after the life income beneficiary(ies) dies

It is with this part 4 that we are now concerned.

Among the institutions represented here there can be no doubt that Termination Practices vary widely. This is to be expected since our reasons for being are not the same. Our corporate structures are different, and there is an understandable dissimilarity in our methods of operations, accounting procedures, programs, and investment policies.

Basically, however, one of four things can happen to the principal or residuum when the income beneficiary dies:

1. It can be spent at once for anything the institution desires. It is completely unrestricted.
2. It must be permanently invested as an endowment, but the institution can spend the income produced by it for anything in its program.
3. It must be permanently invested and the income used by the institution for a specific work designated by the donor at the time he made his gift.
4. It must be spent—principal or residuum—for a specific work designated by the donor.

When the institution receives notice that the income beneficiary has died, steps must be instituted to carry out the original wishes of the donor. Reference to the original agreement, which was executed when the gift was made, will reveal which of the courses cited above is to be followed. If the man who wrote the agreement did it properly, then the man who must process the termination will have little trouble

making the proper application of the principal. It is also helpful to examine the complete file of the donor to determine if something may have been overlooked in the agreement. For instance, some of the agreements we have written provide for the principal to benefit a local church, but the donor did not want the local church to know about it until after he died. He may have written a letter to the church to be sent by us after his death. The files do reveal many things that may seem strange on the day you terminate an agreement. But remember, conditions may have been somewhat different back in those days when the agreement was originally written. So you must find out all you can about the case, especially if you weren't around when the agreement was written. And even if you were, memory, when relied upon too heavily, will not serve you unfaithfully.

Development people, when negotiating a gift under one of these agreements, must be prepared to answer the questions, "What happens to my gift after my lifetime, and how much will the institution have for its use?" The answers must be clear if we are to be convincing in our solicitation. Especially important is an understanding of how much will be available. So let us examine each agreement a bit and determine just what is available at termination.

LIFE INCOME AGREEMENT

The Eleventh Conference gave us this 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."

Under a Life Income Agreement the donor reserves the right to receive the income for the lifetime of a stated person. The institution holds the corpus and invests it. Ownership is thus split. The institution obtains full ownership only when the last income beneficiary dies. Therefore, the organization has a responsibility that requires it to defer using the gift until it obtains full ownership of the assets.

When that time comes, since the gift has been invested, its value may differ from what it was when it was received. It is important to recognize this fact; for in truth, if the agreement has been in force for a long time, the amount of funds now released may be far greater than the amount given. So, a determination of the present value must be made utilizing whatever method of accounting the organization employs. The Life Income Agreement does not return any of the principal as income to the donor and thus, in effect, the full amount originally given, plus any growth that can be attributed to it while it participated in the total invested funds, is available to your organization to use in the manner specified in the original agreement. In the maroon booklet prepared for our use by the Committee, you will find complete descriptions of how a Life Income Agreement is valued under the Common Trust Plan and the Endowment Fund Plan. Either plan provides a way to determine the value of the Agreement when it terminates.

SEPARATELY INVESTED AGREEMENTS

There are two types of Separately Invested Agreements in general use among our institutions.

1. The Tax-Free Life Income Agreement and the Separately Invested Trust.

The TAX-FREE LIFE INCOME AGREEMENT provides for the institution to invest the gift in securities—state and municipal bonds which produce income not subject to Federal Income Tax. The interest received by the institution is relayed in total to the life income beneficiary, and in that form retains its tax-exempt status. I believe most organizations procure specific tax exempts for each donor. There is no pooled fund to which his gift is added.

Thus at termination, the bonds held for a particular life income beneficiary may be sold and the proceeds used in accordance with the designations of the donor. The problem of determining what is available for the organization will be dictated by the market value of the particular bonds held in that account when offered for sale. This may vary up or down from the amount of the original gift, depending upon the bond market when termination occurs.

SEPARATELY INVESTED TRUST

Under this plan, a donor transfers securities or other income-producing property to your organization to be held in the form it is transferred. The donor, or his designated beneficiary, is to receive the net income produced by the property during the lifetime of the income beneficiary. Upon the death of the beneficiary, the trust is terminated and the property may be used by the organization in the manner designated by the donor when the original agreement was executed.

As with the Life Income Agreements, the value of the property at termination may vary from the value established at the time of the gift. It will be whatever the value of the trust property is on the date of termination. It can be more or less than the original amount.

CHARITABLE REMAINDER TRUST

Under this arrangement, the trust property is usually held by a commercial trust company or a private trustee. The creator of the trust reserves the right to receive the income for the life of himself or survivors. At the death of the last income beneficiary, the trust terminates and the trustee transfers the trust property to your organization. Here again, the amount your organization receives for its immediate use may differ from the amount of the original trust. Whatever you receive will be the present value of the trust property which the trustee received from the donor.

Each of the above plans has a definite way of determining, to the penny, the amount of funds available to your organization upon termination; for none of them permit the invasion of principal.

With a GIFT ANNUITY things are different.

As Charlie Burrall pointed out in his discussion yesterday, when a person enters into a Gift Annuity agreement with a religious, charitable or educational institution, he is actually doing two things. He is making a gift to the institution, and is also purchasing a fixed income for life. The Uniform rates we use are designed to produce *on the average* a 50% residuum. They are the key. For only by looking at your entire annuity program, year by year, can you determine just what is available to your organization as a result of terminations.

Because your organization has *guaranteed* to pay the income

beneficiary a *fixed income for life*, you assume a legal obligation and must meet the same type of standards insurance companies must meet. We heard about state regulations earlier in the conference. They are real and if you operate in the States of New York or California, the departments of Insurance of those states will make sure you have enough reserves on hand to fulfill your legal obligations.

Most of us have had the experience of receiving a sizeable gift under the Gift Annuity plan and very shortly thereafter receiving notice of the death of the annuitant. We may not have made even the first payment to him. The prospective donor can be counted on to say, when he suggests such a thing might happen to him, "Then you will have my whole gift for your program." Of course, this is not the case. Because the next donor who is supposed to die, according to the mortality tables, in 1971 at the age of 75, will decide to live until the ripe old age of 115—and you said you were going to pay him a fixed income for life! You guaranteed it and the state is looking over your shoulder to make sure you do. So you have to set aside some of the funds transferred to you by the man who dies too soon to pay the man who lives too long.

Thus, when an annuity terminates, you are released from paying further income to the annuitant, but since you don't know which annuitant is going to outlive his life expectancy, or how many are going to do it, you must adopt some method to determine (from time to time) just what is available to your organization.

Here is where your organization must rely on the services of a professional actuarial firm to review all of your open annuities periodically and refigure the amount of legal reserve required to meet the income payments you are obliged to pay to your annuitants for life. Comparing this total figure with your total annuity investment portfolio value, you can determine how much your organization can safely transfer out of its annuity fund.

In some of the reports made to previous conferences, men experienced in gift annuities have recommended that for safety, an organization should keep invested in its annuity fund 50% more than the legal reserve.

Thus, we can never say just how many dollars an organization will receive from a particular annuity. The whole gift annuity concept is based on the statement *on the average*.

DATA PROCESSING PROSPECTS

MR. NICHOLAS CALELLO

*Electronic Data Processing Manager,
American Bible Society*

Being in the "clean-up" spot on a baseball team, or being "anchor man" in any endeavor, is quite an enviable spot. Quite frankly, it sort of frightens me. For two days now, I have listened to speakers talking about Gift Annuities and it suddenly dawned on me how little I really know about this entire field. So if I seem to avoid the deep technicalities of Annuities and stick more closely to Data Processing, you will know why.

DATA PROCESSING—Electronic Data Processing—that is. What is it;—this strange monster that has seemed to invade every aspect of our business and personal lives. Is it friend or foe? I thought perhaps if we took these next few minutes and examined E.D.P. (Electronic Data Processing) as related to gift processing, we might be in a better position to evaluate it.

Before we get in too deeply, and in case some of you are not familiar with the terms I might use, I thought I'd give my explanation of some of them. First of all, the equipment:

Central Processing Unit—At the heart of any computer system we always have a Central Processing Unit. This is the unit with the lights and dials and is the very center of any system. The device is really a storage unit and is used to store temporarily the "program" or set of instructions to be executed. This unit also normally houses the logic circuitry. It is capable of internal speeds ranging from milliseconds to nanoseconds, depending on the model.

Punched Cards—In order to store the instructions and data in this memory unit, we need a form of input. The most common form of input is the punched card. This is basically the same format that we see so much in our day-to-day living, in our utility bills and driver license, to name a few. These cards are prepared on a key punch machine. The keyboard on this device very closely resembles a typewriter keyboard, but instead of printing on paper, the characters are

encoded and punched into cards. In order to read the cards we use an input device called a card reader. Utilizing a series of brushes or photo-electric cells, the machine recognizes the punched holes in the cards, and by way of cabling connected to the Central Processing Unit, transmits the interpretation of the data on the cards to central memory.

Magnetic Tape—Magnetic tape is another form of input and output storage for data. Magnetic tape is normally a plastic type material, coated with an oxide covering that has the ability to retain magnetic impulses. A full reel, which is 2,400 feet long, can hold the equivalent of approximately 225,000 punched cards. We can also process this data at the rate of 60,000 characters per second. Processing on magnetic tape is sequential.

Disk Files—Disk files resemble a modified juke box. Here, instead of tape, we use platters, made of metal and coated with an oxide surface. Normally, there are six platters in a stack with ten recording surfaces. The main difference from magnetic tape is that disk processing can be in a random sequence.

Some of the people involved in Electronic Data Processing are:

1. Systems or Survey Analysts
2. Programmers

System Analysts—These are the people who first study an application and design and evaluate the overall approach to be used in converting it to a computer. You know—System Analysts or survey people are not new. In the Old Testament book of Numbers, Chapter 13, the Lord directed Moses to send 12 leaders (survey analysts) to evaluate Canaan, the land he was going to give to the Israelites. As far as I know, these Biblical people did about what our modern day analysts might do. Evaluated and designed an approach. One main difference though. The survey analysts in the Bible returned to Moses with a big bunch of grapes. Today's analysts are more likely to return with a big bunch of bills.

Programmers—These are the people, much like translators, that take the results from the System Analysts and convert the job to be done to a machine language. This machine language, or some form of it, is then committed to punched cards to be processed. I'd like to draw an analogy of a computer to a human being. Although a

computer is nowhere nearly as complex as a human, some of the functions are similar. A human being has a Central Processing Unit—a brain. We have input devices—our eyes and ears. We have output devices—our voice and hands. When we have a job to do we read the program or set of instructions with one of our input devices, store it in our Central Processing Unit, perform the steps necessary, and then record the results with one of our output devices, either our hands or voice.

Gift Annuities and Life Income applications lend themselves quite readily to E.D.P. The major steps within the system can be summarized as follows:

1. Creation of one Master File with all necessary information.
2. The ability to maintain this file at a current level with cross reference to each policy, by Annuitant, and service requests and inquiries by Annuitants.
3. The issuing of checks for the Annuitants of the participating groups.
4. Reconciliation of outstanding checks as they are returned by the banks.
5. Generation of reports as required by Management and Law.

At the American Bible Society we were faced with some problems in attempting to convert from a maverick system, partly manual—partly automatic, to a fully computerized version.

Creation of One Master File—First, we had two major files with which to contend. One file, already on punched cards was our check payment file. These cards broken into 24 subdivisions, represented 24 payment periods, and contained the name, address, and check amount for each individual Annuitant. The second file, on ledger cards, contained all the historical and background information about our Annuitants. Our first major task was to merge or marry these two files together and commit them to magnetic tape as one file. We designed punched cards for our ledger cards and had them key punched (approximately 45,000 cards). These we then took and committed to magnetic tape by using our computer. For the next step, we committed the payment

cards to magnetic tape and then attempted to merge the two. We soon found the editing task was more than we bargained for. We have since approached the job piecemeal. As a payment period comes due, which is bi-monthly, we apply a program created to produce checks directly from the payment cards and then, working with only one payment period, extract the background from our other file and create our Master File over the period of a year.

File Maintenance—We designed forms for the American Bible Society Annuity Department. With these forms they have the ability to change any piece of information about an Annuitant. The forms are filled out by the people in the Annuity Department, sent to key punch to be put on punched cards, and then processed against the Master File to update it and bring it to a current level. For inquiries and servicing requests of Annuitants, a hard copy print-out of the file replaces the ledger cards.

Issuance of Checks—To issue checks in the proper payment period, we needed a way to code the payment periods. To accomplish this we created a variable code for each Annuitant of from two to ten digits. The first digit, an alphabetic character, signifies whether the payment is monthly, quarterly, semiannually or annually. The second digit indicates either the first or second half of the month. The third through tenth digits indicate up to four different months. For multi-agreement Annuitants we were able to "tie" them together by taking our original six digit agreement number and expand it to twelve digits. The lowest agreement number of a multi-agreement Annuitant was used for the first six digits. In a normal ascending sorting scheme, we were able to group the agreements for one individual together.

As the checks are being produced on one high speed printer, we create a check register on our other high speed printer, and create an open check register on magnetic tape. At the conclusion of the check run, the checks and check register are proofread for accuracy, imprinted with our Treasurer's official signature, and then mailed to our Annuitants.

Reconciliation—The check forms that we prepare on the computer are pre-punched with a sequential number. As we write the checks on the computer, we also create a record on magnetic tape and this

sequential number becomes an integral part of the tape record. When the bank returns our canceled checks and statement, we are now able to commit the canceled checks to magnetic tape and match them against our tape of open items and produce a balanced reconciliation listing, and a new tape of still open items.

Generation of Reports—From a combination of our check tape of open items and our Master File, we produce reports such as:

1. Statistical Termination and Issue Reports
2. Number of Agreements by Sex
3. Number of Agreements by State and so on.

For the future, we hope to commit the Master Annuity File, along with our Life Income File, to Magnetic Disk instead of Magnetic tape. File maintenance and inquiry, if our disk is "on line," can be handled directly from the Annuity Department by way of a *CRT type unit. After that—only technology and man's ingenuity will set the limits.

In closing, I would like to make one final point, just so no one rushes out and orders a computer for the sole purpose of processing Gift Annuities. Because of the tremendous cost involved in an automated system, it is my opinion that an automated Annuity program should be considered only as supplementary application. During the past few years our own computer at the American Bible Society has become a "must", and the utilization of an automated procedure in our Annuity program is but *one* of the many services which we hopefully expect to continue to render in the future.

*Cathode Ray Tube

MINUTES

Thirteenth Conference on Gift Annuities
Hotel Statler Hilton, Detroit, Michigan

Tuesday, February 6, 1968

The meeting was called to order at 10:30 a.m. by Vice Chairman Roland C. Matthies. Prayer was given by the Reverend Bernard S. King, Treasurer, The Christian and Missionary Alliance, New York City.

Dr. Matthies explained that because of the death of his mother on Saturday, February 3, 1968, Chairman Charles W. Baas would not be attending the Conference. Under the circumstances, Dr. Matthies pointed out, he would be the presiding officer throughout the entire conference, not just on Wednesday as had been intended.

Motion was made from the floor by Dr. Gilbert Darlington that the secretary of the Committee be requested to send to Mr. Baas and his family a resolution "of our deep sympathy in his loss."

MOTION CARRIED

Vice-Chairman Matthies then read the text of the opening statement which had been prepared for this purpose by Chairman Baas. The text of this talk is set forth elsewhere in this booklet under the heading OPENING REMARKS.

During the course of this presentation Dr. Matthies introduced the individual members of the Committee on Gift Annuities. They were greeted with applause.

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

The Rev. W. Walter Groesbeck
Alva R. Appel
Alf W. Jorgenson
Charles L. Burrall, Jr.
Chester A. Myrom
R. Alton Reed

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

The Chairman then called upon Mr. James A. Cousins to intro-

duce the speaker of the morning. Mr. Carson Greene, Assistant Vice President, Moody's Investors Service, Chicago, Illinois, was thereupon presented. He addressed the conference on the subject, "Interest Rates and Investment Outlook." His informative and authoritative address is set forth elsewhere in this booklet under that title.

A brief period of questions and discussion followed Mr. Greene's formal presentation. At the conclusion of it Dr. Matthies commented, out of his own observation and experience, as to the importance of good investment counsel during these times of rapid change. Specifically he said, "Look at the age level of people serving you in investment. Be concerned about one-man operation."

The time for the noon luncheon having arrived, the Conference recessed at 11:45 a.m., to reassemble again at 12:00 noon in the dining room one floor below.

The luncheon period was the occasion for a recognition tribute to members of the Committee on Gift Annuities who have been members for ten or more years, fifteen or more, twenty-five and forty years. A sub-committee consisting of Chester A. Myrom, chairman; Miss Florence Little and Harl L. Russell had made the arrangements for the program that followed the luncheon. Framed certificates of recognition and appreciation, individually lettered, had been prepared for presentation to the ten persons thus honored. A souvenir program booklet had been provided for the occasion. The names of the persons cited, with the names of program participants, as set forth in the souvenir booklet, will be found in the first exhibit following these minutes. Regrettably, besides Chairman Baas, Wesley O. Clark and D. Allan Locke were not in attendance.

At 2:10 p.m. the Conference reconvened in the Ballroom. Charles L. Burrall, Jr., Actuary, Huggins & Company, Inc., Philadelphia, Pennsylvania, was introduced to present the subject, "Actuarial Report and Outlook."

Mr. Burrall's clear and complete presentation of how a gift annuity rate schedule is developed was well received and much appreciated. A lively period of questions and discussion followed his prepared remarks, all of which further enlightened the group in attendance. In response to a request by the chairman for "a show of hands of all those who were hearing this kind of presentation for the first time," it appeared that from one-third to one-half of the audience

were in this category. The full text of this presentation and exhibits related to it are separately set forth.

At 3:30 p.m. the Conference recessed for a brief period, reconvening at 3:50 p.m.

Mr. John M. Deschere, Comptroller, Vassar College, Poughkeepsie, New York, then made a presentation on the subject of "Life Income Agreements." It was explained that opportunity for questions and discussion relating to this subject would be afforded at a special evening session, to take place at 8:00 p.m., at which a panel of experts would be present.

At this point, Mr. J. Stanley Schmidt, Board of Christian Education, United Presbyterian Church, Philadelphia, Pennsylvania, requested opportunity to present a resolution, submitted in writing to the secretary, with a view to its being considered by the Resolutions Committee, scheduled to meet at 6:00 p.m. The intent of the resolution, the spokesman for it pointed out, was that a mechanism be developed "by which the degree of compliance with Conference recommendations by organizations and institutions be periodically ascertained."

The hour of 4:30 p.m. having arrived, the afternoon session concluded with prayer offered by the Reverend Howard I. Westin, Assistant to the Vice President, Wittenberg University, Springfield, Ohio.

The special evening session on Life Income Agreements got underway at 8:00 p.m. with Mr. John Deschere serving as moderator. Assisting as a panel to answer questions were these persons: Mr. Conrad Teitell, Dr. Hollis Turley and Dr. Roland C. Matthies. With the Ballroom well filled for the session, attendance exceeded anticipation. Participation was lively, continuing until 9:30 p.m., and there was general agreement that the session had been most helpful and informative.

Wednesday, February 7, 1968

The Conference was called to order by Chairman Matthies at 9:30 a.m. Invocation was offered by Major Frank Moody, Director Deferred Gift Development, The Salvation Army, New York.

The chairman of the Resolutions Committee, Rev. W. Walter Groesbeck, was recognized to submit a resolution. He reported that the Resolutions Committee had considered the matter of the Uniform

Gift Annuity Rate Schedule at its session the evening before and submitted the following motion:

MOVED: That the present Gift Annuity Rates, as adopted by the Twelfth Conference on Gift Annuities on April 7, 1965, to be effective September 1, 1965, be continued as the Uniform Gift Annuity Rates recommended by the Thirteenth Conference on Gift Annuities.

The motion was promptly seconded. There were no questions or discussion. The chair then put the motion.

MOTION CARRIED

Expression was then made from the floor by Robert Greiner, Treasurer, General Brotherhood Board, Church of the Brethren, Elgin, Illinois, that "by the time of the next Conference a complete actuarial study be made, with special consideration to rates in the lower ages."

The chair then recognized Dr. T. K. Thompson to read a statement that had been prepared in memorial tribute to the late Sydney Prerau, attorney-at-law and philanthropic tax counselor, who had passed away January 12, 1968. Dr. Thompson's statement in its entirety is set forth elsewhere in this booklet.

Chairman Groesbeck of the Resolutions Committee thereupon submitted the following resolution and recommended its adoption:

"WHEREAS God has given to this generation a great leader in the person of Sydney Prerau and has called him to his eternal home on January 12, 1968;

BE IT RESOLVED:

That the Conference on Gift Annuities, in session on February 7, 1968, express to his widow, his family, his firm, and his friends everywhere its gratitude to God for the life of Sydney Prerau.

That out of gratitude to Sydney Prerau, this Conference reaffirms its loyalty to all he held dear, especially the Judeo-Christian tradition of philanthropy."

The resolution was ADOPTED WITH A RISING VOTE.

The chair then presented Mr. Conrad Teitell, attorney-at-law, Partner, Prerau & Teitell, who gave an address entitled "Tax Information." The text of it appears elsewhere.

Mr. James A. Cousins, member of the Committee on Gift Annuities, was then called upon to present the next speaker. This was Mr. Fred Becker, an attorney associated with the U. S. Treasury Department, Washington, D.C. His talk is separately set forth.

Following a brief recess the program resumed with presentations by a three-member panel. The participants and their papers, all reproduced in this booklet, were as follows:

State Regulations

Mr. James A. Cousins, C.P.A.

The Society for the Propagation of the Faith
Pace College

Investment Practices

Dr. Wm. Kincaid Newman, Executive Vice President
The Pension Boards, United Church of Christ

Terminology

Dr. Ashton A. Almand, Treasurer
World Division of the Board of Missions
of The Methodist Church

Prayer for the noon luncheon was given by the Rev. Henry J. Zenorini, S.J., Director, Jesuit Deferred Funds, New York. There was no formal program during the luncheon period.

The final afternoon session reconvened at 2:00 p.m. The program consisted of another three-man panel. Presentation papers were offered by the three men named below. Their respective papers appear elsewhere in the Minutes.

Payment Procedures

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

Termination Practices

Mr. Leland A. Pomeroy, Assistant Director
United Presbyterian Foundation

Data Processing Prospects

Mr. Nicholas Calello, Electronic Data Processing
Manager, American Bible Society

Following the last of these presentations there was an interval in which questions from the floor, both oral and written in advance, were directed to any of the day's speakers on any material presented. Participation was lively and involved a good number of people.

The Resolutions Committee was then called upon for its report. Chairman Groesbeck called attention to the report, which had been mimeographed and distributed in advance. He commented that Resolution XII was the committee's response to the resolution proposed from the floor at the close of the previous day's session. The report was read. It was approved as submitted. The full text of the Resolutions Committee's report follows these Minutes.

Closing prayer and benediction was offered by the Reverend Dr. Fred J. Douglas, Director of Special Gifts, the United Church of Canada, Toronto, Ontario.

This Thirteenth Conference on Gift Annuities was declared adjourned at 4:00 p.m.

Respectfully submitted,

CHESTER A. MYROM, *Secretary*

A Word of Appreciation . . .

The Committee on Gift Annuities is unique among organizations of its scope and importance in that through all the years of its existence it has functioned without the services of paid professional staff. All Committee-sponsored activities and functions, such as these periodic conferences, are initiated and carried through to completion by members of the Committee serving on a volunteer basis.

In grateful acknowledgment of extended periods of service by certain of these individuals, recognition tribute is being made today.

RECOGNITION LUNCHEON

Thirteenth Conference on Gift Annuities

Detroit, Michigan

February 6, 1968

Invocation Florence Little

Luncheon

Background statement Chester A. Myrom

Presentation of Recognition Certificates

For ten or more years of service: Harl L. Russell

G. BLAIR ABRAMS	1955-67
WESLEY O. CLARK	1955-67
D. ALLAN LOCKE	1956-67
J. HOMER MAGEE	1956-67
ROLAND C. MATTHIES	1955-67
HOLLIS L. TURLEY	1956-67

For fifteen or more years of service: Roland C. Matthies

CHARLES W. BAAS	1951-67
THOMAS K. THOMPSON	1951-67

For twenty-five years of service: G. Blair Abrams

FORREST SMITH	1942-67
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For forty years of service: T. K. Thompson

GILBERT DARLINGTON	1927-67
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Benediction Nordan C. Murphy

REPORT OF THE RESOLUTIONS COMMITTEE
THIRTEENTH CONFERENCE ON GIFT ANNUITIES

- I. BE IT RESOLVED that the Thirteenth Conference on Gift Annuities extend to Chairman Charles W. Baas, and to his family, expressions of Christian sympathy upon the death of his mother on February 3, 1968, along with sincere regrets that this sad event made it impossible for him to attend and preside over the Thirteenth Conference on Gift Annuities.

- II. BE IT RESOLVED that the Thirteenth Conference extend to Vice-Chairman Roland C. Matthies most hearty thanks and high commendation for his having so willingly and ably served as chairman of the Thirteenth Conference on Gift Annuities, besides fulfilling the other significant program responsibilities to which he had already been assigned.

- III. BE IT RESOLVED that the Thirteenth Conference note with special interest and genuine satisfaction the information set forth in Chairman Baas' written opening statement, read to the conference by Vice-Chairman Matthies, regarding the record number of sponsors that have been developed for this conference, now 605, and give recognition that growth to this extent would not have come about without the active personal promotion and support of individuals attending this and prior conferences.

- IV. BE IT RESOLVED that the Thirteenth Conference on Gift Annuities express its deep appreciation to Mr. Carson Greene, Assistant Vice-President, Moody's Investors Service, for the informative and authoritative address "Interest Rates and Investment Outlook."

- V. BE IT RESOLVED that the Thirteenth Conference on Gift Annuities express appreciation to Mr. Charles Burrall, Jr., Actuary, Huggins & Company, Inc. for his continuing valuable services to the Committee and for his presentation "Actuarial Report and Outlook."

VI. BE IT RESOLVED that the Thirteenth 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:

- Mr. John M. Deschere, Comptroller, Vassar College
- Mr. Conrad Teitell, Partner, Prerau & Teitell
- Mr. Hollis L. Turley, President of Pension Fund, Christian Churches (Disciples of Christ)
- Mr. Fred Becker, U. S. Treasury Dept., Washington, D.C.
- Mr. James A. Cousins, National Auditor, The Society for the Propagation of the Faith
- Dr. Wm. Kincaid Newman, Executive Vice-President, The Pension Boards, United Church of Christ
- Dr. Ashton A. Almand, Treasurer, World Division of The Board of Missions of The Methodist Church
- Dr. Chester A. Myrom, Director, Lutheran Church in America Foundation
- Mr. Leland A. Pomeroy, Assistant Director, United Presbyterian Foundation
- Mr. Nicholas Calello, Electronic Data Processing Manager, American Bible Society

VII. BE IT RESOLVED that the Thirteenth 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.

VIII. BE IT RESOLVED that the Thirteenth 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. a person paid under the agreement be called the "Life Income Recipient";
4. the rate of the life income payment be called the "Life Income Yield."

IX. BE IT RESOLVED that the Thirteenth Conference on Gift Annuities recommends that organizations issuing gift annuity agreements maintain the funds related to their gift annuity program as segregated funds, to make certain that all required annuity payments can be made.

X. BE IT RESOLVED that the Thirteenth 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.

XI. BE IT RESOLVED that the Thirteenth Conference on Gift Annuities urge and encourage all organizations issuing gift annuity agreements to adopt the Uniform Gift Annuity Rates as maximum rates.

XII. BE IT RESOLVED that the Thirteenth Conference ask the Committee on Gift Annuities to give study to a program whereby there can be recognition given to the organizations that follow the recommendations of the Conferences on Gift Annuities.

- XIII. BE IT RESOLVED that the Thirteenth Conference on Gift Annuities express its appreciation to Dr. Gilbert Darlington, Honorary Chairman, and to Mr. Forrest Smith, Honorary Treasurer, for their greetings, pertinent observations, and wise counsel based on their many years in the gift annuity field.
- XIV. BE IT RESOLVED that the Thirteenth Conference on Gift Annuities express its appreciation for the special helpfulness extended to this group by Mrs. Barbara Baylis, Miss Petra Fakos, Mr. William Graham, Jr., Miss Edith Soffel, the Detroit Convention Bureau, and the staff and management of The Statler Hilton, Detroit, Michigan.
- XV. BE IT RESOLVED that the Thirteenth Conference on Gift Annuities encourage the Committee on Gift Annuities to continue scheduling conferences at three year intervals.
- XVI. BE IT RESOLVED that the Thirteenth 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.

THIRTEENTH CONFERENCE ON GIFT ANNUITIES

Detroit, Michigan

MEMORIAL FOR SYDNEY PRERAU

February 7, 1968

God in His infinite wisdom called Sydney Prerau from this earthly life, on January 12, 1968. The Conference on Gift Annuities pauses to express its appreciation for this great leader who has so recently been taken from us.

We remember Sydney Prerau as a gifted lawyer. He was a graduate of City College of New York and Columbia University Law School. He early became associated with J. K. Lasser, working both in the fields of accounting and law. Mr. Lasser's training was in the field of accounting and it was for this reason that Mr. Prerau administered the J. K. Lasser Tax Institute. In this relationship, he wrote more than a dozen books on law and business.

We honor Sydney Prerau as a tax specialist. While it is difficult to conceive of a more successful series of books than his tax manuals, some written for the average man, some for the average lawyer, some for the legal specialist, it was in the field of taxes and philanthropy that Sydney found his greatest recognition. In 1962, when he set up his own law practice, it was for the express purpose of giving full time to taxes and philanthropy.

We honor Sydney Prerau as a philanthropic leader. In his role as legal counsel on taxes, he found his greatest satisfaction in the encouragement of philanthropic giving; by giving the widest possible understanding to the philanthropic principles underlying the tax laws. Millions of dollars found their way into educational, religious, and social welfare institutions because of his concern. It is significant that by far the greatest portion of his practice was given to Protestant institutions, although in latter years several Catholic and Jewish institutions made use of his services.

We honor Sydney Prerau as friend. While he was one of the great tax lawyers of this country, his warm personal friendship with

people in all stations of life endeared him as a colleague and fellow worker, and made him the beloved father and brother to most of us.

We honor Sydney Prerau as a man of faith. While he had little sympathy with the formalities of religion, liturgies, litanies, and institutional variations, he had a profound understanding of the philosophy and theology of Judaism and Christianity. He believed that the deepest expression of human culture resides in its religious ideals. He rejoiced in the close relationship of Judaism and Christianity and gave himself unreservedly to the cause of peace, especially through the Fellowship of Reconciliation. Sydney believed that the Creator God called men to be instruments of his love. He believed that it was more blessed to give than to receive. He believed and practiced giving without any expectation of return.

We are grateful to God for his gift of Sydney Prerau to our generation.

T. K. THOMPSON

REPRESENTATIVES TO THE THIRTEENTH CONFERENCE

Organization	Represented by
Adrian College, Adrian, Michigan	Mr. Robert W. Brown
Albion College, Albion, Michigan	Mr. Herbert L. Jones
Allegheny College, Meadville, Pennsylvania	Mr. Frederick B. Odell
American Baptist Assembly, Green Lake, Wisconsin	Mr. J. E. Dollar
American Baptist Board of Education & Publication, Valley Forge, Pennsylvania	Mr. Lester C. Garner
American Baptist Foreign Mission Society, Valley Forge, Pennsylvania	Mr. Paul V. Moore
American Baptist Home Mission Societies, Valley Forge, Pennsylvania	Mr. William E. Jarvis
	Mr. Walter C. Konrath
	Mr. William O. Breedlove
	Mr. Richard E. Ice
	Mr. Victor K. Jordan
American Baptist Convention, World Mission Campaign, Valley Forge, Pennsylvania	Rev. R. D. Merrill
	Dr. Carrol O. Morong
American Bible Society, New York, New York	Rev. John D. Erickson
	Mr. Frank Kemer
	Dr. T. K. Thompson
	Rev. Harold B. Pretlove
American Board of Missions to the Jews, Inc., New York, New York	
American Cancer Society, Inc., New York, New York	Mr. Robert A. Saunders
American College Public Relations Assoc., Washington, D. C.	Mr. John W. Leslie
American Friends Service Committee, Inc., Philadelphia, Pennsylvania	Mr. Paul Turner
American Leprosy Mission, Inc., New York, New York	Mr. Hans Breitung
The American Lutheran Church, Minneapolis, Minnesota	Mr. L. R. Lerud
The American Lutheran Church Foundation, Minneapolis, Minnesota	Mr. Harold C. Myhre, C.L.U.
	Mr. Alf W. Jorgenson
	Mr. Herbert A. Schwarze
	Mr. Tillman S. Stevens
	Mr. Paul E. Almquist
American Sunday-School Union, Philadelphia, Pennsylvania	
American Tract Society, Inc., Oradell, New Jersey	Mr. Stephen E. Slocum, Jr.
Anderson College, Anderson, Indiana	Mr. Gilbert Fritzler
Andrews University, Berrien Springs, Michigan	Mr. V. E. Garber
	Mr. P. T. Jackson
Annuity Fund for Congregational Ministers, New York, New York	Dr. Wm. Kincaid Newman
Asbury Theological Seminary, Wilmore, Kentucky	Mr. D. Wray Richardson
Ashland Theological Seminary, Ashland, Ohio	Dr. J. R. Shultz
Augsburg College, Minneapolis, Minnesota	Mr. Sigvald V. Hjelmeland
Augustana College, Sioux Falls, South Dakota	Mr. Carl M. Grevlos
Aurora College, Aurora, Illinois	Mr. Gale C. Corson

Organization

The Back to God Hour, Chicago, Illinois
 Baldwin-Wallace College, Berea, Ohio

Baptist Foundation of Arizona, Phoenix, Arizona
 Baptist Foundation of Texas, Dallas, Texas

Barrington College, Barrington, Rhode Island
 Beloit College, Beloit, Wisconsin
 Berea College, Berea, Kentucky
 Berry College, Mount Berry, Georgia
 Bethany Brethren Hospital, Chicago, Illinois
 Bethany Theological Seminary, Oak Brook, Illinois
 Bethesda Hospital, Denver, Colorado
 Bible Literature International, Columbus, Ohio
 Boy Scouts of America, Kansas City, Missouri
 Brigham Young University, University Development, Provo, Utah
 Bryn Mawr College, Bryn Mawr, Pennsylvania

California Institute of Technology, Pasadena, California
 Calvary Bible College, Kansas City, Missouri
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CONSTITUTION
of the
COMMITTEE ON GIFT ANNUITIES

Article I

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

The Committee shall study and recommend the proper range of rates for gift annuities and the accepted methods of yield computation for life income agreements.

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

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

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

Article II

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

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

Article III

In order to finance its activities and its research in actuarial, financial, and legal matters, and the publication and dissemination of information so obtained, the Committee will collect registration fees from those who attend its Conferences and annual or periodic fees from those who make use of its findings and services. It will request gifts from those groups that cooperate with it to cover the expenses of its various activities; the amount that it requests to be decided by the Committee. The Committee will also sell its printed material to pay for its out-of-pocket expenses.

Article IV

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

Article V

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

BY-LAWS

Committee on Gift Annuities

- I. The Officers shall be a Chairman, Vice Chairman, Treasurer, Secretary, Assistant Treasurer and Assistant Secretary, who shall be elected at the organizational meeting and thereafter annually at the first meeting held after January 1st of each year and shall serve without compensation. A vote of a majority of those present will elect.
- II. Vacancies in the offices of the Committee shall be filled by the Committee at any meeting. A vote of a majority of those present will elect.
- III. The Chairman, Vice Chairman, Treasurer, Secretary, Assistant Treasurer and Assistant Secretary of the Committee shall fulfill the usual duties of those offices during their term of office. The Treasurer shall keep the accounts, and the Secretary shall keep the Minutes of the meetings of the Committee and each shall perform such other duties as may be assigned them by the Chairman or the Committee.
- IV. The Chairman, or in his absence from the country, or inability to act, the Vice Chairman shall call the meetings of the Committee at such time and place as seems desirable either to the Committee if it is in session, or to the Chairman if the Committee is not in session. At least two weeks' notice of the forthcoming meeting should ordinarily be given.
- V. Conferences on Gift Annuities shall be called by the Committee upon a vote of not less than thirteen (13) members either present at the Committee Meeting that votes on calling such Conference, or by correspondence if not present at such meeting.
- VI. Members of the Committee on Gift Annuities shall serve for three years, or until their successors are elected by the Committee as provided in the Constitution.

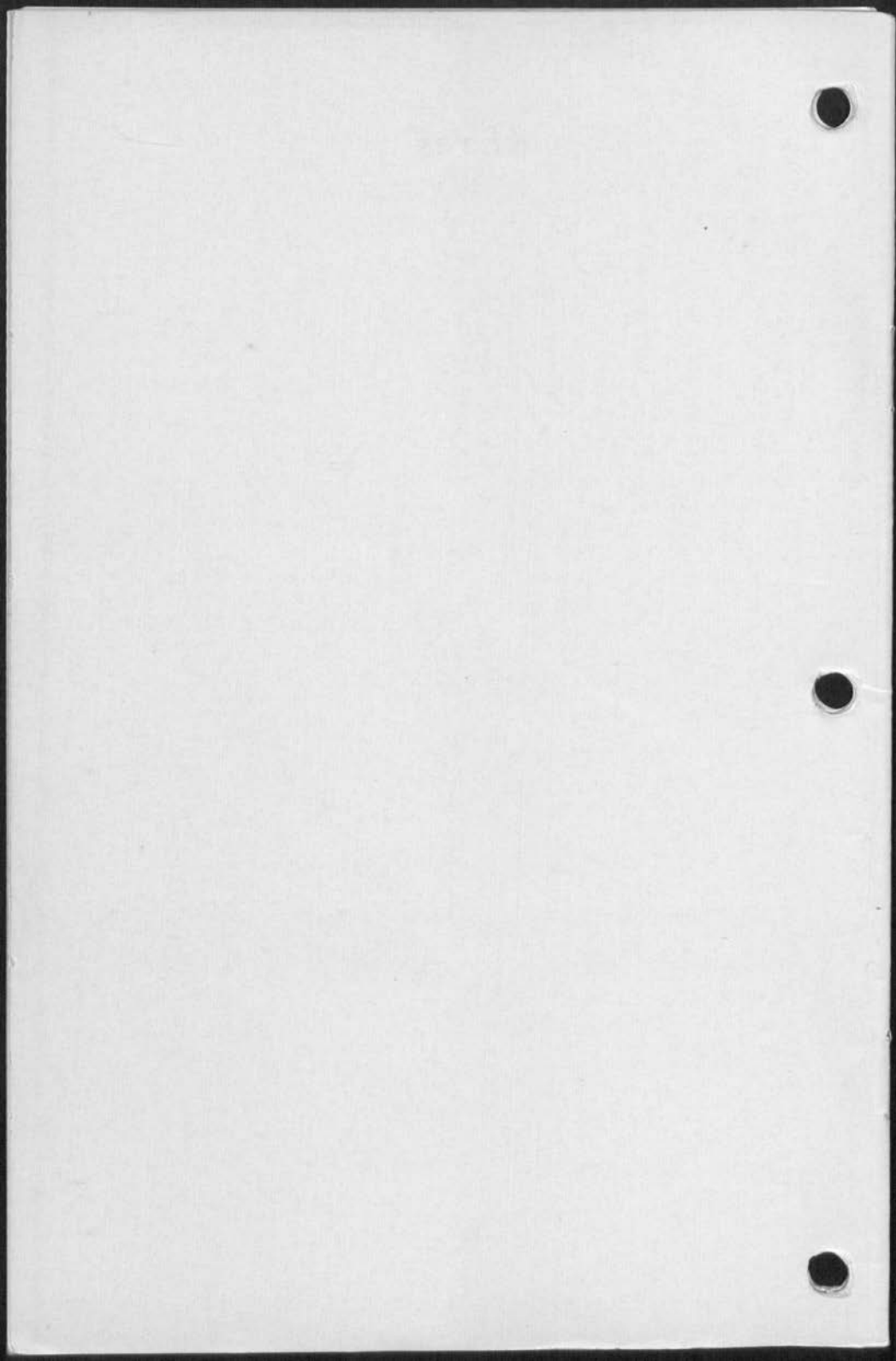
- VII. A quorum necessary for the conduct of business of the Committee shall consist of five members.
- VIII. Each member is expected to cover his own expenses in coming to the meeting of the Committee and to its Conferences on gift annuities.
- IX. If a member of the Committee cannot be present, he may be represented by an alternate, provided notice of such representation is given in writing or by telegram to the Chairman prior to the meeting.
- X. These By-laws may be amended at any regularly called meeting of the Committee, provided the proposed changes are approved by a two-thirds vote of the members present and voting.

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