Gift Annuity Agreements of Charitable Organizations

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ECONOMIC OUTLOOK

INVESTMENT OUTLOOK

STATE & FEDERAL REGULATION

CHARITABLE REMAINDER TRUSTS

POOLED LIFE INCOME

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FIFTEENTH CONFERENCE

WISE PUBLIC GIVING SERIES, NO. 54

1974

Gift Annuity Agreements of Charitable Organizations

PAPERS PRESENTED AT THE FIFTEENTH CONFERENCE ON GIFT ANNUITIES, HELD IN ATLANTA, GEORGIA, WEDNESDAY AND THURSDAY, MAY 1 & 2, 1974 UNDER THE DIRECTION OF THE COMMITTEE ON GIFT ANNUITIES

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COMMITTEE ON GIFT ANNUITIES
1865 Broadway New York, N. Y. 10023

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OPENING REMARKS

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

This is the Fifteenth Conference on Gift Annuities. It all started back in 1927 when a committee was formed in March of that year and was charged – "to study and recommend the proper range of rates, the form of contracts, the amount and type of reserve funds and the nomenclature to be used, to ascertain and advise as to the legislation in the United States and the various states regarding annuities, their taxability, etc. This committee is requested to make an immediate study of the matter of rates and to call a conference of interested parties on this matter at the earliest possible date. This committee should be guided in its study by an early determination as to what is the primary motive in the writing of annuity contracts." – The Committee almost immediately had something to say, so a conference, the first, was called for April 29, 1927. After these 47 years, that first charge to the committee is basically what you will still find in the Committee's Constitution. The first Conference brought together 47 people; today, present in Atlanta, we have 429 persons from 329 organizations; but the real story is in the sponsorship of the Committee which now totals 846 organizations. I suppose committee members understand the magnitude of that number to a much greater degree than the average sponsor –Why? Just based on the volume of correspondence which can be a problem to a group which has no full time, paid staff. As you can see from the Constitution of the Committee on Gift Annuities, which is in your packet, the Committee is self perpetuating and is limited to 25 members. Committee members have been picked from those institutions whose deferred gift programs were fully developed, with some consideration given to factors such as geographical location and the general makeup of the sponsoring organizations. Bearing all these considerations in mind, we have, at present, a reasonable cross section of the whole sponsorship. Perhaps a bit heavy in Churches and Church Boards, but as these organizations really were the pioneers in the deferred giving field, it is easy to understand why their represen-

tation is strong. The trend is toward increasing the representation of educational institutions on the Committee as more and more of this type of organization is becoming involved in deferred giving programs. Present sponsorship figures are:

		Sponsorship		Committee	
1.	Churches & Church Boards	16%	135	10	47.6%
2.	Educational				
	Colleges 338				
	Seminaries 25				
	Institutes 10				
		44	373	4	19.0
3.	Foundations	4	34	3	14.3
4.	Homes & Hospitals	11	89	—	—
5.	Other Religious Groups	15	124	3	14.3
6.	Professionals	5	45	1	4.8
7.	Other	5	46	—	—
		100.0%	846	21	100.0%

The responsibility of the Committee is to represent you collectively in preparing the program and arrangements for Conferences such as these, recommending gift annuity rates, pooled income practices, accepted forms of agreement, suggesting criterion for adequate reserve funds, providing the mechanics for computing tax information and a host of related items. Committee members have argued or testified on your behalf before State SEC Commissions, Insurance Departments and legislative bodies, in addition to appearing before Federal agencies, and this function has not been limited to Committee members only, staff at affected sponsoring organizations have often participated as well. The Committee itself may be among the most loosely organized groups in the world which is illustrated by the fact that neither the Conference nor the Committee has authority to bind any organization by its decisions. Yet, time and again when a problem arises, we seem able to close ranks and present a solid enough front so we can make an impression on someone – in a way, I guess this is how I would measure our success. We really are a group of volunteers helping one another and the causes we represent in the field of deferred giving.

Historically, the Conference and Committee activities have related primarily to the technical aspects of deferred giving with

very little on the promotion of these gifts. Now this kind of statement makes it all sound simple, but I am sure you know it isn't. The manuals put out by the Committee ought to be enough evidence to prove the point. The first manual, now obsolete, on how to compute the federal tax implications of a gift annuity was dated in 1943. Probably that document seemed complex at the time, but you may be interested in knowing its 16 pages have been superceded by the present 42-page document now necessary to do the same thing. At any rate, the document is the Green Book, dated September 19, 1972. We also have a Red Book, dated December 1971, which is the latest version of a guide for computing the federal tax implications of charitable gifts subject to life income agreements under pooled income fund plans. It includes some suggestions on how to administer these gifts and a reminder that you need still more information which can be found in the IRS Publication 723B. In the Red Book you get the most for your money, 51 pages. Gold is the newest text, Deferred Gift Annuities, dated March 1973. This is the smallest of the manuals, only 28 pages, but I suspect it might provide the biggest calculation headache. Let me see a show of hands, how many organizations have actually issued a deferred annuity agreement? Before we leave these documents, which you must pay for, I think I should call your attention to the fact that you are only charged the actual cost of preparing the material. In addition to the manuals, there are, of course, the published proceedings of the conferences which give you in printed form much of what the experts on the program have to say.

Before I stop talking and get the important parts of this conference going, I'd like to comment on the program. Note first there has been ample time provided for questions from the floor – don't be shy, take advantage of the opportunity. Second, the conference will be asked to take action on rates, the first thing tomorrow morning, both for regular and deferred gift annuities. However, the data you need will be provided *this* morning in the projection of the economic outlook and the actuary's report. The delay in action is intended to give you time to think about what's being proposed, so feel free to discuss the subject with other delegates attending the conference. There are workshops this

afternoon and tomorrow morning. Your badge bears the symbols of the workshop group to which you belong, it says A1, A2, B1 or B2. The first part of the session will deal with the subject indicated on the program, after the allotted time, the leader will then join another workshop group and its leader will take over your group to direct the discussion of the alternate subject. The Program Committee feels it is easier to move leaders than to move groups.

There are optional sessions this evening which I am inclined to stress should be a must, as they provide an opportunity for you to get next to the professionals.

Incidentally, identification of Committee members is easy — delegates have badges with blue tops and Committee members are wearing badges with gold tops. If you are wondering about those badges you see with pick tops, those are worn by young ladies who are available to assist you.

As in the past, the Committee on Gift Annuities 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, all of whom have attended several previous Conferences:

Chairman: Robert B. Gronlund of The University of Tampa
Charles L. Burrall, Jr. of Huggins & Company, Inc.
Kenneth H. Emmerson, of the General Conference of Seventh-day Adventists
Walter C. Konrath, of the American Baptist Foreign Mission Society
Chester A. Myrom, of the Lutheran Church in America Foundation
John H. Rudy, of The Mennonite Foundation, Inc.

and your chairman as an ex officio member.

Our special thanks go to the Subcommittee on Program which is headed by Mr. William E. Jarvis, and the Subcommittee on Arrangements, headed by Brigadier Frank Moody.

THE ECONOMIC OUTLOOK

DR. ARNOLD DILL

Funds Management Officer at the
Citizens & Southern National Bank

I am going to talk with you about the fascinating subjects of where the economy is, or how did we get in this mess, and where we are pointed, or, is there any hope we will muddle through? If I were to ask each of you what our number 1 economic problem is, I imagine that 95% or more would say inflation and, particularly that inflation is accelerating. Many of us are scared. We wonder, how we can protect ourselves as we watch the declining purchasing power of our income, savings, and investments. We doubt the ability of governments to stop the spiral of inflation without medicine that seems even worse than the sickness. With all the shortages, we wonder if we have lost our ability to rapidly expand production. In the U.S., the consumer price index rose at a 12% annual rate in the 1st quarter and is 10% above a year ago. The wholesale price index rose at a 29% annual rate in the 1st quarter and is now over 19% above a year ago. There are a few, if any, signs that inflation is abating. And this problem is by no means confined to the U.S. In Japan, for instance, consumer prices rose 26% in the year ended February.

This leads into the question of why interest rates are currently at all time highs. The main reason is inflationary expectations of businesses. Expecting the prices of oil, steel, chemicals, land and equipment to be leaping ahead, especially with controls ending, firms have borrowed tremendous sums in attempts to order and purchase commodities to beat price increases. In addition, sharply inflated prices of oil and other commodities have increased the amount of credit required to finance a given level of inventories or business. Also, businesses have been investing heavily in plant and equipment to expand taxed capacity. These tremendous credit demands have run smack into a determined Federal Reserve policy of limiting credit growth to moderate levels. As a result, businesses have competed among themselves for scarce credit supplies and interest rates have been bid out of sight. In meeting commitments to business borrowers,

banks have been incurring costs of funds up to 12%. I must emphasize again that inflationary expectations have fueled the credit demands that have bid up rates. Thus, record high interest rates are a symptom of record high inflation.

The fundamental cause of our inflation is stimulative monetary and fiscal policies that arise from our desire to achieve low unemployment. Anytime unemployment moves much above 4%, monetary and fiscal discipline is relaxed to stimulate the economy and reduce unemployment. However, the price and wage structure of the economy has become gradually more rigid so that prices and wages do not fall during recessions. A little more inflation is required to get us moving out of each successive recession. Like an addict, we are hooked on inflation, and we have to have gradually increasing doses to achieve the same, temporary, euphoria. In our frustration with the worsening combination of inflation and unemployment, we unfortunately grasped at controls in the 1970's. The fact that these controls were allowed to expire yesterday is evidence of their ineffectiveness.

While the fundamental reason we have accelerating inflation is stimulative monetary and fiscal policies, there are some accidental factors that have aggravated inflation in recent years. For instance, in 1965, we got hit with the double wammy of Viet Nam and the War on Poverty increasing the temptation to finance Federal deficits with created money. Also, world environmental problems have at least temporarily limited supplies of raw materials of some types. There was a terrible agricultural year in 1972. Also, the dollar was finally allowed to fall to its equilibrium value against other currencies, raising the prices of the goods and services we import. And, of course, the oil embargo hit us right in the solar plexus.

The cure for inflation is nothing short of at least temporarily giving up our goal of 4% unemployment. We need a prolonged period, perhaps as much as 2 or 3 years, where monetary and fiscal policies become gradually less stimulative. During this period, a surplus of plant capacity, inventories and labor would gradually accumulate. During this period, we must resist enormous public pressures to restimulate the economy in order to reduce unemployment. We must also accept the fact that this will

mean that the real incomes of working people will not rise very rapidly as we devote a larger percent of our national income to production increasing investment.

So much for how we got into this mess. Before trying to get a fix on the outlook, let's consider a few other points. First, price controls ended yesterday and I assume there will be no tax cut. A tax cut now would be as cruel and stupid as offering a drink to an alcoholic who is showing the first signs of sobriety. As controls phase out, we will likely have a one shot bulge in some prices, but this should spend itself shortly if businesses and labor become convinced that controls will not be quickly reimposed.

Secondly, we consumers are not likely to be robust spenders in the next year. Surveys indicate consumer sentiment is at an all time low. Take home pay, deflated for price increases, was a substantial 4.7% below a year ago in March. The ratio of consumer debt to disposable personal income is high. Delinquencies on bank installment loans rose to 2.7% in the first 2 months of 1974, up from 2.1% a year ago. The purchasing power of the consumer's wealth has been sapped by inflation and decreases in the value of stock prices. Therefore, the consumer will likely try to be repairing his savings hoard and his credit rating and he will not be willing or able to spend a great deal of money.

Thirdly, we have some serious credit problems in the economy and might experience a severe credit crunch with a major bankruptcy or two or a wave of minor bankruptcies. At the moment, credit problems are mainly concentrated in a real estate area, but liquidity problems could spread to other financial and non-financial type institutions. If we should have a serious credit crunch, a recession will follow.

Fourthly, the 1971-1973 period of remarkable labor tranquility may be coming to an end. In 1973, man hours lost to strikes were 1/3 those of 1970. However, so far in 1974, strike activity and man hours lost in strikes have increased rapidly. We could have a serious labor turmoil problem if policemen, candlestick-makers, and clergymen all try to regain lost purchasing power. Two particularly important labor contracts expire: The east coast longshoremens' contract on September 30th and the coal miners on November 12th. The east coast longshoreman's

situation looks particularly bleak.

Let's turn to the question of how we will muddle through. Over the longer term, say the next 5 years I believe that we will see an end to the steady acceleration of spending growth, inflation and interest rates that has occurred over the past decade. I just do not think that we are willing to tolerate a further acceleration of inflation. The rest of the 1970's should be a period of moderate spending growth, high investment, and rapid, but not accelerating, inflation.

The important factor in the near term outlook is the Federal Reserve's determination to prevent excessive money and credit growth. This practically guarantees that we will not have a further acceleration of inflation and spending later this year.

Total spending on goods and services (GNP) should be growing at between a 6 to 10% annual rate over the next 5 quarters and probably beyond. Real output has probably stopped falling and should expand a little in the second half. Unemployment will probably touch 6% at sometime in the second half.

Inflation should be peaking out, although the improvement I foresee is minor and gradual, say from 10% plus general inflation rate in the first half of 1974 to a 5% to 8% rate in the first half of 1975. Inflation of industrial commodities simply can't be sustained at the recent rates given the Federal Reserve's desire to limit credit growth. When industrial commodity inflation slows, firms will not readily increase inventories at high interest rates and this could further soften markets. Regarding oil, I look for no increase in the price of crude oil this year, compared with a tripling of the price from September to March. In agriculture, it looks like production will be rising in response to price incentives, which should keep the lid on agricultural prices later this year. However, huge increases in agricultural costs and very low stockpiles should prevent any sharp reduction in agricultural prices.

What will be inflating this year is wage rates and this will be pushing up costs. However, new plant and equipment will increase productivity and unemployment rates in excess of 5½% may tend to dampen some wage increases.

The strong sectors of the economy should be business in-

vestment, government and consumer nondurables; the weak sectors should be housing and consumer durables. Housing and real estate in general will be hard hit by the recent back up in interest rates. Housing starts should continue weak through mid-summer and may total only about 1.6 million this year compared with over 2 million starts in each of the past 3 years. Auto sales should recover from the very low first quarter rate, but still remain quite sluggish the rest of the year.

Interest Rates

Interest rates have trended upward strongly over the post war period, just as inflation has. I foresee rates leveling off on a high plateau over the next 5 years, in sympathy with my view that inflation will be doing the same thing. In the near term, I expect that most short-term interest rates are at or near peaks, although I would guess the prime rate will move up to between 11½% and 12½%. The Federal Reserve is not about to ease rates until it has seen firm evidence that the growth of the money supply, business loans, or inflation has abated and so far there is not one shred of supporting evidence. Therefore, I see no substantial reduction in short term interest rates for at least 6 weeks.

By the 3rd quarter, I expect industrial commodity inflation and business credit demands will begin easing. At that time, housing should still be in a deep slump and consumer credit demands weak. This should permit some modest decline in short-term interest rates in the second half of the year and into 1975. However, declines would only be to levels that still would be very high by historic standards.

Long term interest rates should be under upward pressure for at least 2 months. Later in the year, they may show some downward drift in sympathy with declines in short term interest rates, but continuing strong inflationary expectations should put a high floor under long term interest rates. It is hard for me to imagine long term interest rates below 8% in 1974 or 1975.

SUMMARY

In conclusion, we are in the midst of our worst peacetime inflation. This inflation has ballooned business credit demands that

have, in turn, bid interest rates to record levels. The long run cure for inflation and associated high interest rates involves nothing short of a prolonged period, perhaps two years, of monetary and fiscal policy discipline and an unemployment rate in the 5 to 6% range.

The most important factor in the near term outlook is the resolve of the Federal Reserve to prevent excessive money and credit growth. This, in turn, should prevent excessive spending and inflation growth later this year. I do foresee a modest easing of inflation later in the year. In the near term, interest rates may move a little higher before easing modestly over the next few quarters.

The major possible contingencies for 1974 are:

1. A credit crunch followed by a housing depression and general recession. Under this alternative, interest rates would eventually be lower than forecasted above.
2. Increased labor militancy with reduced productivity and increased inflation. There is some chance of a harmful longshoreman strike beginning in September and a coal miners strike beginning in November.
3. Poor crops caused by bad weather which would aggravate the inflation problem.
4. A new Middle Eastern war and a resumption of the oil embargo.

I would like to finish with the following warning. In this terribly uncertain environment, a man can't no more confidentially forecast economic phenomena than he can come back from where he ain't never been. Therefore, any investment position based on a given economic forecast must be hedged against the possibility that the forecast may be grossly in error.

THE INVESTMENT OUTLOOK

MR. WENDELL M. STARKE

Vice President and Secretary/Treasurer of
Citizens and Southern Investment Counseling Incorporated

Having just heard from one of the nation's foremost economists, you might be interested in hearing about a conversation I recently overheard between an engineer and an economist. They were discussing whose was the oldest profession in the world. The engineer said that it was obvious that engineering was the oldest profession in the world since the heavens and the earth were created from chaos, and that was obviously a marvelous feat of engineering. The economist simply looked at him and asked, "Who do you think created chaos?"

That little story just about sums up what many Americans think about the success of our leading economic planners over the last several years. There has been a notable lack of agreement as to the proper course of action and an almost total lack of success once the chosen action has been taken. There is a clear lack of consensus as to what should be done at this time. One observer recently noted that if you laid all the economists in the country end-to-end, they would reach from Atlanta to St. Louis, but would never reach a conclusion.

Arnold Dill has given you a concise summary of his expectations for the economy. I will make a few comments of my own on the economy, particularly as they relate to the subject of my talk – the current and prospective investment environment.

What has been the single, most important factor in the very poor performance of American investment markets since the mid-Sixties? Obviously, there have been many factors at work, but the single, most important one seems to have been the strong uptrend in interest rates. To understand why interest rates have had such a strongly negative impact on, not only bond prices, but also equity prices, we need to take a look at the historical rates of return of various investment vehicles, and their relative attractiveness under different interest rate environments. A very often quoted study of long term returns on equity investments shows that, through the mid-Sixties, long term returns on in-

vestment in equities has been in excess of 9%. If this study were brought up to date, those returns would be closer to 8½% since the Dow Jones Industrial Average is considerably lower today than in 1966. As you probably know from your personal stock portfolios, the market as a whole has declined substantially more than the Dow Jones Average.

Ten years ago, a high-grade bond which yielded about 4½% clearly offered a lower expected future return than a high-grade common stock. Today we see the same quality bond being sold to yield about 8½% and more, and long term mortgages being committed in the 9% + range. The downward pressure on stock prices, given this enhanced attractiveness of a competitive investment, was inevitable. The basic rate-of-return framework for American industry has shifted to such an extent that the more predictable return on high-grade corporate bonds is now equal to the long term rate of return that has been provided by common stocks. Consequently, in the future, common stocks must produce a higher rate of return than their historic 8½-9%, if they are to effectively compete for the investor's dollar. Stocks can provide this higher required rate of return in one of two ways. The first is to accelerate earnings growth relative to historical experience. But, such improved earnings growth has been the exception, not the rule, in recent years. Without faster earnings growth, the second method by which common stocks can provide a higher total rate of return is to simply sell at lower prices. This is exactly what has been happening in the equity market for some time now. This secular downward adjustment in stock prices has reduced typical equity price earnings ratios from about 17 times earnings in the Sixties to 10 times earnings and less in 1974.

Many investment analysts could have predicted that prices in relation to earnings on common stocks would be lower if they had known the extent to which interest rates would change. If they had known that interest rates would just about double, they might have guessed that common stocks would have to sell much lower in order to provide higher returns to compete with fixed income returns. At the same time, many of them would have said that if the higher interest rates were the result of inflation (and the two go hand-in-hand), then common stocks would be good

investments. Most of you can remember in the 1950's and 1960's when common stocks were regarded as excellent inflation hedges. The period from 1953-1964, however, was a period of very little inflation. Once inflation really became a major problem in this nation, it became apparent that corporations were going to have difficulty maintaining profit margins. That is, even though their sales were rising, their profit per dollar of sales could not keep pace because of even more rapidly rising costs of doing business. So stocks haven't been good inflation hedges during the current inflation era. We are not ready to conclude, however, that common stocks are not good inflation hedges over the longer term. Common stocks are not as poor a means of protecting oneself against inflation as the popular market averages would indicate. Corporate earnings and corporate dividends have continued to grow, but the adjustment in price/earnings ratios has more than offset this corporate earnings growth.

Having concluded that inflation has produced rising interest rates and, as a result, falling bond prices and falling stock prices over the last several years, we have to ask ourselves what the next several years will bring. The investor now faces many problems. I would like to briefly review several of these, but the first critical question that must be considered is: "What will future inflation rates be?" After answering the inflation question, the future level of interest rates can be considered.

I won't retrace the ground already covered by Dr. Dill, but we might pause to recall that just a few years back the consensus among economists suggested that a little inflation, perhaps 3% annually, was not only structurally inevitable, but actually was "good" for the economy. We probably could live with about 3% inflation *if it could be held stable at that level.* The problem is that inflation can't be held at any given level, as recent experience makes abundantly- and painfully-clear. Inflation seems to be either rising or falling at all times, seemingly generating its own momentum in either direction. Once we accept a 3% level of inflation, it seems that we tend to get 5%- and once we accept 5%, we seem to get 7%, and so on until the inflation problem is completely out of control.

I agree, therefore, that the current monetary policy of the

Federal Reserve to curb economic activity is appropriate. The Federal Reserve fully realizes that it is running the risk of not only creating a couple of major corporate insolvencies, but precipitating the all-but-unthinkable severe, extended recession. But the risk of doing nothing to slow down inflation seems even greater. Should we experience a few major corporate insolvencies, the investment markets will probably react negatively. The negative reaction would probably be dramatic, but temporary. On the other hand, if the present rate of inflation is not reduced, the market will almost certainly be negatively impacted to an even greater degree, and lasting for a much longer period. Even though today's interest rates are high by historical standards, inflationary expectations, in general, call for a declining rate of inflation in the future. If this positive forecast proves to be wrong, i.e., if long term bond investors become convinced that the inflation we have experienced in the last 18 months is not a temporary aberration but a new "normal" condition, then long term interest rates are, even now, "too low", and can be expected to go considerably higher.

It is essential, therefore, that inflation rates be brought down. We will be at the crossroads in the latter half of 1974. We are almost certain to have another surge of inflation now that controls have been lifted. Many wholesale cost increases are not yet fully reflected in retail prices. Many corporations are now selling their products for less than the market would normally be willing to pay as a result of governmental control. Unions appear ready to demand wage settlements in amounts sufficient to compensate for recent declines in real income *and* to build in protection from inflation in the future. Let's all hope that the current efforts of the Federal Reserve, in their lonely battle, will be successful in curbing inflation in the United States. Should inflation not come under control by the end of the year, the economic consequences will be severe.

After the investor concludes that inflation will be brought under control and that interest rates will trend down, he must then worry about an impending recession. For the current stringent action to combat inflation could bring about a more severe recession than we have had in recent times. It is quite possible

that the strength of prevailing inflationary psychology is now so strong that a recession will be a necessary cure. The mere mention of an impending severe recession is enough to make investors quake with fear. But, perhaps, this is the time to invest. If inflation and the level of interest rates has been the primary problem, then a recession might be viewed as a necessary evil. It would be a painful cure to be sure, but much less so than longer term runaway inflation.

So much for the outlook for interest rates and levels of inflation and their influence on the relative attractiveness of several investment vehicles. I'd like to comment briefly on a few of the other "monumental problems" uppermost in the minds of investors.

A widely discussed problem which may be rapidly receding in significance in the minds of the public, but which continues to concern investors, is the energy crisis. The energy crisis is not a hoax, it will not go away. It cannot be legislated away. Nor is the energy crisis a conspiracy of the oil companies. The energy crisis resulted from very heavy energy consumption on the part of Americans, coupled with a long term policy on the part of governmental agencies to artificially suppress the price of domestic petroleum products. The result of this ill-advised policy was to make the development of foreign energy sources attractive, and the development of domestic sources relatively unprofitable and unattractive. A reversal of this policy will go a long way in solving our energy shortage in the long term. We need higher petroleum prices to create more prudent consumption patterns and to create a strong incentive for increased exploration and development of energy resources. It should be noted that, even now, foreign oil as a percentage of our total energy consumption is surprisingly small. The significance, rather, lies in the rapidly increasing dependence, at least for the foreseeable future, on foreign oil to support *incremental growth* (i.e., new consumption) in our economy.

It does appear that the cost of foreign oil has peaked. Saudi Arabia, in particular, seems to be moving toward lower prices. Because Saudi Arabia has 1) a very large level of current production and capacity and, 2) extremely large reserves relative to

current production, it is beneficial to that country to produce at a very high level. It is also to their benefit to keep prices at a level which will forestall the rapid development of self-sufficiency for Western nations. It also seems that Saudi Arabia, realizing that it is a small nation in terms of population, would like to have a few friends among the strong industrial nations of the West.

The Arab money problem, resulting from the dizzying increases in foreign crude oil prices, also puzzles investors today. The shifting of much of the world's purchasing power from the U.S., Europe, and Japan to the oil-producing nations has potentially staggering implications on international economic, monetary, and trade relationships. The impact is much less on Americans than on the Europeans and Japanese since the U.S. is much more self-sufficient than Japan and Europe. The increased price of oil has taken purchasing power directly out of the pockets of the oil consuming nations and transferred this purchasing power to the oil producing nations. The immediate need is to recirculate this large amount of money into international trade. The problem does not appear to be insurmountable. At this point, a good guess is that the Arab nations will use about one third of their new money for increased consumption and capital investment in their own countries. The remaining amount is expected to be divided about evenly between investments in Europe and the United States. These investments will initially be largely in short term money market instruments but, in future years, can be expected to take the form of more permanent investments. The Arab nations seem to be well aware that they need to plan for investments which will provide income at a future time when oil reserves have been depleted.

Another major source of concern for investors today is the condition of Wall Street, which can be described as dreadful. Other phrases, both more descriptive and more colorful, could be used in characterizing the current state of Wall Street. Wall Street's capability to carry out major corporate financings has been sharply reduced. Profitability is either non-existent or deteriorating at an alarming rate. The brokerage industry in general has insufficient capital. Many traditional underwriting firms are pulling back from their role as major corporate

underwriters. As a result, the capability of American industry to finance expanding operations has been hampered.

One last problem that must be on the mind of any investor today is that of governmental interference with the economic system. Even an industry with extremely high-capacity utilization and strong demand growth cannot be assured of good profits if prices are artificially controlled. So, it would seem that the investor today must have a little more insight than is possible for anyone to have. In other words, you can do all of your investment analysis very well and still be wrong simply because someone in Washington changes the rules.

With that dreary listing of all the problems facing the investor today, one might wonder why he should invest in anything other than short term commercial paper – or gold, or Japanese oil paintings. However, a good case can be made for equity investments. Stock prices are very low. We haven't seen stock prices this low relative to earnings since the early Fifties.

We also believe that, while the concept of common stocks as an inflation hedge has not worked out in recent years, stocks continue to be a reasonable hedge against inflation longer term. We believe that, ultimately, there will be a flowthrough of inflation to corporate earnings. In fact, we would conclude that if the American economy is to continue its growth, earnings must grow with sales. We not only need earnings to create an incentive for continued capital investment, but also to provide increased retained earnings for continued growth of investment expenditures in this nation.

The U.S. economy has taken quite a few hard blows in recent years. The investor in common stocks has taken even harder blows. But we continue to have a growth oriented society and economy. We may have somewhat slower growth, measured solely in terms of real production, because more of our productive efforts will be diverted to such things as increased safety requirements, increased environmental concern, and to higher costs of foreign raw materials. But the dedication to growth is still present.

We believe that present interest rates make bonds reasonable long term investments. Present bond rates reflect the expectation

of substantial inflation. When you buy a bond today, you do so with the understanding that a portion of the return is expected to be offset by a loss of purchasing power. Even after a rather negative assumption about future inflation rates, however, bonds now provide a meaningful real return on an investment with a rather high predictability.

We believe that stocks over the longer period will represent excellent investments at today's levels. We believe that they will give you a substantially higher return than the historic return provided by common stocks. Again, part of this return will be offset by a reduction in purchasing power of the dollar. But at today's reduced prices, common stocks have a place for most investors. Therefore, we would tend to support the idea of a balanced investment portfolio structure. Bonds yielding today's rates are appropriate for most portfolios, especially tax exempt portfolios. Certainly, common stocks at today's prices deserve consideration for longer term investment.

We still face much uncertainty, but the prices of investment securities have been discounted to reflect that uncertainty. As inflation and uncertainty recede, the potential reward to those in a position to take advantage of today's low prices is very high indeed. No doubt the market will continue to go down as well as up, but our expectation is that the ups will more than offset the downs, and that we will not only experience better corporate earnings growth over the next few years, but also that we will see major appreciation in common stock prices. The result may well be what investors have been impatiently waiting for, hoping for, preparing for, and predicting for the last five years – a buoyant, sustained, broad-based bull market environment.

ACTUARIAL BASIS GIFT ANNUITIES— CONVENTIONAL AND DEFERRED

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

I've been told by my ministerial friends that all good sermons should drive home three strong points. Therefore I want to take a trinitarian approach to this presentation by saying that I have a three-fold goal.

Goal No. 1 is to explain the actuarial basis of conventional gift annuities.

Goal No. 2 is really a two-pronged one. The first prong is to explain the additional dimension that has been introduced into the actuarial basis of gift annuities by the deferred gift annuity. The second prong is to present, for official consideration by this Conference, the table that has been recommended on an interim basis by the Committee on Gift Annuities for use in connection with calculating deferred gift annuity rates.

Goal No. 3 is to explain the set of revised uniform gift annuity rates that is being proposed by the Committee for official consideration by this Conference.

In examining the actuarial basis for the uniform gift annuity rates recommended by the Committee, it might be helpful to start out by illustrating what a life insurance company does when it computes a premium that it is going to charge for an annuity policy. The first important consideration is the rate at which individuals purchasing the annuities are going to live or die. In other words, the company must adopt some mortality standard in computing the amount that must be on hand to make provision for a future annual payment to an individual for the remainder of his or her life. The company knows that, when it collects the premium for the purchase, it is going to be able to invest the funds so collected in income producing assets which will provide part of the funds needed to make the annual payments. Therefore, the company must decide on a rate of interest that it can count on receiving during this prospective period of payment. A third consideration is the amount that the company must collect to make provision for items of expense such as commissions

to agents, premium taxes and a share of the general operating expenses of the total company. Finally, unless the policy is being issued on a "participating" basis by a mutual life insurance company, the calculation of the premium must make provision for some profit to the company.

In calculating a gift annuity rate, the same basic approach needs to be taken as is taken by the insurance company in the calculation of a premium. Here again, it is necessary to make assumptions as to the rate of prospective longevity among the annuitants and the rate at which income can be produced on invested assets. It is also appropriate to make provision for administrative expenses. Although there are certain expenses that a life insurance company has that would not normally be incurred by organizations issuing gift annuities, such as commissions to agents or premium taxes, there are clearly some promotional and administrative expenses that properly need to be taken into consideration in establishing a gift annuity rate.

Finally, in lieu of the "profit" for which the insurance company must make provision, the true goal of issuing gift annuity agreements is the production of significant amounts of gift money for the use of the issuing organization. Consequently, a very important matter is making provision for a residuum for the work of the organization.

Let's examine the assumptions reflected in the current uniform gift annuity rates in the four areas that have just been outlined. They may be summarized as follows:

(a) Rate of mortality – 1955 American Annuity Table, female lives

(b) Rate of interest – 4% per annum, compounded annually

(c) Expense loading – 5% of the total consideration

(d) Residuum – 50% of the total consideration

The application of these assumptions is shown in Schedule A which illustrates two methods of calculating a gift annuity rate for a female donor at age 70. The first method is set forth in Part I of the schedule. The initial step is to deduct the 5% expense loading from the $1,000 of principal donated and then set aside the 50% residuum, using the assumed interest on the latter item

during the lifetime of the annuitant, with the principal of the residuum becoming available to the organization at the annuitant's death. The balance of the total principal – $450 in this case – can be used, principal and interest, for the purchase of an annuity. The rate is finally determined by adding together the annuity purchased by this balance and the interest earned on the residuum being held.

The second method of calculation is set forth in Part II. Here, after the deduction of the expense loading has been made, the approach in the calculation is to purchase an amount of paid-up life insurance equivalent to the residuum, with the balance then being applied to provide an actuarially equivalent amount of annuity. You will see that the result of this calculation checks the accuracy of the calculation in Part I.

We now come to my second goal in this presentation, that is, the explanation of the actuarial basis for a deferred gift annuity rate. Actually, this is a relatively simple matter since deferred annuity rates, under the approach being recommended by the Committee on Gift Annuities, are derived directly from the uniform gift annuity rates as adjusted by a set of uniform interest factors recommended by the Committee for the calculation of deferred gift annuity rates. The purpose of the table of interest factors is to recognize the interest that will be earned on the principal turned over under a deferred gift annuity agreement between the date of the gift and the date of initiation of what actually is a conventional gift annuity. In order to illustrate this procedure, I call your attention to Schedules B, C and D which are actually Schedules 14, 15A and 16A, respectively, from the "Gold Book" published by the Committee on Gift Annuities in March, 1973, related exclusively to deferred gift annuities. Schedules C and D are illustrations of the manner in which Schedule B is used. The procedure is to measure a period of years and completed months between the date of issuance of the annuity agreement and a date six months before the date of the first annuity payment. The reason for the six month approach is that the uniform gift annuity rates have traditionally been based on the assumption that annuity payments would be made semi-annually, with the first payment due at the end of six months from the effective date of the

agreement. Consequently, the deferred gift annuity operates on the assumption that a conventional annuity agreement would become effective six months before the date of the first annuity payment. With this approach, it is possible simply to take the uniform gift annuity rate that would prevail on the basis of the age of the annuitant on the date six months before the date of first annuity payment and then modify that rate by increasing it in accordance with the interest factor for the period of deferment. It will be seen from the example in Schedule C, which relates to a single life deferred annuity where the annuitant will be age 59 on the "effective date", that the period between the date of issue and the "effective date" is one year and four months. The factor from Schedule B which is applicable for a period at least one year but less than two years is 1.040, which is then multiplied by the age 59 uniform gift annuity rate of 5.1% to arrive at a deferred gift annuity rate of 5.3%. A similar approach is followed in Schedule D which relates to a deferred joint and survivor annuity. Here the applicable annuity rate at the "effective date", based on ages of 62 for the first annuitant and 59 for the second annuitant, is 4.7%. However, because the period of deferment in this case is 13 years and 7 months from the date of issue of the agreement, the uniform gift annuity rate is modified by multiplying it by the factor of 1.641 from Schedule B to arrive at a deferred gift annuity rate of 7.7%.

The table of uniform interest factors in Schedule B makes provision for interest during the deferred period at the rate of 4% per annum if the period is 10 years or less, with 3½% then being provided for the second 10-year period, 3% for the third 10-year period and 2½% for a deferred period in excess of 30 years. The theory here is that, the longer the period of deferment, the lower should be the rate of interest guaranteed.

It should be observed that the table of interest factors being recommended by the Committee makes provision only for the *interest* to be earned on the principal turned over under the agreement during the period of deferment. It does not make provision for possible increments because of mortality which might occur before the initiation of annuity payments. In taking this approach in the preparation of this table, the Committee had two

points in mind. The first is administrative simplicity and it can be seen that, with the use of this table of interest factors, the calculation of a deferred annuity rate is a relatively easy task. If, in the calculation of rates of deferred gift annuity, provision were made for mortality increments as well as interest, the calculations required would be at least as elaborate as those required in connection with the calculations of the Federal Income Tax Gift Values, which, as you know, are fairly complicated, especially for deferred joint and survivor annuities.

The other point that the Committee had in mind was that, by making the current uniform gift annuity rates applicable at the end of the deferred period, there is being provided a guarantee that the appropriate mortality assumption at the effective date of the annuity would be the same as at the present. It would be more prudent in the calculation of a deferred gift annuity rate to assume that there can be improvement in prospective longevity over the years and, therefore, that if the institution of annuity payments is to begin some years in the future, it would be appropriate to have some protection against the effect of this prospective increase in longevity. The absence of an allowance for a mortality increment in the table of uniform interest factors used to calculate deferred gift annuity rates provides this desirable element of protection.

We come now to the third goal of this presentation which is an explanation of a revised set of uniform gift annuity rates being proposed by the Committee on Gift Annuities. Many of you are aware of the fact that it has frequently been the practice of the Committee to have a full scale study of mortality experience made in preparation for consideration of a change in uniform rates. At the 14th Conference held in 1971, there were presented the results of a study of mortality experience for the six-year period January 1, 1964 through December 31, 1969. Since a period of only 3 years has elapsed since the presentation of that study, the Committee's conclusion was that it was not worth the trouble and expense of making a full scale study at this time and that such a study would probably be made for the next Conference. However, it is possible, through actuarial procedures, to estimate the effect of reasonable improvements in prospective

longevity during the intervening years. For current consideration, we have developed hypothetically what might have been the results of a mortality study for a six-year period from January 1, 1969 through December 31, 1974. The table below shows a summary of the actual results of the 1964-1969 study and the hypothetical 1969-1974 study.

		Actual Results for Period 1/1/64 through 12/31/69			*Hypothetical Results for Period 1/1/69 through 12/31/74*		
	Life Years of Exposure	*Actual Deaths*	*Expected Deaths*	*Ratio A/E*	*Actual Deaths*	*Expected Deaths*	*Ratio A/E*
Female Lives	116,294	5,408	4,899	110%	5,287	4,899	108%
Male Lives	30,891	1,529	1,147	133	1,491	1,147	130
Total	147,185	6,937	6,046	115%	6,778	6,046	112%

In the development of hypothetical results, the figure that is changed is the number of actual deaths. In other words, if the same life years of exposure are used, the expected deaths in accordance with a certain mortality table would be the same. However, if assumptions are made as to improvement in longevity, the hypothetical "actual" deaths would be somewhat lower and, consequently, the ratio of actual to expected deaths would also be somewhat lower. Because it is not the purpose of this paper to go into an elaborate explanation of mortality studies, since no actual study has been made, I am going to make my additional explanatory comments in this area rather brief.

In judging annuity mortality experience, if the actual deaths that have occurred are greater than the "expected" deaths in accordance with a stated mortality basis, it means that the actual mortality experience has been on the "safe" side with respect to the mortality assumption. The results of the actual study for the six-year period from 1964 through 1969 indicated total deaths approximately 15% higher than those expected in accordance with the present mortality assumption; viz., the 1955 American Annuity Table. The hypothetical results indicate that, even with a reasonable 5-year improvement in prospective longevity, the actual deaths would have been about 12% higher than the expected deaths. A logical conclusion of this exercise is that our present mortality assumption should continue to represent an appropriate one.

The assumption to which the Committee gave special consideration at the present time is the interest assumption, which is 4% in the present uniform gift annuity rates. It was the consensus of the Committee that, even though only 3 years have elapsed since the adoption of the present rates, the current opportunities for investment earnings justify a liberalization of the present interest assumption of 4% to a corresponding higher assumption of 4½%. Consequently, the Committee is recommending, for the consideration of this Conference, the annuity rates reflected in Schedule E, which shows the present rates, the proposed rates and the increase in proposed rates over the present rates. A similar illustration of two life rates appears in Schedule F.

It should be pointed out that one area of difficulty encountered was that the adoption of a 4½% interest assumption at all ages would result in rates in excess of the maximum rates permitted for the issuance of gift annuities in New York State. Fortunately, there were no excess rate problems at ages at which most gift annuities are issued, since the difficulty arose at ages below 60. For this reason, it was the consensus of the Committee that it was appropriate to adopt an interest assumption of 4½% but to limit the resulting rates to those permitted within the rate structure of the New York Insurance Law. The Committee continues to recommend a minimum rate of 4% and a maximum rate of 10%. The resulting set of rates is one which, in the view of the Committee, represents reasonable improvements in the rates at ages at which most gift annuities are issued.

COMMITTEE ON GIFT ANNUITIES

Illustration of Calculation of a Gift Annuity Rate in the Case of a Female Donor Aged 70

	Interest Assumed at Rate of 4%	4½%
I—Calculation		
1. Amount of principal donated	$1,000	$1,000
2. Expense loading to be deducted: 5% × 1	50	50
3. Balance for annuity payments and residuum: 1 – 2	$ 950	$ 950
4. Residuum to be set aside with interest thereon available	500	500
5. Balance for annuity payments: 3 – 4	$ 450	$ 450
6. Cost of $1 per year of life annuity	$10.82	$10.39
7. Annuity provided by balance in 5: 5 ÷ 6	41.59	43.31
8. Interest provided by residuum in 4: 4 × interest rate	20.00	22.50
9. Total annual income available: 7 + 8	61.59	65.81
10. Annuity rate: 9 ÷ $1,000	6.2%	6.6%
II—Alternate Calculation as a Check		
11. Balance for annuity payments and residuum: #3 in I	$950.00	$950.00
12. Cost of $500 residuum payable at death	283.60	266.23
13. Balance for annuity payments: 11 – 12	$666.40	$683.77
14. Cost of $1 per year of life annuity: #6 in I	$ 10.82	$ 10.39
15. Annuity provided by balance in 13: 13 ÷ 14	$ 61.59	$ 65.81
16. Annuity rate: 15 ÷ $1,000	6.2%	6.6%

SCHEDULE A

SCHEDULE 14

Uniform Interest Factors Recommended by Committee on Gift Annuities for the Calculation of Deferred Gift Annuity Rates

Period from Date of Issue of Agreement to the Date Six Months before the Date of First Payment	*Interest Factor*
Less than 1 year	1.000
At least 1 year but less than 2 years	1.040
At least 2 years but less than 3 years	1.082
At least 3 years but less than 4 years	1.125
At least 4 years but less than 5 years	1.170
At least 5 years but less than 6 years	1.217
At least 6 years but less than 7 years	1.265
At least 7 years but less than 8 years	1.316
At least 8 years but less than 9 years	1.369
At least 9 years but less than 10 years	1.423
At least 10 years but less than 11 years	1.480
At least 11 years but less than 12 years	1.532
At least 12 years but less than 13 years	1.586
At least 13 years but less than 14 years	1.641
At least 14 years but less than 15 years	1.699
At least 15 years but less than 16 years	1.758
At least 16 years but less than 17 years	1.820
At least 17 years but less than 18 years	1.883
At least 18 years but less than 19 years	1.949
At least 19 years but less than 20 years	2.017
At least 20 years but less than 21 years	2.088
At least 21 years but less than 22 years	2.151
At least 22 years but less than 23 years	2.215
At least 23 years but less than 24 years	2.282
At least 24 years but less than 25 years	2.350
At least 25 years but less than 26 years	2.421
At least 26 years but less than 27 years	2.493
At least 27 years but less than 28 years	2.568
At least 28 years but less than 29 years	2.645
At least 29 years but less than 30 years	2.724
At least 30 years but less than 31 years	2.806
At least 31 years but less than 32 years	2.876
At least 32 years but less than 33 years	2.948
At least 33 years but less than 34 years	3.022
At least 34 years but less than 35 years	3.097
At least 35 years but less than 36 years	3.175
At least 36 years but less than 37 years	3.254
At least 37 years but less than 38 years	3.336
At least 38 years but less than 39 years	3.419
At least 39 years but less than 40 years	3.504

Interest Compounded as Follows: 1st 10 years—4%, 2nd 10 years—3½%, 3rd 10 years—3%, After 30 years—2½%.

SCHEDULE B

SCHEDULE 15A

DEFERRED GIFT ANNUITY
Calculation of Rate of Deferred Annual Annuity

No. 425 Date of Issue 3/17/73
Date of First Payment 2/1/75 Frequency of Payment—Monthly

Name	Date of Birth	Sex
First Annuitant	7/30/15	F
Second Annuitant		

1. Date of issue of agreement 3/17/73
2. Date of first payment 2/1/75
3. Date six months before date of first payment on 2 ..... 8/1/74
4. Years and complete months between dates on 1 and 3 .... 1 yr., 4 mos.
5. Interest Factor* for period on 4 ..... 1.040
6. Age on nearest birthday to date on 3: .....First annuitant 59
   Second annuitant
7. Annuity Rate** at ages on 6 ..... 5.1%
8. Deferred Annuity Rate (5 × 7, carry out to 1 decimal) 5.3%

**From Uniform Interest Factors recommended by Committee on Gift Annuities* (Schedule 14)

***From Uniform Gift Annuity Rates adopted by Conference on Gift Annuities*

SCHEDULE C

SCHEDULE 16A

DEFERRED GIFT ANNUITY
Calculation of Rate of Deferred Annual Annuity

No. 426 Date of Issue 5/9/73
Date of First Payment 6/30/87 Frequency of Payment—Semiannually

Name	Date of Birth	Sex
First annuitant	1/4/25	F
Second Annuitant	12/20/27	F

1. Date of issue of agreement 5/9/73
2. Date of first payment 6/30/87
3. Date six months before date of first payment on 2 ..... 12/30/86
4. Years and complete months between dates on 1 and 3 .. 13 yrs., 7 mos.
5. Interest Factor* for period on 4 ..... 1.641
6. Age on nearest birthday to date on 3: ..... First annuitant 62
   Second annuitant 59
7. Annuity Rate** at ages on 6 ..... 4.7%
8. Deferred Annuity Rate (5 × 7, carry out to 1 decimal) 7.7%

**From Uniform Interest Factors recommended by Committee on Gift Annuities* (Schedule 14)

***From Uniform Gift Annuity Rates adopted by Conference on Gift Annuities*

SCHEDULE D

COMMITTEE ON GIFT ANNUITIES

Gift Annuity Rates—Single Life

Age	*Present*	*Proposed*	*Increase*	*Age*	*Present*	*Proposed*	*Increase*
35 and under	4.0%	4.0%	.0%	60	5.2%	5.5%	.3%
36	4.0	4.1	.1	61	5.3	5.6	.3
37	4.0	4.2	.2	62	5.3	5.7	.4
38	4.0	4.2	.2	63	5.4	5.8	.4
39	4.0	4.3	.3	64	5.5	5.9	.4
40	4.0	4.3	.3	65	5.6	6.0	.4
41	4.1	4.3	.2	66	5.7	6.1	.4
42	4.2	4.4	.2	67	5.8	6.2	.4
43	4.3	4.4	.1	68	6.0	6.3	.3
44	4.4	4.4	.0	69	6.1	6.4	.3
45	4.4	4.5	.1	70	6.2	6.6	.4
46	4.5	4.5	.0	71	6.4	6.7	.3
47	4.5	4.6	.1	72	6.5	6.9	.4
48	4.5	4.6	.1	73	6.7	7.0	.3
49	4.6	4.7	.1	74	6.9	7.2	.3
50	4.6	4.7	.1	75	7.0	7.4	.4
51	4.7	4.8	.1	76	7.2	7.6	.4
52	4.7	4.9	.2	77	7.4	7.8	.4
53	4.7	4.9	.2	78	7.7	8.0	.3
54	4.8	5.0	.2	79	7.9	8.2	.3
55	4.9	5.1	.2	80	8.2	8.5	.3
56	4.9	5.1	.2	81	8.5	8.8	.3
57	5.0	5.2	.2	82	8.8	9.1	.3
58	5.0	5.3	.3	83	9.1	9.4	.3
59	5.1	5.4	.3	84	9.4	9.7	.3
				85	9.7	10.0	.3
				86 and over	10.0	10.0	.0

BASIS OF RATES:

Present and proposed rates: 1955 American Annuity Table, female lives, 50% residuum; expense loading of 5% of total gift; tabular rates modified at younger and older ages.

Present rates: Interest at 4%.

Proposed rates: Interest at 4½%.

Proposed rates: Limited to maximum permissible currently under New York Insurance Law.

SCHEDULE E

COMMITTEE ON GIFT ANNUITIES

Illustrations of Gift Annuity Rates—Two Lives—Joint and Survivor

Age of Younger Life	*Present*	*Proposed*	*Increase*	*Present*	*Proposed*	*Increase*	*Present*	*Proposed*	*Increase*
			Age of Older Life						
	90			85			80		
90	9.2	9.5	.3						
85	8.3	8.6	.3	7.7	8.0	.3			
80	7.4	7.8	.4	7.1	7.4	.3	6.6	7.0	.4
75	6.7	7.0	.3	6.5	6.8	.3	6.2	6.6	.4
70	6.0	6.4	.4	5.9	6.3	.4	5.8	6.1	.3
65	5.4	5.8°	.4	5.4	5.8	.4	5.4	5.7	.3
60	5.0	5.3°	.3	5.0	5.3	.3	5.0	5.3	.3
55	4.7	4.9°	.2	4.7	4.9°	.2	4.7	4.9	.2
50	4.4	4.5°	.1	4.4	4.5°	.1	4.4	4.5°	.1
45	4.2	4.3°	.1	4.2	4.3°	.1	4.2	4.3°	.1
40	3.8	4.1°	.3	3.8	4.1°	.3	3.8	4.1°	.3
35	3.8	3.8°	0	3.8	3.8°	0	3.8	3.8°	0
	75			70			65		
75	5.9	6.2	.3						
70	5.6	5.9	.3	5.4	5.6	.2			
65	5.3	5.5	.2	4.1	5.3	.2	5.0	5.1	.1
60	5.0	5.2	.2	4.9	5.0	.1	4.8	4.9	.1
55	4.7	4.9	.2	4.7	4.8	.1	4.6	4.7	.1
50	4.4	4.5°	.1	4.4	4.5°	.1	4.4	4.5	.1
45	4.2	4.3°	.1	4.2	4.3°	.1	4.2	4.3°	.1
40	3.8	4.1	.3	3.8	4.1°	.3	3.8	4.1°	.3
35	3.8	3.8°	0	3.8	3.8°	0	3.8	3.8°	0
	60			55			50		
60	4.7	4.8	.1						
55	4.6	4.6	0	4.5	4.5	0			
50	4.4	4.4	0	4.4	4.4	0	4.3	4.3	0
45	4.2	4.3	.1	4.2	4.2	0	4.2	4.2	0
40	3.8	4.1°	.3	3.8	4.1	.3	3.8	4.1	.3
35	3.8	3.8°	0	3.8	3.8°	0	3.8	3.8°	0
	45			40			35		
45	4.2	4.2	0						
40	3.8	4.0	.2	3.8	4.0	.2			
35	3.8	3.8°	0	3.8	3.8°	0	3.8	3.8°	0

°Reduced in accordance with relationship to younger single-life rate

BASIS OF RATES: JR

Present and proposed rates: 1955 American Annuity Table, female lives; 50% residuum; expense loading of 5% of total gift.

Present rates: Interest at 4%.

Proposed rates: Interest at 4½%.

Proposed rates: Rates modified at younger ages to bring them within maximum permitted currently under New York Insurance Law.

SCHEDULE F

PRACTICAL APPLICATION OF GIFT ANNUITIES

DR. DAROLD H. MORGAN

President and Chief Executive Officer, Annuity Board, Southern Baptist Convention

While preparing this paper, I asked an attorney friend if he had any information on gift annuities that was written in language a layman could understand. He quickly replied that it was against the rules of his profession to write in layman's language. Furthermore, he added, any attorney who did write in such a language would have to answer for his deed before the Grievance Committee of the Bar.

In reading various magazine articles, pamphlets and books, I found considerable information, mostly not written in layman's language, but information that made me greatly appreciate the remarks of another attorney:

> "Education is what you get from reading the fine print; experience is what you get from not reading it."

The last words I read before writing this brief paper on practical application of gift annuities were the ones penned by Charles Burrall. He has performed a valuable service for our conference with his paper presenting the technical aspects of gift annuities. Each paragraph has been an education.

Trying to clarify an actuary's interpretation of deferred and conventional gift annuities is one of the biggest challenges I have had laid on my doorstep in many a day. Our own actuary in Dallas has a saying on her desk which captivates me every time I see it – "An actuary is a fellow afflicted with a type of insanity so rare that it's valuable."

In the strict sense of being complimentary, I would ascribe to Charles Burrall a good case of this rare actuarial insanity.

One sentence in the presentation by Mr. Burrall serves as the launching pad for my takeoff on practical applications of gift annuities. Mr. Burrall said:

> ". . . the true goal of issuing gift annuity agreements is the production of significant amounts of gift money for the use of the issuing organization. . ."

Let me limit the presentation primarily to the deferred annuities Mr. Burrall discussed.

All kinds of philanthropic institutions — educational, medical, scientific, religious or denominational — look more and more to annuities and insurance as a means of creating endowments for the future.

The institutional approach may vary in its development of gift annuities. Some may have multi-development staffs which openly seek and cultivate donors. Others may be one man operations. Some may have no solicitation.

Charitable giving may mean various things to different people. To one, it may demonstrate a deep spiritual desire to give part of his wealth to a religious cause. To another, it may represent an obligation he feels he owes to the institution. A third party may just believe in the work of the institution he wants to support. And finally, another may see an opportunity for immortality of influence. Each of these reasons is valid. The donor is motivated by the knowledge that what he is doing is worthwhile.

Many of America's cherished institutions are supported by people who fit into one of these four charitable persuasions. For most of us at this conference, the donor will be one who has a deep desire to give something tangible to the cause of his fellow man. Hopefully, he is already motivated. He has already determined which institution will receive part of his wealth.

With the new deferred payment gift annuity, an entirely different market potential opens. Immediately, several questions arise concerning the deferred gift annuity, which we must answer.

1. What is a deferred gift annuity?
2. What are the chief advantages of a deferred gift annuity?
3. Who are the prospects for the deferred gift annuity?

A deferred payment gift annuity is similar to the conventional annuity with one major exception. The donor may make his charitable gift to an institution any time before he retires. The institution then pays the donor a guaranteed life annuity beginning at his retirement or any other date he selects. The donor is simply building an annuity which he will collect at a

future date when he participates in the deferred gift annuity.

The key phrase in my description of a deferred annuity is "collect at a future date." This implies younger ages. Usually, a person 65 years or older would not want a deferred annuity for himself.

And that key phrase swings a new door open for annuity stewardship.

The deferred annuity can be extremely attractive for younger people who do not want annuity incomes now. Most of these potential donors have sufficient income from their employment or from other sources. Many have a commanding motivation to make charitable gifts of money or property to a particular cause now. However, most of them know they will need the income later when they retire.

The majority of people with charitable giving intent gives in one of three ways. They will:

1. Give outright while they are living,
2. Give outright through provisions of their wills,
3. Give while they are living and retain some form of interest in their gifts.

Very few people can give outright during their lifetimes. Most people will make outright bequests in their wills.

Yet, more people could do more good, not only for the institutions but for themselves, by taking part of their gifts and placing them in the new deferred payment gift annuity. We need to sharpen our skills to explain to potential donors the exceptional advantages of the deferred gift annuity.

No one among us has spoken more helpfully about these advantages than Conrad Teitell. He has reminded us that the deferred payment gift annuity enables a person to:

1. Make a significant charitable gift now;
2. Provide guaranteed retirement income;
3. Obtain an income tax charitable deduction in a high tax bracket year, saving additional taxes;
4. Defer income to years when it is needed and when it will be taxed at lower rates.

The prospects for the new deferred payment gift annuity are illimitable when we look at the projections of the U.S. Bureau of

Census. There is a steady acceleration of both women and men in the 40 to 64 year old age brackets most keenly interested in the gift annuity concept.

Year	Female (40-64 Years)	Male (40-64 Years)
1974	28,447,000	26,044,000
1980	28,838,000	26,218,000
1990	32,461,000	30,019,000
2000	40,812,000	38,707,000

The number of donors who could be generated from that growing group should certainly challenge and stimulate each and everyone of us in thinking creatively of ways to motivate and enlist them in deferred annuities.

The donor who uses the deferred gift annuity receives certain advantages over and above the objective that originally motivated him to make his charitable gift.

Other advantages include immediate charitable tax deductions, guaranteed income at retirement, income tax savings on annuity, and savings on estate taxes and probate costs.

Let's take a closer look at some favorable gains.

The Federal Government encourages the use of deferred payment gift annuities by allowing valuable tax benefits.

Most charitable gifts produce large tax savings. The higher the donor's bracket, the larger the tax saving his gift will produce.

In addition, part of each annuity payment the donor receives will be tax free. The tax free amounts depend on:

1. The age of the donor when he entered into the deferred annuity,
2. The age of the donor when annuity payments begin,
3. The life expectancy of the donor determined from the U.S. Treasury Life Expectancy tables when payments begin,
4. The income tax regulations in force when the donor's payments begin.

Like the conventional annuity, the deferred payment gift annuity can be a joint life and survivor benefit. The donor can have his annuity, which will pay him an income for life, and then his spouse or other designated family member will be paid an an-

nuity for life. Of course, the rate of return is less on the two lives because the period of payments is longer.

The joint life or two life deferred gift annuity also carries a charitable deduction. And the donor does not have to be an annuitant. A parent can provide an annuity payable in the future for a child or grandchild. Or a brother can establish an annuity for his sister, mother or father, etc. We need to keep in mind also that the use of the gift annuity is not restricted to family members.

The deferred payment annuity has certain estate tax benefits also. As only one example, the annuity is not taxed to the donor's estate if he is the sole recipient of the annuity, or if he is not survived by the beneficiary in a two life annuity.

Another interesting aspect to the deferred payment annuity is that it can be paid in installments. A donor may not want to transfer large amounts immediately for a deferred payment gift annuity. He still can make significant charitable gifts and build his deferred gift annuity by transferring smaller amounts now and annually thereafter.

I have purposefully refrained from entering into the technical aspects of the deferred payment gift annuity or computing any examples. Mr. Burrall and others are much more qualified to provide that expertise.

In conclusion, the deferred payment gift annuity enables any donor to:

1. Give a charitable gift immediately to the charity or institution he favors,
2. Build guaranteed retirement annuities,
3. Obtain immediate income tax deductions.

The deferred payment gift annuity also provides the charity or the institution with a new tool to use in obtaining funds from prospective donors who still have sufficient years to build better retirement incomes.

In these days of unprecedented inflation and spiraling costs many of our institutions are pressed for operating funds as they have never been, even the ancient years of "the Great Depression" notwithstanding. Using the conventional and deferred payment gift annuity to the full extent of this amazing vehicle

for charitable and religious giving merits our best efforts in promotion and motivation.

Recently I was at home by myself one afternoon when the doorbell rang. Upon answering it, I saw a little woebegone girl garbed in a Campfire Girl uniform. Our eyes met briefly and then she looked beyond me somewhere, saying her brief spiel in a singsong chant. "Mister, you don't want to buy any Campfire cookies, do you?" Even as she shared her negative sales pitch, her head was turning in the same negative vein.

Ordinarily buying these cookies is an accepted annual ritual, but it was so easy to move my head in line with hers and say, "No, young lady, I don't need any today." Then she beat a hasty retreat.

About an hour later the doorbell sounded again. Upon opening the door, I saw the same girl again, but what a change! There was a bright smile and a firm voice. "Mister, we have some very good cookies, and your buying some would help our Campfire work." I wound up buying two packages from her, more in response to her reeducation to good salesmanship. I have often wondered who her teacher was between the first and second trip. That kind of motivation is what we need today.

We have a very fine, adaptable vehicle in the gift annuity – either conventional or deferred. The needs of our institutions are deeper in scope and intensity than ever. The practicabilities of the hour come down to our efforts, motivation, enthusiasm, and personal dedication to the continuing task.

STATE REGULATIONS OF GIFT ANNUITIES

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

A GRATEFUL REMEMBRANCE

Preparation of this paper has made me painfully aware of the loss all gift annuity organizations have experienced through the illness and death, on March 31, 1973, of our long-time friend and colleague, Mr. James A. Cousins, formerly National Auditor, The Society for the Propagation of the Faith.

Mr. Cousins had presented this same topic at the 1971, 1968 and 1962 Conferences on Gift Annuities. In 1965 I had the assignment.

Mr. Cousins' vast experience and his superb qualities – as a professional accountant, as a college professor, as a church administrator and as a person – make his reports priceless documents. They merit rereading. When you do so, I'm sure you will feel as I do – grateful to God for the life and work of this remarkable man.

THE CURRENT SITUATION

If there is one impression that I have of the present status regarding state regulation it is that in several states it is "unsettled" and "unsettling."

Report of developments have come in from a number of states which give pause to those directly involved and which may affect many of us in the future. I am speaking now of actions by state offices only. To our knowledge, there are no efforts on anyone's part toward federal regulation.

A MATTER OF DEFINITION

These developments in some cases can be attributed to the insurance department; in others to the attorney general's office; in still others to the securities division. The root cause for these developments, it appears to me, seems to be a difference of opinion as to the nature of a gift annuity agreement.

In our view a gift annuity agreement is simply "a giving plan" which has attractive annuity aspects related to it. In the

view of some state officials, however, a gift annuity agreement is either a form of "life insurance," which subjects it to that kind of regulation, or it is "a promise to pay" like a security, which entails still another kind of regulation.

The view which we in this assembly hold has been long supported by legislative regulations in both New York and California. In these two states, charitable annuity agreements are precisely described and regulations applicable to them are clearly stated.

These regulations have been set forth in detail in prior Conference Proceedings and are not repeated now. Suffice it to say, those of us who labor under them find them tolerable though once a year burdensome. Certainly they are meant to be fair and reasonable and they do provide straightforward assurances, both to annuitants and to the sponsors of an issuing agency, that the gift annuity operation of an institution is in conformity with existing state laws, is actuarially sound and financially responsible.

It is the view of the Committee on Gift Annuities that states feeling the need for regulations in these areas would do well to adopt the procedures already in effect in New York and California.

A ROUND-UP OF RECENT DEVELOPMENTS

I cite now developments since the 1971 Conference that have come to the Committee's attention. They are categorized chronologically by dates, from October, 1972 through November, 1973, rather than alphabetically by states, to give you some sense of the movement that is taking place. The first of the developments cited is regarded with favor, the others with apprehension.

NEW JERSEY

Under date of October 20, 1972, Chairman Baas issued this communication to the sponsoring constituency:

COMMITTEE ON GIFT ANNUITIES
1865 Broadway
New York, New York 10023

Legislation has been passed this year in the State of New Jersey affecting those organizations issuing gift annuities in the State.

The Committee recommends that you confer with your legal counsel regarding compliance with the section relating to Charitable Annuities.

An extract of Section 17B:17-13.1 is enclosed for your information.

Applications for a special annuity permit to qualify in the State of New Jersey as a gift-annuity issuing organization, may be obtained by writing to:

W. Harold Bittel
Chief Actuary
State of New Jersey
Department of Insurance
201 East State Street
Trenton, New Jersey 08625

Charles W. Baas
Chairman

LIFE AND HEALTH INSURANCE CODE
NEW JERSEY STATUTES
Chapter 144
INSURANCE

17B:17-13.1 Charitable Annuities

a. The commissioner may, in his discretion, issue a special permit to a qualified nonprofit domestic or foreign corporation or association organized without capital stock or not for profit, engaged solely in bona fide charitable, religious, missionary, educational or philanthropic activities and which shall have been in active operation for at least ten years authorizing any such corporation or association to enter into annuity agreements with donors. Before issuing any such special permit the commissioner shall promulgate rules and regulations governing such annuity agreements and permit holders with respect to such annuity agreements. Such rules and regulations shall, in addition to such other provisions as the commissioner may determine to be necessary or desirable to protect the public, provide that each applicant for a special permit shall submit to the commissioner copies of its form of agreements with donors, and a schedule of its maximum annuity rates, which rates shall be so computed, on the basis of the standard valuation law, as to return to the special permit holder, upon the death of the annuitant, a residue at least equal to one-half of the original gift or other consideration for such annuity.

b. Each such special permit holder shall have and maintain segregated assets at least equal to the sum of the reserves on its outstanding agreements calculated in accordance with the provisions of Chapter 19 of this Code, and a surplus of ten per centum of such reserves or the amount of $100,000, whichever is higher, and such assets shall be segregated as separate and distinct funds, independent of all other funds of such special permit holder and shall not be applied for the payment of the debts and obligations of the special permit holder other than with respect to annuity agreements. In determining the reserves of any such special permit holder, a deduction shall be made for all or any portion of an annuity risk which is lawfully reinsured by an authorized insurer. Segregated assets herein required to be maintained shall be invested in the same manner

and subject to the same restrictions as herein provided for investments of domestic insurers unless more restrictive provisions are contained in applicable statutes regulating any such permit holder and except as the commissioner may otherwise provide by regulation.

c. Any corporation or association defined in subsection a. hereof which, prior to the effective date of this Code, has entered into annuity agreements shall obtain a special permit as herein provided prior to entering into any new or additional annuity agreements provided, however, that the commissioner shall by regulation allow a period of time, which shall not be more than 5 years following the effective date of this Code for any such corporation or association to comply with the provisions of subsection b. of this section with respect to any annuity agreement entered into prior to the effective date of this Code. The commissioner, in his discretion may extend such time for a reasonable period.

d. If the commissioner finds that any special permit holder has failed to comply with the requirements of this section or of any rule or regulation of the commissioner issued hereunder, he may by appropriate order, subject to the provisions of the Administrative Procedure Act (P.L. 1968, c. 410), Chapter 34 of this Code and any rules adopted thereunder suspend or revoke any such special permit and he may take such other action to restrain or enjoin any such violation as may be otherwise provided by law. In addition the commissioner may make such orders as he deems desirable and necessary to afford appropriate financial security to the annuitants. The commissioner may require that special permit holders submit periodically such reports as he may deem desirable or necessary to ascertain compliance with requirements of this section and the commissioner may, whenever he deems it expedient, make or cause to be made an examination of the assets and liabilities and other affairs of any such special permit holder as the same pertains to annuity agreements entered into pursuant to this section. The reasonable expenses of any such examination shall be fixed and determined by the commissioner, and he shall collect them from the special permit holder examined, who shall pay them on presentation of a detailed account of the expenses.

e. No special permit holder shall be deemed an insurer as defined in this Code.

OREGON

Under date of October 5, 1972, the World Literature Crusade, North Hollywood, California, received this letter from the Chief Assistant Insurance Commissioner of the California Department of Insurance:

"Gentlemen:

We have this day been supplied with evidence by the Oregon Insurance Commissioner that your organization is violating laws of the State of Oregon in that one R. Orlando Logelin has within the State of Oregon been soliciting charitable gift annuities (life insurance) for World Literature Crusade without either said R. Orlando Logelin or World Literature Crusade being licensed by the State of Oregon for such activity.

Such solicitation of contracts by an Oregon resident or other person present within the State is unlawful unless both the issuer of annuities and the solicitor are duly authorized by the Oregon insurance regulatory authorities. Solicitation of such contracts from Oregon residents by mail from outside the State of Oregon by an organization unlicensed in that State is also unlawful.

You are hereby requested forthwith to halt all such unlawful solicitation and transaction of insurance business in the State of Oregon."

FLORIDA

On April 5, 1973, the University of Tampa, Tampa, Florida, received this letter from the Office of Treasurer, Insurance Commissioner:

"Dear Mr. Gronlund:

Mr. Brown has asked that I respond to your letter of February 27, 1973, concerning the matter of "gift annuities" and the licensing of those who propose to sell such annuities.

Section 624.03, Florida Statutes, states that an insurer includes every person engaged as . . . . contractor in the business of entering into contracts of . . . . annuity. The term "in the business of" does not demand a profit situation, but rather means performing, acting, or carrying on operations. Part III, Chapter 627, Florida Statutes is by its terms, applicable to annuity contracts.

Since there is no Statute exempting charitable organizations

from the application of the Florida Insurance Code, we have concluded that such organizations would be required to comply with all the licensing requirements and other requirements of the Insurance Code.

The Attorney General has also considered this question (advisory S.T. 65-6) and arrived at the same conclusion.

We would therefore caution that your organization not engage in annuity transactions prior to proper qualification."

OHIO

On June 27, 1973, Dr. Roland C. Matthies, who shares the platform with me today, summarized the situation in his state in a memorandum to sponsoring organizations of the Committee on Gift Annuities from Ohio. Excerpts from that memo are these:

"This is to sound an alert!—And it is not connected with Federal Tax Reform. Rather, it is concerned with an Ohio situation.

Bible Literature International, with offices at Columbus, has been informed by a prestigious law firm that charitable gift annuities are securities under the Ohio Blue Sky Law and that the disposition of annuities involves a sale of securities under Chapter 1707 of the Ohio Revised Code. That law firm has advised that such annuities must be guaranteed by an insurance company which is under the supervision of the State of Ohio.

A number of years ago, Denison University ran into the same problem with its counsel.

Wittenberg's legal counsel have an opinion to the contrary and have maintained that position over a number of years. In a recent review of their position, they have reiterated their stand, and I concur.

I understand by the "grapevine" that the Division of Securities in Columbus is taking a "no comment" position. It is probable that some of the financial difficulties of the Cathedral of Tomorrow in Akron have brought about this freeze on communication. In any event, I do not recommend that any direct approach be made to that office.

I alert you at Wittenberg's initiative and not as a proposal from the Committee on Gift Annuities. Wittenberg has written charitable gift annuities for the past 100 years and they have provided a remarkable financial undergirding for this institution. I know that many of you have had very encouraging results from your own

charitable gift annuity solicitations. Therefore, I suggest that the time is now for doing your homework. This is the time for your getting in touch with the right people that they may be informed about this situation. I am unable to give you names. This memorandum will also be sent to those collegiate institutions in Ohio which I know are interested in charitable gift annuities but which have not become sponsoring organizations of the Committee on Gift Annuities.

Please go at this matter quite cautiously but without delay."

NEBRASKA

Under date of September 25, 1973, York College at York, Nebraska was advised by the Department of Insurance as follows:

"Dear Mr. Rathe:

I am in receipt of your September 18th letter in which you asked four specific questions concerning annuities as they concern this Department.

The Nebraska Department of Insurance regulates the entire spectrum of insurance business, a portion of which is annuities and its various types. The basic regulations concerning insurance are found in Chapter 44 of the Nebraska Revised Statutes.

I am assuming by questions 2, 3 and 4 that you plan to have York College be the issuing entity. If this is the case, you can not do it. Instead of trying to explain the myriad of complex problems that you will be facing if you choose to pursue this line and set up an annuity program, I suggest that you contact me for an appointment so that we can discuss in detail what you plan to do. In the event that you already have an insurer who will be writing and reserving the annuities, you will need to have a natural person licensed with that insurance company in order to sell the annuity. You will not have to maintain a reserve as the insurance company will be doing that for you. And, finally, the insurance company also records or files with this Department a copy for approval, prior to any issuance, all policies and annuities which are to be issued in this state.

As I indicated, if, as I believe from your letter, you intend to issue the annuities yourself, I will be awaiting a call from you so that we might discuss this matter further."

PENNSYLVANIA

It has been reported that on November 13, 1973 a Gift Annuities bill was introduced to the Pennsylvania Legislature. Its status at this writing is not known. The wording proposed for it is almost identical with the bill passed by New Jersey in 1972.

LATER INFORMATION IS INVITED

As I said earlier, the developments I have recounted have taken place since the time of the prior conference. They are supported by copies of correspondence shared with the Committee on Gift Annuities.

Instances from other states of impending or emerging state regulations, as cited in the Booklet of Proceedings from the 1971 Conference, apparently remain as they have been. I refer especially to Wisconsin, Illinois, Minnesota and North Dakota.

Possibly persons here today have later information to share with us, about those or still other states, either with the Conference as a whole or with an officer of the Committee. Agenda time can certainly be provided for consideration of this important matter.

THE ROLE OF THE COMMITTEE ON GIFT ANNUITIES

In conclusion, the considered position of the Committee on Gift Annuities, in the light of this kind of situation, has been to "not press the issue." Also it is deemed advisable to desist from periodic and extensive surveys of the several states as to their respective rule and practices. Persistent inquiry in the past has had the negative effect of the officers of some state without regulations apparently saying to themselves, "It appears we should have some."

Operating as it does without fulltime staff, and with a modest budget, the Committee on Gift Annuities cannot actively lobby for legislation on these matters in the several states. *It can, however, serve as a clearing house and stands ready to do so!*

Whenever and wherever a situation develops toward which some kind of responsive action may be important, sponsors located in the state involved can be notified and encouraged to plan collective action rather than try to go it alone. *It is of utmost importance that you keep the Committee informed.*

A CONTINUING APPEAL

As Dr. Gilbert Darlington wisely said in his paper on this topic in 1959, "The Committee on Gift Annuities seeks by self-regulation of its members to make state regulation unnecessary by the Insurance Departments of additional states, but any attempt by other agencies of the states or federal government should in my judgment be vigorously opposed by your Committee. Please keep the Committee informed."

FEDERAL TAX LEGISLATION—CURRENT STATUS

DR. ROLAND C. MATTHIES
Vice President – Counsel, Wittenberg University

To lay a proper foundation for consideration of Federal tax legislation and threatened reform as it applies to charitable giving, I ask your indulgence in a fairly extensive quotation. Dr. Robert F. Goheen, distinguished past president of Princeton University, addressed the Ripon Society in New York City on the subject, "Is Private Philanthropy 'Government Money?' " Thanks to David F. Freeman, President of the Council on Foundations, Inc., a substantial number of copies of this speech will be available at the conclusion of this session.

Dr. Goheen states in part:

"Last week John Doe pledged $15 to his town's United Fund. A doctor in the local hospital saved a child's life with a $5,000 piece of equipment paid for by a wealthy donor. Representative College announced $250,000 contributed by alumni donors for an enlarged student aid program. The Charitable Foundation reported grants totaling twice that amount for drug abuse prevention, population studies, an experiment in social decentralization, and investigations into new methods of converting waste into energy. Sara Jones put $5 in the collection box at her church to celebrate the christening of a nephew.

"Whose money was involved in these various philanthropic acts? There are those who hold it to be basically the *Government's money* because it is tax deductible, and in recent years this view has gained a strong foothold in the major tax-writing committees of the Congress.

"But if one accepts the premise that charitable activities and giving represent not so much valued personal commitments as government expenditures, then the door is open to drastic changes in the traditional independence of private philanthropy and its capacity to contribute fruitfully to the well-being and improvement of our society.

"If the assets of tax-exempt organizations are indeed government money, then it is only logical that their policies and prac-

tices should be fully subject to Federal regulations. But where, then, do you draw the line?"

Dr. Goheen then goes on to indicate that Professor Stanley Surrey, of the Harvard Law School and former Assistant Secretary of Treasury for Tax Policy, considers all tax deductions, including those allowed for charitable giving, as being "Costs to government." Professor Surrey also describes them as "Government subsidies" and while he was on the Federal staff he developed a "Treasury Tax Expenditure Budget" which included charitable deductions as expenditures of the Federal Government. Dr. Goheen adds, "The Surreyan view appears to have little historical base in the thinking and motivation of those who wrote the exemption of charitable institutions and the deductibility of charitable giving into the American tax system. The Congressional deliberations and debates of that time reflect, instead, a concern to preserve the vitality of non-governmental charitable enterprise and the view that such enterprise represents gains for the society rather than cost to government. In the Tax Reform Act of 1969, Congress not only endorsed again the basic principle of the charitable deduction on income tax, but raised the maximum allowance to 50 percent of adjusted gross income. From the perspective of history, then, the Surreyan views seem to reverse the basic rationale of charitable exemptions and deductions in the U.S. tax system."

Dr. Goheen indicates that we hear much today about tax preferences and about loopholes, that there is a popular swell of concern, and that there is much confusion about our tax laws and their so-called benefits. He indicates that Professor Surrey's view of charitable deductions as government expenditures or government subsidies simply promotes this confusion. He concludes by indicating that three proposals with serious negative implications for many philanthropic organizations are under serious consideration by the tax-writing committees of the present Congress. They are these:

1. To limit deductions for gifts of appreciated securities to public charities. You will recall that this action was taken with respect to that kind of giving to private foundations in the 1969 Tax Reform Act.

2. A second proposal involves a limitation on the proportion of decedents' estates that can be left to charities without taxation.
3. The third proposal is 'Minimum Taxable Income,' as recommended from the Nixon Administration.

Dr. Goheen concludes, "At debate is the very organization of our society; the extent to which it values its pluralism and voluntarism; the maintenance of a multiplicity of solutions to social problems; and the existence of independent institutions attempting to meet important human needs. Each proposal above beclouds what have been important incentives in our tax system that have helped encourage persons of means to make substantial charitable gifts. Singly and together they raise serious threats to present patterns of funding the country's philanthropic institutions, and especially so for its universities. How we feel about these proposals may be strongly influenced by whether we come to regard the current exemptions and deductions accorded to philanthropy in our tax laws to be the State's money or money that still belongs to the people. I would strongly urge the latter view as historically based and intimately related to the continuing strength and vigor of the country's many voluntary non-profit institutions."

So much for laying a foundation of understanding as to the prime issues by which you and I are most concerned at the moment.

What is the current situation? From the latest reports I have, at this very time the House Ways and Means Committee is beginning the process of marking up a tax reform bill. Whether it will be a piecemeal endeavor or a major thrust is simply a matter of conjecture at this time. And when a tax bill is presented to Congress for action, we are not sure as to under what rules the action will be taken. As Kiplinger said in his Taxletter of March 22, 1974 "Congress often has a tendency to go beyond its original intentions."

Jack Myers, distinguished counsel for the American Council on Education, reports that both the House Ways & Means Committee and the Senate Finance Committee are gearing up for passage of some tax legislation this year. He believes that there is

a strong possibility that someone will offer an amendment to one of the current tariff bills dealing with the tax on preference income. Such activity would probably result from a reaction to the President's payments of minimal Federal income tax. As you know, it is unfortunate that the low rate of tax on President Nixon's income was directly traceable to a charitable contribution which had already been declared to be ineligible for the contribution deduction. Jack believes that the least that can be expected is a substantial reduction of the floor which now applies before any tax is imposed on preference income, namely, $30,000 plus the taxpayer's tax as otherwise determined. There might well be an effort to expand the items of preference income. He believes that a substitute for the preference tax, such as the administration's proposal for MTI, is probably too substantial a change for consideration as an amendment to a tariff bill.

It is now clear that Chairman Wilbur Mills of the House Ways and Means Committee has regained his health and vigor and is once more the active Chairman. The committee is under some real pressure to justify retaining its broad range of responsibilities. Jack believes that it is probably too late in the Congressional year to make any substantial progress toward changing the federal estate and gift tax provisions. This is a complicated subject. Accordingly, it would seem that current tax reform activities would be involved with the income tax situation.

If preference tax provisions are modified, we can all recall that the House Ways and Means Committee in 1969 tried to include unrealized appreciation in property transferred to a public charity as a preference item. If a successful attempt is made to include unrealized appreciation as a preference income item, the pressure would probably be off on attempting to tax directly such unrealized appreciation.

Coming to the fore, is also the idea of increasing the holding period for long-term appreciation from more than six months to more than one year. The idea has also been advanced that the percentage of gains subject to tax be reduced on a schedule tuned to the number of years of holding. It is the belief of several of us that charitable organizations should not oppose a progressive reduction of the capital gains tax.

Another possibility that will probably be part and parcel of a tax reform measure is the proposal to extend the period of time for correcting charitable remainder trusts to meet the rigid requirements of the 1969 Tax Reform Act. Problems are continuing to show up which result in heavy taxes in estates and the resulting loss to the charities. I understand that a charitable remainder trust in the District of Columbia, held to not meet the statute, will cost the charitable remainderman nearly $3 million of lost gift.

So, we are in the thick of it once more. It appears obvious that the House Ways & Means Committee will come up with a tax reform measure. Certainly, the unfavorable publicity involved in President Nixon's gift of personal papers provides the example for motivation and action. The charitable contribution deduction will surely be under attack. There are unlimited ideas being projected for disturbing the present situation of the Federal estate and gift taxes, but, as I indicated previously, I believe that they will not be tackled at this session of Congress. But the next session is just around the corner!

After all of that heavy material, I imagine that you are in a mood for some of Conrad Teitell's famous humor. Here is his excerpt from the March 1974 issue of Taxwise Giving:

"A TALE ABOUT A FAT CAT.

Donor's will left $1 million in trust to provide income for his pet cat. On the cat's death, the trust principal was to go to a charitable organization. The donor's estate wished to claim a charitable deduction for the charity's interest. But the executor couldn't find a factor in the Treasury Tables for computing the charitable deduction based on a cat's life expectancy. So he wrote to IRS. 'The answer is simple, ruled IRS. Use the factor in the Table for humans, but multiply that factor by 9.'

Unfortunately for the cat, it never received the trust income. The donor's parakeet contested the will."

In that same March 1974 issue of Taxwise Giving, Conrad discusses suggested action on our part. He recommended, "Concerned institutions and groups of concerned institutions in

each state having a member on the House Ways & Means Committee should meet and otherwise communicate with Ways & Means members urging that any bill reported by the Committee not contain any provision which would remove the long-standing tax incentives to charitable contributions. If your institution is in a state not having a member on the House Ways & Means Committee, communicate your concerns to your own representative and ask him to make your views known to his colleagues on the Ways and Means Committee." In other words, cooperative action within the states is called for by our much admired Conrad Teitell. Those views to be expressed should not only speak to the issues but should also ask for a postponement of consideration of provisions dealing with the charitable contribution until the newly-formed Citizens Commission on Private Philanthropy and Public Needs has completed its work. As Conrad indicates, "It makes no sense to establish a Commission to study a problem and then enact legislation before it makes its report. Thus, any proposal affecting the charitable contribution should await the newly established Commission's report and recommendations.

"Strategically, it is not safe just to ask for a postponement. Address the issues and also ask for a postponement."

Another vigorous proponent of activity at the state level is Attorney James E. Mann of the law firm of Gardner, Carton, Douglas, Chilgren and Waud. In his most recent alert, dated April 5, 1974, he indicated that it is time to renew Congressional contact as tax reform tops the Ways & Means agenda. He states that the climate in which the mark-up of the tax bill will occur is volatile. He states "It is this concern of Congressmen to hear from their constituents that moves us to alert you to renew individual contacts with the Congressmen from your state. . . . While we have tended in the past to focus exclusively on the House, it is not too soon to follow this same procedure with your state's Senators."

For an excellent coverage of the current situation, I refer you to the publication by the Council for Financial Aid to Education, entitled "Voluntarism, Tax Reform, and Higher Education." Single copies at $2 may be ordered from the Council at 680 Fifth Avenue, New York 10019. For an excellent discussion of the

Minimum Taxable Income Proposal, see Pages 19 and 20 of that publication.

While on the matter of publications recommended for your use, I suggest that you acquire a comprehensive annotated bibliography and summary overview of the status of our knowledge to date on the subject of charitable giving. This is a reference guide entitled "Motivations for Charitable Giving" by Butners and Buntaine and was prepared under the auspices of the 501 (c) (3) Group. This is an 83 page annotated collection of published reference sources on charitable giving. Single copies may be obtained at $3.25 from the 501 (c) (3) Group, One Dupont Circle, Suite 600, Washington, D.C. 20036.

Many of you have heard of the 501 (c) (3) group, a voluntary organization that has been acting on your behalf since before the 1969 Act. There are about 25 of us who regularly meet, with no subsidy, to keep abreast of the tax climate, to maintain the best of communication with Capitol Hill, and to work at the unending problem of good rapport. Because we felt that the climate of understanding with regard to whether tax incentives really work in obtaining the charitable gift, we authorized a study by Martin Feldstein, Professor of Economics at Harvard, who worked with a larger body of data than any of his predecessors who gave study to this field. He has produced compelling evidence that the charitable contribution deduction works in fact as well as in theory. It encourages giving, and it does so at a reasonable cost to the United States Government. A popularized layman's version of the Feldstein report will soon be available for your study and information. Now, what about the Commission on Private Philanthropy and Public Needs? In November of 1973, then Secretary of the Treasury, George Schultz and Chairman Mills of the House Ways and Means Committee jointly announced the formation of a Commission on Private Philanthropy and Public Needs. The role of the Commission would be to consider what part private philanthropy plays in meeting the educational, health, social welfare, cultural, scientific, quality of life and religious and similar needs of the United States. The Commission will not only attempt to measure the importance of that role but will also attempt to determine the significance of the

various incentives to private support of public needs, including but not limited to the various aspects of Federal and State taxing statutes which encourage gifts. It is under obligation to make a report by the end of 1974. You will recall that earlier in this address I referred to Conrad Teitell's concern that legislation not be enacted prior to a report from the Commission. The Commission is chaired by John Filer, Chairman of Aetna Life and Casualty Company, and has about 28 members. It is served by an advisory committee of distinguished professionals. The staff of the Commission is led by Attorney Leonard Silverstein. The Commission has engaged in a number of important studies. It meets approximately once a month in various parts of the country, receives preliminary reports with respect to studies authorized, and listens to various experts present their analysis of the issues involved. As reported by Jack Myers, ". . . At the initial meeting, the Commission heard a discussion between Professors Surrey and Bittker with respect to the appropriateness of the charitable contribution deduction for income, gift and estate tax purposes as an incentive. It is planned that in September a national meeting of the experts, advisors, staff and researchers will be held to present the results of the various studies, a discussion of the proposed changes and alternatives with the broadest range of views being represented. Thereafter, the Commission will make decisions with respect to the proposals made and direct the preparation of a final report which is scheduled to be completed before the end of December 1974." There could be no better reason than to call for postponement of tax reform as it affects the charitable contribution deduction!

All in all, with the subject of State Regulation just covered by Chet Myrom, and the national legislative scene in foment, reform and control surround us!!

In fields related to Federal tax legislation, such as court decisions and IRS positions taken, I call your attention to these current problems among many which time does not permit to be covered:

1. The district court of the District of Columbia in Eastern Kentucky Welfare Rights Organization, et al, v. Shultz, Civil Action No. 1378-71, has rendered a decision that the Internal

Revenue Service definition of a hospital, as stated in Rev. Rul. 69-545, was invalid since it did not require that the hospitals "be operated, to the extent of their financial ability, for those not able to pay for services and not exclusively for those who are able and expected to pay."

An appeal has been filed.

Jack Myers believes that it is not contemplated that the IRS will revoke the exemption of any hospital without following the ordinary and regular procedures. There should be no ad interim problem insofar as donors are concerned since they are entitled to rely on the public charity status of the hospitals as expressed in published rulings of the IRS.

2. There is indication that members of the House Ways and Means Committee are desirous of a clearer statement of the limitation on legislative activities of public charities. Private foundations are severely restricted in this area. Public charities are subject to the very indefinite prohibition that "no substantial part of their activities may be the carrying on of propaganda or otherwise attempting to influence legislation".
3. You will recall that in 1960, the IRS issued Rev. Rul. 60-370 which has caused much consternation. The ruling stated that a donor who transfers appreciated assets to a charitable remainder trust is himself subject to capital gains tax when the trustee invests the sale proceeds in tax-exempt securities in accordance with an express or implied agreement. That ruling specifically limited itself to tax-exempts. It also stated that any change in the IRS position would be prospective only. Conrad Teitell indicates that it is now evident that some technicians in IRS believe that a donor who funds a unitrust or annuity trust with low yield securities should himself be taxable on any gain incurred by the trust on the sale of securities for reinvestment in higher yield assets. This is not yet a regulation.
4. A small wave of court decisions and/or public utility commission rulings is causing consternation with regard to the right of a public utility to include charitable gifts in its expenditures to be included for the purposes of rate-making and rate-approval by state public utility commissions. If such activity is threatened or present in your state, it may well be that concerted statewide action is called for with prompt-

ness. Successful pursuit of the limitation of the right of public utilities to utilize such charitable gifts could well spread into the area of any profit making corporation and would provide the "meat" for many a "roasting" at stockholder's meetings.

And now, as you breathe a sigh of relief, in conclusion. You are surely aware that many of the tax reform proposals currently under discussion could have a seriously negative effect for the voluntary support of our institutions. Private, voluntary giving has been the financial lifeblood for our operations and the long-range undergirding for our future. It is our job, yours and mine, working many times collectively rather than individually, to get this message across to members of the Congress. This is no time to sit back letting "George do it." Be alert, be cooperative, communicate!

CANADIAN TAXATION

DR. FRED J. DOUGLAS
Director of Special Gifts, The United Church of Canada

CANADIAN LAW AS IT AFFECTS DEFERRED GIVING

Nowhere in the Income Tax Act are the terms "charitable organization" or "charitable purposes" defined. – rely on common law and over 300 years of jurisprudence.

Earliest comprehensive definition of "charitable purposes" was in the statutes of Elizabeth I. Most subsequent legislation in English-speaking countries greatly influenced by the preamble of that statute which states:

> "the relief of the aged, impotent and poor people; the maintenance of sick and maimed soldiers and mariners; the maintenance of schools of learning, and free schools and scholars in universities; the repair of bridges, ports, havens, causeways, churches, seabanks and highways; the education and preferment orphans; the relief, stock, or maintenance of houses of correction, the marriages of poor maids; the supportation, aid and help of young tradesmen, handicraftmen and persons decayed; the relief or redemption of prisoners or captives; the aid or ease of any poor inhabitants concerning the payment of fifteens, setting out of soldiers and other taxes."

Charitable purposes today categorized broadly into four headings:

(a) Relief of poverty.
(b) Advancement of religion.
(c) Advancement of education.
(d) Other purposes of a charitable nature beneficial to community as a whole.

Sections of the Income Tax Act dealing with gifts to charitable organizations are:

Sec. 110—Allows for the deduction from income of a taxpayer's gifts made to a . . . ". . . registered Canadian charitable organization . . .", and Canadian amateur athletic association

—maximum allowable deduction is 20% of net income

—provision to carry forward to following year the excess donations over the 20% of net income.

Sec. 149—Exempts from tax the income of charitable organizations, non-profit organizations and charitable trusts.

To be allowed as a deduction from income a gift or a donation must be made to a ". . . registered Canadian charitable organization . . ." or a registered Canadian amateur athletic association. Registration of charitable and non-profit organizations is the responsibility of the Charitable and Non-profit Organizations Section of the Department of National Revenue, Registration Division. That Section is responsible for the control and filing of annual information returns and a review thereof, delinquent action to secure compliance in filing of returns, revocation action and the answering of general inquiries in regard to registration and related matters.

Periodic audits of charitable and non-profit organizations are made by D.N.R. district office staff.

Revoking registration is never retro-active — this protects innocent donors — but it does result in the disallowance of claims for donations by a taxpayer. The main reason for revoking registration is failure to comply with annual filing of information returns, organization re-registered on application, filing of delinquent returns, etc.

Taking a look at donations, the Canadian position is as follows:

(a) An "amount" must have been gifted. Donations "in kind," as are quite usual in the U.S., are not allowed; e.g. donation to a church of a house to be used as a rectory not allowable; but if donor made such donation to the church which in turn purchased house from donor, the cash donation would be an allowable donation.

(There are three concerns here:

1. Complex and restrictive provisions of tax law hinder taxpayers in their giving.

2. D.N.R.'s slavish adherence to law and pressing a case to trial.
3. Inability of Courts to elicit from situation a fair result, operating upon the principle that a taxing statute must be strictly construed. The result is inevitably a bad decision; bad in terms of prevailing social attitudes.)

(b) Donations must be made to the organization, not direct to a project of the organization or to a member thereof even though the amount was to be used within the concept of the work performed by the organization.

(c) Similarly, donations must not be ear-marked for a specific project or person working within the concept of the work performed by the organization. The amount must be paid to the organization which may, in its wisdom, use it in a specific direction. (In one case, the D.N.R. refused a deduction because the donor pointed out two cases of persons needing help when donating to the Salvation Army. The Court held that, in law, the payments were made to the Salvation Army and therefore deductible.)

(d) The donor must not receive consideration for his donation, nor a benefit he would otherwise have to pay for. For example, payments to a Hebrew School where the donor's children received an education were not deductible. However, a donor paid $150 to a fund-raising project of the National Ballet Guild, a registered charity, and received $65 worth of tickets to a concert and reception. The balance, $85, was deducted as a donation. On appeal, the $85 was upheld as a donation; payment of $150 was in part payment for entertainment and, in part, a charitable donation.

Some miscellaneous points to note concerning Section 110 are as follows:

(a) The 20% limit mentioned above does not apply to members of a religious order who have taken a vow of perpetual poverty.

(b) Amounts gifted by Will are deductible as if made in year of death.

(c) A person living near the U.S. border, and working in the U.S. which is his chief source of income may deduct donations to U.S. charities which qualify under Code as if made to registered Canadian charity.

(d) Article XIIID of U.S.-Canada Treaty permits deduction of gifts to U.S. charities which would qualify as registered Canadian charities up to 20% of U.S. source income.

(e) Donations carried forward from previous year applied first in determining 20% limit.

(f) Irrevocable contributions of capital can be made to a registered Canadian charitable organization in exchange for immediate guaranteed payments to the individual for life. Canadian tax law treats such arrangements as annuity contracts with payment being included in income with a deduction from income of the capital element of the annuity payment. In some cases, amount paid for the annuity exceeds amount expected to be received as annuity. D.N.R. takes the view that the excess is a gift and deductible by the individual providing official receipt is produced.

(g) Section 110 (2.2) permits bequest or gift of tangible capital property that has increased in value to a charitable body at a value not lower than and not higher than its FMV-deemed gain can be reduced or eliminated. Value assigned is also value of donation purposes which could leave more of 20% deduction available for other gifts. Property so transferred must be suitable for use by donee directly in course of carrying on its charitable activity.

DONATIONS TO CHARITY BETWEEN COUNTRIES

Two tax cases involving donations to charity between countries:

A. Deceased domiciled in New York, left Canadian shares worth $67,000 to Canadian charities. Non-resident tax

of 15% imposed under Part II of Estate Tax Act without deduction for charitable donations. Article III (2) of Canada-U.S. Treaty does not apply to permit deduction. Intended donees were a Canadian hospital and two Canadian education institutions. One wonders why they should be penalized 15% of gift when doubtless state support for them will be necessary.

B. Bequest of $520,000 made to an English charity but no deduction allowed under Estate Tax Act because it was not an organization in Canada.

Under Section 149, the income of charitable organizations, non-profit organizations, and charitable trusts is exempt from tax. In order for a charity to be registered, and so obtain deduction of donations by individuals, it must be exempt from tax.

Paragraph [f]—Charitable Organizations:

May be incorporated or not.

All resources devoted to its own charitable activities.

No part of income payable/available for any proprietor, member or shareholder.

Activity must be carried on *by* the organization, i.e., directly under its supervision and control.

Not precluded from carrying on business. Organizations which have business activities to raise funds for certain charitable purposes are treated as qualifying.

Paragraph [g]—Non-profit Corporations:

Very similar to "Charitable Organizations."

May pay taxable capital gains to proprietor, member, or shareholder.

Must not have acquired control of another corporation since 1950.

Cannot acquire property and grant a mortgage, or by way of agreement for sale.

Expends 90% of its annual income on:

1. Own charitable activities.
2. Gifts to charities described in para. [f].

3. Gifts to charities exempt under para. [g].
4. Gifts to one or more three levels of government.

The 90% rule is harsh as expenditure must be made in current period. Therefore, each year an estimate of what total income will be must be made.

Paragraph [h]—Charitable Trusts:

Trust property must be held absolutely and exclusively for charitable purposes;

has not, since 1950, acquired control of any corporation;

does not carry on a business;

no other debts except those for operating expenses;

90% of income expended as above, items 1-3.

SUCCESSION DUTY

On January 1, 1972, the Federal Government vacated the succession duty or estate tax field with the repeal of the Estate Tax Act. Three provinces, namely Quebec, Ontario, and British Columbia, levied a succession duty in addition to the federal Estate Tax Act. With the vacating of the estate tax field by the Federal Government, six of the remaining seven provinces entered the succession duty field using a basically uniform Act. Only Alberta remained out of the estate tax/succession duty field thus forming a tax haven of sorts.

The succession duty acts of each of the three original provinces vary in many respects. While the other six provincial acts are basically uniform, there are significant differences. The result is that in this field Canada has a jumble of provisions which sorely test the temper and ingenuity of the estate planner.

It is interesting to note that in 1892, when Ontario, Quebec and B.C. entered the succession duty field, the purpose of the tax was to raise money to defray governmental expenses with respect to charitable institutions and activities.

Taking a look at the *exemption provisions* in the succession duty field, the maze is as follows:

(a) Quebec confers a general exemption on bequests to

religious, charitable, or educational organizations. Life insurance payable to such an organization is also exempt.

(b) Ontario has a similar exemption but only if the organization carries on its work solely in Canada. Where work is carried on inside and outside Canada, a portion of the bequest will be exempt.

(c) Saskatchewan, Manitoba, and B.C. exempt bequests to organizations recognized as charitable under the Income Tax Act. Saskatchewan exempts absolute and indefeasible successions by charitable organizations. B.C. has very narrow exemptions.

Bequests to charitable organizations are exempt but:

1. To extent such bequests do not exceed 10% of net value of all property passing.
2. Property must be used entirely within B.C.
3. Property must be left to absolute discretion of organization.

Provisions of the various Acts concerning *territorial limitations* are:

(a) Quebec has the broadest and most liberal: no requirement that property be used in Quebec or Canada. Similarly, trustees may not be resident in Quebec or Canada.

(b) Ontario requires that organization must carry on its work wholly or partly in Canada, allowing only a proportionate exemption.

(c) B. C. exemption only if property is devoted to organization's activities in the province.

(d) Saskatchewan and Manitoba have some territorial limitation imposed by definition of "registered Canadian charitable organization."

In the area of *eligible organizations* we find similar diversity:

(a) Each province, except Quebec, describes the recipient as an organization but with varied qualifications.

(b) Ontario must be religious, charitable, or educational with the Minister having absolute discretion.

(c) B. C. requires that the organization must be qualified as a "Charitable organization" under Income Tax Act, rather an obscure reference.

(d) Saskatchewan and Manitoba require either a prescribed Charitable organization or a registered charitable organization other than an exempt trust. Excluding trusts places a substantial limitation because the concept of an unincorporated charitable organization which is not a trust involves an inherent contradiction.

Where a *trust* is created *for specific charitable purposes* by the deceased, basically bequests are not exempt. However, the Succession Duty Acts are generally not clear on this point with B.C. being the only exception. In Ontario, a literal reading suggests such trusts are permissible, and the authorities in that province take a liberal approach. Saskatchewan and Manitoba confine exemption to absolute and indefeasible gifts to a charitable organization as restrictively defined.

The *effect of the exemption* is that the property is still included for purpose of calculating appropriate rate of duty. Except in Ontario, where value is deducted in calculating rate on dutiable property, etc. B.C. has a similar provision but to a lesser extent.

Summary

To summarize, in advising a client on dispositions intended to qualify for exemption, much will depend on which of the statutes is or are applicable to the estate.

FORMULA FOR CALCULATING TAXABLE INCOME WITH RESPECT TO ANNUITY GIFT AGREEMENTS

1. Determine the life expectancy of the annuitant(s) as from age at date of gift in accordance with the tables set forth on pages 382, 386 and 387 of Mercer's Canadian Handbook of Pension and Welfare Plans (1959):

2. Multiply the life expectancy by the rate of annuity payable in order to arrive at the capital return over the span of life expectancy:

3. Divide the rate of annuity by the amount of the capital return to arrive at the non-taxable amount:

4. Subtract the non-taxable amount from the rate of annuity in order to determine the taxable portion per $100.00.

TAXABLE INCOME–MALES

Age at date of Gift	*Life Expectancy*	*Rate of Annuity*	*Taxable portion per $100 of Gift*	*TAX-FREE PORTION*
50	24.8	6.5%	$2.47	62 %
51	24.0	6.6	2.43	63.2%
52	23.2	6.7	2.39	64.3%
53	22.5	6.8	2.36	65.3%
54	21.8	6.9	2.32	66.4%
55	21.0	7.0	2.24	68 %
56	20.3	7.2	2.28	68.4%
57	19.6	7.3	2.20	69.9%
58	18.9	7.3	2.01	72.5%
59	18.2	7.4	1.91	74.2%
60	17.6	7.4	1.72	76.8%
61	16.9	7.5	1.59	78.8%
62	16.2	7.6	1.43	81.2%
63	15.6	7.7	1.29	83.2%
64	15.0	7.8	1.13	85.5%
65	14.4	7.9	.96	87.8%
66	13.8	8.1	.86	89.4%
67	13.2	8.2	.63	92.3%
68	12.7	8.3	.43	94.8%
69	12.1	8.4	.14	98.3%

TAXABLE INCOME–FEMALES

Age at date of Gift	*Life Expectancy*	*Rate of Annuity*	*Taxable portion per $100 of Gift*	*TAX-FREE PORTION*
50	28.8	6.5	$3.03	53.4%
51	28.0	6.6	3.03	54.1%
52	27.2	6.7	3.03	54.8%
53	26.4	6.8	3.02	55.6%
54	25.6	6.9	3.00	56.5%
55	24.8	7.0	2.97	57.6%
56	24.0	7.2	3.03	57.9%
57	23.2	7.3	3.00	58.9%
58	22.5	7.3	2.86	60.8%
59	21.8	7.4	2.82	61.9%
60	21.0	7.4	2.64	64.3%
61	20.3	7.5	2.58	65.6%
62	19.6	7.6	2.50	67.1%
63	18.9	7.7	2.41	68.7%
64	18.2	7.8	2.31	70.4%
65	17.6	7.9	2.22	71.9%
66	16.9	8.1	2.19	73.0%
67	16.2	8.2	2.03	75.2%
68	15.6	8.3	1.91	77.0%
69	15.0	8.4	1.73	79.4%
70	14.4	8.5	1.56	81.7%
71	13.8	8.7	1.46	83.2%
72	13.2	8.8	1.23	86.0%
73	12.7	9.0	1.13	87.5%
74	12.1	9.2	.94	89.8%
75	11.6	9.4	.78	91.8%
76	11.1	9.5	.49	94.9%
77	10.6	9.5	.07	99.3%

NOTE: Taxable Income in connection with Joint Survivor Annuity Gifts to be calculated on an individual basis.

October, 1972

INTERPRETATION BULLETIN

Subject: Income Tax Act Annuities Purchased from Charitable Organizations

Serial No. IT-111 Date: June 27, 1973

Reference: Paragraph 110(1)(a) (also paragraphs 56(1)(d) and 60(a))

1. This Bulletin replaces and cancels Interpretation Bulletin No. IT-14 dated June 24, 1971.

2. Certain registered Canadian charitable organizations solicit interested individuals to make an irrevocable contribution of capital to the charitable organization in exchange for immediate guaranteed payments to the individual for life at a specified rate depending on life expectancy. Such arrangements are considered to be annuity contracts for the purpose of the Income Tax Act, and the payments to the annuitant are included in computing his income under paragraph 56(1)(d). Paragraph 60(a) provides for the deduction from income of the capital element of the annuity payments as determined by Part III of the Income Tax Regulations.

3. Because of his charitable interest in the organization the individual sometimes pays more for the annuity than the total amount expected to be received as annuity payments. In such cases the Department is prepared to take the view that the excess of the purchase price over the amount so expected to be returned is a gift and the individual is entitled to deduct the amount of the gift to the extent allowed by paragraph 110(1)(a) provided an official receipt is produced in accordance with Part XXXV of the Income Tax Regulations. No portion of each annuity payment is taxable in the hands of the individual in these circumstances.

4. Attached is a table by which the total amount expected to be received as annuity payments under immediate life annuities can be calculated for these purposes. The annual payments are multiplied by the number of yearly instalments expected at the age of the annuitant at the time of making the arrangement and this provides the total amount expected to be received. The an-

nuitant's age is determined by subtracting the calendar year of his birth from the calendar year in which the arrangement is made. However, where the annual payments on the annuity commence after 1971, subparagraph 300(2)(a)(iii) of the Income Tax Regulations requires his age, as so determined, to be reduced by two years.

5. Where the annuity payments are guaranteed for a certain period, where the commencement of the payments is delayed, where there is more than one annuitant or where any other conditions exist making the application of the above table for immediate life annuities inappropriate, the calculation may be sought from the District Taxation Office.

6. The foregoing comments apply to contracts of this nature entered into in any province of Canada.

Published under the authority of the Deputy Minister of National Revenue for Taxation

IT–111
–ORDINARY LIFE ANNUITIES

Male	*Ages*	*Female*	*Number of Yearly Instalments Expected*	*Male*	*Ages*	*Female*	*Number of Yearly Instalments Expected*
5		10	65.1	60		65	17.6
6		11	64.2	61		66	16.9
7		12	63.2	62		67	16.2
8		13	62.3	63		68	15.6
9		14	61.4	64		69	15.0
10		15	60.5	65		70	14.4
11		16	59.6	66		71	13.8
12		17	58.6	67		72	13.2
13		18	57.7	68		73	12.7
14		19	56.8	69		74	12.1
15		20	55.8	70		75	11.6
16		21	54.9	71		76	11.1
17		22	54.0	72		77	10.6
18		23	53.0	73		78	10.1
19		24	52.1	74		79	9.6

20	25	51.2	75	80	9.2
21	26	50.2	76	81	8.7
22	27	49.3	77	82	8.3
23	28	48.4	78	83	7.9
24	29	47.5	79	84	7.5
25	30	46.5	80	85	7.1
26	31	45.6	81	86	6.7
27	32	44.7	82	87	6.4
28	33	43.8	83	88	6.0
29	34	42.8	84	89	5.7
30	35	41.9	85	90	5.4
31	36	41.0	86	91	5.1
32	37	40.1	87	92	4.8
33	38	39.2	88	93	4.5
34	39	38.3	89	94	4.3
35	40	37.4	90	95	4.0
36	41	36.5	91	96	3.8
37	42	35.6	92	97	3.6
38	43	34.7	93	98	3.3
39	44	33.9	94	99	3.1
40	45	33.0	95	100	2.9
41	46	32.1	96	101	2.7
42	47	31.3	97	102	2.5
43	48	30.4	98	103	2.3
44	49	29.6	99	104	2.1
45	50	28.8	100	105	1.9
46	51	28.0	101	106	1.7
47	52	27.2	102	107	1.6
48	53	26.4	103	108	1.4
49	54	25.6	104	109	1.2
50	55	24.8	105	110	1.0
51	56	24.0	106	111	.9
52	57	23.2	107	112	.7
53	58	22.5	108	113	.7
54	59	21.8	109	114	.5
55	60	21.0			
56	61	20.3			
57	62	19.6			
58	63	18.9			
59	64	18.2			

CHARITABLE REMAINDER TRUSTS

MR. CONRAD TEITELL
Partner, Prerau & Teitell

A charitable remainder unitrust is a highly advantageous way – authorized by the new tax law – to benefit yourself and our institution. You benefit by receiving life income from your charitable gift. Then the trust fund belongs to our institution.

The Federal government gives tax benefits to encourage you to support our institution through a unitrust. A donor's prime motive for creating a unitrust is to further our institution's work and goals – not to save taxes. However, once deciding to contribute, you will want to plan your gift to obtain maximum tax and financial benefits. Creating a unitrust – keeping attractive income for life – saves estate taxes and probate costs as well as substantial income taxes.

The unitrust in brief. A unitrust pays you an amount each year determined by multiplying a fixed percent, say 5%, by the fair market value of the trust assets each year. You get an immediate income tax charitable deduction and it is often possible for part of the income you receive to be taxed at favorable capital gains rates (instead of ordinary income rates) and for part to be tax-free altogether. You rid yourself of investment worries – and at the same time obtain an excellent hedge against inflation. Here are the details.

Creating a unitrust. Donor irrevocably transfers money, securities or both to a trustee (often the charitable organization, itself) who pays the donor income for life. The trust can also provide income for a survivor (e.g., a wife) for life. Then the trust assets become the sole property of our institution.

How the income you receive each year is determined. The assets used to create the unitrust and all receipts are managed

and invested by the trustee as a single fund. The income beneficiary receives payments based on a fixed percent of the fair market value of the trust assets, valued each year.

Example: Donor's unitrust provides that he is to receive 5% of the fair market value of the unitrust assets each year (payable quarterly). Donor funds his trust with $100,000, so he receives $5,000 the first year. One year later, the unitrust assets are worth $110,000. Donor receives $5,500 for the upcoming year ($110,000 x 5%). If the unitrust assets are worth $120,000 at the beginning of the succeeding year, donor will receive $6,000 for that year ($120,000 x 5%). If the unitrust assets are worth $115,000 at the beginning of the next succeeding year, donor receives $5,750 for that year ($115,000 x 5%). And so on each year.

Income tax savings. Donor gets a sizeable income tax charitable deduction in the year he creates the unitrust. The deduction is for the value of our institution's right to receive the unitrust principal (the remainder) after donor's life, as determined by official Treasury tables.* This table shows the charitable deduction for each $10,000 transferred to a unitrust which pays donor each year for life 5%** of the fair market value of the unitrust's assets (as valued each year) before the principal goes to our institution:

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*Deductible up to 50% of donor's adjusted gross income when the unitrust is funded with money and the beneficiary is a school, church, hospital or other publicly supported charity. Any "excess" is deductible until exhausted over the five following years—up to 50% of each year's adjusted gross income.

For unitrusts funded with long-term appreciated securities, the contribution is deductible up to 30% of adjusted gross income—with a five year carryover for any "excess." In some cases, the ceiling can be increased to 50% with a five year carryover. If your gift exceeds the 30% ceiling, we would be pleased to discuss this with you and your advisors.

**To qualify for tax benefits, the percent must be at least 5%. The higher the percent is set over 5%, the smaller the charitable gift and the smaller the charitable deduction.

Age	Contribution Deduction for each $10,000 given to trust Male*	Female*
40	$2,467	$1,898
45	2,999	2,331
50	3,593	2,836
55	4,217	3,416
60	4,883	4,086
65	5,550	4,821
70	6,215	5,624
75	6,887	6,454
80	7,548	7,270

Providing income for another. Donor's unitrust can provide income for another — his wife, parent, child, etc. He can also have the income paid to him for life and then to a family member. The contribution deduction is lower for a two life unitrust since payments are for a longer time than for a one life plan.

What is your charitable deduction? That depends on (1) your age (and the age of any other beneficiary), (2) the percent to be paid, and (3) the amount of money or fair market value of long-term securities contributed. If you supply this information, we would like to particularize the tax benefits for you.

The unitrust is an excellent hedge against inflation. The annual amount you receive reflects any increase in the value of the trust's assets. It also assures you the stated percent each year if the unitrust income is less than the stated percent. Capital gains or principal make up any deficit. If the income exceeds the stated percent, the excess is added to the unitrust assets and reinvested for your benefit.

A *variation* calls for the trustee to pay only the trust's income if the actual income is less than the stated percent. Deficiencies in

*Based on annual payments; deduction slightly lower when payments made more frequently. Deduction is lower for females than males because of their longer life expectancy.

distributions (i.e., where the unitrust income is less than the stated percent) can be made up in later years if the trust income exceeds the stated percent.

How your income is taxed. The amount paid to you, the income beneficiary, retains the character it had in the trust. Each payment is treated as follows:

First, as ordinary income to the extent of the trust's ordinary income for the year (and any undistributed ordinary income from prior years).

Second, as capital gains to the extent of the trust's capital gains for the year (and any undistributed capital gains from prior years).

Third, as tax-exempt income to the extent of the trust's exempt income for the year (and any undistributed exempt income from prior years).

Fourth, as a tax-free distribution of principal.

The trustee will tell you each year exactly how to report your unitrust payments on your tax return.

Favorable tax treatment for your payments. Part of the income received by donor each year can often be taxed at favorable capital gains rates or even be tax-free. This can be achieved by a growth rather than an income oriented investment policy. The income beneficiary receives the stated percent each year even though the unitrust income is less than the stated percent. Capital gains or principal are distributed to make up any deficit. The following examples show the different tax treatment for growth and income investment policies.

Example 1: Bartlett funds his 5% unitrust with $100,000 and it earns $5,000 in dividends during the year. The entire $5,000 he receives is taxed as ordinary income. Assuming no increase or decrease in value of the unitrust assets, the assets are worth $100,000 at the beginning of the second year. So Bartlett is entitled to $5,000 for the second year ($100,000 x 5%).

Example 2: Instead of investing for income, the trustee invests for growth. During the year, Bartlett's 5% unitrust appreciates to $105,000, but earns no income. Bartlett is entitled to $5,000 for the year so the trustee sells $5,000 worth of long-term stock. If the stock sold for $5,000 has a $3,000 cost-basis, Bartlett has $2,000 of capital gain income and $3,000 of tax-free return of principal. Even though capital gain and principal have been distributed, the trust principal is still worth $100,000 at the beginning of the second year. So Bartlett is entitled to $5,000 for the second year.

Had the unitrust appreciated to $111,000 during the year, the unitrust principal would be $106,000 at the beginning of the second year (after Bartlett receives his $5,000). Bartlett would then get $5,300 the second year ($106,000 x 5%).

Examples showing investment policy combining income and growth.

Example 3: Donor's unitrust, funded with $100,000, provides that he is to receive 5% of the value of the unitrust assets each year. Donor is entitled to $5,000 the first year.

During the year the trust has $3,000 in dividends (ordinary income) and long-term capital gains of $3,500. Of the $5,000 donor receives for the year, $3,000 is taxed to him at ordinary income tax rates and $2,000 at long-term gains rates. The $1,500 of capital gain not paid to donor is added to the other assets of the unitrust and reinvested for donor's benefit.

The $1,500 of capital gain added to the principal and any appreciation during the year on assets not sold increase the beneficiary's payments for the upcoming year because the 5% is multiplied by the increased value of the principal.

Example 4: Donor's 5% unitrust is funded with securities now worth $100,000 but which cost $20,000 a number of years ago.

The securities are growth securities and earn only $1,000 in dividends during the year. Donor is entitled to $5,000 for the year so the trustee sells a block of stock worth $4,000

which cost $2,000. Of the $5,000 payment, donor receives $1,000 taxed at ordinary income rates, $2,000 as long-term capital gain and $2,000 as a tax-free return of principal.

The next example is more detailed – covering three years – to give you a fuller idea of a unitrust's workings. The trustee advises the beneficiary each year of the amount of income and how to report it properly on the tax return.

Example 5:

Year 1. After multiplying the $100,000 fair market value of the unitrust by 5%, it is determined that the beneficiary is to receive $5,000 for Year 1.

During the year the trust:

Received: $2,000 in dividends.

Sold: a block of stock (held more than six months) for $2,000 which had a $1,000 cost-basis.

Received: $1,000 in interest from tax-free municipal bonds.

The $5,000 the beneficiary receives for the year is taxed as follows:

1. $2,000 is ordinary income
2. $1,000 is long-term capital gain income
3. $1,000 is tax-free interest
4. $1,000 is nontaxable return of principal

Year 2. After multiplying the $110,000 fair market value of the unitrust by 5%, it is determined that the beneficiary is to receive $5,500 for Year 2.

During the year the trust:

Received: $6,000 in dividends.

Sold: A block of stock (held more than six months) for $10,000 which had a $9,000 cost-basis.

Received: $1,000 in tax-exempt interest.

The entire $5,500 received by the beneficiary is taxed as ordinary income.

Year 3. After multiplying the $115,000 fair market value of the unitrust by 5%, it is determined that the beneficiary is to receive $5,750 for Year 3.

During the year the trust:

Received: $2,250 in dividends.

Received: $1,000 interest from tax-free municipal bonds

The $5,750 the beneficiary receives for the year is taxed as follows:

1. $2,750 is ordinary income ($2,250 in dividends received by the trust in Year 3 plus $500 of dividends undistributed in Year 2).
2. $1,000 is long-term capital gain income (undistributed in Year 2).
3. $2,000 is tax-free interest ($1,000 received by the trust in Year 3 plus $1,000 undistributed in Year 2).

Additional benefits when you fund your unitrust with appreciated securities. There is no capital gains tax on the transfer of appreciated securities to fund a unitrust. Furthermore, the contribution deduction for a gift of long-term securities is determined by multiplying the appropriate actuarial factor from the Treasury table by the securities' full fair market value – not their lower cost-basis.

Gains on sales of appreciated securities by a unitrust are not taxed to the trust; nor is ordinary income. The payments made to the income beneficiary are taxed as described above.

Unitrusts eliminate or reduce estate taxes and probate costs. The unitrust is not subject to executor's fees or other probate costs in most states. Substantial estate tax savings are also achieved. When Donor is the only beneficiary (or, in a two life unitrust is not survived by the second beneficiary), the unitrust is not taxed to his estate. If there is a survivor beneficiary, only the value of the survivor's right to life payments (computed on donor's death) is subject to tax in donor's estate. The charitable gift – our institution's right to the unitrust principal on the death of the survivor – is completely free from estate tax.

Avoiding gift tax on a two life unitrust. A donor who funds his unitrust with his own property and provides for income first to himself and then a survivor, makes a gift to the survivor. However, proper drafting of the trust agreement can make the gift to the survivor free of gift tax.

UNITRUSTS CREATED BY WILL

Donor's Will creates a unitrust which calls for the trust to pay his wife for life 5% of the fair market value of the trust's assets, as valued each year. Then the trust principal becomes the sole property of our institution. Substantial estate tax savings are achieved and the wife's income is actually increased as shown by this example:

Present conventional plan. Donor and wife are childless. They want to give their estate to our institution on the death of the survivor. Donor's present Will leaves his entire estate to his wife except for a $30,000 charitable bequest. His wife's Will leaves all she possesses, including the full inheritance from her husband, to our institution. The tax consequences are:

Husband's estate (assume first to die)		
Adjusted gross estate		$600,000
Less:		
Marital deduction	$300,000	
Charitable deduction	30,000	
Specific exemption	60,000	
Total deductions and exemption		$390,000
Taxable estate		$210,000
Estate tax (before any credits)		$ 53,700

Wife's estate: No tax because her entire estate goes to our institution.

Alternate plan saving estate taxes and increasing wife's income. Donor's Will gives $300,000 (one-half of his adjusted gross estate) outright to his wife, assuring the maximum marital deduction. His Will gives $30,000 outright to charity and creates a

charitable unitrust with the remaining $270,000 with 5% unitrust payments going to his widow for life. Then the unitrust principal comes under the complete ownership of our institution. The tax consequences are:

Husband's estate (assume first to die)		
Adjusted gross estate		$600,000
Less:		
Marital deduction	$300,000	
Charitable deduction for outright bequest	30,000	
Charitable deduction for unitrust: $270,000 x .78404 (trust principal multiplied by factor from Treasury table; assume wife age 84 at husband's death)	211,691	
Specific exemption	60,000	
Total deductions and exemption		$601,691
Taxable estate		0
Estate Tax		0

Wife's estate: No tax because her entire estate goes to our institution.

More income for wife. Donor's wife receives the income from his entire estate (she owns half out-right and is the beneficiary of the other half in the unitrust) undiminished by estate taxes. The estate tax charitable deduction generated by Donor's charitable gift to our institution (the right to the trust principal after his wife's life) completely eliminates the otherwise $53,700 estate tax. This saving invested at 5%, increases the annual income available to donor's wife by $2,685. Moreover, on the death of the survivor, an additional $53,700 goes to our institution.

POOLED INCOME FUNDS

MR. GEORGE L. SHEARIN
Shearin and Collins, Attorneys
Dallas, Texas

One can leave money or property, or both, to a religious, educational or charitable organization after his death or death of himself and his wife in a way that gives him an immediate charitable deduction without a loss of income from the property during his lifetime. Thus, he can get a deduction now for property which he will practically keep for life.

The basic procedure for achieving this goal is (1) for the donor to transfer money or property to a trust for delivery to the charitable organization, and require the trust to pay him an income for life or for a set period of years (up to 20); or, (2) for the donor to transfer money or property to a "pooled fund" established by a college or other qualified public charity, which gives him a life income and keeps the remainder at his death. This gives him an immediate charitable deduction for the present value of the charity's interest in the property. In order for a non-pooled-income trust arrangement to work it must be set up in one of two specific ways.

These two methods are the charitable remainder unitrust and the charitable remainder annuity trust, which are created under the guidance of attorneys and trust officers.

At this session, we will consider "pooled income funds," which are created by charitable institutions.

Certain "life income" plans were given favorable treatment under the pre-'69 Tax Reform Act rules. The "pooled income fund" (a new tax term) is the life income plan, subjected to new specific tax law requirements.

As defined by Internal Revenue Code section 642(c)(5) and the Regulations, a pooled income fund is a trust maintained by a public charity made up of contributions of property from two or more donors, where the contribution of each donor is commingled with that of every other donor, and where the donors retain lifetime income interests in themselves or in other living beneficiaries. Furthermore, the statute prohibits the trust

from accepting or investing in any tax-exempt securities; prohibits the trust from having a donor or income beneficiary (other than the public charity to or for the use of which the remainder interest is contributed) act as trustee; and requires that an irrevocable remainder interest must be contributed to the public charity maintaining the trust. In addition, there are other requirements, which deal primarily with the question of allocating the value of the property transferred to the pooled fund between the lifetime interest and the remainder interest; that is, determining the amount of the allowable charitable contribution deduction.

Persuaded in the Senate Finance Committee hearings in 1969 that life income agreements had been increasingly relied upon by public charities as a means of obtaining contributions, Congress desired to retain the basic pooled income concept or arrangement for charitable giving and yet achieve its overall goal of effecting a closer correlation between the amount deducted for tax purposes and the amount ultimately received by the charity. Thus, amendments to section 642 of the Code were designed both to prevent certain specific abuses and to save the charitable deduction.

What are some of the abuses no longer tolerated under the 1969 Tax Reform Act-sanctioned pooled income fund arrangement? In the first place, the method of avoiding income tax altogether on a lifetime interest, while at the same time receiving an immediate income tax charitable deduction for the gift of a remainder interest, previously available from the use of tax-exempt income investments, was completely eliminated. In addition, the overstatement of the amount ultimately to be received by the charity (and a correspondingly greater charitable contribution deduction upon the transfer of property to the pooled income fund) is now prevented by a valuation of the life-income interest on the basis of the highest rate of return of the fund for any of the three taxable years prior to the year for which deduction is claimed (or at 6% if the fund has not existed for three years).

With that background summary, we will look at the pooled income fund of today, recognizing at the very outset that every

effort should be made to follow the requirements and guidelines of the Regulations and to comply, as necessary, with Federal and state securities laws, to avoid any possibility of subjecting either the fund or its donors to any tax risks. Your counsel must carry the burden of responsibility in these complex and highly technical areas. This discussion will major on features of pooled income funds believed to be of primary interest to you as development officers and as representatives of sponsoring organizations.

I. Let us first consider the requirements for a pooled income fund.

A. Each donor must transfer property to the fund, contributing an irrevocable remainder interest in the property to a "public charity," and retaining a life income interest or creating such a life interest for one or more beneficiaries living at the time of the transfer.

1. A contingent remainder will not qualify. The remainder interest to the sponsoring charity must be irrevocable. Therefore, no power to revoke its interest or to substitute other charities may be retained by the donor or granted to others.

2. Not all charities may sponsor qualified pooled income funds. For pooled income fund purposes, a public charity is any one of the organizations described in Code Section 170(b)(1)(A), clauses (i) through (vi), generally churches, schools, hospitals, foundations tied to state universities, government units and certain publicly supported charities such as Boy Scouts, American Red Cross. Thus, private foundations cannot sponsor pooled income funds, and public charities described in Section 509(a)(2) and (3) are also ineligible. The governing instrument "may" provide that, if the organization is not a "public" charity when the remainder interest is to be transferred, the amount will be transferred to or for the use of an organization which is a "public charity."

3. The payments to the non-charitable beneficiaries must be for life and, accordingly, they must be individual beneficiaries (rather than corporations or other organizations).
   a. The income beneficiaries must receive income for their natural lives (cannot be for a shorter period) and must all be living at the time of the gift. When there are two or more such beneficiaries, their interests can be concurrent or consecutive or both. Examples: income to donor for his life, then to his wife (consecutively); income equally to two children (concurrently), and then to the survivor of them (consecutively).
   b. The governing instrument must specify at the time of transfer the particular person or persons to whom income is payable and the share of each. The income beneficiaries need not be specifically named if they are members of a named class (children, for example) who are alive and can be ascertained at the time of transfer of the property to the fund.
   The designation of income beneficiaries must be irrevocable, except that the donor may retain the power by his Will only to revoke the income interest of any designated individual beneficiary.
   c. The organization to which the remainder interest is contributed may also be one of the income beneficiaries, provided that it is paid currently. Although no income or gift tax charitable deductions are allowable for such income payable to the charity, it will generally be excluded from the donor's income for income tax purposes.

B. The property transferred by each donor must be commingled with property transferred by other donors.

1. The governing instrument must expressly require commingling.
2. One organization may maintain more than one fund, provided that each fund "is not a device to permit a group of donors to create a fund which may be subject to their manipulation."

C. The fund can include only amounts received from transfers meeting the requirements for transfers to pooled income funds, but the property in the fund may be invested jointly with other funds of the organization, provided adequate records are maintained to identify which assets belong to the fund. At first blush, investing properties of the pooled income fund jointly with other properties, endowment funds, for example, may seem like a good idea. On second thought, it may not be, because investment policies may be incompatible or the other fund might frequently realize short-term capital gains. John Dozier and Bill Jarvis will cover this point in some detail, I am sure, in their workshops on pooled income fund administration and investment. A trust institution can act as trustee of a pooled income fund or as an agent for the charity as trustee. The Regulations provide that a bank which serves as a trustee of more than one pooled income fund may maintain a common trust fund for the collective investment and reinvestment of the assets of several such funds, maintaining, of course, sufficient accounting to show the investments of the separate funds participating therein.

This arrangement could be of substantial benefit to organizations which, among other reasons, lack the expertise to manage their own funds, or do not want another fund to administer.

In reality, however, a bank is not likely to accept such an assignment unless the funds' assets are of sufficient value to make the set up worthwhile from a trustee compensation standpoint.

Greater utility, more flexibility, would be injected into the picture if a bank could invest pooled income funds in one or more of its own common trust funds. It is my understanding that a large bank has already secured a private letter ruling to this effect, with the ruling stipulating that the bank's common trust fund cannot accept or invest or reinvest in tax exempt securities and the bank must be trustee of each pooled income fund which invests in any of its common trust funds.

Chances appear good that a favorable Revenue Ruling may come down soon on this point. In the meantime, any bank desirous of such authority will have to obtain its own ruling.

(NOTE: Subsequent to this presentation, the Treasury ruled, in Rev. Rul. 74-247, that the investment of moneys of pooled income funds by a bank, as trustee of such funds, in the bank's common trust fund, will not disqualify the funds under section 642(c)(5) of the Code provided the common trust fund does not contain or acquire any tax-exempt securities.)

D. The fund cannot contain any tax exempt securities, and the governing instrument must contain specific prohibitions against accepting them or investing in them.

E. The fund must be "maintained" by the organization to which the remainder interest is contributed, and no donor or beneficiary of an income interest may be a "trustee."

1. The point here is that the organization must exercise control over the fund, either directly (the charity itself will usually be the trustee), or indirectly (as by having the power to remove the trustee and designate a new trustee).
2. A national organization, having local chapters, branches or auxiliary bodies, may maintain a fund where the chapters, branches or auxiliary bodies

(even if separately incorporated) are the recipients of the remainder interests.

3. The governing instrument must specifically prohibit the donor or beneficiary from acting as trustee. "Trustee" includes one who has, directly or indirectly, the "general responsibilities" ordinarily exercised by a trustee; "ordinarily" the fund may qualify even if a trustee, officer, director or other official of the organization, who participates in the maintenance of the fund in his official capacity, is a donor or beneficiary.

F. The income paid to each income beneficiary must be determined by the rate of return earned by the fund for the year.

1. All income must be paid out annually but payments may be made within 2½ months after the close of the taxable year, or such longer period as is shown to be reasonable.
2. The governing instrument must provide that the income interest of any designated beneficiary is either terminated with the last regular payment which was made before the death of the beneficiary or be prorated to the date of his death.
3. For these purposes, income is determined under local law.

G. Upon termination of the income interest, the charity must sever, carve out, from the fund an amount equal to the value of the property upon which the income interest is based.

Fortunately, you don't have to go through a spiel like that in describing a pooled income fund to a prospective donor. Otherwise, you may lose him. In this connection, I am reminded of Eddie Robinson, who produced many top pro players as football coach as Grambling College. He was asked why the school changed to that name. He answered, "Before our cheerleaders could say: 'Louisiana Negro Normal and Industrial Institute, *hold that line*', the other team had scored!"

II. Turning from the requirements of a pooled income fund

to the matter of allocation of income, each income beneficiary must be assigned a proportionate share of the annual income, or a unit of participation, based on the fair market value of the property on the date of transfer.

A. His share may be determined by the "unit" plan, which determines the number of his units of participation by dividing the fair market value of the property transferred by the fair market value of a unit immediately before the transfer.

Example: a donor transfers $25,000 in securities to pooled income fund of his alma mater, Pulse Normal, reserving the income to himself for his life. Pulse Normal assigns 250 units to the gift ($100/unit). During the next full taxable year of the fund, there are 25,000 units outstanding and the fund earns income (dividends and interest) of $150,000. Donor receives 250/25,000ths of this income or $1,500.

B. The regulations permit any other method of allocating income to units of participation which produces a result consistent with the unit plan that I have just mentioned.

C. In addition, the governing instrument may provide that a unit is entitled to a lesser amount of income, if the remainder of the income is payable currently to the charitable recipient of the remainder.

I shall leave discussion of the details of the unit method, valuation dates, transfers between valuation dates and related problems for the workshop sessions of Bob Griener and John Deschere.

III. Now, consider for a few moments taxation of the pooled income fund and its donors.

A. A pooled income fund is taxed as a trust.

1. However, unlike other newly created trusts, the fund receives a federal income tax charitable deduction for its long-term capital gains. Thus, the fund can sell the donor's low basis, perhaps

low yield, securities and reinvest the full proceeds undiminished by capital gains tax.

2. The pooled income fund has a carried over basis in donated property, and there is a tacking of holding periods.
3. The fund receives a federal income tax deduction for its ordinary income payable to the income beneficiaries (who report and pay tax on that income). If any of the income payments are made to the sponsoring charity, the fund also receives a federal income tax deduction for these payments.
4. Thus, the only income taxable to the fund for federal income tax purposes is short-term capital gain. For this reason funds will generally avoid short-term transactions to avoid tax on short-term gains. It is important, then, that the fund determine the donor's basis and holding period for assets transferred to it.
5. The fund is subject to the taxes on private foundations, and to the requirements of Code Section 508(e), to the same extent as annuity trusts and unitrusts.
6. A pooled income fund is required to file a Form 1041 with a Schedule PF attached. Also, if a fund should become liable for one of the Chapter 42 excise taxes, it must file a Form 4720. Returns must be filed by the 15th day of the fourth month following the close of the taxable year of the fund.

B. The donors are taxed as beneficiaries of other trusts except that the grantor trust rules do not apply.

1. No gain or loss is recognized to the extent that the donor retains, or creates for another, a life interest. However, if he receives other property or if the donated property is subject to indebtedness, gain or loss may be realized.
2. The ordinary income of the fund (dividends and

interest) is payable at least annually to the designated individual income beneficiaries and is fully taxable to them. Thus, there is no saving of income taxes on ordinary income. In fact, one of the incentives to pooled income fund gifts is that the sponsoring charity will often seek to invest the fund for maximum current ordinary income, enhancing the donor's income to meet his living expenses.

3. The beneficiary includes the income in his taxable year during or with which the taxable year of the fund ends.

IV. The donor is highly interested not only in the rate of return he can expect from the fund but also the amount of charitable deduction he is entitled to take on his tax return.

A. The amount of the deduction resulting from the transfer of property to a pooled income fund is the excess of the fair market value of the property contributed over the present value of the income interest retained by the donor.

B. The present value of the income interest depends both on the age of the donor and the rate of return earned by the fund.

C. The rate of return used in valuing the income interest is determined by reference to the highest rate of return earned by the fund for any of the three taxable years of the fund preceding the year the transfer is made. In the event the fund has not been in existence for three taxable years preceding the year of transfer, a 6% rate of return must be used.

D. The Regulations provide tables whereby the present value of a single retained income interest to a pooled income fund can be determined. You have to use IRS Pub. 723 B where two or more income interests are retained. All of this will be covered in the workshop periods.

E. If a donor transfers cash to a pooled income fund,

the amount of his contribution is deductible up to 50% of his adjusted gross income that year. If his contribution exceeds this limitation, the excess deduction may be carried forward for up to 5 years. If donor transfers long term capital gain property, his contribution is deductible up to 30% of adjusted gross income, with a similar 5 year carryover.

V. A transfer to a pooled income fund during the donor's life can have gift and estate tax consequences that should be considered by the donor prior to the transfer.
   A. If a transfer to a charitable remainder trust is subject to the retention by the donor of an income interest for his life, there are no gift tax consequences to the donor. The only gift he has made is a charitable gift that qualifies for the gift tax charitable deduction. Upon the death of the donor, the value of the trust assets must be included in his gross estate; however, the estate receives a charitable deduction for the full amount. Accordingly, there are no detrimental estate tax consequences as a result of the transaction. In fact, it can result in an increased marital deduction and reduced taxable estate.
   B. If a donor retains a life interest in a charitable remainder trust not only for himself but also for another who survives him, the transaction may have gift tax consequences. The remainder interest that will pass to the charitable beneficiary has no gift tax consequences, since it qualifies for the gift tax charitable deduction. If the income interest is retained for the survivor beneficiary without reservation, the donor has made a taxable gift. The donor can avoid gift tax consequences, however, by retaining the power to revoke by Will the survivor beneficiary's right to receive the income interest upon the donor's death. Ordinarily, as a practical matter, the donor does not exercise his right to revoke the survivor's interest.

Upon the death of the donor, the value of the trust's assets must be included in his gross estate. If the survivor beneficiary has predeceased the donor or the donor has revoked by his Will the rights of the survivor beneficiary, the estate will receive a charitable deduction for the full value of the assets that pass to the charitable beneficiary. Accordingly, the transaction will have no estate tax consequences. Should the donor predecease the survivor beneficiary without revoking the rights of the survivor, the value of the trust assets must be included in the donor's gross estate. However, the estate will be entitled to charitable deduction only for the value of the remainder interest that will pass to the charitable beneficiary upon the death of the survivor beneficiary. The balance, representing the value of the beneficiary's life interest, will be subject to estate tax.

C. If a donor transfers property to a charitable remainder trust and provides a life income interest for another person, he has made two gifts. The charitable gift has no gift tax consequences, since it qualifies for the gift tax charitable deduction. The transfer of a life interest for another person, however, constitutes a taxable gift. No part of the value of the trust assets will be included in the donor's gross estate upon his death, since he has retained no interest in the property transferred to the trust.

VI. Many donors may find that the pooled income fund is a good vehicle for making charitable remainder contributions.

Like a common trust fund administered by a bank or trust company, the pooled income fund can effect diversification (more so than a charitable remainder trust), facilitate efficiency in management, and secure a greater yield on investment at a lower cost. The requirements for a pooled fund's governing instrument are relatively simple. A donor can achieve diversification of invest-

ment without incurring the capital gain tax that would result from a sale of appreciated assets and reinvestment of the proceeds, thereby increasing his income yield without adverse tax consequences. The pooled fund offers some protection to the income beneficiary against inflation and can be particularly useful in attracting gifts otherwise considered too small to be handled economically as separate trust accounts.

Be that as it may, there are some disadvantages of a pooled income fund. For example, a pooled fund cannot hold tax-exempt securities; payments therefrom must be for life (not for a term of years), and the income beneficiary's average yield may actually be less than the actual yield on the property contributed by the donor. In addition, the remainder interest under a pooled income fund must go to only one organization (and its affiliate local organizations), a consideration that may be important if the gift in question involves a major part of a prospective donor's estate, rather than a part of a planned annual charitable giving program.

MINUTES

Fifteenth Conference on Gift Annuities
Hotel Sheraton-Biltmore, Atlanta, Georgia

Wednesday, May 1, 1974

First Plenary Session

The meeting was called to order at 9:00 a.m. by Chairman Charles W. Baas.

Invocation was offered by the Reverend John D. Erickson, Executive Secretary, American Bible Society.

An opening statement was made by Dr. Baas. His remarks are separately set forth under the heading Word of Welcome. He reported that 429 persons were registered for the conference, representing 329 organizations. Sponsoring organizations now number 846.

The Chairman proposed the following persons constitute the Resolutions Committee:

Chairman: THE REVEREND DR. ROBERT B. GRONLUND,
Vice President for Development and Public Relations,
University of Tampa

MR. CHARLES L. BURRALL, Jr., Actuary
Huggins & Company, Inc.

MR. KENNETH H. EMMERSON, Treasurer,
General Conference of Seventh-day Adventists

MR. WALTER C. KONRATH, Associate Treasurer
American Baptist Foreign Mission Society

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

MR. JOHN H. RUDY, Director of Financial Services,
The Mennonite Foundation, Inc.

DR. CHARLES W. BAAS, Chairman,
Committee on Gift Annuities—Ex Officio

MOTION was made and seconded that the proposed Committee be approved.

MOTION CARRIED

Two speakers, instead of one as had been anticipated, were then introduced to present the topic: "Economic Review and Projections." They were Dr. Wendell M. Starke, Vice President and Secretary-Treasurer of Citizens and Southern Investment Counseling Inc.; and Dr. Arnold Dill, Funds Management Officer Citizens & Southern National Bank, Atlanta, Georgia. Dr. Dill spoke first. Their formal presentations are separately set forth.

The two speakers, who were young, able and articulate, were extremely well received. A lively discussion period ensued with questions of them continuing well into the recess period.

A coffee break recess was declared at 10:20 a.m., to continue until 10:45 a.m.

The agenda resumed with two persons again presenting the topic. The over-arching subject was "Annuities-Deferred and Conventional."

Mr. Charles L. Burrall, Jr., Actuary, Huggins and Company, Inc., presented a statement on "Actuarial Basis." This was followed by a talk by Dr. Darold H. Morgan, President, Annuity Board of Southern Baptist Convention, on "Practical Application."

Texts of their remarks appear in full elsewhere.

Both presentations were informative and helpful. Questions and discussion followed.

Luncheon Recess

Noontime having arrived the plenary session was recessed for luncheon. Because of the large number of registrants and the limitation of space, luncheon was served in two rooms. Grace was offered in the Georgian Room by Father William Murphy, S.A., Atonement Friars; and in the Empire Suite by the Reverend Darrel D. Stark, Evangelical Free Church of America.

Second Plenary Session

The conference resumed formal session at 1:45 p.m. Two topics were considered. A paper entitled "State Regulations Report" was first presented by Dr. Chester A. Myrom, Director, Lutheran Church in America Foundation. This was followed by an extensive statement on "Federal Tax Legislation-Current

Status" by Dr. Roland C. Matthies, Vice President and Counsel, Wittenberg University.

Texts for both presentations appear elsewhere in this booklet.

A period of concerned discussion followed. Questions were asked on the annuity rates proposed by Mr. Burrall, on the interest rate assumption and on state regulations.

Uncertainty and concern was voiced by several speakers because more and more states seem to be introducing regulations that affect gift annuity solicitation. One speaker suggested there be a subcommittee to deal with the matter. Another expressed a desire for a mandate to the Committee on Gift Annuities from the Conference.

Responsive to these expressions, a motion was offered (for which the full text could not subsequently be provided) by Dr. Maurice Gordon. The substance of the motion, as the secretary recorded it, was "that the Fifteenth Conference urge the sovereign states of the USA to examine the regulations on gift annuities now in effect in New York and California, and if regulations are deemed necessary, to not stifle thereby current incentives for giving in our present tax structure."

A number of persons spoke to the motion, agreeing with the concerns expressed but urging coalitions within the states as the way to proceed rather than a broad scale, nationwide approach.

When the question was finally put to a vote, the motion was defeated.

The Chairman said, "This discussion has lifted the issue. It will be kept under consideration."

First Workshop Session

At 3:30 p.m. the plenary session was recessed. Registrants were instructed regarding arrangements for the Workshops on Gift Annuities. Each name card had a designation upon it, A1, A2, B1 or B2, indicating the group to which one is assigned at the outset. At 4:15 p.m. the leaders would change groups, A1 to B1, A2 to B2, the audience remaining in place.

These were the topic assignments and the leadership persons:

Traditional Gift Annuities

A1 MR. EUGENE L. WILSON, Assistant Treasurer
American Leprosy Missions, Inc.

A2 MISS MARY H. LEYPOLDT, Staff Assistant
American Baptist Foreign Mission Society

Deferred Gift Annuities

B1 MISS AGNES CLAIRE REITHEBUCH, Accounting Manager
The Society for the Propagation of the Faith

B2 BRIGADIER FRANK MOODY, Director of Deferred Gifts
The Salvation Army

At 5:00 p.m. the workshop sessions adjourned.

At that time an "Optional Session on Canadian Taxation" took place, led by Dr. Fred J. Douglas, Director of Special Gifts, The United Church of Canada. The session was well attended and regarded as helpful. Information on the subject appears elsewhere in this booklet.

At 6 p.m. the Resolutions Committee met for dinner together and a "working session" on the resolutions to be presented the next day.

Optional Sessions in Evening

Opportunity was given all registrants to avail themselves of two "special interest" sessions. The announced topics for consideration, and the leader for each, were as follows:

A. *Charitable Remainder Trusts*
MR. CONRAD TEITELL, Partner
Prerau & Teitell

B. *Basic Deferred Giving Programs*
(Annuity Administration for those just entering the field)
DR. LEONARD W. BUCKLIN, Assistant to the President
Purdue University

Each session was well attended and deemed useful. Discussion and questions continued well beyond 9:00 p.m.

Thursday, May 2, 1974

Third Plenary Session

The conference reconvened at 8:30 a.m.

The first matter to be considered was the new rate schedule proposed through the actuary's report of the day before.

Dr. Robert B. Gronlund, Chairman of the Resolutions Committee, presented the following resolution:

> BE IT RESOLVED that gift annuity rates based on the 1955 American Annuity Table, female lives; interest at 4½%; 50% residuum; expense loading of 5%; modified at the upper and lower ages and extending to age 85 at 10%, be adopted by the Fifteenth Conference on Gift Annuities as the maximum uniform rates.

Opportunity was provided for questions or discussion. There were a few, mostly for clarification.

The Chairman then asked for a vote on the resolution.

IT WAS ADOPTED.

The time of effectiveness of the new rates is left to each organization's discretion. It was pointed out, practical considerations make it unlikely that the full two-lives schedule will be published before mid-June.

A second resolution was then presented by Dr. Gronlund. It was this:

> BE IT RESOLVED that uniform interest factors recommended by the Committee on Gift Annuities for the calculation of deferred gift annuity rates as shown in Schedule 14 (page 15)* of the *DEFERRED GIFT ANNUITIES* manual dated March 1973 be adopted by the Fifteenth Conference on Gift Annuities as the standard for computation of deferred gift annuity rates.

*Interest Compounded Annually as Follows: 1st 10 years—4 %
2nd 10 years—3½%
3rd 10 years—3 %
After 30 years—2½%

MOTION was made and seconded that the resolution be adopted.

MOTION CARRIED.

Following conclusion of these matters, Chairman Baas introduced Mr. George L. Shearin, Partner, Shearin and Collins, Attorneys at Law, Dallas, Texas, to present the subject "Pooled Income Funds." His address is set forth under that heading.

Second Workshop Session

At 10:20 a.m. the Conference divided itself again into four workshop groups. The general topic to be considered was *Pooled Life Income Funds.*

The specific topic assignments and the leadership persons were these:

Administration and Investments

A1 MR. JOHN M. DOZIER, Vice President and Treasurer
Macalester College

A2 MR. WILLIAM E. JARVIS, Treasurer and Business Manager,
American Baptist Foreign Mission Society

Calculations and Taxation

B1 MR. ROBERT GREINER, Treasurer
General Board, Church of the Brethren

B2 MR. JOHN DESCHERE, Comptroller
Vassar College

At 11:10 a.m. the leaders changed groups, continuing the workshop sessions until 12 Noon.

Final Plenary Session

The fourth and final plenary session got underway at 12:05 p.m.

Chairman Gronlund was called upon to present the report of the Resolutions Committee, beyond the two already voted upon during the prior plenary session. They are separately set forth. Resolutions (I) through (V), and (X) through (XIII) were individually read and adopted. Resolutions (VI) through (IX) were presented and adopted as a group.

There being no further business to come before the meeting, the Conference was declared adjourned at 12:30 p.m.

Benediction was pronounced by the Reverend Alvin C. Burkholder.

A buffet luncheon concluded the conference. Numerous oral expressions gave evidence that the Fifteenth Conference had been well received, useful and successful.

Respectfully submitted,
Chester A. Myrom
Secretary

REPORT OF THE RESOLUTIONS COMMITTEE

Rate Resolutions

BE IT RESOLVED that gift annuity rates based on the 1955 American Annuity Table, female lives; interest at 4½%; 50% residuum; expense loading of 5%; modified at the upper and lower ages and extending to age 85 at 10%, be adopted by the Fifteenth Conference on Gift Annuities as the maximum uniform rates.

BE IT RESOLVED that uniform interest factors recommended by the Committee on Gift Annuities for the calculation of deferred gift annuity rates as shown in Schedule 14 (page 15)* of the *DEFERRED GIFT ANNUITIES* manual dated March 1973 be adopted by the Fifteenth Conference on Gift Annuities as the standard for computation of deferred gift annuity rates.

*Interest Compounded Annually as Follows: 1st 10 years—4 %
2nd 10 years—3½%
3rd 10 years—3 %
After 30 years—2½%

General Resolutions

I. BE IT RESOLVED that the Fifteenth Conference note with special interest and genuine satisfaction the information set forth in Chairman Baas' opening statement regarding the record number of sponsors that have been developed for this conference, now 846, 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.

II. BE IT RESOLVED that the Fifteenth Conference on Gift Annuities express its deep appreciation to Dr. Arnold Dill, Economist, Citizens & Southern National Bank, and Mr. Wendell M. Starke, Vice President and Secretary-Treasurer of Citizens and Southern Investment Counseling, Inc., for their informative and authoritative addresses on "Economic and Investment Review Outlook."

III. BE IT RESOLVED that the Fifteenth Conference on Gift Annuities express appreciation to Mr. Charles L. Burrall,

Jr., Actuary, Huggins & Company, Inc., for his continuing valuable services to the Committee and for his special presentation: "Gift Annuities–Conventional and Deferred: Actuarial Basis."

IV. BE IT RESOLVED that the Fifteenth Conference on Gift Annuities express special appreciation to those other persons who made plenary session presentations on matters of continuing or emergent concern; namely:

Dr. Darold H. Morgan, President
Annuity Board of the Southern Baptist Convention:
"Gift Annuities–Conventional and Deferred: Practical Application";

Dr. Chester A. Myrom, Director
Lutheran Church in America Foundation:
"State Regulations Report";

Dr. Roland C. Matthies, Vice President and Counsel
Wittenberg University
"Federal Tax Legislation–Current Status";

Mr. George L. Shearin, Partner
Shearin and Collins:
"Pooled Income Funds."

V. BE IT RESOLVED that the Fifteenth Conference on Gift Annuities express gratitude to the several persons who gave so generously and well of their knowledge and expertise as workshop and optional session leaders during the course of this Conference; namely the following:

Mr. Eugene L. Wilson, Assistant Treasurer
American Leprosy Missions, Inc.

Miss Mary H. Leypoldt, Staff Assistant
American Baptist Foreign Mission Society

Brigadier Frank Moody, Director of Deferred Gifts
The Salvation Army

Miss Agnes Claire Reithebuch, Accounting Manager
The Society for the Propagation of the Faith

Dr. Fred J. Douglas, Director of Special Gifts
The United Church of Canada

Mr. Conrad Teitell, Partner
Prerau & Teitell

Dr. Leonard W. Bucklin, Assistant to the President
Purdue University

Mr. John M. Dozier, Vice President and Treasurer
Macalester College

Mr. William E. Jarvis, Treasurer and Business Manager
American Baptist Foreign Mission Society

Mr. Robert Greiner, Treasurer
General Board, Church of the Brethren

Mr. John Deschere, Comptroller
Vassar College

VI. BE IT RESOLVED that the Fifteenth 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 discussing, promoting or advertising gift annuity agreements such terminology as "bonds," "interest," "investment," "principal," which apply to other forms of financial transactions, be carefully avoided.

VII. BE IT RESOLVED that the Fifteenth Conference on Gift Annuities recommend 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.

VIII. BE IT RESOLVED that the Fifteenth 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 new rulings by Federal or State authorities dealing with gift annuities or life income agreements.

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

X. BE IT RESOLVED that the Fifteenth Conference on Gift Annuities send greetings to Dr. Gilbert Darlington. Honorary Chairman: to Mr. Forrest Smith, Honorary Treasurer; and to Colonel G. Blair Abrams, Dr. J. Homer Magee and Dr. R. Alton Reed, Honorary Members, remembering their pertinent observations and wise counsel based on many years in the gift annuity field.

XI. BE IT RESOLVED that the Fifteenth Conference on Gift Annuities express its appreciation for the special helpfulness extended to this group in connection with arrangements for it, most notably by Miss Edith Soffel, secretary to Dr. Baas; also by Ruth Harbour, Mary Boyette, and Helen Hindman, from the Atlanta Convention and Visitors Bureau; Petra Fakos and Joy Thomson of the American Bible Society, Mrs. Frank Moody of New York; and by the staff and management of the Sheraton-Biltmore Hotel.

XII. BE IT RESOLVED that the Fifteenth Conference on Gift Annuities express its warm thanks and hearty commendation to Mr. William E. Jarvis and Brigadier Frank Moody for their leadership in arranging the program and facilities for this Conference.

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

Robert B. Gronlund, Chairman
Chester A. Myrom, Secretary
Charles L. Burrall, Jr.
Kenneth H. Emmerson
Walter C. Konrath
John H. Rudy
Charles W. Baas, ex officio

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The Franklin United Methodist Home
The Friends of Israel Missionary and Relief Society, Inc.
The Gerry Home
The Good News Broadcasting Assoc.
The Good Shepherd Home and Rehabilitation Center
The Gospel Crusade, Inc.
The Great Commission Foundation
The Healthaven Corporation
The Holy Land Christian Mission
The Iverson-Norman Associates
The Kings College
The Lindenwood Colleges
The Lutheran Church-Missouri Synod Foundation
The Lutheran Home of Northwest Indiana, Inc.
The Madeira School
The Maryknoll Fathers
The Medical College of Wisconsin
The Methodist Homes of New Jersey
The Mission Board (Diocese of Harrisburg)
The Monmouth College
The Moody Church
The National United Methodist Foundation for Local Church Education
The Navigators
The Otterbein Home, Inc.
The Pacific Homes Corporation
The Peoples Gospel Hour, Inc.
The Phoebe-Devitt Home
The Pocket Testament League, Inc.
The Presbyterian Church in the US
The Presbyterian Foundation, Inc.
The Principia Corporation
The Redemptorist Foundation
The Reformed Church
The St. Lawrence Seminary
The Salvation Army
Atlanta, Georgia
New York, New York
Dallas, Texas
Washington, D.C.
The Shipley School
The Society for the Propagation of the Faith
The Sword of the Lord Foundation
The Tacoma Rescue Mission
The Temple Foundation, Inc.
The Temple Heights Gospel Hour
The Texas Methodist Foundation
The Texas Presbyterian Foundation
The United Church of Canada
The United Methodist Church
Council on Finance & Administration
Board of Global Ministries
Board of Missions-National Division
Board of Education
General Board of Lay Activities
Minnesota Annual Conference
Northern New York Conference

Women's Division of the Board of Missions
World Division of the Board of Missions
The United Methodist Church Foundation, Inc.
The United Methodist Country House
The United Methodist Foundation of Rock River Conference, Inc.
The Southern California-Arizona Conference
The United Methodist Home
The United Presbyterian Church in the USA
Board of Christian Education
Board of National Missions
The University of Akron
The University of Colorado Foundation, Inc.
The University of Michigan
The University of Santa Clara
The University of Tennessee at Chattanooga
The University of Texas at Austin
The University of Vermont
The Voice of Prophesy
The Way, Inc., International
The Wesleyan Church
The World Radio Missionary Fellowship, Inc.
Trans World Radio
Transylvania University
Trevecca College
Trinity Christian College
Trinity College/Trinity Evangelical Divinity School
Trinity University
Tufts University
Tulane University

Unevangelized Fields Mission
Union College
Union University
United Church Board for Homeland Ministries World Ministries
United Church of Christ
The Commission on Development
The Pension Boards
United Church Homes
United Methodist
Minister's Pension Fund, Inc.
United Methodist Church
United Methodist Homes & Services
Kansas Area United Methodist Foundation, Inc.
United Methodist Minister's Pension Fund-Southern Illinois
United Pentecostal Church International
United Presbyterian Foundation
United Theological Seminary
University of Alabama in Birmingham
University of Alaska
University of Buffalo Foundation, Inc.
University of California-Berkeley
University of Chicago
University of Cincinnati
University of Denver
University of Detroit
University of Miami
University of Nebraska Foundation
University of Nevada System
University of Oklahoma Foundation, Inc.
University of Oregon
University of Oregon Medical School
Advancement Fund
University of Rhode Island
University of Pennsylvania
University of Redlands
University of Richmond
University of San Diego
University of Tampa
University of Southern California
University of the Pacific
Uplands Retirement Center
Utah State University Development Center

Valparaiso University
Vassar College
Virginia Baptist Home, Inc.
Virginia Baptist Hospital
Virginia Methodist Homes, Inc.
Virginia Theological Seminary
Viterbo College
Voice of China and Asia, Inc. Missionary Society

Wabash College Development Board
Wagner College
Warner Press, Inc.
Wartburg College
Washington and Lee University
Waynesburg College
Weekday Religious Education Foundation, Inc.
John Wesley College
Wesley Manor
Wesley Medical Center
Wesley Theological Seminary
Wesleyan College
Leo E. Wesner Associates
West Nebraska General Hospital
West Virginia Wesleyan College
Western Baptist Bible College
Western College for Women
Western Conservative Baptist Seminary
Western Maryland College
Western Washington State College Foundation
Westmar College
Westminster College (New Wilmington, PA)
Westminster College (Florence, Mississippi)
Westminster College (Fulton, Missouri)
Westminster Theological Seminary
Westmont College
Wheaton College (Wheaton, Illinois)
Wheaton College (Norton, Massachusetts)
Whitman College
Whittier College
Wichita State University
Widener College
Wildwood Sanatarium & Medical Missionary Institute
Willamette University
Williams College
Wilmington College
Winebrenner Theological Seminary
Winebrenner Village
Winston-Salem Bible College
Wisconsin Baptist State Convention
Wisconsin State University
Wittenberg University
William Woods College
Woods Hole Oceanographic Institution
Woodward, Ryan, Sharp & Davis
Worcester Foundation for Experimental Biology
Worcester Polytechnic Institute
Word of Life Fellowship, Inc.
World Changers, Inc.
World Evangelistic Enterprise Corporation
World Gospel Mission
World Home Bible League
World Literature Crusade
World Missionary Press, Inc.
World Neighbors, Inc.
World Vision, Inc.
World Wide Missions
Wycliffe Bible Translators, Inc.
South Hamilton, Massachusetts
Santa Ana, California

Xavier University

Yellowstone Boys Ranch
York College
Young Life Campaign
YMCA Metropolitan Minneapolis
YMCA Duluth, Minnesota
YWCA New York, New York
Brigham Young University

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 charitable gift annuities and the accepted methods of yield computation for pooled income fund agreements.

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

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

The Committee shall call a conference on charitable 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, and 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 representation from the member groups, 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, one or more Vice Chairmen, Treasurer, Secretary, Assistant Treasurer, and Assistant Secretary, who shall be elected at the Committee meeting next following the Charitable Gift Annuity Conference. Officers may be elected to one or more successive terms and a majority vote of Members 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 Chairmen, 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 a 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 periodically as required by the Constitution of the Committee on Gift Annuities. A majority vote of Committee Members shall be required to call a Conference.

VI. Members of the Committee shall serve until their successors are elected.

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

VIII. 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.

NOTES

NOTES

UNIFORM GIFT ANNUITY RATES
SINGLE LIFE

Adopted by Conference on Gift Annuities, May 2, 1974

Age	Rate	Age	Rate
35 and under	4.0%	60	5.5%
36	4.1%	61	5.6%
37	4.2%	62	5.7%
38	4.2%	63	5.8%
39	4.3%	64	5.9%
40	4.3%	65	6.0%
41	4.3%	66	6.1%
42	4.4%	67	6.2%
43	4.4%	68	6.3%
44	4.4%	69	6.4%
45	4.5%	70	6.6%
46	4.5%	71	6.7%
47	4.6%	72	6.9%
48	4.6%	73	7.0%
49	4.7%	74	7.2%
50	4.7%	75	7.4%
51	4.8%	76	7.6%
52	4.9%	77	7.8%
53	4.9%	78	8.0%
54	5.0%	79	8.2%
55	5.1%	80	8.5%
56	5.1%	81	8.8%
57	5.2%	82	9.1%
58	5.3%	83	9.4%
59	5.4%	84	9.7%
		85 and over	10.0%

UNIFORM GIFT ANNUITY RATES
TWO LIVES—JOINT AND SURVIVOR

Adopted by Conference on Gift Annuities, May 2, 1974

AGE OF OLDER LIFE (columns) — AGE OF YOUNGER LIFE (rows)

AGE	90	89	88	87	86	85	84	83	82	81
90	9.5									
89	9.3	9.2								
88	9.2	9.0	8.9							
87	9.0	8.8	8.7	8.6						
86	8.8	8.7	8.6	8.4	8.3					
85	8.6	8.5	8.4	8.3	8.1	8.0				
84	8.4	8.3	8.2	8.1	8.0	7.9	7.8			
83	8.3	8.2	8.1	8.0	7.9	7.8	7.7	7.6		
82	8.1	8.0	7.9	7.8	7.7	7.6	7.5	7.4	7.3	
81	7.9	7.8	7.8	7.7	7.6	7.5	7.4	7.3	7.2	7.1
80	7.8	7.7	7.6	7.5	7.5	7.4	7.3	7.2	7.1	7.0
79	7.6	7.5	7.5	7.4	7.3	7.3	7.3	7.2	7.1	7.0
78	7.4	7.4	7.3	7.3	7.2	7.1	7.1	7.1	7.0	6.9
77	7.3	7.2	7.2	7.1	7.1	7.0	7.0	7.0	6.9	6.9
76	7.1	7.1	7.0	7.0	7.0	6.9	6.9	6.9	6.8	6.8
75	7.0	7.0	6.9	6.9	6.9	6.8	6.8	6.8	6.7	6.7
74	6.9	6.9	6.8	6.8	6.8	6.8	6.7	6.7	6.6	6.6
73	6.8	6.8	6.7	6.7	6.7	6.7	6.6	6.6	6.5	6.5
72	6.7	6.7	6.6	6.6	6.6	6.5	6.5	6.5	6.4	6.4
71	6.5	6.5	6.5	6.5	6.5	6.4	6.4	6.3	6.3	6.3
70	6.4	6.4	6.4	6.4	6.3	6.3	6.3	6.2	6.2	6.2
69	6.2	6.2	6.2	6.2	6.2	6.2	6.2	6.1	6.1	6.1
68	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.0	6.0	6.0
67	6.0	6.0	6.0	6.0	6.0	6.0	6.0	5.9	5.9	5.9
66	5.9	5.9	5.9	5.9	5.9	5.9	5.9	5.8	5.8	5.8
65	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.7	5.7	5.7
64	5.7	5.7	5.7	5.7	5.7	5.7	5.7	5.6	5.6	5.6
63	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.5	5.5
62	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.4
61	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4	5.4
60	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
59	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2
58	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1
57	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
56	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9
55	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9
54	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8
53	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7
52	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7
51	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6
50	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
49	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
48	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4
47	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4
46	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
45	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
44	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
43	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
42	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
41	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
40	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
39	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
38	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
37	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
36	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9
35*	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8

AGE	80	79	78	77	76	75	74	73	72	71
80	7.0									
79	7.0	6.9								
78	6.9	6.8	6.7							
77	6.8	6.7	6.6	6.6						
76	6.7	6.6	6.6	6.5	6.4					
75	6.6	6.5	6.5	6.4	6.3	6.2				
74	6.5	6.4	6.4	6.3	6.2	6.2	6.1			
73	6.4	6.3	6.3	6.2	6.2	6.1	6.0	6.0		
72	6.3	6.3	6.2	6.1	6.1	6.0	6.0	5.9	5.8	
71	6.2	6.2	6.1	6.1	6.0	5.9	5.9	5.8	5.8	5.7
70	6.1	6.1	6.0	6.0	5.9	5.9	5.8	5.8	5.7	5.6
69	6.0	6.0	5.9	5.9	5.8	5.8	5.7	5.7	5.6	5.6
68	5.9	5.9	5.8	5.8	5.8	5.7	5.7	5.6	5.6	5.5
67	5.8	5.8	5.8	5.7	5.7	5.6	5.6	5.6	5.5	5.5
66	5.7	5.7	5.7	5.6	5.6	5.6	5.5	5.5	5.5	5.4
65	5.7	5.6	5.6	5.6	5.5	5.5	5.5	5.4	5.4	5.4
64	5.6	5.5	5.5	5.5	5.5	5.4	5.4	5.4	5.3	5.3
63	5.5	5.5	5.4	5.4	5.4	5.4	5.3	5.3	5.3	5.2
62	5.4	5.4	5.4	5.3	5.3	5.3	5.3	5.2	5.2	5.2
61	5.3	5.3	5.3	5.3	5.3	5.2	5.2	5.2	5.2	5.1
60	5.3	5.2	5.2	5.2	5.2	5.2	5.1	5.1	5.1	5.1
59	5.2	5.2	5.2	5.1	5.1	5.1	5.1	5.1	5.0	5.0
58	5.1	5.1	5.1	5.1	5.1	5.0	5.0	5.0	5.0	5.0
57	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	4.9	4.9
56	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.9
55	4.9	4.9	4.9	4.9	4.9	4.9	4.9	4.8	4.8	4.8
54	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8	4.8
53	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7
52	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7	4.7
51	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6	4.6
50	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
49	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
48	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4
47	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4
46	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
45	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
44	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
43	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
42	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
41	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
40	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
39	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
38	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
37	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
36	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9
35*	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8

AGE	70	69	68	67	66	65	64	63	62	61
70	5.6									
69	5.5	5.5								
68	5.5	5.4	5.4							
67	5.4	5.4	5.3	5.3						
66	5.4	5.3	5.3	5.2	5.2					
65	5.3	5.3	5.2	5.2	5.2	5.1				
64	5.3	5.2	5.2	5.1	5.1	5.1	5.0			
63	5.2	5.2	5.1	5.1	5.1	5.0	5.0	5.0		
62	5.2	5.1	5.1	5.1	5.0	5.0	5.0	4.9	4.9	
61	5.1	5.1	5.0	5.0	5.0	4.9	4.9	4.9	4.9	4.8
60	5.0	5.0	5.0	5.0	4.9	4.9	4.9	4.8	4.8	4.8
59	5.0	5.0	4.9	4.9	4.9	4.9	4.8	4.8	4.8	4.8
58	4.9	4.9	4.9	4.9	4.9	4.8	4.8	4.8	4.7	4.7
57	4.9	4.9	4.9	4.8	4.8	4.8	4.8	4.7	4.7	4.7
56	4.8	4.8	4.8	4.8	4.8	4.7	4.7	4.7	4.7	4.7
55	4.8	4.8	4.8	4.7	4.7	4.7	4.7	4.7	4.6	4.6
54	4.8	4.7	4.7	4.7	4.7	4.7	4.6	4.6	4.6	4.6
53	4.7	4.7	4.7	4.7	4.6	4.6	4.6	4.6	4.6	4.6
52	4.7	4.7	4.6	4.6	4.6	4.6	4.6	4.6	4.5	4.5
51	4.6	4.6	4.6	4.6	4.6	4.6	4.5	4.5	4.5	4.5
50	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
49	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.4	4.4
48	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4
47	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4
46	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
45	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
44	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
43	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
42	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
41	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
40	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
39	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
38	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
37	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
36	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9
35*	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8

AGE	60	59	58	57	56	55	54	53	52	51
60	4.8									
59	4.7	4.7								
58	4.7	4.7	4.6							
57	4.7	4.6	4.6	4.6						
56	4.6	4.6	4.6	4.6	4.5					
55	4.6	4.6	4.6	4.5	4.5	4.5				
54	4.6	4.5	4.5	4.5	4.5	4.5	4.4			
53	4.5	4.5	4.5	4.5	4.5	4.4	4.4	4.4		
52	4.5	4.5	4.5	4.5	4.4	4.4	4.4	4.4	4.4	
51	4.5	4.5	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.3
50	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.3	4.3
49	4.4	4.4	4.4	4.4	4.4	4.4	4.4	4.3	4.3	4.3
48	4.4	4.4	4.4	4.3	4.3	4.3	4.3	4.3	4.3	4.3
47	4.4	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
46	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
45	4.3	4.3	4.3	4.3	4.3	4.2	4.2	4.2	4.2	4.2
44	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
43	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2
42	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.2	4.1
41	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
40	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
39	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1
38	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
37	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0
36	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9
35*	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8

AGE	50	49	48	47	46	45	44	43	42	41	40	39	38	37	36	35
50	4.3															
49	4.3	4.3														
48	4.3	4.3	4.3													
47	4.3	4.3	4.3	4.2												
46	4.3	4.3	4.2	4.2	4.2											
45	4.2	4.2	4.2	4.2	4.2	4.2										
44	4.2	4.2	4.2	4.2	4.2	4.2	4.2									
43	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.1								
42	4.1	4.1	4.1	4.1	4.1	4.1	4.1	4.0	4.0							
41	4.1	4.1	4.1	4.1	4.1	4.1	4.0	4.0	4.0	4.0						
40	4.1	4.1	4.1	4.1	4.1	4.0	4.0	4.0	4.0	4.0	4.0					
39	4.1	4.1	4.1	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0				
38	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	3.9			
37	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	3.9	3.9	3.9		
36	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	3.9	
35*	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8	3.8

*Applies to all ages 35 and younger

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