

CONDITIONAL GIFTS

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ANNUITY AGREEMENTS

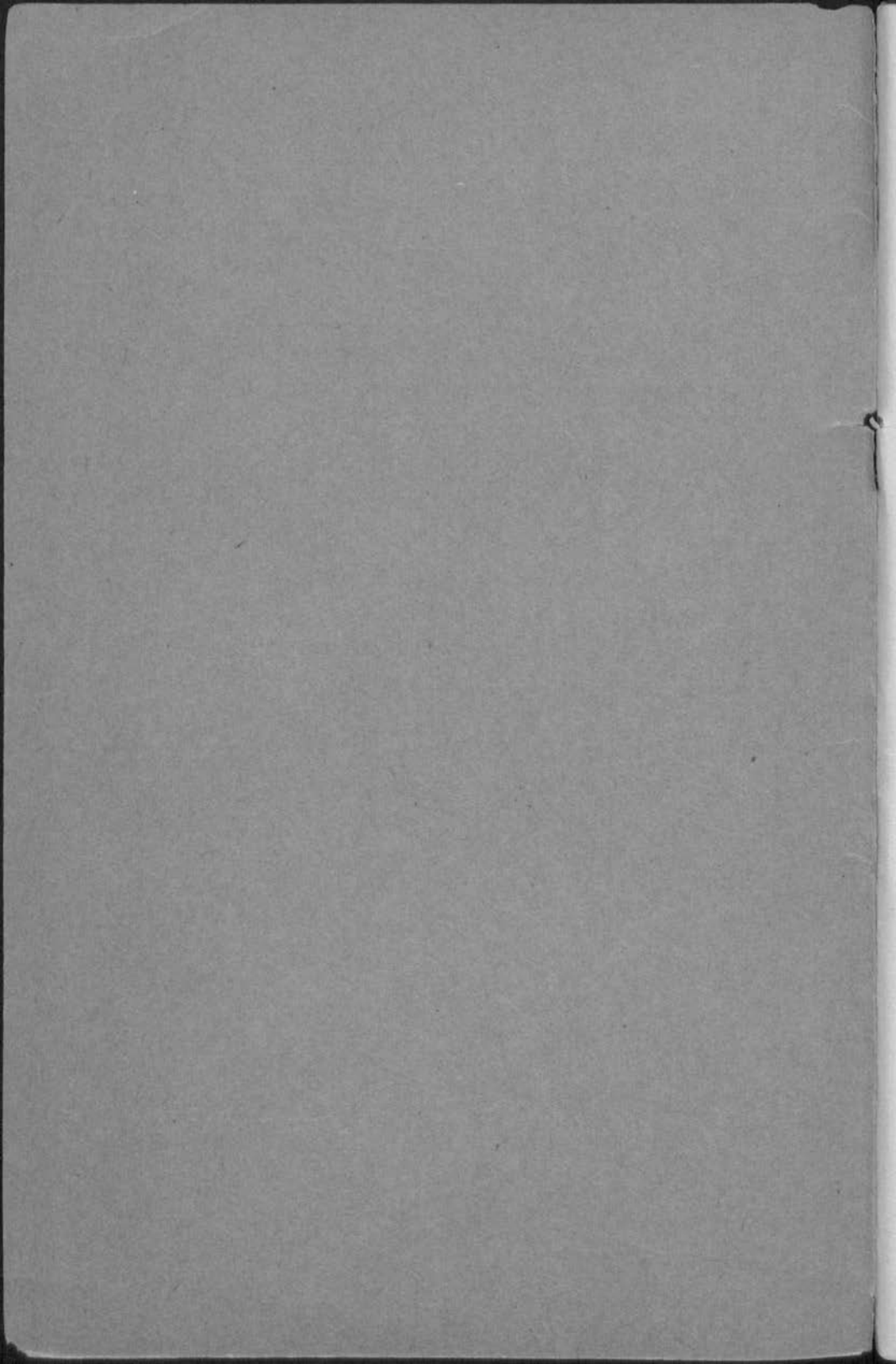
*of*

CHARITABLE ORGANIZATIONS

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SECOND CONFERENCE

WISE PUBLIC GIVING SERIES  
No. 31



# CONDITIONAL GIFTS ANNUITY AGREEMENTS

PAPERS, FINDINGS AND CONCLUSIONS OF A SECOND  
CONFERENCE ON ANNUITIES, HELD IN NEW YORK,  
NOVEMBER 9, 1928

*Edited by*

ALFRED WILLIAMS ANTHONY

*for*

THE SUB-COMMITTEE ON ANNUITIES OF THE  
COMMITTEE ON FINANCIAL AND FIDUCIARY MATTERS  
(A Committee to Study and Promote Wise Public Giving)  
OF THE FEDERAL COUNCIL OF THE  
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## P R E F A C E

The first Conference on Annuities, held in New York April 29, 1927, proved so satisfactory that the Committee on Annuities prepared and conducted a second Conference November 9, 1928. Fifty-nine people were enrolled as in attendance at this Conference. Twenty of the fifty-nine represented colleges and universities.

As disclosed in a vote, Recommendation No. 10 of the Report of the Committee on Findings, the Conference ordered the publishing of the papers presented and the proceedings of the Conference.

The Committee on Annuities consists of the following persons:

CHARLES L. WHITE, *Chairman, Executive Secretary, American Baptist Home Mission Society, New York.*

ERNEST F. HALL, *Secretary, Department of Annuities, Board of Foreign Missions, Presbyterian Church in the U. S. A., New York.*

GILBERT DARLINGTON, *Treasurer, American Bible Society, New York.*

GEORGE A. HUGGINS, *Consulting Actuary, Philadelphia.*

GEORGE F. SUTHERLAND, *Assistant Treasurer, Board of Foreign Missions, Methodist Episcopal Church, New York.*

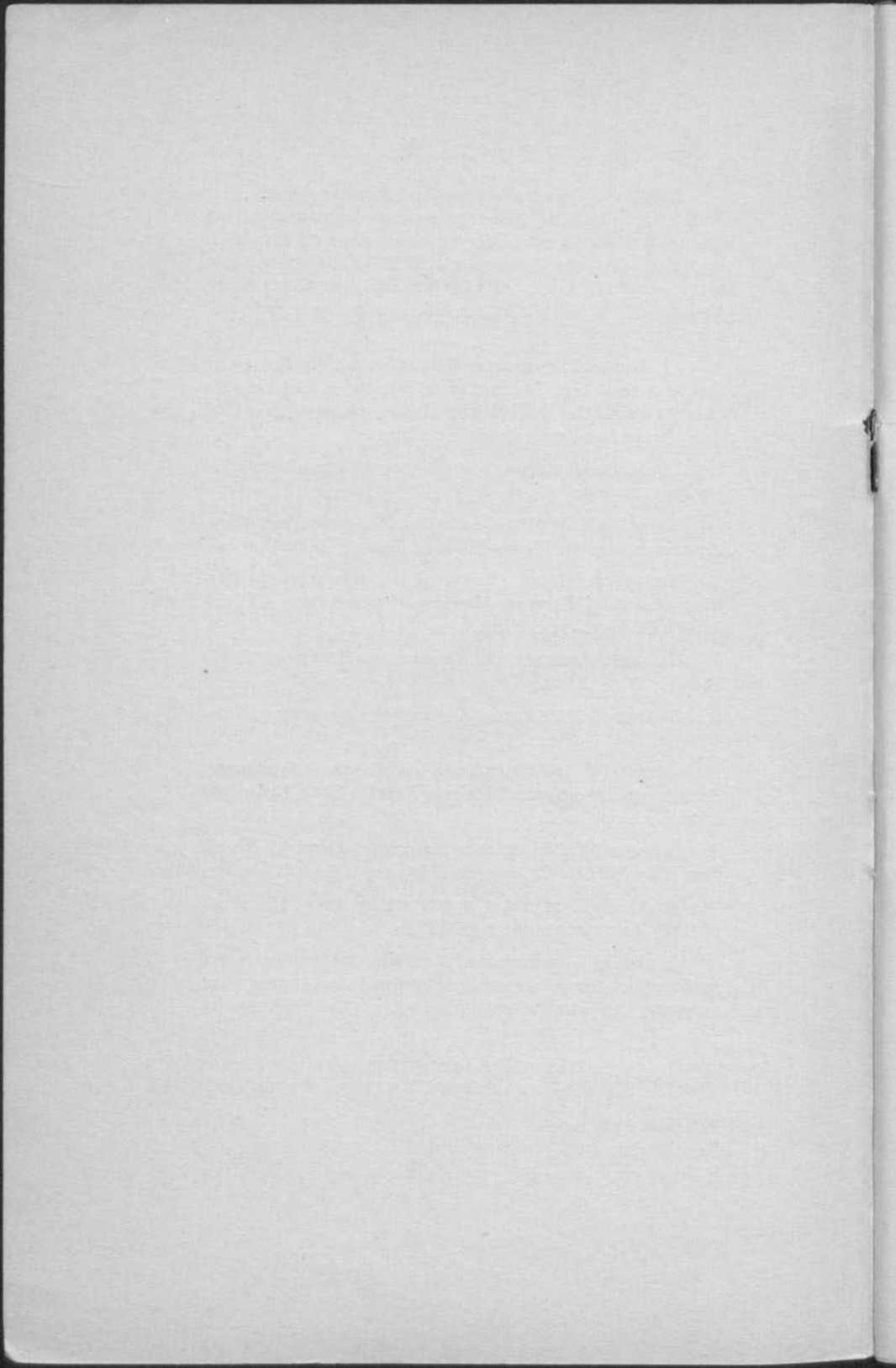
EDWARD W. MARSHALL, *Associate Actuary, Provident Mutual Life Insurance Company of Philadelphia.*

A standard of rates approved by the Conference of 1927, is printed on page 42.

It should be understood that the Conference is not responsible for statements contained in papers, but only for its own votes embodied in the findings on pages 39-41.

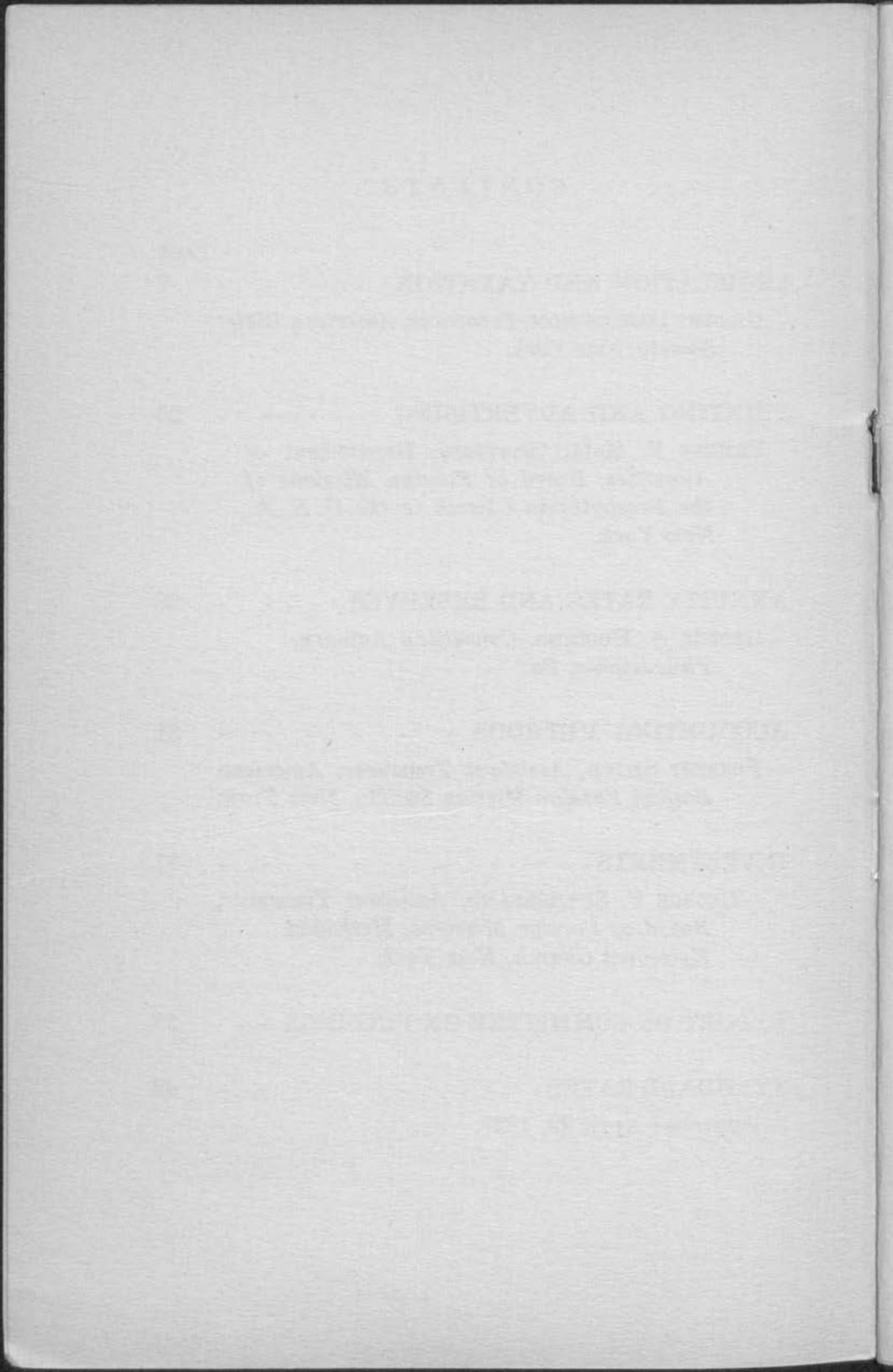
For the Committee,  
ALFRED WILLIAMS ANTHONY.

105 East 22d Street.  
New York.



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# LEGISLATION AND TAXATION

GILBERT DARLINGTON

*Treasurer, American Bible Society, New York.*

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An outstanding Ruling of the Treasury Department as affecting annuities under the Revenue Act of 1926, is as follows:

PARAGRAPH 6111. AMOUNT PAID COLLEGE IN EXCESS OF ANNUITY HELD DEDUCTIBLE GIFT, AND AMOUNT RECEIVED IN EXCESS OF SUCH PRICE TAXABLE INCOME. (SEE ARTS. 251 AND 47, PARAGRAPHS 619-626, 368, VOL. I.).

I. T. 2397, VII. 5-3591 (p. 3).

## REVENUE ACT OF 1926.

The taxpayer, who was 72 years of age, transferred \$50,000 to a college upon an agreement that he should receive an annuity of \$2,500 per annum for life.

Held, that the difference between \$50,000 and \$13,642.50 the amount representing the purchase price of the annuity based on the life expectancy of the taxpayer according to experience mortality tables, is allowable as a contribution to the extent provided in Section 214 (a) 10 of the Revenue Act of 1926. If the taxpayer should live to recover any amount in excess of the purchase price (\$13,642.50) of the annuity, such amount will be taxable to him in the year in which received.

The opinion of this office is requested as to the income tax liability of A.

It appears that A in 1926 transferred to the M College upon the agreement that he should receive an annuity of \$2,500 per annum for life. At the time the transfer was made A was 72 years of age. The question presented is whether any portion of the \$50,000 may be considered as a contribution to the M College, an organization coming within those referred to in Section 214 (a) 1, class B, of the Revenue Act of 1926.

It is the opinion of this office under all the facts shown that the sum of \$50,000 transferred by A to the M College constituted in part a contribution to the college. The contribution is represented by the difference between the cash value of the life annuity as at the date of the transaction and the amount transferred.

Based on the life expectancy of A in 1926, according to experience mortality tables, the value of an annuity of \$1 for life at 5 per cent. is \$5.457. The value of A's life annuity of \$2,500 was, therefore, \$13,642.50. In other words, this is the amount which was paid as consideration for the annuity contract. The difference between \$50,000, the amount transferred, and \$13,642.50,

the amount representing the purchase price of the annuity, or \$36,357.50 is allowable to A as a deductible contribution for 1926 in the manner and to the extent provided for in Section 214 (a) 10 of the Revenue Act of 1926.

If A should live to recover any amount or amounts in excess of the purchase price (\$13,642.50) of the annuity, as above determined, such amounts will represent taxable income to him in the year in which received.

This Ruling appears to split every annuity to a religious, educational or charitable corporation into two parts: one, the purchase price of the annuity, and two, the amount that is a gift. This means that hereafter it cannot be said that an annuitant can receive back the full amount paid to religious, educational, or charitable corporations without paying an income tax to the Federal Government. The amount of exemption from Federal Income Tax here granted to the annuitant must be figured out very definitely on the principles laid down by the Treasury Department. This is technical and precise work. It cannot be attempted by the ordinary annuitant without help and assistance from someone who is familiar with what must be done to get the proper result.

What are the tables used? The tables used in the above Ruling are the Combined or Actuaries Experience Tables. These are given, with interest at 4%, in Regulation No. 70, describing the estate tax under the Revenue Act of 1926, and are printed by the Treasury Department in Washington. The tables given, although they run from the age of one year to ninety-nine years, cover only one life and are based upon the annuity being paid annually in one sum at the end of each year. As, therefore, many annuities are paid semi-annually, quarterly, monthly, or at other times, these tables must be supplemented, or corrected, to meet the particular case in view. Where an annuity is drawn on a certain date, and the first payment is less than six months, or a year from this date, additional changes to the figures given in the tables are necessary to find the present value of \$1.00 due to the annuitant at the designated times. Where more than one life is concerned, the matter is further complicated, and while the two life tables, carried to only three decimals, have been printed in "Wolf's Inheritance Tax Calculations," published by Baker, Voorhis & Company, New York, it is a very brave man, indeed, who will endeavor to use these tables unaided,

or to calculate the value of an annuity covering more than two lives.

Now, the figures in the Ruling given above are based upon the Combined or Actuaries Experience Tables, with interest at 5%. This is not the rate used in Estate Tax Regulation No. 70, where the interest is 4%. An inquiry to the Treasury Department revealed the fact that 5% was used in the above Ruling because the rate of interest paid to the annuitant by the M. College was 5%. The writer does not know whether or not 5% interest was mentioned in this particular annuity agreement. If a specific rate of interest is mentioned in an annuity, it is probable that the Treasury Department will use that rate of interest as the rate of interest at which to calculate the table used. None of the annuities of the American Bible Society, however, mention any specific rate of interest, and it is understood that where no specific rate of interest is mentioned, the Combined or Actuaries Experience Tables with interest at 4% are to be used. This is shown in a letter from the Department, dated May 15.

## C O P Y

TREASURY DEPARTMENT  
WASHINGTON

May 15, 1928.

AMERICAN BIBLE SOCIETY,  
BIBLE HOUSE,  
ASTOR PLACE,  
NEW YORK, NEW YORK.

Sirs: Attention: Mr. Gilbert Darlington, Treasurer.

Reference is made to your letter dated April 19, 1928, in which you refer to the ruling published as IT:2397 in Internal Revenue Bulletin, Vol VII., No. 5, Page 3, relative to the effect for the purpose of the income tax of a transaction involving the purchase of an annuity at a price in excess of the value of the annuity based on the life expectancy of the annuitant at the time and the rate of return on the cost thereof to him.

In reply you are advised that the valuation of the annuity in that case at 5 per cent. was based on the fact that the annual payments received by the annuitant were at the rate of 5 per cent. on the cost and, as that ruling was based on the facts of the particular case, the ruling has a general application only to cases on a similar statement of facts in that respect. Where no rate is specified the rate of 4 per cent. is now employed for the purpose of such valuation, as set forth in Estate Tax Regulations 70, a copy of which may be obtained by application to the Collector

of Internal Revenue for your district. It would, of course, be impracticable to attempt to express any opinion at this time as to the rate of return which may be adopted in the future for the purpose of making such valuations. Should you desire to submit the facts of an actual transaction involving such annuity in accordance with the requirements outlined in the enclosed copy of I. T. Mimeograph 3392, the case will receive due consideration with a view to making a ruling on the question or questions presented.

Respectfully,

C. B. ALLEN,  
*Deputy Commissioner.*

Enclosure:  
I. T. Min. 3392.

By  
*Chief of Section.*

As the annuities paid by the American Bible Society are based upon the exact age to the nearest birthday of the annuitant, it would be found, upon examining them, that they vary from one another by one-tenth of one per cent., from the rates of  $4\frac{1}{2}\%$  to  $7\frac{1}{2}\%$  and from  $8.1\%$  to  $9\%$ . As indicated above, no rate of interest is mentioned in the annuity agreement. The agreement calls for the payment of a definite annual sum, but to divide the amount received from the donor or annuitant into this definite annual sum would result in a percentage that would have to be expressed in tenths of a per cent. or multiples thereof. As the Treasury Department will not rule on suppositious cases, a list of annuities issued within the past twelve months or so and covering many various percentages, was sent to the Department. If an annuity to a person of eighty was used, it would be found that the annuitant received  $9\%$ . Therefore, we would need tables at  $9\%$ , if the above Ruling only applied. If so it is necessary to make these tables, for I do not know where they can be found. If, not only were it necessary to make such tables for one life, but also for two or more lives in all the different percents and fractions of a per cent., it would require much time and many large volumes to print the results. Even if some were estimated, the labor would be large enough. It is believed, therefore, that the latter Ruling above will hold where no definite rate of interest is mentioned. Would it be fair to reduce the market value of the annuitant's purchase by crediting the organization issuing the annuity with an income of  $9\%$  every year? Those who

must invest funds under the insurance laws of New York State will appreciate how impossible it would be to earn any such income.

### RESULTS OF THE RULING

One of the results of this Ruling appears to be that persons of small means, who give largely of their principal, will probably not be able to use the amount that could be credited to them, as a contribution under their Federal Income Tax as provided in Section 214 (a) 10 of the Revenue Act of 1926. It also seems to mean that a person of 72 years, who buys an annuity on his own life only, must begin, in less than six years, paying an income tax on the amount received from the annuity, provided his gross income is more than the exemptions allowed to him by the Federal Income Tax Law. On the other hand, it would appear to provide a stimulus to persons of large means to secure large deductions from their incomes in the current year, by making an annuity gift and deducting the gift part of the annuity from their gross income within the 15% restriction imposed by the law.

Inasmuch as there has been an impression abroad that annuities purchased from religious, charitable and educational groups are exempted from Federal Income Tax until the full principal paid for the annuity has been returned, it appears important that those annuitants who have taken out annuities in the calendar year 1928 be informed of the recent Treasury Ruling if there is no doubt that it applies to their particular annuities. They will be thereby enabled to claim as a gift the part of their payment against which they hereafter will not receive income tax exemption. Those who attempt to file an amended income tax return for previous years will appreciate how bothersome it will be to claim part of an annuity as a gift after an income tax has been filed and accepted.

It is a serious question, therefore, whether religious, educational and charitable groups familiar with this situation, should inform only those who have purchased annuities during 1928 as to this last Ruling. Considerable experience leads the writer of this article to believe that great difficulty will be involved if the attempt is

made to explain this Treasury Ruling. Many of the annuitants are people well along in years and they are easily disturbed and upset by any new demands made upon them with regard to taxation. If, therefore, it is possible to inform such annuitants of the amount of their annuity that could be claimed as a gift and the amount that is considered the purchase price of the annuity, a great service would be rendered to them. Of course, many who take out annuities of \$100 or \$200 may not have any income tax at all and any information given them may be superfluous. It is hard to tell where to draw the line. To supply this information will require considerable labor and effort. It will require assuming considerable responsibility, but the benefits to the individuals that will result will be very great provided the Ruling applies to them. One annuitant who was sent a copy of the recent Ruling, read it over very carefully and was very much disturbed by it. She wrote back, acknowledging receipt of the copy of the Ruling, but queried, "What is Uncle Andy going to do next?"

While what has been said above has been applied only to simple annuities on the life of one or more annuitants, it is possible by the same table to figure the value of an annuity paid for a term of years and subject, of course, to the possibility that the annuitant will die before the term of years is up. No matter how complicated or complex the annuity may be, it will be possible to estimate its market value and also the amount of the gift as well.

Every once in a while a question comes up about a change in an annuity agreement. An annuity agreement should be a binding contract and as such, cannot be changed. If, however, the annuitant wishes to surrender the annuity and give up all claim upon future payments, upon the receipt of the original agreement it is possible to terminate the annuity and use the amount represented therein as a gift. Of course, the annuitant could continue to receive the annuity payments and return them as they come due. However, the law is thought to recognize the right of an annuitant to sell or transfer an annuity within certain limitations. The value of the gift for income tax purposes would, I presume, be what it would cost the annuitant to purchase a similar annuity at the date on which the surrender was

made. This, of course, would be figured by the Combined or Actuaries Experience Tables, with interest at 4%. It is not possible, however, to change the names of the beneficiaries in the agreement, for we have never allowed an annuitant to sell his interest to another individual not mentioned in the agreement. We have, however, allowed one annuitant to surrender his payments in favor of an alternate who was already named in the agreement. This arrangement could be made by having the first annuitant always forward his check to the second or third annuitant, and it requires no change in the agreement itself. This does not involve the substitution of a new life in the agreement. We have never allowed any change or alteration in the agreement itself, once it has been drawn.

#### STATE INCOME TAX LAWS AND ANNUITIES

Most of the state income tax laws follow in a general way the wording of the Federal Income Tax Law. The following states have state income tax laws:

Delaware  
\*Massachusetts  
Mississippi  
Missouri  
New York

North Carolina  
North Dakota  
\*Oklahoma  
South Carolina  
Virginia

Wisconsin

It is presumed that these states will probably follow the different steps taken by the Treasury Department in interpreting the Federal Income Tax Law. This, of course, may not follow, but where no contrary rulings have been made, it is natural to look for similar action on the part of the states. The following steps, therefore, may be looked for in some of these states:

1. The original Ruling limited exemption from Federal Income Tax to the original purchaser of an annuity alone. If A purchased an annuity for B, B did not receive any tax exemption, for the first payments were not considered a return premium to him of his principal. This was later changed, so that exemption on the first payments is now granted to person receiving the same—whether he is the purchaser or not. In New

\* Discussed in a separate paragraph.

York State I am not aware of any ruling that has officially extended this same privilege under the New York State Income Tax Law. However, it is customary to suggest to annuitants that they follow the Federal Ruling until the matter is definitely acted upon in New York. This same policy would apply to other states under similar conditions.

2. Certain annuities now must be split into the amount representing the purchase price of the annuity and a contribution, or gift. There may be states that have followed this Ruling of the Treasury Department, but the writer is not aware of them. Whether it is advisable to take up with the different states that have income tax laws as to whether or not they will follow in this matter, is an important question. As a full understanding of the present Ruling has not been very widely diffused, it may be better to wait until specific occasions come up that require action. The present Ruling may be held not to apply or may even be reversed. On the other hand, if it applies, it would appear advisable for someone who is conversant with the facts to ask for a ruling in the matter, rather than to take the chance of many different variations of rulings in the different states. Would it not be well to have some representative committee or group pass upon such questions?

It is of interest to note that very few of the states follow the Treasury's Estate Tax Tables in their own estate tax laws. At least eight different additional mortality tables are used and the rates of interest vary, even where the same table is used. To use the Federal tables would require only one estimation of the amount of the gift and purchase price of the annuity. However, the states may not have these tables published in their own publications and therefore prefer their own standards as set up in their own estate tax laws if they have any. While there is no reason why a state may not have one standard for estimating the value of an annuity in a life estate, and another standard for income tax purposes, it has been thought interesting to add to this paper the statement of the standards used in life estates by the different states.

Although *Massachusetts* and *Oklahoma* have state income tax laws, the taxation of annuities—particularly



in Massachusetts—is based upon a different method of procedure than that called for in the Federal Income Tax Law. In Massachusetts  $1\frac{1}{2}\%$  of the premium received each year is claimed by the state. There are, however, certain deductions that can be claimed; namely, \$1,000.00, if the total income from all sources is less than \$1,000.00. This tax is enacted under the state income tax law and is payable annually on the first day of October.

In *Oklahoma*, in a Ruling of the Oklahoma Supreme Court in *Wilkin vs. Board of Commissions* (1920) 77 Oklahoma 88, 186 Pac. 474, the Court ruled that since the statute specifically named annuities as an item of taxable property, the certificates paid under a particular form of instalment payment annuity, were taxable. This is rather an unusual case, inasmuch as the certificates provided that in case of the death of the beneficiary, during the period he was receiving instalments, the balance of the payments discounted at 3% should be paid to his estate in one sum. This mention of 3% induced the Lower Court to find the present value of the future payments for tax purposes by discounting them at 3%. The result that followed is reported to have been that in some of the years in question it required a larger sum to pay the annual tax than was received as an instalment. The state thus benefitted at the expense of the annuitant. The Supreme Court, therefore, corrected this defect by allowing a discount of 8% on the future payments, as this is the prevailing rate in their jurisdiction. As this is a peculiar form of annuity, the writer is not certain but that other annuities might not someday be taxed under an income tax law, instead of under this law.

#### ANNUITIES TAXABLE AS CAPITAL OR PERSONAL PROPERTY

The laws of the following states appear to tax annuities as Capital or Personal Property. This does not mean that the laws are being carried out or enforced, or that there is a clear understanding of just what the law requires:

California, Indiana, Ohio and Pennsylvania.

In Los Angeles County, *California*, an attempt was made to enforce the law. There are some who believe that this attempt has now been abandoned. The Constitution of California requires that all property shall be assessed as its full cash value. There are those who think that an annuity is taxable as a special asset as personal property. In Los Angeles County, McClintock's Tables appear to have been the ones used in estimating the value.

Word comes from *Indiana* that an annuity is taxable as a capital asset on the value of life expectancy based on the American Experience Tables at 5%. The tax is payable on or before the first Monday in May and November. However, a Ruling of the Attorney General in 1920, mentioned in Regulation 58, describing the tax program of the State, says: ANNUITY Contracts with life insurance companies are not taxable under the taxing laws and refers to the State Board vs. Holliday, 150 Indiana 216 (42 L.R.A. 826). On the other hand, we are informed that annuities are mentioned in the law as taxable upon the present cash value of the same. The tax rate appears to be very high on the principal values of annuities and perhaps this is why the law is not enforced.

In *New Jersey* it is believed, under an old decision—Howell vs. Cornell (1865) 31 N.J.L. 374, that annuities are taxable as personal property, but only in respect to sums which have become due and remain unpaid. Unless premiums are due and unpaid in New Jersey, there is no tax on an annuity as capital.

In *Kentucky* annuities are taxed as personal property. See the case of the Commonwealth vs. Nute 72 S.W. 1090.

In *Ohio* annuities are required to be listed as personal property. "Annuities, or moneys receivable at stated periods, shall be valued at the sum which the person listing them believes them to be worth in money at the time of listing." (General Code of Ohio, Sec. 5388.) The tax is payable one-half on December 20 and the remaining one-half on June 20. "One hundred dollars may be deducted from aggregate list of value of taxable personal property." (Section 5360, General Code of Ohio.) In Ohio it appears that in different

counties there are different methods in use for estimating the value of an annuity. This makes it very difficult to interpret the law—especially as there are those who believe that the law is not always being carried out.

The *Pennsylvania* law requires the payment of a 4 mills tax on all personal property at the rate of 4 mills on each dollar of the value thereof. The law specifically mentions all annuities yielding annually over \$200.00. It is believed that this 4 mills tax is applied to the annual amount received under the annuity, and not to the principal value thereof. There is a question, however, whether this applies to annuities issued by benevolent organizations. It is doubted whether the tax is being paid on these.

#### IS AN ANNUITY A GIFT IN CONTEMPLATION OF DEATH?

The laws of our country distinguish between a gift in contemplation of death and a gift to take effect at death. The recent Ruling of the Treasury Department appears to establish definitely that the gift made to the M. College is a gift in the present. This gift can be deducted in the donor's income tax in the year in which it is given, up to 15% of his total net income. Certainly, this distinguishes it from a gift to take effect at death or a gift in contemplation of death.

In the State of Pennsylvania at the present time, a case is being considered by the Attorney General, involving annuities to a total amount of half a million dollars. These were taken out at different times by one donor. This case is particularly interesting because some of the annuities may have been used within two years of the donor's death. If it can be established that these annuities were gifts in view of death, then the attempt will be made to tax the estate of the donor on this basis. If the Treasury Ruling, to which we have referred so often, should prevail in Pennsylvania, then it would appear that the gift part of the annuity could not be so taxed. However, as Pennsylvania has a 10% tax on bequests to religious, educational and charitable corporations, if this gift can be thrown back into the donor's estate, some way may be found to tax it. If, however, this cannot be done, it is hard to see how the annuity itself can be

taxed—especially as in this case there is no alternate annuitant who benefits by the original donor's death.

There are forms of annuities which may be taxable to the estate of the annuitant. Take, for example, an annuity agreement under which an insurance company agrees to repay to the annuitant or his estate the full principal amount that he pays to them. If he should die in the first few months, nothing would have been paid him and his estate would receive back all the principal he paid in. Such annuities, however, can really be called "term annuities," with this difference—that while the payments cease at death, there is an additional agreement to pay back all the principal remaining on hand. Such a case is now before the Supreme Court and a Ruling may soon be handed down. It is a question whether such so-called "return annuities" are really annuities at all and not a trusteeship of principal.

If it is an established principle that any gift made within two years of the death of the donor is to be regarded as a gift in contemplation of death, then all annuities taken out before the two years, might be exempted from the estate tax, while those within the two years would not. It might, however, be possible to prove that the donor died in an accident, that he was in good health, and that there was no reason why he should believe he was going to die. If such facts are allowed to outweigh the presumption that a gift within two years of death is a gift in contemplation of death, then further exceptions would be established to this ruling. It is the belief of the writer, however, that annuities are not gifts in contemplation of death, and that the recent ruling of the Treasury Department has made them definitely a present gift and as such, removed them entirely from the estate of the donor.

### STATE REGISTRATION

There are those who maintain that it is not necessary for a religious, educational or charitable corporation to register in any other state than that in which it is incorporated, in order to issue annuities in the other states. This may be true, if no representatives of the incorporated organization go to the other states and per-

sonally solicit annuity gifts therein. However, if this organization, or any of its branches, are actively engaged in other states, the matter is not so simple. Even if these representatives do not solicit annuities, they are in the states, and if the state wishes to apprehend them, it may do so.

The American Bible Society has an agency in California and is carrying on a work there. It was, therefore, decided to register in California and carry out the California Law, even though this entailed a considerable amount of work. Each annuity bond must have stamped on it its reasonably commensurate value, which is figured out on McClintock's Tables of Mortality with interest at  $3\frac{1}{2}\%$  and loaded 15%. This whole matter was discussed at length in the writer's paper published in 1927.

A similar question is now coming up in Texas. The American Bible Society has an agency in Texas and is carrying on a work there. As far as we know, our agent has never solicited an annuity. We, however, are applying to the Commissioner of Insurance for a license to issue annuities in that state, and he has requested us not to issue any annuities in that state until this matter is settled. There are certain life insurance companies who do no business in Texas, because the laws of Texas require the investment of a certain amount of funds in property located in that state. Where an organization does not have agents or representatives in Texas and where all advertising and correspondence is carried on by mail, such a situation might not arise. There may be other states where similar action may some day be taken. Each case, of course, may be dealt with as it specifically comes up. The advice of competent counsel is of great value in deciding such questions.

Since the above paper was written, the following points appear to have been definitely settled by the Treasury Department:

1. All annuities of educational, religious, or charitable corporations are affected by the recent Treasury ruling. The important matter is not the form of the annuity contract, but whether the amount parted with by the annuitant is in excess of the cash value of the annuity that he receives at the time.

2. Part of the amount parted with by the annuitant is a gift. This gift must be claimed by him in his Federal Income Tax for the year in which the gift was made. If the gift was made in 1928, he must claim the exemption as far as he is entitled to it in filing his Federal Income Tax for 1928. It cannot be claimed for a later year.

3. In the case of such donors or contributors who did not claim the proper allowable deduction for the year in which such contribution was made, an amended return with claim for refund may be filed at any time with the period of limitation for filing claims for refund for such year. For the year 1924 and prior years this is within four years from the time the tax for the particular year was paid. For the years 1925, 1926 and 1927 such claim is required to be filed within three years from the time the tax for the particular year was paid.

4. If the gift was made several years ago and it is not possible to file an amended return with claim for a refund, the gift lapses. That the allowable deduction has not been claimed by the annuitant is unfortunate, but nothing can now be done about it.

5. This ruling cuts down considerably the exemption from Federal Income Tax that it was formerly believed the annuitant enjoyed. The full principal amount paid is not allowed as a return premium, but only a fraction of it. It may, therefore, be true that many have been liable for taxation in the past few years, although they were not aware of this. The following ruling is of interest on this matter:

"With reference to the time when such annuitants should begin to treat the annuity payments as income in rendering their income tax returns, you are advised that for the year 1925 and subsequent years, it is the year in which the aggregate of the total annuity payments received first exceeds the cost of the annuity, and this should be determined from the books of account or other records of the particular annuitant."

6. The cash or present worth of annuities, based upon a single life, should be determined in accordance with Table A, Article 13, Page 20, of the State Tax Regulation No. 70, using the uniform rate of 4% therein

employed. This table calls for the annual payments at the end of each year. Many annuities are payable semi-annually and a different set of values is required thereby. These changes have been made in the Estate Tax Tables, and the values of an annuity of One Dollar per annum, payable semi-annually for life, are given on next page.

VALUE OF AN ANNUITY OF \$1 PER ANNUM  
PAYABLE SEMIANNUALLY FOR LIFE

The First Payment of  $\frac{1}{2}$  Being Made at the End of the First Semiannual  
Period



*Actuaries' or Combined Experience Table of Mortality, as extended, with  
interest at 4%*

Age	Value	Age	Value	Age	Value	Age	Value
0	14.97474	25	18.04954	50	12.71668	75	5.16035
1	17.55445	26	17.90678	51	12.42545	76	4.89695
2	18.94272	27	17.75909	52	12.13033	77	4.63926
3	19.40609	28	17.60645	53	11.83156	78	4.38834
4	19.65935	29	17.44914	54	11.52941	79	4.14418
5	19.80003	30	17.28636	55	11.22414	80	3.90625
6	19.86425	31	17.11865	56	10.91601	81	3.67457
7	19.87205	32	16.94521	57	10.60554	82	3.44809
8	19.85801	33	16.76631	58	10.29247	83	3.22577
9	19.78130	34	16.58170	59	9.97732	84	3.00657
10	19.70070	35	16.39110	60	9.66087	85	2.78892
11	19.61645	36	16.19426	61	9.34364	86	2.57336
12	19.52882	37	15.99092	62	9.02641	87	2.35910
13	19.43755	38	15.78082	63	8.70996	88	2.14640
14	19.34290	39	15.56396	64	8.39481	89	1.93630
15	19.24461	40	15.33956	65	8.08148	90	1.73062
16	19.14268	41	15.10761	66	7.77075	91	1.52962
17	19.03711	42	14.86787	67	7.46262	92	1.33538
18	18.92764	43	14.62007	68	7.15891	93	1.15181
19	18.81453	44	14.36498	69	6.85884	94	.98201
20	18.69726	45	14.10366	70	6.56293	95	.82964
21	18.57635	46	13.83609	71	6.27170	96	.70690
22	18.45102	47	13.56332	72	5.98567	97	.61225
23	18.32152	48	13.28588	73	5.70485	98	.48562
24	18.18787	49	13.00349	74	5.42974	99	.24510

(To convert the table into one showing the value of an annuity of \$1 per annum, payable semiannually for life, the first payment of  $\frac{1}{2}$  being made at the beginning of the first semiannual period, add .50000 to each factor.)



## PRINTING AND ADVERTISING

ERNEST F. HALL

*Secretary, Department of Annuities, The Board of Foreign Missions of the Presbyterian Church in the U. S. A., New York.*

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It was the intention of the Committee on Annuities in preparing the program for this meeting that it should be a conference, with plenty of opportunity for questions and suggestions growing out of the experience of those in attendance. I shall therefore take but a few minutes to present some ideas which seem to me of prime importance on the subject under consideration.

### *Terminology*

I have examined a great many pieces of printed matter and much paid advertising about annuities put out by various religious organizations, and I find that in many cases the primary appeal is made on the basis of *investment*. To my mind this is not the best approach. The annuity plan was adopted for the purpose of making it possible for people to make *gifts* which they would not otherwise be able to make, except by bequest, and to make them during their lifetime, thus avoiding the uncertainty, delay and expense often incident to the settlement of wills. The appeal therefore should be for a gift, and the income feature of the plan should be presented to show how a gift can be made while living. It is not the province of religious and charitable organizations and colleges to offer primarily opportunities for investment. That is incidental to the idea of giving.

The pamphlet which has been distributed to you is being used by the Board with which I am connected. It is the result of a year's study. It is entitled, "Let Your Gift to Foreign Missions Pay You a Life Income of 4½% to 9% per Year." "The Annuity Plan" is printed across the center of the page. This title was worked out in consultation with the copy writer of a large advertising firm. I first explained to him the annuity plan and the basic ideas in it. After some changes this is the result. Notice that the word "Gift" comes on the first line, and

the word "Income" on a lower line. We have made the two words "Gift" and "Income" prominent, but "Gift" is first, and while the eye catches the whole title at a glance, "Gift" is the most prominent.

At the conference on annuities held in April, 1927, the advisability of using the term "Annuity Bond" was discussed. (See pages 19-20 of the report of that conference.) It has been the policy of our Board to avoid using the term "Bond," because in the usually accepted sense of the term it is not a bond. We use the words "Annuity Agreement" in our literature, advertising and correspondence. Careful attention should be given to terminology in our advertising and pamphlets, so as to avoid placing our work on a commercial basis. We are not attempting to compete with the commercial world in the matter of income and should not confuse our main purpose by making a commercial appeal. We can successfully present to our constituency our real aim without doing so.

#### *Ethical Advertising*

The next subject which I wish to present is the ethics of advertising. Advertising men with whom I have talked question the advisability of using the phrase, "As High as 9%," by a religious organization. That is the maximum rate which only a few old people get. It is attractive but is misleading, and people who reply to such an advertisement are likely to be disappointed and indignant when they find out what they can actually get. The leaflet referred to above states both the minimum and maximum rates in the title. The same has been used as a heading for paid advertisements, and it has been a money-getter. Advertisements put out by religious societies are scrutinized by experts and should conform to the highest ethical standards. They can do so and at the same time be good advertisements. It is not necessary to use a headline that is questionable from an ethical point of view.

#### *Group Advertising vs. Joint Advertising*

Better results are produced for each organization by *group advertising* than by *joint advertising*. By group

advertising is meant separate advertising by each organization conducting a similar business. Joint advertising is an advertisement placed by all of them together. To illustrate, automobile companies advertise their own cars, each company within the automobile group advertising separately. By so doing more cars are sold by each company than would be sold if all of them joined in placing an advertisement showing the reasons for buying an automobile and giving the names and addresses of the various companies. By the numerous advertisements about automobiles appearing everywhere, each company trying to outdo the others in attractiveness, people are impressed with the desire to have a car and sooner or later they come to a decision to own one. Which car they will buy is a later and more detailed consideration.

The same is true of annuity advertising. The annuity idea is more quickly impressed on people if they see several advertisements about annuities in the same paper than if there were a joint advertisement by all organizations issuing annuity agreements. People will give their money on the annuity plan in most cases to the organizations in which they are particularly interested, the boards of their own church or other organizations in whose work they have become interested. Some people will write around to several Boards in order to secure the rates of several organizations and give to the one offering the largest annuity. This is an argument for uniform annuity rates, in order to make it possible for people who need the largest income possible to be loyal to their own denominational organizations and those affiliated with them. Competition in this matter is demoralizing and in a measure destroys the spirit of giving. Some people have voluntarily accepted a smaller annuity than they might receive, in order to benefit the work of the organization as largely as possible. Such persons are not bargain hunters, but are truly givers.

### *Printed Materials*

There is not time in opening this discussion to more than mention the essential points in the preparation of effective annuity literature. They are the same as those concerning all promotional printed matter. Title, con-

tents, paper, ink, type, layout, all of these are important. Some of these were discussed at the conference on annuities held in April, 1927, and you are referred to the article in the report of that conference entitled, "Securing the Gifts." Explanation of any of these points will be made if anyone wishes to request it in the discussion to follow.

### *The Advertising Problem*

The problem of the Department of Annuities with which I am connected is to inform two million members of our church effectively about the annuity plan. This is no small task. We advertise in the religious papers which are sent to our members, but only a very small percentage of them get such papers. We have used local church publications, Sunday calendars and parish bulletins, with good results. We have sent a notice to be printed in them and have met with good co-operation on the part of ministers. The direct-by-mail method has been used in sending letters and printed matter to lists of individuals. Sometimes we meet with opposition by ministers who refuse to furnish lists for various well-known reasons. Many lists have been secured from persons who have made annuity gifts. The church members have a right to know of the plan and there should be full co-operation in letting them know of it.

We endeavor to have the plan presented publicly in person by members of our Board's official staff wherever possible. Opportunities for this are afforded in meetings of synods and presbyteries, in meetings in local churches, in women's societies and in various conferences of men and women. We freely distribute printed matter in such meetings where it seems advisable.

### *Results of Advertising*

Does it pay to advertise? It does. During the two years that our Board has had an annuity department and has done more thorough promotional work, the receipts have been fully four times the amount usually received before that time. Much of the increase is directly due to paid advertising. Many persons who have been seen personally and who have made the largest gifts have first written to me in response to our advertise-

ments. It has not been our plan thus far to "gum shoe" around to individuals who have shown no interest in the annuity plan, but to follow up "leads." During the two years of the Department of Annuities of our Board we have received more than \$536,000, much of which can be traced directly to paid advertising and the distribution of literature.

The total of annuity gifts is proportionate to the amount spent for advertising. Our church is so organized that the boards are limited as to their promotional budgets. Consequently it is impossible to get enough money for advertising, even though results justify an increase. When the organized church adopts seriously some of the methods of organized business that it has overlooked, we may expect larger results, both financially and spiritually.

## ANNUITY RATES AND RESERVES

GEORGE A. HUGGINS

*Consulting Actuary, Philadelphia, Pa.*

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The subject of this discussion, as stated in the Program, is "Annuity Rates and Reserves; Uniform Rates."

This subject occupied a considerable part of our time at the last Conference, held April 29, 1927, and in order that we may take up the discussion at the point where it was left off, it is well to read the first seven resolutions which were presented to the Conference by its Committee on Findings, and adopted unanimously by the Conference. (See page 40.)

I think that this Conference can well reaffirm the principles involved in those seven resolutions. Just how many organizations have actually put these principles in practice, as a result of the last Conference, your Committee on Annuities is unable to say, because we have not had the opportunity, nor the facilities, for making a survey of this matter. We do know that some organizations have modified their practices, and changed their rates in conformity with these principles, and perhaps, before this Conference is over, we may learn of others who have done likewise. Again, as a result of this second Conference, others may take similar steps in the future.

I am sure that those who have adopted annuity rates, according to actuarial principles, have not found themselves handicapped because they may have abandoned schedules of annuity rates, based upon "rules of thumb," such that they could be readily calculated without reference to a schedule. I have in mind rules such as  $1/10$  of the age at issue, or  $1/10$  plus half of 1%, or  $1/10$  plus 1%, which for example, at a given age—60—would give annuity rates of 6%,  $6\frac{1}{2}\%$ , or 7%, as the case might do.

Perhaps the greatest difficulty has arisen in the case of two-life rates, for if one has been accustomed to consider that the continuance of the annuity to a second beneficiary is not a matter of great importance, it be-

comes difficult to get used to the fact that it may involve a material reduction in the rate if properly calculated.

Of course, the converse is true; that if the rate is not correspondingly reduced, when the second life is injected, there is a relative reduction in the principal remaining when the second beneficiary passes away, as contrasted with the balance of principal or residuum at the time that the interest of the first beneficiary ceases. The effect of introducing a second beneficiary into the contract is shown in the specimen rates that you will find on pages 16 and 17 of the printed report of the last Conference.

Some organizations are still allowing the annuity rate at the younger age, where two lives are involved. This, of course, is a step in the right direction, for it involves a reduction in the rate that would have been paid to the older life; but the fact remains that the rate for the two lives should be less than that for the younger life alone, if the proper equities between the beneficiaries are to be observed.

Similarly in the cases—which should be rare—where three lives are involved, (that is where the annuity is to be continued to one or the other lives until all three are gone) the rate payable with the three lives involved should be less than the rate payable where any two of the three are considered.

Your Committee greatly deploras the existence of conditions which lead to what might be called "competitive buying among donors." Cases are called to our attention, where a prospective giver to benevolence causes, writes to several organizations, asking for rates, and then makes the gift to the one offering the highest rate. We realize that this condition is the exception rather than the rule, for the majority of donors, we believe, correspond only with the one or more Boards in which they are interested, and to which they wish to make their contribution.

So far as the organizations are concerned, it does not seem to be a fair system which penalizes, by depriving them of gifts, the more conservatively managed organizations as a result of the competitive bidding. The danger is in putting a premium on the higher rates, and

if there is no uniform voluntary limit, the ultimate would be to make the rate so high that little, if any, principal would ever be realized to carry on the functions of the organization after the interest of the beneficiary ceases.

As we approach the condition, where the residuum is reduced and approaches the vanishing point, the organizations will find themselves encroaching upon the territory of the commercial insurance companies that sell annuities. Their rates are so calculated that the principal and interest will, on the average, and in the aggregate be exhausted in meeting the annuity payments.

Your Committee on Annuities holds before you, as an ideal, the adoption of uniform rates, so as to avoid the conditions above noted. Perhaps, it is too early to realize such an ideal, but we are making progress towards that end.

You have heard reference to the reserves required under the laws that have been enacted in such states as New York and California. There is no mystery about reserves; they are simply balances of funds kept on hand to meet obligations, which by their very nature, are deferred. When it comes to calculating them, then of course, you must have some standard table or some assumed rate of interest to use as a basis of your calculations. The standard specified under the laws of New York and California is McClintock's Table of Mortality among Annuitants, with interest assumed at the rate of 4%, in the one case, and  $3\frac{1}{2}\%$  in the other.

One of the disadvantages of the use of the McClintock's Table, under the rulings of the Insurance Department of California, is the variety of tables. For instance, there is one table on Male Lives Only; another on Female Lives Only; a third on Two Lives, Both Male; a fourth on Two Lives, Both Female; and a fifth on Two Lives, one Male and one Female.

When you take into consideration that in the two-life cases, the actual ages and sexes of both lives must be used in determining the amount of reserves to be maintained back of the annuity agreements, you can readily see the large number of factors that must be calculated and kept on hand for use in connection with the agreements actually used in that state.



# ACCOUNTING METHODS

FORREST SMITH

*Assistant Treasurer, American Baptist Foreign Mission Society, New York.*

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In order to bring before the Conference some specific accounting methods for annuity funds, I am assuming, on the basis of previous discussions held by the Committee on Financial and Fiduciary Matters, that there is a general recognition of two fundamental underlying principles which necessarily govern the basis of our approach to the problem of accounting. These are:

*First*, that annuity funds should be completely segregated on the records of the organization issuing the annuity agreements. The annuity agreements themselves, in the majority of cases, are a gift agreement with a life annuity return. These agreements, so drawn, constitute a decidedly different form of commitment from that which is customary in the regular line of activities in which the organization is engaged. The accounting records for annuity agreements should be self-contained; that is to say, the investments covering the consideration received for the agreement, plus the uninvested cash, should always equal the reserve that is established for the outstanding annuity agreements.

*Second*, that no benefit from the annuity agreement should inure to the organization before the agreement matures. The governing principle here should be that it is not desirable for an organization to calculate or estimate in advance, on the basis of life expectancy tables, the amount that it is hoped the organization will earn or profit from the transaction; that is to say, if an annuity agreement is issued for a thousand dollars on the basis of the standard rates recommended by the Conference, one might ultimately expect a net gift of 70% of the original principal. It would be unwise to take this estimated amount of income, or a portion of it, into the current income as annuity income prior to the actual maturity of the agreement.

Based upon these two principles, we have two fairly common accounting systems. The first is where the

investments and the cash are kept entirely separate but an account is kept with each annuitant. This account may or may not be charged with the annuity payments as they are made, and the income earned on the investments is not distributed over the agreements themselves. If a complete segregation of the accounts is kept and a bank account maintained for the annuity agreements, the income earned on the investments is credited to this bank account and the bank balance is invested, with the exception of the amount necessary to provide for current annuity payments. Under this method of accounting, to ascertain the income available from matured annuities, it is necessary to have an actuary periodically determine the reserve for the outstanding annuity agreements based upon the agreements that are outstanding and the specific agreements that have matured during the fiscal period. The reserve for outstanding annuity agreements may then be reduced upon the organization's record to conform to the amount of the reserve as determined by the actuary, and the amount of the reserve's reduction may be transferred to current income or disposed of in accordance with the policy of the organization.

The second method is where a complete record is kept of the status of each individual agreement. Under this method, if a thousand dollars is received for an annuity agreement, it is immediately deposited into the annuity funds bank account. At the same time a ledger account is established for that agreement which has subdivisions for the principal of the agreement, the income earned on the agreement, the payments made on the agreement, the excess of income over payments or payments over income and the net difference between these two amounts, which would either increase or decrease the original amount of the annuity. Under this method, the annuity funds are invested as a whole and in no way is any investment ear-marked for an individual annuity agreement. The income earned on the investments is credited, when received, to an account called "Income Earned on Annuity Investments." The total of the income earned on these investments is accumulated in this account until the end of each fiscal period. Of course a card record, or ledger account, is kept with each invest-

ment showing the principal of the investment and the income earned on that particular investment. As payments are made to annuitants in accordance with the terms of the contract, these payments are charged to an annuity payments account and the cash is taken from the annuity funds bank account. The payment is, in turn, posted to the individual ledger account kept for that annuity agreement. Annuity payments are kept accumulative in the annuity payments account until the end of the fiscal period. At the end of the fiscal period the reserve for annuity agreements is averaged by taking the amount of the reserve at the beginning of the year and calculating the average increase to the reserve for the new agreements written during the year. The average reserve for annuity agreements outstanding during the year is divided into the income earned on the annuity investments during the year and a correct average rate of income earned on the outstanding annuity reserve is obtained. The income is then distributed in accordance with the rate earned over the face of each individual annuity agreement so that at the close of the fiscal period the record would appear somewhat as follows:

On the basis of an annuity agreement issued for a thousand dollars, paying income at the rate of 7%, you would have the original agreement appearing on the record as a thousand dollars, in the column for annuity payments a total of \$70 covering the payments for the year, and then, in the column for the income earned, (say the income rate was  $4\frac{1}{2}\%$  for the current fiscal year) a credit of \$45. The excess of annuity payments over the amount of income would be \$25. Therefore, the face of the original annuity agreement would be reduced by this amount, leaving it at an amount of \$975 at the beginning of the next fiscal period. Under this plan, if annuity agreements mature during the fiscal period, an income credit can be applied against that agreement on the basis of the income earned for the previous fiscal year. This enables the organization to mature the agreement immediately upon the death of the annuitant, transferring the net remaining principal to current income account.

It is possible for organizations who have had a con-

tinuing annuity business over a period of years to establish themselves on this basis by figuring the total payments that have been made on the annuity agreement during the period of its existence, applying against these payments income earned at the rate of 4 or 4½%, and establishing a reserve for outstanding agreements on the basis of the original principal, plus or minus the difference between the excess of income over payments or payments over income. In practically all cases the payments exceed the rate of income earned. The Society with which I am connected keeps its annuity records on this basis, and we are enabled thereby to ascertain the exact percentage of the net remaining principal earned on any individual agreement. For the past few years the percentage realized on these matured annuity agreements has averaged between 65 and 80%, some agreements maturing for approximately their full amount and others running for a considerable period and maturing for as low, in one or two cases, as between 25 and 30%. During the period that this method of accounting has been in effect, we have not had any agreement on which there was not some benefit for the organization.

#### A FEW SPECIFIC PROBLEMS

##### *Clearness of Contract*

A careful effort should always be made to have the annuity contract specific as to all of its details, as a great many difficulties aside from accounting may arise from this.

##### *Legal Requirements*

Before a basis of accounting is established it is always desirable to inquire as to the provisions of the state under which the organization is incorporated in order to provide for any specific requirement in that state's laws.

##### *Annuity Agreements Designated for Permanent or Memorial Funds*

Sometimes a donor has been led to believe that on the maturity of his annuity agreement the original con-

sideration of the agreement will be available for the establishment of a memorial fund. On the basis of the rates that have been previously recommended by the Conference, it would be a rare case where the entire amount of the original gift would be available upon the maturity of the agreement. However, if a promise has been made to the donor that the full amount of his gift would apply towards the establishment of a memorial fund, then some means must be found of carrying out the promise. It is suggested in cases of this kind that the net remaining principal of the original agreement be invested and the income earned on the investment of this amount be credited to the principal until the principal reaches the original amount of the annuity agreement.

*The Acceptance of Real Estate with a Provision for Life Tenancy of the Donor*

In a case of this kind, the agreed upon valuation of the property should be set up as an investment as a corresponding offset to the annuity agreement. The principal of the investment should be periodically charged with the amount of taxes, insurance, etc., or other expenditures that are incurred upon the property, and there should be calculated each fiscal period a credit that might be applied towards the investment income. It would be unfair to the other annuity investments if no income were shown as being earned from this fund, and this method should be pursued in order to ascertain, when the property is available for sale, aside from other conditions, whether the investment really was a profitable one for the organization.

*Amortization and Accumulation*

I would recommend that amortization be figured on those bonds which are purchased above par, in order to write them down to their par value. On bonds that are purchased at a discount or below par, I would recommend that they be carried at cost in the organization's books. In figuring amortization or accumulation, I would recommend that simple amortization or accumulation be used. From an accounting standpoint, the scientific cal-

calculation is very involved and, in the long run, the difference is not of sufficient amount to compensate for the extra work. Simple amortization and accumulation is figured by taking the par value of the security, deducting from that amount the purchase cost, and dividing the difference by the number of years the security has to run. For bonds that are purchased at a discount and matured for their par value, I would recommend that the difference between the purchase cost and the matured value be credited to an account to be used for gain and loss on various securities. Under this plan, the organization would always have a substantial reserve fund to meet the possibility of a loss on an individual security.

## INVESTMENTS

GEORGE F. SUTHERLAND

*Assistant Treasurer, Board of Foreign Missions of the  
Methodist Episcopal Church, New York.*

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In opening the discussion of the matter of investments with you today, it was my thought to emphasize first of all the fact that the money should be invested rather than expended. The papers and the discussion which have preceded have, however, very definitely touched on that subject. It will do no harm, however, to repeat and re-emphasize this fact. It is an absolutely unsafe business proposition to accept money on the annuity plan and definitely commit an organization to pay an annuity during the years that are to follow and depend upon the benevolence and generosity of the contributing constituency to supply a sufficient income to meet these obligations. Some organizations have felt that the investment of annuity funds in the erection of income-producing dormitories was a satisfactory investment. This, of course, is preferable to expending the money for current expenses but the small dormitory fees paid in most institutions and the accompanying costs to keep up repairs, insurance, etc., detract from the desirability of investing annuity funds in such buildings.

Personally, I feel that any individual would be very unwise to give his funds to an organization which does not carefully invest such funds in good generally accepted sound investments, retaining them in such investments during the entire lifetime of the donor.

Passing on to a discussion of the type of investments which are satisfactory, it is assumed first of all that investments are made by responsible Finance Committees of the various organizations, the Treasurer not being left with exclusive responsibility in this matter. Any Finance Committee will, of course, take the advice of investment houses of the very highest standing. It is not necessary that these funds should be invested in securities which are legal for trustees in the states where such organization is incorporated. If the organization was responsible for the return of the principal as well as

for an annual income, it would be wise to follow the plan of investing in legal securities but the organization is responsible for returning only an annuity and that responsibility can be amply met by a careful painstaking selection of securities and a larger income can be secured if the committees do not limit themselves to legal investments. There are, however, some legal investments which bring a very satisfactory return. In New York City and vicinity the best type of investment with the largest return at the present time are mortgages guaranteed by one of the long established and responsible Bond and Mortgage Companies. These companies give a guarantee both as to principal, interest and title of the property mortgaged and assume all responsibility for collecting and remitting the interest and if foreclosure is necessary to carry all the work and responsibility of such foreclosure proceedings. At the present time money invested in such guaranteed mortgage on Manhattan Island pays 5% net to the investing organization. Good securities in Brooklyn, Queens and Westchester County can be secured at the present time netting 5½%.

An Investment Committee, however, would not be wise in placing all these funds in guaranteed mortgages even though they be distributed in various sections of the country. The diversification of investments is a constant study by investment authorities and we all feel that a goodly percentage of bonds of high grade should become a part of all invested funds of this nature. Of late years public utilities bonds have been as attractive from an investment standpoint as practically any securities that can be purchased. Our own committee very rarely buys industrial bonds because of the risk involved. They do not invest in municipal, state or government bonds because of the low rate of yield as in any case we are not subject to tax. Therefore, most of our securities are found in railroad or public utility bonds.

In addition to careful purchase of securities of this kind, it is the custom of most Investment Committees to ask for an annual review of securities and recommendations are made as to exchange or sale of securities that are held in view of current market and trade conditions. It is the custom of the Investment Committee of the Board of Foreign Missions of the Methodist Episcopal Church to place a list of their securities annually in the



hands of two banks and two brokerage firms, asking them carefully to review this list, pointing out any weak securities and make recommendations as to policies to be pursued. This service is gladly rendered by the organization concerned without expense to the Board. The Board, in turn, naturally places a due portion of its business with the firms that render this service.

Investments need constant attention and expert advice, but this on the whole is not an especially difficult undertaking. We might all wish that it was as easy to get money on the annuity plan as it is to find proper investments for the funds when they are secured.

### REPORT OF COMMITTEE ON FINDINGS

We recommend special care in the following respects:

1. As to terminology it seems highly desirable to use expressions in literature and in personal solicitation which plainly indicate that we are seeking gifts, rather than proposing investments. The charitable aspects of our enterprises must always be emphasized. The word "interest" should never be used as applying to the rates at which the annual payments are reckoned.
2. We deem it unsound to expend or invest in any of the enterprises of an organization the principal of an annuity gift until the expiration of the annuity contract.
3. As laws in different states vary and inasmuch as they are liable to change with each session of state legislatures, it is obviously wise for each organization doing an annuity business to make a serious check-up periodically by obtaining the advice of competent legal counsel.
4. The use of annuity agreements should not be urged as a substitute for other methods which might be preferred by prospective donors. The absolute gift, living trusts, bequests by life insurance and bequests through wills, all at times best fit into the conditions and the purposes of prospective donors.
5. We believe in uniform annuity rates. This means that charitable organizations should not compete with each other in soliciting annuity agreements by one body offering higher rates than others so as to attract the patronage of bargain hunters; nor should we in any

measure seek the level of commercial organizations in doing an annuity business.

6. We reaffirm the action taken by the Conference on Annuities of April 1927, as shown in its report of the Committee on Findings in actions 1-13 inclusive, as follows:

1. VOTED that in view of the wide variations in annuity rates now granted by religious, educational and charitable organizations, this conference, representing thirty-five organizations, expresses its strong conviction that it is advisable to bring about a standard in rates and uniformity in practise.

2. VOTED that we recommend the adoption as a standard for fixing annuity rate an average of 70% as a residuum reasonable in its return both to the donors and the organization and at the same time consistent with the objects of the annuity gifts but that the maximum rate paid be 9%.

3. VOTED that it is the judgment of this meeting that no basis of rates yielding less than those above provided should be used for annuity contracts.

4. VOTED that the rate of interest on invested funds assumed in the calculations be  $4\frac{1}{2}\%$ .

5. VOTED that the table of mortality adopted as a basis for the calculations for the annuities on single life be the McClintock Table of Mortality among Male Annuitants, which is the standard in the State of New York and many other states.

6. VOTED that the table of mortality adopted as the basis for the calculations for the Joint Life and Survivorship annuities where there are two beneficiaries be the McClintock Table of Mortality—male and female (female and younger).

7. VOTED that the issuance of annuities involving the continuance of the payments to more than two lives be not encouraged.

8. VOTED that the matter of drafting a suggested standard form of contract be referred to the Standing Committee on Annuities. This Committee to draw up such a form and report at a later conference.

9. VOTED that administrative expenses in connection with Annuity Agreements should be charged to the Annuity Agreement Account.

10. VOTED that a separate account should be set up with each annuitant.

11. VOTED that periodical reserve valuations to insure the maintenance of legal reserves required by the State where the organization is incorporated should be taken.

12. VOTED that Annuity Funds should be segregated; with separate bookkeeping accounts and securities earmarked.

13. VOTED that all Annuity Funds should be invested in sound, income-producing, high-grade securities.

7. A number of questions having been raised regarding legislation on annuities we request that the Standing Committee on Annuities continue to make a study of these matters and present results at a future meeting.

8. We also request this Committee to draft a standard form of contract as referred to in Vote 8 of the April 1927 Conference.

9. We recommend to the Standing Committee on Annuities that another conference be held when in their judgment it is deemed wise.

10. We recommend that the proceedings of this Conference, including the papers presented, shall be printed and that the organizations represented by individuals present be asked to contribute, if necessary, toward underwriting the cost of the publication.

11. We recommend that this Conference extend a vote of thanks to Dr. Anthony, Dr. White, the Standing Committee on Annuities and the speakers on this program for their efforts in contributing to its high success, and to the Board of Foreign Missions of the Presbyterian Church, U. S. A., for the use of their room for our meeting.

BURLEIGH E. CARTMELL,  
WILLIAM E. LAMPE,  
GERTRUDE V. BRUYN,  
LEWIS T. REED,  
J. F. RAWLS,

*Committee on Findings.*

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STANDARD RATES APPROVED APRIL 29, 1927.

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<i>Age of Annuitant</i>	<i>70% Residuum</i>		<i>Age of Annuitant</i>	<i>70% Residuum</i>
30	5.0		56	5.9
31	5.0		57	6.0
32	5.0		58	6.1
33	5.0		59	6.1
34	5.1		60	6.2
35	5.1		61	6.3
36	5.1		62	6.4
37	5.1		63	6.5
38	5.1		64	6.6
39	5.2		65	6.8
40	5.2		66	6.9
41	5.2		67	7.1
42	5.3		68	7.2
43	5.3		69	7.4
44	5.3		70	7.6
45	5.4		71	7.8
46	5.4		72	8.0
47	5.4		73	8.2
48	5.5		74	8.5
49	5.5		75	8.7
50	5.6		76	9.0
51	5.6		77	9.0
52	5.7		78	9.0
53	5.7		79	9.0
54	5.8		80	9.0
55	5.8			

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