

Gift Annuity Agreements
of
Charitable Organizations



GIFT ANNUITY RATES, INTEREST RATES
and MORTALITY EXPERIENCE

STATE SUPERVISION OF GIFT ANNUITIES

CORRECT TERMINOLOGY

RECENT FEDERAL and STATE TAXATION

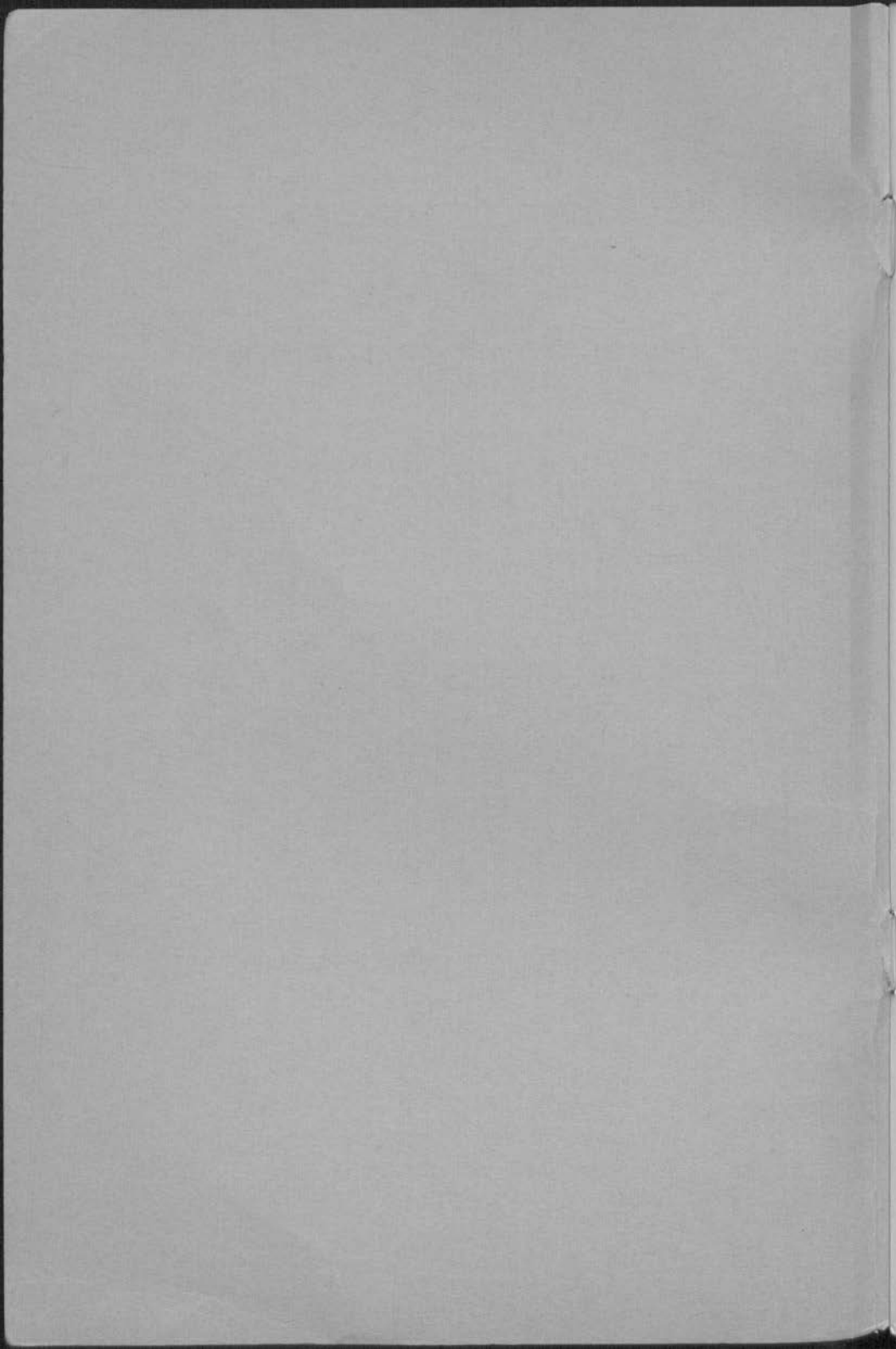
NEW STANDARD OF GIFT ANNUITY RATES



NINTH CONFERENCE

WISE PUBLIC GIVING SERIES, NO. 48

1955



Gift Annuity Agreements
of
Charitable Organizations

PAPERS PRESENTED AT THE NINTH
CONFERENCE ON GIFT ANNUITIES,
HELD IN NEW YORK CITY, MONDAY
AND TUESDAY, OCTOBER 3-4, 1955,
UNDER THE DIRECTION OF THE
COMMITTEE ON GIFT ANNUITIES



THE COMMITTEE ON GIFT ANNUITIES

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

WISE PUBLIC GIVING SERIES NO. 48

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ADDRESS OF WELCOME

DR. GILBERT DARLINGTON

Chairman, Committee on Gift Annuities

There are many reasons why this Ninth Conference on Annuities has been called.

1. Change in Interest Rates

It is over nine years since the Eighth Conference met on April 10, 1946. Since then there has been an almost steady rise in the interest earned on invested funds by the life insurance companies of the United States—from 2.88 percent in 1947 to 3.24 percent after taxes in 1954. The long decline in interest rates from the 1920's terminated in 1947. For the life insurance companies this meant a drop from 5.8 percent in 1923 to 2.88 percent in 1947.

2. New Studies of Mortality Among Gift Annuitants

Since 1946 your Committee on Annuities has established a fair gauge of mortality experience among gift annuitants. Dr. George A. Huggins at our request compiled the mortality experience of fifteen organizations that cooperate with our Committee. For the five-year period June 30, 1947 to July 1, 1952 this study, based on the Standard Annuity Table, female life only, with a setback of one year, used for both males and females, covered 26,718.5 life years of exposure and showed a favorable mortality rate of 105.78 percent.

The American Bible Society also made a study of its mortality for the same period on the same basis and found on 39,747 life years of exposure a favorable mortality ratio of 102.68 percent. The American Bible Society has recently brought this study down to December 31, 1954. Based on 63,882 life years of exposure, it shows a favorable mortality ratio of 102.68. Since on two-life agreements the death of the alternate annuitant is not always reported when it occurs, the ratio is probably even more favorable.

At previous Conferences, when uniform maximum-rate schedules were proposed, your Committee had no such definite mortality experience to go by. Great changes in the types of annuities issued by commercial life insurance companies and many new mortality tables have been published since 1946. We are submitting rates based on two of

these new tables and also on the Standard Annuity Table. Dr. George A. Huggins will speak about them this afternoon.

3. Unfair Valuation of Gift Annuities By Treasury Department

The Treasury Department is still attempting to value gift annuities solely on the basis of individual annuities without refunds or dividends at a 2-percent interest rate, although the cost of group annuities and refund annuities is based on higher rates of interest credited by the life insurance companies. The Anna L. Raymond case referred to gift annuities as "such annuities" and not to "individual annuities." For individual annuities there is conscious and deliberate selection against the insurance companies by individuals whose main purpose is to make a gain rather than to make a gift. It appears that the time has come to solve this problem for the future just as soon as we can do so, even if it requires action in the courts. Let us therefore consider this matter more a length.

The case of *Raymond vs. Commissioner*, 40 B.T.A. 244, 114F (2d) 140, *certiorari* denied 311 U. S. 710, has been used by the Internal Revenue Department since 1943 to determine how charitable gift annuities shall be valued for Federal income-tax purposes. The court held that the gifts Anna L. Raymond made to the University of Chicago on the annuity basis should be valued not by the Estate Tax, Table A, of Estate Tax Regulations 70, but by what "five large American life insurance companies would have charged for such annuities for a woman of her age at the date of each contract."

The last date considered in the Raymond case was May 22, 1930. The life insurance companies of the United States were earning 5.05 percent on these invested funds in 1930. The Estate Tax Table A was based on the Combined or Actuaries' Experience Table, with interest at 4 percent. It placed the value of annuities very low, and Mrs. Raymond or her estate was being forced to pay Federal income taxes because she had already received back in annuity payments the low principal values of most of her annuities. By valuing her annuities at what five large American life insurance companies would charge, her

estate was getting substantial relief from the income taxes due from her before her death.

When the Treasury in 1943 established the Standard Annuity Table, set back one year, loaded $6\frac{1}{2}$ percent of the gross premium and with $2\frac{1}{2}$ percent interest, your Committee on Annuities at once had this table extended to cover older and younger ages, two-lives and semi-annual, quarterly and monthly payments. These tables published by our Committee were most useful and have been widely used and reprinted since.

At that time, in 1943, there were not any adequate studies of mortality experience among charitable gift annuitants. The Treasury selected the rates charged by a large number of American insurance companies for individual annuities, as shown in the *Unique Manual Digest* published in Cincinnati each year. In 1943 the life insurance companies of the United States held reserves of \$486,000,000 against individual annuities—\$204,000,000 against group annuities and \$45,000,000 against supplementary agreements. (Charitable-gift annuities do not give dividends or refunds.) Our donors wish to help the charity they favor with a gift; they do not select against their favorite charity or hope to get more than they give. Insurance companies find a very different mortality experience for refund annuities and group annuities, where the deliberate selection is not as strong, than for individual annuities. The great growth in annuities since 1943 has been in group annuities. On December 31, 1954 the life insurance companies of the United States held reserves of \$622,000,000 against individual annuities, including refund annuities and dividend-paying or participating annuities; \$1,063,000,000 against group annuities; and \$145,000,000 against supplementary agreements. The great growth has been in group annuities—from \$204,000,000 in 1943 to \$1,063,000,000 in 1954. The mortality experience of individual annuities without refunds is very different from that of individual annuities with refunds and of group annuities; but the Treasury still sticks to its ruling of 1943, and meanwhile, in 1951, lowered its assumed interest to 2 percent from $2\frac{1}{2}$ percent.

In 1943 the earnings of American insurance companies were 3.23 percent after taxes, and in 1954 they were 3.24 percent. Before taxes

they were 3.33 percent in 1943, and 3.46 percent in 1954. Charitable-gift annuity funds do not pay these income taxes, which now amount to twenty-two one-hundredths of 1 percent.

Of the five largest life-insurance companies in 1940, only the Prudential is using a modified form of the Standard Annuity Table set back one year, loaded 6½ percent. From being the dominant factor in annuities in 1943, individual annuities are now much less than the group annuities being written each year. A letter from the Prudential Life Insurance Company of America, dated August 23, 1955, throws additional light on this, as follows:

"In your letter you mention that 'With reserves of \$1,389,607,337 as of December 31, 1953 against your annuities, your company is the largest one that still holds at 2% interest. . . .' Actually, the bulk of our annuity reserves are under group annuity contracts. As pointed out in my letter of January 20, our current rate basis for new group annuity business uses 2½% interest assumption. This business, I might add, is written on a participating basis. At the end of 1954 our reserves for individual annuities were less than \$133,000,000.

"It would seem to me in presenting your case you might very well stress that both the Equitable and the New York Life used 2½% interest in arriving at their individual immediate annuity rates, such annuities in each case being written on a participating basis.

"Sincerely yours,
H. E. BLAGDEN
Second Vice President
and Associate Actuary."

Why the Committee on Annuities is a Continuing Committee

The Committee on Annuities came into existence in March 1927 partly as the result of a paper presented by Dr. George A. Huggins at a Conference in Atlantic City. A small group had been cooperating in getting the proposed insurance law of New York State amended to recognize the existence of gift annuities, which otherwise would not have been legal in New York State. Dr. Huggins reported this, as well

as the need for a broad program of cooperation in dealing with annuities, to The Conference on Financial and Fiduciary Matters of the Federal Council of Churches of Christ in America on March 22-24, 1927, and the Conference authorized the appointment of a continuing Sub-Committee on Annuities by the following resolution:

"ON ANNUITIES, 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 Federal Council of Churches has become the National Council of Churches and the Committee of Financial and Fiduciary Matters is no longer in existence; but the Committee on Annuities has continued to function. It has cooperated fully with the National Council of Churches in its Conference on Wills, Annuities and Special Gifts, December 15-16, 1952 in Cincinnati, Ohio, and at its Workshop on Wills, Annuities and Special Gifts of the Joint Department of Stewardship and Benevolence of the National Council of the Churches of Christ in the U.S.A., November 2-4, at Buck Hill Falls, Pennsylvania.

As many who are present today are attending their first Conference on Annuities, I have been requested to tell you some of the things the Committee on Annuities has done.

1. It has proposed and secured the approval, by a large number of religious, educational and charitable organizations, of maximum uniform rate schedules. The last set of rates, proposed in 1939 and adopted in 1941, is still in effect. These uniform rates set a maximum ceiling which those who have adopted them agree not to exceed, although all are free to use rates that are lower than the maximum, if they so desire. Unrestricted competition in rates has been avoided. Actuarial principles and mortality tables have been studied, and much experience has been accumulated and distributed for the good of all.

The Committee has been fortunate in having Dr. George H. Huggins as a member, from the very beginning, to present the proposed rates and to explain the mortality experience on which they are based. We have both been present at all of the eight Conferences on Annuities, and I can testify as to the invaluable contribution he has made in the past, and is going to make to our Ninth Conference today. We now believe we have an accurate foundation of mortality experience for gift annuities that is broad enough and recent enough to base our rates upon.

2. Much work has been done in improving the wording of annuity contracts and in clearing up the terminology used not only in the contracts themselves, but also in correspondence, advertising and salesmanship. There is still much that needs to be done, as Mr. Rosengrant will report later on.

3. Our Committee is entirely free to deal with any agency of the Government, either Federal or State, and has done so from the very beginning. It has a solid record of achievement, as is shown in the nine volumes of the "Wise Public Giving Series" that it has published. These show (a) cooperation with the authorities of New York State in writing the new insurance laws and in the establishment of rates and reserves; (b) letters from the Treasury Department clarifying the taxation of annuities for Federal income-tax purposes, and the extension and issuance of the Standard Annuity Table with $2\frac{1}{2}$ percent interest, loaded $6\frac{1}{2}$ percent and set back one year; (c) the Chairman of the Committee took up personally with members of the Senate Finance Committee and the House Ways and Means Committee the injustice of the old 3-percent rule. The Eighth Conference on Annuities in 1949 passed a formal resolution approving of his action, the new Income Tax Law of 1954 has remedied the injustices and inequity of the 3-percent rule; (d) the Committee is still seeking to get rulings establishing a more equitable valuation of gift annuities for Federal income-tax purposes. Several conferences have been held with members of the Internal Revenue Department in Washington, and a large delegation—of about 40 persons—appeared before the Honorable M. B. Folsom, Under-Secretary of the Treasury, on January 6, 1955 in Washington to protest the 2-percent interest rate used in valuing gift

annuities. The results of this conference are still in doubt, as the new tentative regulation dealing with it is reported to be on the desk of the Secretary of the Treasury but has not yet been issued. There will be opportunity to discuss this tentative regulation after it is published but before it is put into effect.

4. Difficulties of Present Uniform Rates

The present maximum uniform rates adopted by the Seventh Conference on Annuities, April 29, 1941, are fractionally above the maximum rates legal in New York State for two female lives, each 50 years of age. The present maximum rate for two females, aged 50, is 3.9 percent, whereas the maximum permitted in New York State is only 3.892 percent. We do not know that such an annuity has ever been issued at these ages; but the Insurance Department of the State of New York has waived the point, as this rate is correct to the nearest whole decimal. For ages 48-60, as shown by our chart #7 for two-life rates, the present maximum uniform rates of our Committee and the maximum legal rates of New York State are very close for two females of equal or nearly equal ages.

The rate question is also complicated by the fact that if the Treasury Department persists in using a 2-percent rate in valuing gift annuities with the Standard Annuity Table, female lives set back one year, loaded 6½ percent, then, for the ten years from 47-56, two females of equal or almost equal age will be entitled to a market value and an exclusion ratio of over 100 percent of their total gift. This may run as high as 10 percent above the total face value of the annuity. Instead of making a generous gift, they will be receiving one. This dramatizes clearly the unfairness of a 2-percent interest rate when 3.46 percent before taxes and 3.24 percent after taxes is being earned by the commercial life insurance companies and by almost all of the religious, educational and charitable organizations that issue annuities as well. If the Standard Annuity Table female lives, set back one year, is a fair gauge of our mortality experience, there is no good reason to make our donors believe they are not making a generous gift. If annuities for estate-tax and gift-tax purposes are valued on the Makehamized mortality table appearing as Table 38 of the United

States Life Tables and Actuarial Tables of 1939-41, published by the United States Department of Commerce, Bureau of the Census, at 3½ percent, then the valuation of such annuities for Federal income-tax purposes at 2 percent is very unfair to gift annuitants.

5. Need for Correct Terminology

There is still a great deal of loose language being used in advertising, selling, promoting and describing gift annuities. This causes confusion in the minds of Federal and State taxing agencies and often results in annuities being taxed as trust funds, gifts in contemplation of death and/or gifts that take effect in possession or enjoyment only after the death of the donor. Mr. Rosengrant will speak about this later on today. We must urge all who issue charitable gift annuities to avoid all inappropriate or ambiguous words or phrases about gift annuities.

INTEREST RATES

DR. MARCUS NADLER

Professor of Finance, New York University

In order to obtain an idea as to what interest rates might be in the immediate future and in the long-range future, it is necessary to analyze very briefly the business situation.

Let's look at the business situation first.

Right now we are in the midst of the greatest boom that we ever had in peace time in our history. To prove my point, employment is over 65½ million people. The total number of unemployed is less than 2½ million. The demand for credit is very great. Building activity is at a high level. The demand for mortgages is very great. Business activity is in the midst of a boom. The monetary authorities find it advisable to adopt mild credit-restrictive measures. These mild credit-restrictive measures have taken these forms:

1. The availability of cash credit was reduced.
2. The Federal Reserve authorities sold government obligations, thereby forcing the member banks to borrow more from the reserve banks.
3. The discount rate was raised. The discount rate today is 2½ percent for all the twelve banks. It is the highest we have had in more than 20 years.
4. Prices of high-grade bonds, including Governments, decreased; money rates increased. This is the situation today. Today money is very tight. Treasury bill rates — 90-day Treasury bills are selling at 2.15. The Treasury came out last week with Tax Anticipation Warrants coming due next June and is paying 2¼ percent. Where do we go from here? If I were to tell you I do know, I don't know. Nobody knows. Nobody can predict the future. But what we can do is to analyze the forces as we see them—and our vision is limited: and then draw some conclusion.

The outlook for business is not as clear as many people think it is, because there are strong forces operating in the economy, as well as weak forces. The strong forces briefly are these:

1. Disposable income is very high. People have money and they are spending it very freely. Disposable income is increasing because wages all over the country are increasing. By the end of next March the minimum wage will be raised from 75 cents an hour to \$1.00 an hour. This will lead to a general increase in wages in certain sections of the country, and increased purchasing power; and it is bound to have a favorable effect upon the economy of the country.
2. The building industry is at a very high level. All over the land

you can see new homes springing up, new factories, new office buildings.

3. Capital expenditures by corporations are increasing. It has been estimated that capital expenditures by corporations for 1955 will be about 4 percent higher than was estimated a year ago.

4. Now is the time when seasonal forces operate in the economy. The crops are harvested and processed; now preparation is being made for a Christmas trade. This leads to an increase in inventory.

5. And finally, a wave of optimism has swept the country from one end to another. This wave of confidence (one may call it overconfidence) is based on the belief that nothing can happen to the country. At the moment business shows any signs of declining, the administration will step in and take measures automatically to correct it. This wave of confidence has had an impact on the saving, spending and investing habits of the people. People save less and spend more. People today are less interested in putting money in a savings bank than they are in buying equities. What confidence can mean, if it is shaken only a little, we saw last week, when the unfortunate news was spread all over the world about the ill health of the President.

But eliminating the psychological forces, there are a number of strong forces operating in the economy, and they indicate a continued considerable demand for credit as well as long-term capital.

There are weak forces operating in the economy, and they are:

1. Private indebtedness has increased at a rate which, in my opinion, cannot be maintained. Last Saturday the figures came out that consumer credit now is over 33 billion dollars. It isn't so much the amount in itself, as rather the rate of growth. People apparently today are willing to mortgage their future in order to meet any desire or even yen. Apparently people are not so careful as they were in the past. People are buying on the installment plan not only automobiles and durable consumers' goods, but apparently they are also willing to take a trip somewhere on the installment plan and borrow the money from the bank to pay the hotel bill. Now, that cannot go on indefinitely. It is quite evident that sooner or later this private indebtedness will reach a point where many individuals will say to themselves, "Before we borrow any more, let us first make some repayments." And when this day comes, and when the repayments exceed new borrowing, then it is bound to have an impact on business activities.

2. Another weak factor is the farm situation. And while we do not have to adopt the attitude that is usually adopted for political reasons, yet the fact remains that there are huge farm surpluses that we don't know what to do with. The Government already has invested $7\frac{1}{2}$ billion dollars in farm products, and farm income actually has decreased.

3. While the increase in wages undoubtedly has a favorable effect upon those who receive it, it also has an impact on the cost of production. Cost of production has steadily gone up. Competition is very keen. Large-degree manufacturing is able to shift the increased cost of production on the ultimate consumer. The result is that the number of failures is large. The number of liquidations of particularly smaller

companies is even greater, and a major movement has assumed a major proportion.

4. And finally, looking toward the future, we must not overlook the fact that money is tight; that the monetary authorities have adopted a policy of credit restraint; that, while the discount window is open, the borrower or the borrowing bank is not particularly welcome. So long as the boom continues, so long as inflationary forces are present, the credit-restriction policies will continue. Credit is the gasoline that drives the economic engine. You and I know that when the supply of gasoline that goes into an automobile engine is being reduced slowly, the car begins to slow down—unless, of course, the car goes downhill. The supply of credit (of gasoline) going into the economic engine is being reduced, so to say, is going on its own momentum, but any little shock to the confidence can bring it to an end.

There are, therefore, in the economy of the country two sets of forces: (1) strong forces which in all probability will continue for a while; and (2) weak forces which are becoming apparent more and more every day. What will the outcome be? Again, if I were to tell you I do know, I don't know. Nobody can predict the future.

But this is the way it looks to me. The boom will continue for a while; the seasonal forces are too great. Then the boom will grind to an end, and a moderate decline in business activities will set in. When the decline comes, it will not go far nor last very long, because the moment business activity begins to go down, the Government will take measures to rectify the situation as far as possible. And one of the policy measures that will be taken will be a complete reversal of the credit policy, which in turn is bound to have an impact on farm prices.

There is, however, one very important unknown factor, and that is the movement of the equity market. What the equity market will do, I don't know. I wish I did know, but I don't. If the equity market should continue to go up, as it did up to about a week ago today, then money will become tighter. The possibility of a discount rate of $2\frac{1}{2}$ percent at a prime rate of $3\frac{1}{2}$ percent is quite possible. On the other hand, if the stock market should begin to go down and show signs of a greater weakness than is anticipated, and since the equity market exercises such a powerful influence on business and on spending sentiment, a considerable weakness in the equity market could lead to a much quicker change in the business outlook and to a much quicker change in the money-market picture. Therefore, those of you

ladies and gentlemen who have to invest money, particularly in the highest-grade investments, if you are convinced that the stock market is headed downward, you can begin to buy government obligations right now. If, on the other hand, you are convinced that the stock market will be higher, don't buy them yet, because under those circumstances they are going to go a little lower. What does this mean to interest rates?

Leaving now for a moment the stock market, I believe that interest rates will continue to be high for the next few months. But, assuming again no further break in the equity market, money rates will continue to be firm until the end of the year at least, because the demand for money will continue to be great. The demand for mortgages is still very great, but the supply of funds is not as great as it should be. Once business activity begins to decline, then money rates will immediately become easier.

Once the first signs of decline of business activity set in, particularly if accompanied by unemployment, then you will find a lowering of the reserve requirements and purchases of Government Treasury bills on the open market by the Reserve authorities. The availability of bank credit will increase. Money rates will go down. Farm prices will go up. The only thing which is not certain is the exact timing. It could happen toward the end of the year; it could happen in the early part of the year. The unknown factor is the equity market.

STATE SUPERVISION OF GIFT ANNUITIES

H. BURNHAM KIRKLAND

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

My subject has been announced as state supervision of gift annuities. I would like to broaden this somewhat and talk to you about "Supervision of Gift Annuities." In these days, when Government control is generally looked upon with some misgivings, I am here to put in a good word for it—insofar as it pertains to the gift-annuity programs.

I do not intend to exhaust this subject in this paper, nor will I, it is hoped, exhaust my listeners. Instead of examining the laws of all the 48 States I am basing this report on the experience of the Division of World Missions of the Board of Missions of The Methodist Church.

We and our predecessors have been issuing gift annuities for 83 years. We have annuitants in every State of the Union as well as several foreign countries. By means of advertising and individual representation, when our staff travels about the country we actively solicit new annuities in these places. As far as our Board is concerned, there are only four States which exercise any control; and only two of these are directly related to our gift-annuity program.

Let me tell you about these four situations.

New York

In June 1939 the State of New York passed an Insurance Law, effective January 1, 1940, which provided that the Superintendent of Insurance might in his discretion issue a special permit to make annuity agreements with donors to any duly organized domestic or foreign non-stock corporation or association conducted without 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 prior thereto. Such permit shall authorize such corporation or association to receive gifts of money conditioned upon, or in return for, its agreement to pay an annuity to the donor or his

nominee, and to make and carry out such annuity agreement. Every such corporation or association shall, before making any such agreement, file with the superintendent copies of its forms of agreements with annuitants and a schedule of its maximum rates, which shall be so computed on the basis of the annuity standard adopted by it for the calculation of its reserves, as to return to such corporation or association upon the death of the annuitant a residue at least equal to one half of the original gift or other consideration for such annuity.

Every such domestic corporation or association shall have and maintain admitted assets at least equal to the sum of the reserves on its outstanding agreements, calculated in accordance with the applicable section of the Insurance Law and a surplus of 10 percent of such reserves, or the amount of \$100,000, whichever is the higher. In determining the reserves of any such corporation or association a deduction shall be made for all or any portion of an annuity risk which is reinsured by a life insurance company authorized to do business in this State. The assets of such corporation or association in an amount at least equal to the sum of such reserves and surplus, or the amount of \$100,000, whichever is the higher, shall be invested only in securities permitted by the provisions of the Insurance Law for the investment of the reserves of authorized life-insurance companies; and such assets shall be segregated as separate and distinct funds, independent of all other funds of the corporation or association, and shall not be applied for any purpose other than its annuity obligations. Any such corporation which on January 1, 1940 had not invested its assets in accordance with this section had ten years in which to do so, but this was not to be construed to permit any investment not permitted by the law after January 1, 1940.

No corporation or association of another State shall be permitted to make annuity agreements in New York State unless it complies with all of the requirements of the Insurance Law imposed upon like corporations or associations of New York, except that any such foreign corporation or association may invest its reserve and surplus funds in securities permitted by the laws of the State in which it was incorporated or organized.

No such corporation or association shall make or issue in New York

State any annuity contract unless or until it has obtained from the Superintendent a permit issued in accordance with the provisions of the Insurance Law (except that a corporation whose requisite reserve on its outstanding gift-annuity agreements computed in accordance with the applicable provisions of the Insurance Law does not exceed the amount of \$80,000 may make gift-annuity agreements in this State and shall be exempted from the requirement of the securing of a permit, provided it shall have and maintain the reserve required by the Insurance Law and a surplus of 25 percent of such reserves). If the Superintendent finds, after notice and hearing, that any corporation having a special permit has failed to comply with the requirements of the Insurance Law, he may revoke or suspend such permit or order the corporation to cease making new annuity contracts until the requirements have been satisfied. The action of the Superintendent in revoking or suspending any permit or in making such an order shall be subject to judicial review. The Superintendent may in his discretion dispense with the requirement of annual statements and may accept in lieu thereof a sworn statement of two or more of the principal officers of the corporation or association that the requirements are being complied with.

Every corporation or association having a special permit must file by March 1 each year a statement in duplicate showing its condition on the 31st of December preceding, in the form prescribed by the Superintendent. The Superintendent may also at any time require special reports. The Superintendent may make an examination into the affairs of such corporation or association at least once in every five years, and the expense of such examination must be paid by the corporation or association. The corporation or association is required to make all of its records relevant to the examination available to the examiner, and the refusal to do so shall be ground for revocation or refusal of a special permit.

California

Early in 1930 it was brought to our attention that Sections 594 $\frac{1}{2}$ and 596 of the Political Code of the State of California provided that charitable, religious and benevolent organizations issuing annuities

should be registered with the Insurance Commissioner of the State; should keep a reserve fund based on McClintock's table of mortality among annuitants, with interest at $3\frac{1}{2}$ percent, and should file with the Insurance Commissioner of the State of California a copy of all annuity agreements issued, with a statement of the value of the property granted and the reasonable commensurate value of the benefits created; and a few other, minor details.

We made an extensive investigation over a period of several months, during which time we consulted with other Boards issuing annuities; and our former counsel, who was then living in California, consulted with attorneys and representatives of organizations there. Our attorney seemed to have some doubt that we were required to register, since we were not writing agreements in California (but in New York); but it seemed that there might be some question of our title to any real property taken in exchange for annuities, if we were not registered. It appeared that the purpose of the law was largely to protect investors in annuity agreements which might be issued by organizations not having financial responsibility and which might not be conservative in their handling of the funds. The American Bible Society had been registered for some time and found no particular difficulty in complying with the law. The reserves kept by the Division of World Missions were equal to the requirements of the California law and we could furnish the other data required without much extra work. It was accordingly decided (Finance Committee, Sept. 1930) that the Division should register; and we made application, paid a \$10 fee, and on March 29, 1931 received a certificate of authority to receive grants of property, real or personal, conditioned upon our agreement to pay an annuity to the grantor or any other person or persons designated by the grantor. We have to file an annual report giving financial data and a detailed statement of the California annuities then outstanding. For some years we had to file a copy of each agreement, but some time ago a copy of our agreement, with a schedule of rates, was accepted in lieu of copies of each agreement. We are required to stamp each agreement issued to a resident of California with a statement of the reasonable commensurate value of the agreement.

Under Sections 730-737 of the Insurance Code, the Insurance Commissioner is empowered to make an examination of the affairs and rec-

ords, financial condition and compliance with the insurance laws applicable to annuity transactions, of grants and annuities societies, at the expense of the Society; but up to date the *Annual Report* has been accepted in lieu of such examination.

(Long before we registered in California in connection with our annuities, we had qualified to do business in California and appointed a resident agent, etc. Our Charter is filed in the Secretary of State's Office in Sacramento, with copies filed in the county seats of the various counties in which we hold real property. In 1953 a law was passed under which we file an annual report showing our right as a corporation to claim exemption from California franchise tax. Neither of these procedures (qualifying to do business, and filing an information report as an exempt corporation) has any connection, as far as I know, with our authorization as a grants and annuities society).

Michigan

We are licensed to do business in the State of Michigan and annually file a report as a non-profit corporation and pay the fee of \$2. We domesticated in Michigan in 1921 in order to avoid any question by title companies, banks considering mortgages, etc. in connection with the handling of the extensive property holdings received from Frank B. Wallace. As far as I know no question regarding our annuity business has ever been raised, even though the earlier annual reports showed that we had annuity obligations in connection with property in Michigan.

Nebraska

Many years ago we qualified to do business in Nebraska and annually we file a report as a non-profit corporation. I believe this was done in connection with our holding of real property, and we have not had to report our annuity business.

What does this mean from a practical viewpoint? Well, in the first place, it means that if you are to issue annuities in New York, you must secure a permit or certificate that looks like—this. Simple enough; once your annuity account totals \$80,000, you make application to the New York State Insurance Department, and they then tell you what if any changes you must make in order to qualify.

Then the fun really begins, for each year you must file a report that looks like—this. I will not attempt to analyze it this morning, for,

frankly, I am not at all sure that I would be able to do so. It is a job for the accountant—and what a job!

In addition to these steps you may expect a visitor every five years from the New York State Insurance Department who will carefully audit your annuity books and make a report to you that looks like—this.

In California all that is involved is the original registration, and then an annual report which is very short and simple.

In addition to these controls we in The Methodist Church are supervised by our Council on World Service and Finance, which is authorized by our General Conference to establish annuity rates for the Church. We make annual reports to this body and work closely with them in their studies of the annuity field.

This report would not be complete without also mentioning the fact that we of the Division of World Missions also feel that we are under the jurisdiction of the Committee on Annuities, which has called this conference. While this body has no legal control, it is our strong conviction that it behooves organizations such as ours to cooperate fully in the matter of annuity rates and approaches to the various Government organizations which affect our work. To this principle we are fully committed.

Doesn't all of this make for too much red tape and control, you ask? My answer is, definitely no; for three reasons.

First, by reason of these controls we have received many practical suggestions for improving our office procedures and methods of figuring reserves, etc.

Secondly, we believe it offers us a prestige which has proved to be a great asset in soliciting annuities. We like to say in writing Methodists that we use the rates set by our Church by the Council on World Service and Finance. We tell people of other denominations that we use the rates set by the Committee on Annuities subscribed to by most of the major denominations. We tell everybody we operate under the strict supervision of the New York State Insurance Department, and they can be sure their funds are safe.

The third and final reason is one of safety. We believe that the

biggest threat in the gift-annuity business is the fly-by-night who issues annuities in order to secure a few extra dollars for his cause but fails to set up adequate reserves or to use sound rates. An inquiry to the New York State Insurance Department brought forth the following information:

They have 25 or 26 segregated annuity funds such as ours, and he does not know of a single instance where they have had to step in and refuse to allow a fund to continue to issue annuities.

So far as the operation of the funds is concerned, there is a certain psychological value in their knowing that they are going to have to report their operations to the Department and their records, etc. will be subject to examination.

As far as the annuitants or potential annuitants are concerned, they are able to rely on the supervision of the State Department; and it gives them assurance that the fund will be handled properly, and their annuity is secure.

One final word: I have reported to you the facts about our particular situation. I would strongly recommend that as a first step every organization seek legal advice to ascertain that they are complying with the laws of the State in which they are incorporated; and secondly, if they issue annuities in California or New York, they ask their counsel what, if any, steps they should take to comply with the laws of those States.

I do not believe anything further needs to be said. In case you have missed the point, we believe in State supervision of the gift-annuity program; and if you have any questions, I will try to answer them. Thank you.

CORRECT TERMINOLOGY IN PROMOTING ANNUITY GIFTS

JOHN ROSENGRANT

*Board of Foreign Missions, Presbyterian Church
in the U. S. of A.*

I have looked over the responses to our questionnaire on gift annuities, and there seems to be a wide difference of opinion. Up in Pennsylvania, where we used to spend our summers years ago, there was an old country doctor who was really quite a character. It so happened my older brother got an infection on his neck. It had to be lanced. There was no other doctor to be had, so our old-fashioned friend was elected. My brother got there just as the doctor was getting his instruments ready. My brother took his place and waited. After the instruments had been sterilized, the doctor swept up the scalpel and with a flourish wiped it on his pants, which were none too clean. My brother said, "Don't some of the people who come here for treatment get infections?" The reply, "Some do and some don't."—"Well, said my brother, "Don't some of them die?" The reply was, "Some do and some don't."

When it comes to annuities, that is the way with most of us. Some of us do and some of us don't. As to terminology, some of us call what we sell "gift annuities." Some of us call them annuity bonds, while some call our contract a conditional gift. It seems to me that we would all be in a stronger position if we had a common term, known from east to west. Since the majority use the term "annuity-gift agreement," perhaps we should go by majority rule and call our agreement *Gift-Annuity Agreement*. We are now in the process of making representations in Washington. We should have a term that *means the same thing to all of us*.

If we are to agree on terminology, perhaps the first thing we should attempt to do is to describe what we mean by a gift annuity. What *is a gift annuity*? A gift annuity is an agreement into which a donor enters with an agency or college, etc., which buys a fixed income which the donor cannot outlive. The he is to receive is established by definite tables based upon life expectancy. It is an agreement which consumes the capital donated; yet the donor may be sure it will not

run out before he does. At the same time the tables allow the donor to make a substantial gift to his favorite cause. It is a good arrangement for both the donor and the agency, for it comes about as close to eating your cake and having it, too, as can be had from both points of view.

In short, a gift annuity is made in accordance with a legal agreement between the donor and the chosen cause. The chosen cause, in return for a cash gift, agrees to pay the donor, or a designated beneficiary, a fixed amount every year for the entire lifetime of the annuitant. It provides for the recipient an assured income, and for the cause a substantial sustaining capital gift.

How can the cause do this?

The cause in turn invests the legal reserve portion of these gifts in securities approved by the laws of its State, as legal investments for annuity funds. Out of the income received from such investments, supplemented by a part of the legal reserves set apart for these annuities, regular payments are made throughout the lifetime of the annuitants or other beneficiaries. The board or agency is free to use part of the immediate gift (1) to buy a commercial life insurance company annuity payable directly to the annuitant, or (2) co-insure and have the annuity paid to the annuitant through the chosen cause; (3) may set up and maintain the legal reserves required by the laws of the State in which it is incorporating or in which it expects to do business by personal solicitation, and pay the annuitant directly.

Is a gift annuity life insurance?

It certainly is not. To my way of thinking, the difference between life insurance and a gift-annuity agreement is that a life-insurance policy protects the buyer no matter how long he may live, whereas an annuity agreement protects the annuitant while he lives. With the new tax advantages I feel that a gift annuity should now be basic in the estate planning of our Church folk. It is a good way to give to your favorite cause without danger of loss-of-will contest or investment problems.

The chosen cause is legally free to use the gift part not required as

a legal reserve in whatever way its finance committee and governing board considers best.

How does a gift annuity work?

How is it that an unvarying income can be guaranteed, no matter how long a donor may live? It is all done as a matter of averages . . . a spreading of the risk among all the people who hold annuity agreements.

As an example, supposing Mr. Brown were approaching 65 years of age and wanted to assure himself an income of \$1,020 upon reaching that age, and at the same time be sure of undergirding the on-going program of his favorite cause.

We would tell him he would need to send us cash or stock at our present rates of approximately \$20,000. We would have no way of knowing, however, whether he would live five years or fifteen years, or live to the ripe old age of 96, winding up with a total income of \$31,620. That is, we have no way of predicting *what Mr. Brown will do*. Yet statistically we can predict, by taking the group of men as a whole at age 65, we find *only certain percentages will reach certain ages*. Therefore, our rate of 5.1 percent is safely established, assuring the payment of his annuity from the legal reserves provided by the whole group of annuitants.

The fact is, the donor is a statistic based upon millions of cases. Therein lies the strength of our gift-annuity program and protection to the donor. In addition, the gift-annuity program offers certain tax advantages in the year in which the agreement is taken out on that part of the gift which exceeds the actuarial cost of the annuity. This portion can be claimed as a gift. Moreover, there is a very liberal exclusion from income tax on the yearly income, depending upon age.

What is the fundamental promotional approach?

As one has put it, "basic interest in our work." I am sure most of us would say the thing that tips the scales in our favor is the fact that people believe in our cause. They do not feel they can give up their financial reserves, but they are more than satisfied with the fact that

they can have an assured income and at the same time contribute a substantial part of their original gift to support the cause in which they believe.

What about payments to the annuitants?

When it comes to payments to the annuitants, these should be called *annuity* payments. It is a great and dangerous error to call them anything else. Trust funds pay interest and are taxed accordingly. A clear distinction must always be drawn between annuities and trust funds or life income agreements. States tax gifts in view of death-transfer gifts that take effect only at death. The wording is important; moreover, we should discourage annuitants leaving the residue to a specific item. The donor cannot make a gift before death, reserving right of disposition after death. If the donor does, the estate is subject to tax in many States. The terminology is all-important.

Where do we get our prospects?

Some groups have used directories, telephone books, clipping services, etc. For most of us these sources are not too good, for the simple reason they are not selective enough. We must study our points of interest and evolve a program to exploit our potential. The list we have is important. Our office staff has about so much time, which must be spent following up leads which will bring the greatest results. We should go to our best friends.

How to cultivate known prospects

A systematic plan should be evolved to cultivate sensitively prospects received. Great care should be taken with the message. Real originality should be shown in assembling the material to be used. The material should be changed periodically.

To have a system is the most important feature of any promotional and selling program.

Another thought that should be taken into account is *proper timing*. You may send out the best material in the world in August, which won't be read. The same mailing in October may yield great results.

Moreover, the age group must be taken into account. We beam our material to a woman of 68.

Correct terminology is important whether we are describing the technical details of an annuity agreement or its broader values. Our material must be written by someone who believes heart and soul in the soundness and the glory of his work and cause. The terminology throughout must reflect a spirit of warmth, utter selflessness, yet be backed by a systematic and determined approach which characterizes the worker really committed to his cause. What we say and how we say it is important; yet, after all is said and done, the most important thing is what we say is believed and acted upon.

GIFT ANNUITY RATES AND MORTALITY EXPERIENCE

DR. GEORGE A. HUGGINS

Consulting Actuary

With the increasing desire of men and women for assured income, especially during the later years of life, there has grown an increasing demand for annuities. One of the major developments in meeting this desire is the great increase in the number of workers in industry, in public service and in the service of non-profit organizations which are now covered under pension or annuity programs, whether or not such programs are coordinated with the OASI benefits under the Federal Social Security System. Where not covered under Social Security, the retirees will receive their entire retirement allowances from the pension or annuity programs under which they are covered. On the other hand, there are many individuals, whether or not covered under pension or annuity programs, who secure increased income for themselves by the purchase of annuities, sometimes in the form of deferred annuities beginning, if living, on a specified date; but generally by making single premium payments for so-called immediate annuities.

If the annuity is purchased from an insurance company or annuity organization, then the entire premium goes to provide the cost of the annuity benefits, and there is no so-called gift portion. However, we are today concerned with the kind of annuity that does have a gift portion within its contribution. Here we have the donors seeking to provide some degree of financial support to a religious, charitable, educational or other non-profit organization and at the same time secure for themselves some assured income.

The tax regulations and the supervisory regulations of States where such laws are in force construe a gift annuity payment to consist of two parts: one, the value of the annuity; and the other, the balance or gift portion. We are concerned with a problem similar to that facing the taxing and the supervisory authorities—namely, how much of the gift will inure to the organization? But our purpose and motives are different from those of the taxing and supervisory officials. We want to provide income that will be attractive to donors and yet at the same time provide funds to further the work of our organizations. The larger

the annuity allowance, the greater is its value and the smaller is the gift portion. What is the happy medium? That is the gist of the problem confronting us today.

When we agree to make certain specific semi-annual payments to an annuitant, we have to ask ourselves several questions: first, how long may we reasonably expect to have to make the annuity payments; second, what rate of investment income can we earn on the funds kept on hand back of the annuity payments—that is, the reserve funds; third, how much is it going to cost us to secure and administer the annuity agreements; and fourth, how much of the original gift do we desire to have become available for the purposes of the organization?

First, no one can predict the future lifetime of an individual, any more than the individual himself can make such prediction. However, with a rather surprising degree of accuracy based upon the compilation of mortality experience among annuitant lives over long periods of years, we can tell fairly closely how many persons of a given age and sex may die within a given year without knowing which individuals they will be. Naturally, if you take a recognized mortality table as a yardstick or measure of your expected yearly deaths, the smaller the group under observation, the wider will be the year-by-year variations of the actual deaths from the deaths expected according to the table; while the larger the group, the less violent will be the year-by-year variations from the standard or yardstick.

Over a period of years various studies have been made of the mortality experience among annuitant lives. Generally, the data is that furnished by life-insurance companies issuing annuity policies, pooling their data so as to get the largest possible exposure as a basis for the resultant mortality rate. For example, when the Committee on Annuities began seeking a mortality basis for annuity rates, the then generally recognized table of mortality among annuitant lives was the so-called McClintock Table. Therefore, the rates proposed for study at the earliest conference, held on April 29, 1927, were based upon the McClintock Table. As mortality studies were made from time to time, the steady lengthening of life among annuitants was revealed. This caused the preparation of later tables of mortality; and so, when the Fourth Conference was held on March 17, 1931, a new set of gift-an-

nuity rates was proposed that were based upon a later annuity table called the American Annuitants' Table (Select).

In preparation for the meeting held on November 20, 1934, extensive studies were made of the data submitted by 14 boards of three of the larger Protestant denominations, covering 6,631 gift annuity agreements representing total gifts of some \$11,800,000, with yearly annuity payments approximating \$764,000. As a result of these studies a new set of annuity rates was proposed, based upon a newer table of mortality rates among annuitant lives called the Combined Annuity Mortality Table.

At the Sixth Conference, held on October 4 and 5, 1939, another set of annuity rates was submitted for study, based upon the Combined Annuity Table of Mortality using for all lives the female rate of mortality, with ages set back two years to make provision for longevity greater than that that provided for in the basic mortality table .

A similar modification of the same mortality table was the basis of a new schedule of annuity rates proposed by the Committee on Annuities for consideration by the Conference held on April 29, 1941 and adopted by the Conference. These rates are the uniform rates in use by the constituent boards, agencies and organizations.

For the Conference held in Cincinnati, December 15 and 16, 1952, as a result of the very extensive studies of the data contributed by various organizations issuing gift annuity agreements, and with parallel studies made by the American Bible Society of its experience among its annuitant lives, it was found that the mortality experience was running very close to (but with some margin against adverse trends) the Standard Annuity Table, the female rate of mortality for all lives, with the ages set back one year.

Since the development of the Standard Annuity Table, there have been further studies of annuity mortality and later tables developed; but as shown, the actual mortality experience which has been developed in connection with the gift-annuitant lives has led to the continued use of the Standard Annuity Table, female lives, with ages set back one year. Naturally, when you are dealing with such a live and changeable subject as mortality among annuitant lives, studies must be con-

tinued and, from time to time, adjustments made if necessary, to keep abreast of the changing rates of mortality, since lower rates of mortality among annuitant lives mean longer periods of annuity payments, with the resultant depletion of reserves unless any such deficiencies are made up out of other sources of revenue.

We have thus reviewed briefly the recommendations of the Committee on Annuities from time to time as they have kept in touch with the changing mortality experience among annuitant lives. The study of mortality experience to be used as a basis for determining the values of life annuities is not a new practice. Apparently—that is, according to the *Encyclopædia Britannica*—the earliest known reference to any estimates of the value of life annuities arose out of the provisions of the Falcidian law of the Roman Empire; but the tables of values used were the result of conjecture rather than of statistical investigation, and the element of interest was not taken into consideration. The first approximately correct mortality table was presented by a Dr. Edmund Halle in a paper read before the Royal Society of London in 1693, and he showed how this mortality table could be applied to approximate the values of life annuities. However, a general recognition was not given to the results of his studies, and not much progress was made along this line until a Dr. Price published the so-called Northampton Table in 1785. When used by the life-insurance companies this table showed favorable margins as a basis for life-insurance premiums; but losses developed from the use of the table in connection with annuities, and consequently, special studies were made among the lives in receipt of British Government annuities. Since that time life-insurance companies have found it necessary to use different mortality tables for computing annuity premiums than those used for computing life-insurance premiums. Furthermore, Dr. Price's studies revealed that to be safe, separate mortality tables should be prepared for each sex, since the longevity of women was shown to be greater than that of men. The results of further investigations were published in England in 1860 and 1883. From time to time similar studies have been made in this country as the annuity business has developed.

It is interesting to note the dollar increases and the ratios of increase in the value of \$1 of annuity at given ages on the Standard An-

nuity Table, with the female ages set back one year, as compared with the values on the Northampton Table of Mortality. This is one increase in cost that is not due to the increase in the cost of living but to the increase in the periods of living.

Comparative Values of \$1 of Annuity — Interest at 4 percent

<i>Age at Entry</i>	<i>Standard Annuity (Female) Age set back one year</i>	<i>Northampton</i>	<i>Ratio, Standard Annuity to Northampton</i>
50	\$15.947	\$11.265	141.56%
55	14.585	10.201	142.97
60	13.124	9.040	145.18
65	11.588	7.762	149.29
70	10.029	6.362	157.64
75	8.484	4.963	170.94
80	6.991	3.644	191.85

From the above table we see that the value of \$1 of annuity, with interest at 4 percent on the mortality table that approximately corresponds to our current mortality experience under gift annuities, ranges from 41.56 percent greater at age 50 to 91.8 percent at age 80.

In preparation for the conference held in Cincinnati, December 15 and 16, 1952, to which reference has been made, extensive studies were made of the mortality experience among gift-annuitant lives, numbering 6,462 lives during the five-year period July 1, 1947 to June 30, 1952. These studies showed that the experience of the combined groups had a favorable margin of 5.78 percent; that is, the deaths were 105.78 percent of the expected on the Standard Annuity Table—female lives, regardless of whether the lives were male or female, with ages set back one year.

Similar studies among the gift-annuitant lives of the American Bible Society showed experience very closely paralleling that of the combined groups.

The following table shows the results of the studies of the (A) pooled mortality experience, (B) American Bible Society experience:

SCHEDULE A
GIFT ANNUITY MORTALITY STUDY — JULY 1, 1947 THROUGH JUNE 30, 1952

Age Group	FEMALE LIVES			MALE LIVES			ALL LIVES					
	Life Years of Exposure	Actual Deaths S.A., f-1	Expected Deaths A/E	Life Years of Exposure	Actual Deaths S.A., f-1	Expected Deaths E/V	Life Years of Exposure	Actual Deaths	Expected Deaths S.A., f-1	Ratio A/E		
50 and under	803.0	1	2.933	34.09%	356.0	3	1.127	266.19%	1159.0	4	4.060	98.52%
51-55	676.0	3	5.129	58.49	198.5	2	1.516	131.93	874.5	5	6.645	75.24
56-60	1164.5	7	12.845	54.50	331.5	1	3.633	27.53	1496.0	8	16.478	48.55
61-65	1872.0	19	30.138	63.04	439.5	2	7.039	28.41	2311.5	21	37.177	56.49
66-70	2902.5	40	67.551	59.21	685.0	14	15.989	87.56	3587.5	54	83.540	64.64
71-75	3707.0	94	125.519	74.89	965.0	40	32.540	122.93	4672.0	134	158.059	84.78
76-80	4109.5	178	199.578	89.19	1256.0	89	61.372	145.02	5366.0	267	260.950	102.32
81-85	3291.0	251	228.396	109.90	1093.0	90	75.930	118.53	4384.0	341	304.326	112.05
86-90	1588.0	208	155.986	133.35	504.0	70	50.107	139.70	2092.0	278	206.093	134.89
91-95	442.0	77	61.692	124.81	187.0	40	25.504	156.84	629.0	117	87.196	134.18
96-100	101.0	25	19.376	129.03	20.5	7	3.985	175.66	121.5	32	23.361	136.98
101-105	20.5	2	5.669	35.28	5.0	1	1.351	74.02	25.5	3	7.020	42.74
Totals	20677.0	905	914.812	98.93%	6041.5	359	280.093	128.17%	26718.5	1264	1194.905	105.78%

SCHEDULE B

AMERICAN BIBLE SOCIETY MORTALITY EXPERIENCE
 JULY 1, 1947 THROUGH JUNE 30, 1952

Age Group	FEMALE LIVES			MALE LIVES			ALL LIVES			
	Life Years of Exposure	Expected Deaths S.A., f-1	Ratio A/E	Life Years of Exposure	Expected Deaths S.A., f-1	Ratio A/E	Life Years of Exposure	Actual Deaths S.A., f-1	Expected Deaths S.A., f-1	Ratio A/E
50 and under	2863.0	4	42.50%	1170.0	3	3.146	4033.0	7	12.557	55.75%
51-55	1725.5	5	38.29	200.0	2	1.513	1925.5	7	14.571	48.04
56-60	2668.5	22	74.78	268.5	1	2.942	2937.0	23	32.362	71.07
61-65	4182.5	36	66.822	408.0	14	6.517	4590.5	50	73.339	68.18
66-70	5174.5	54	119.932	502.5	7	11.820	5677.0	61	131.752	46.30
71-75	6071.0	162	204.413	793.5	28	26.864	6864.5	190	231.277	82.15
76-80	5463.5	265	264.491	925.0	46	45.280	6388.5	311	309.771	100.40
81-85	3794.5	271	263.385	772.0	98	53.296	4566.5	369	316.681	116.52
86-90	1839.5	260	179.022	312.0	50	31.042	2151.5	310	210.064	147.57
91-95	383.0	81	53.158	154.0	26	21.030	537.0	107	74.188	144.23
96-100	49.0	21	9.532	7.0	2	1.300	56.0	23	10.832	212.33
101-105	20.0	3	5.442	—	—	—	20.0	3	5.442	55.13
Totals	34234.5	1184	1218.086	5512.5	277	204.750	39747.0	1461	1422.836	102.68%

From preceding Schedules A, B and C it will be noted that the gift-annuity mortality study covering the five-year period July 1, 1947 through June 30, 1954 included 26,718.5 life years of exposure, with 1,264 actual deaths against expected deaths of 1194.905 on the basis of the Standard Annuity Table, female rates of mortality, age set back one year and a ratio of 105.78 percent. The American Bible Society experience covered 39,747.0 life years of exposure and 1,461 actual deaths against expected deaths of 1,422.836, a ratio of 102.68 percent. When the two experiences were combined, the total life years of exposure became 66,465.5, the actual deaths 2,725, the expected deaths, 2,617.741—a ratio of 104.10 percent. In other words, during the five-year period under study, the combined experience involving 66,465.5 life years of exposure showed deaths running somewhat over the mortality table used as the measure of the mortality experience. The American Bible Society extended its studies further to include the period July 1, 1947 to December 31, 1954, and these studies showed only slight variations from the five-year period study.

The following Schedule D shows, for the purposes of study, eleven columns of specimen annuity rates, single-life with payments in semi-annual installments. In the heading there are shown the mortality table and sex used as a basis of the rates and the rate of interest. The specimen rates are shown for decennial and quinquennial ages at nearest birthday.

In column (1) there are shown the uniform rates now in use, while in column (2) are the tabular rates that were used as a basis of the uniform rates, subject to the modification at the lower and the higher ages.

Columns (3), (4) and (5) are on the same mortality basis as shown, but with different rates of interest; $2\frac{1}{2}$, 3 and $3\frac{1}{2}$ percent.

Columns (6) and (7) show annuity rates based upon a later mortality table known as a-1949, extended for 10 years; that is, assuming mortality as projected for the year 1960 with a $2\frac{1}{2}$ percent and 3 percent interest rates.

Columns (8) and (9) show annuity rates based upon the Group Annuity 1951 rates of mortality, female lives, with interest at $2\frac{1}{2}$ and 3 percent.

In column (10) are shown the maximum annuity rates according to the regulations of the New York Insurance Department.

In column (11) are shown specimen annuity rates in use by a group of life-insurance companies.

The details of the basis used in each set of annuity rates are outlined in the explanatory notes shown below the specimen annuity rates.

If we look at the rates in column (4) the Standard Annuity, female ages set back one year, with interest at 3 percent, we find a set of rates differing not very greatly with those of column (2), which was the tabular basis of the uniform rates shown in column (1). The widest difference is 0.4 percent. At some of the higher ages the rates are the same.

SCHEDULE D
ILLUSTRATION OF GIFT ANNUITY RATES — SINGLE LIFE
(Semi-Annual Payments)

Column (1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	
Mortality Table etc.	C.A.	S.A.	S.A.	S.A.	a-49	a-49	Ga-51	Ga-51	N.Y.	Ins. Co.	
Sex	F-2	F-2	F-1	F-1	F-1	F	F	F	F	Max.	F
Interest	3½%	3½%	2½%	3.0%	3½%	2½%	3.0%	2½%	3%	2%	Rates
Age Nearest Birthday											
30	2.5	3.8	2.9	3.4	3.8	2.9	3.3	2.9	3.3	3.6	3.2
40	3.0	4.0	3.2	3.6	4.0	3.0	3.5	3.1	3.5	3.9	3.6
50	4.0	4.3	3.5	3.9	4.4	3.4	3.8	3.5	3.9	4.3	4.4
60	4.7	4.7	4.1	4.5	4.9	4.0	4.4	4.1	4.5	5.1	5.6
65	5.1	5.1	4.5	5.0	5.4	4.5	4.9	4.7	5.1	5.6	6.5
70	5.5	5.5	5.1	5.5	6.0	5.2	5.6	5.5	5.9	6.3	7.7
75	6.2	6.2	5.9	6.3	6.7	6.2	6.6	6.6	7.0	7.3	9.3
80	7.0	7.1	6.9	7.4	7.8	7.9	8.3	8.2	8.6	8.7	11.4
85	7.0	8.6	8.4	8.8	9.3	10.5	11.0	10.4	10.8	10.6	14.4

Basis

- (1) Present Uniform Gift Annuity Rates—Combined Annuity Mortality Table, female ages rated two years younger, interest at 3½%, 70% residuum, modified at younger ages up to age 53, inclusive, limited to 7% at higher ages, adopted October 5, 1939.
- (2) Tabular rates of (1) unmodified at younger and higher ages.

- (3) Standard Annuity Mortality Table, female ages rated one year younger, interest at $2\frac{1}{2}\%$, 50% residuum expense, loading 5% of total gift.
- (4) Standard Annuity Mortality Table, female ages rated one year younger, interest at 3%, 50% residuum expense, loading 5% of total gift.
- (5) Standard Annuity Mortality Table, female ages rated one year younger, interest at $3\frac{1}{2}\%$, 50% residuum expense, loading 5% of total gift.
- (6) a-49—10 years (1960) Mortality Table, female ages, interest at $2\frac{1}{2}\%$, 50% residuum expense, loading 5% of total gift.
- (7) a-49—10 years (1960) Mortality Table, female ages, interest at 3%, 50% residuum expense, loading 5% of total gift.
- (8) Group Annuity Mortality Table for 1951, female ages, interest at $2\frac{1}{2}\%$, 50% residuum expense, loading 5% of total gift.
- (9) Group Annuity Mortality Table for 1951, female ages, interest at 3%, 50% residuum expense, loading 5% of total gift.
- (10) New York State Maximum Annuity Rates.
- (11) Specimen commercial life-insurance company annuity rates.

The following Schedule E shows at ages 30 to 80 (a) the proposed single-life gift annuity rates which are the tabular rates modified at the younger ages; (b) the tabular rates calculated on the basis of the 1937 Standard Annuity Mortality Table, with female ages rated as one year younger, with interest at 3 percent, a 50 percent residuum and a loading of 5 percent of the total gift; and (3) the present uniform annuity rates. The tabular rates have been modified at the younger ages, as was done in connection with the present uniform rates; but adopting 3 percent as the minimum rate instead of $2\frac{1}{2}$ percent, then increasing by 0.1 percent until the modified rates merge with the tabular. The 7.4 rate at age 80 should be the maximum rate, as compared with the 7 percent maximum now in use.

SCHEDULE E
PROPOSED GIFT ANNUITY RATES — SINGLE LIFE

(Semi-Annual Payments)

<i>Age Nearest Birthday</i>	<i>New</i>	<i>Tabular</i>	<i>Present</i>	<i>Age Nearest Birthday</i>	<i>New (Tabular)</i>	<i>Present</i>
30	3.0	3.4	2.5	55	4.2	4.5
31	3.0	3.4	2.5	56	4.3	4.5
32	3.0	3.4	2.5	57	4.3	4.5
33	3.0	3.4	2.5	58	4.4	4.6
34	3.0	3.4	2.5	59	4.5	4.7
35	3.0	3.5	2.5	60	4.5	4.7
36	3.1	3.5	2.6	61	4.6	4.8
37	3.2	3.5	2.7	62	4.7	4.8
38	3.3	3.5	2.8	63	4.8	4.9

39	3.4	3.6	2.9	64	4.9	5.0
40	3.5	3.6	3.0	65	5.0	5.1
41	3.6	3.6	3.1	66	5.1	5.1
42	3.6	3.6	3.2	67	5.2	5.2
43	3.7	3.7	3.3	68	5.3	5.3
44	3.7	3.7	3.4	69	5.4	5.4
45	3.7	3.7	3.5	70	5.5	5.5
46	3.8	3.8	3.6	71	5.7	5.6
47	3.8	3.8	3.7	72	5.8	5.8
48	3.9	3.9	3.8	73	6.0	5.9
49	3.9	3.9	3.9	74	6.1	6.0
50	3.9	3.9	4.0	75	6.3	6.2
51	4.0	4.0	4.1	76	6.5	6.3
52	4.0	4.0	4.2	77	6.7	6.5
53	4.1	4.1	4.3	78	6.9	6.7
54	4.1	4.1	4.4	79	7.1	6.9
				80	7.4	7.0

Basis

1937 Standard Annuity Mortality Table, female ages rated as one year younger, interest at 3%, 50% residuum, loading 5% of total gift.

The following Schedule F shows the proposed gift-annuity rates for two lives, joint and survivor, at specimen ages. The ages across the top are those of the older lives—80, 75, 70, 65, etc., while those along the side are the ages of the younger lives. In each case there are three rates shown—the new rates, the tabular rates and the present rates. The new rates are the tabular rates modified where the younger age is involved along the lines of the modifications at the younger ages in the case of the single-life rates, which were adjusted to 3 percent.

The basis of the tabular rates is similar to that recommended for the single-life rates, taking into account female ages for both lives.

SCHEDULE F
PROPOSED GIFT RATES — TWO LIVES —
JOINT AND SURVIVOR

		(Semi-Annual Payments)											
		AGE OF OLDER LIFE											
Age of Younger Life	80			75			70			65			
	New	Tabu- lar	Pres- ent	New	Tabu- lar	Pres- ent	New	Tabu- lar	Pres- ent	New	Tabu- lar	Pres- ent	
80	5.8	5.8	5.8										
75	5.4	5.4	5.5	5.1	5.1	5.3							
70	5.0	5.0	5.2	4.8	4.8	5.0	4.6	4.6	4.8				
65	4.7	4.7	4.9	4.6	4.6	4.8	4.4	4.4	4.6	4.3	4.3	4.5	
60	4.3	4.4	4.6	4.3	4.3	4.5	4.2	4.2	4.5	4.1	4.1	4.4	
55	4.0	4.1	4.4	4.0	4.1	4.4	4.0	4.0	4.3	3.9	3.9	4.3	
50	3.7	3.9	3.9	3.7	3.9	3.9	3.7	3.8	3.9	3.7	3.8	3.9	
45	3.5	3.7	3.4	3.5	3.7	3.4	3.5	3.7	3.4	3.5	3.6	3.4	
40	3.3	3.6	2.9	3.3	3.6	2.9	3.3	3.5	2.9	3.3	3.5	2.9	
35	2.8	3.4	2.5	2.8	3.4	2.5	2.8	3.4	2.5	2.8	3.4	2.5	
30	2.8	3.3	2.5	2.8	3.3	2.5	2.8	3.3	2.5	2.8	3.3	2.5	
		AGE OF OLDER LIFE											
Age of Younger Life	60			55			50			45			
	New	Tabu- lar	Pres- ent	New	Tabu- lar	Pres- ent	New	Tabu- lar	Pres- ent	New	Tabu- lar	Pres- ent	
60	4.0	4.0	4.3										
55	3.8	3.8	4.2	3.7	3.7	4.1							
50	3.7	3.7	3.9	3.6	3.6	3.9	3.5	3.5	3.9				
45	3.5	3.6	3.4	3.5	3.6	3.4	3.5	3.5	3.4	3.4	3.4	3.4	
40	3.3	3.5	2.9	3.3	3.5	2.9	3.3	3.4	2.9	3.3	3.4	2.9	
35	2.8	3.4	2.5	2.8	3.4	2.5	2.8	3.4	2.5	2.8	3.3	2.5	
30	2.8	3.3	2.5	2.8	3.3	2.5	2.8	3.3	2.5	2.8	3.3	2.5	
		AGE OF OLDER LIFE											
Age of Younger Life	40			35			30						
	New	Tabu- lar	Pres- ent	New	Tabu- lar	Pres- ent	New	Tabu- lar	Pres- ent				
40	3.3	3.3	2.9										
35	2.8	3.3	2.5	2.8	3.3	2.5							
30	2.8	3.2	2.5	2.8	3.2	2.5	2.8	3.2	2.5				

CHARITABLE ANNUITIES AND THE NEW TAX LAW

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From the first modern tax law until the present day, the tax problems of annuitants have proven particularly difficult to solve. Charitable annuitants—those persons who obtain annuity contracts from recognized charitable, religious and educational organizations—have faced the same difficulties as other annuitants¹ but, in addition, they have had to cope with special problems. The Internal Revenue Code of 1954 changes much of the law relating to annuities and generally provides annuitants with more equitable tax treatment. Like its predecessors, however, the new law's coverage of the charitable annuitant's problems is incomplete and, as a result, reference to and reliance upon judicial decisions and Treasury Department regulations and rulings is often necessary. It will be my purpose here to outline the income, gift and estate-tax rules applicable to the charitable annuitant as they are set forth in the new law or as interpreted by the courts and the Treasury Department. Moreover, because of the increasing interest shown in the so-called "living income" agreements, I will describe the tax rules which apply to such agreements.

Charitable Annuity Contracts

Prospective donors who, for one reason or another, are unable to make outright gifts to charitable organizations, frequently obtain charitable annuity contracts. By so doing, these persons are able to assist the charity in its work and at the same time can assure themselves and their beneficiaries of a fixed income for life. The contracts which are issued by charitable organizations are, I understand, predominantly single-life or joint-and-survivor annuities. As such the payments made under these contracts have been recognized under Treasury Department rules as being true annuity payments. That is, they are geared to, or depend upon, life expectancy or mortality tables² and are payable

¹See U. S. Treas. Reg. 118 §39.22(a) — 12.

²U.S. Treas. Reg. 118 §39.22(b) (2)—2; see George H. Thornley, 2 T.C. 220 (1943), *rev'd on other grounds*, 147 F. 2d 416 (3d Cir. 1945).

absolutely, unconditionally and without regard to the income earned on the property transferred.³ This dependence upon mortality experience is, in large part, the reason why it has been difficult to formulate proper tax rules. For example, from an income-tax viewpoint, an equitable formula for taxing current payments had to be devised even though at the time the total amount to be paid under the contract cannot be determined, since the date of the annuitant's death is unknown. Through the years various methods of solving this and the other problems have been adopted.

(A) *Income tax rules.*

In the ordinary case charitable annuitants are interested in the tax consequences of two different transactions. The first of these is, of course, the basic transaction which takes place when the annuitant transfers property to a charitable organization and receives the charity's contractual promise to pay him an annuity. The second transaction, or event of interest, is the recurring receipt by the annuitant of annuity payments during his life. Since an important part of the formula for taxing these annuity payments, i.e., the annuitant's investment in the contract, is determined at the property-transfer date, the consequences of the transfer must be examined first. These consequences, as will be noted, may vary if the value of the property transferred differs from the annuitant's cost for or tax-basis in it.

(1) *Transfer of property and contract issued*

(a) *Transfer of cash or property with cost equal to value*

As mentioned previously, the property transfer is made to assist the charity and to obtain guaranteed income for life. From this it follows that the property transferred is composed of two segments, a gift element and the consideration given, or the investment in, the contract. Recognizing the donative feature of such transfers, the court, in the well known *Raymond* case,⁴ approved the principle of segregating the gift and investment elements and held that the latter was an amount equal to the cost of a similar contract issued commercially. In administering this rule the Treasury Department, as you know, believes

³Sadie Wilckes et al., 2 T.C.M. 809 (1943).

⁴Anna L. Raymond, 40 B.T.A. 244 (1939), aff'd 114 F. 2d 140 (7th Cir.), cert. denied, 311 U.S. 710 (1940).

that the cost of a charitable annuity should be determined by reference to the 1937 Standard Annuity Mortality table, with interest at 2 percent, ages set back one year and a loading of 6½ percent.⁵ This table, together with its adjustments, is, I understand, to be found on Table 10 of the Unique Manual Digest.⁶ Since the validity of the Treasury Department's reliance on this table has been discussed separately, it is sufficient, I believe, to say that such reliance ignores the difference between the issuing organizations and their earning records.

The application of the above rule can be demonstrated by the example of a woman, age 65, who transfers \$2,000 or property with that cost and value to a charitable organization which issues her a life annuity paying \$102 a year in semi-annual installments. In this case, and under the Treasury's method of computing contract cost, the \$2,000 would be divided into gift and investment elements as follows:

Gift	\$ 430.
Investment in or cost of annuity	1,570.
Total	\$2,000.

In short, this rule enables the annuitant to compute her gift to the charity, which will be deductible—if within statutory limits⁷—in the year of the transfer, and to determine her investment in the contract. This investment, as we shall see, is the basis for excluding a portion of subsequent annuity payments from income.

(b) Transfer of property with a market value in excess of cost or tax basis

Within the last several months, the Treasury Department has issued some private-ruling letters which hold that a taxable gain may be realized on the transfer of appreciated property, accompanied by the issuance of a charitable annuity contract. While this position could have been expected—on the theory that there was an exchange of property for other and different property⁸—these letters, as nearly as I can

⁵Treasury Department letter, dated April 8, 1952, to the General Commission on World Service and Finance of the Methodist Church (bearing symbols IT:RP:TR:NMG:7), signed by Deputy Commissioner E. I. McLarney.

⁶Unique Manual and National Underwriter Life Reports, published by the National Underwriter Company.

⁷1954 Int. Rev. Code §170(b).

⁸See U. S. Treas. Reg. 118, §39.111-1.

determine, represent the first Treasury Department pronouncement to this effect. In the language of one of these letters, the transaction about which we have been speaking "is a taxable exchange combined with a gift, and results in taxable gain to the extent the present value of the annuity contract exceeds the taxpayer's basis"⁹ in the property transferred. The importance of this rule can be shown if, in the previous example, the woman annuitant transferred stock worth \$2,000 instead of cash, when the stock only cost her \$1,000. You will recall that her gift was \$430, and her contract investment was \$1,570. These amounts are not changed; but, since her investment exceeds her cost for the stock, the Treasury says she has a taxable gain for the amount of this excess, or \$570. While these letters did not specifically state when this gain was to be included in income, their language, and the absence of any suggestion that gain was to be deferred, leads to the conclusion that the full gain is to be reported in the year of the transfer. The letters do state, however, that if the stock was a capital asset held for more than six months, the gain would be a long-term capital gain subject to tax at a maximum rate of 25 percent.

Time limitations prevent an extended discussion of this rule. Several things, however, should be noted. First, the question of gain on similar transfers when an individual rather than a charitable organization promised to pay an annuity has often been litigated, and the courts have consistently held that no gain is recognized.¹⁰ Similar litigation seems likely here. Second, the Treasury Department need not have taken the position that only the excess of the contract investment over the annuitant's basis in the transferred property represents taxable gain. Under this rule, for example, if the cost of the stock exactly equaled the annuity investment, there would be no gain, even though the entire gift segment represented appreciation in value. The rulings

⁹The Treasury Department's position, according to these letters, is based on an early ruling (G.C.M. 1022, VI-1 Cum. Bull. 12 (1927)) which involved the exchange of an apartment house for a non-commercial annuity. See also Guaranty Trust Co. of N. Y., 15 B.T.A. 20 (1929), which apparently follows this theory.

¹⁰J. Darsie Lloyd, 33 B.T.A. 903 (1936); *Comm. v. Estate of Kann*, 174 F. 2d 357 (3d Cir. 1949), affirming 6 T.C.M. 913 (1947). The House Ways and Means Committee's original version of the 1954 Code contained (H.R. 8300 §1241(a)) a provision which would recognize gain or loss on these transactions. This provision, however, was eliminated by the Senate Finance Committee.

could have apportioned the appreciation in value between the investment and gift segments and thereby succeeded in taxing every such transfer of appreciated property. Finally, the Treasury could have decided that the gain should be reported in segments over the anticipated life of the annuity and the tax paid when and if the annuity payments continued. (*Author's note:* At the conclusion of this address the author was informed that the Treasury Department had furnished a ruling—to an organization other than those to which the ruling letters described above were issued—that capital gain on a like transfer was to be reported only after the sum of the excluded annuity payments equaled the transferor's basis in the property transferred. That is, after basis has been recovered through excludible payments, subsequent payments to the extent they exceed inclusions are taxable (as gain from the exchange of property for an annuity) until the total payments so taxed equal the excess of the fair market value of the annuity over the basis of the property. Thereafter annuity payments are taxable, as provided in Section 72. Subsequent conversations about the ruling letter, referred to in this "author's note," were had with the Treasury Department officials, who indicated that the "deferred reporting" theory also applied to the letters discussed in the text of this address, even though such letters were silent on this matter; and the issuance of a published ruling is under consideration.)

(c) Transfer of property with a market value less than cost or tax basis

If taxable gain may be realized on these transfers of property, the question naturally arises "whether deductible losses may be created." As far as I know, the Treasury has taken no position on this question. Some loss should, I think, be deductible, since the Treasury Department considers the transfer to be in part a taxable exchange.¹¹ Ordinarily, capital losses—deductions for which may be limited¹²—would be involved rather than ordinary losses. Whether the transfer was a transaction entered into for profit might present difficulty,¹³ and the problem of computation is complicated by the possible allocation of

¹¹See discussion of Treasury Department ruling letters in appreciated property transfer section of text.

¹²1954 Int. Rev. Code §165(f), 1211 and 1212.

¹³*Evans v. Rothensies*, 114 F. 2d 357 (3d Cir. 1940).

loss between the investment and gift segments—described in connection with appreciated property transfers. If such property has to be used in the transfer, it seems wiser for the annuitant to sell it and use the proceeds in the transfer. (*Author's note: Whether the deferred method of reporting gain would apply to a loss is another question which should be considered.*)

(2) *Receipt of annuity payments*

Originally annuitants were permitted to recover their contract investment before any portion of the annuity payments was treated as income. In 1934 Congress, believing that this treatment unduly postponed the payment of taxes, adopted the so-called 3-percent rule,¹⁴ under which 3 percent of the annuity cost was treated as income, and any excess over that amount represented a return of capital. When the entire investment had been recovered through these exclusions, the entire annuity payment was taxable. This rule, as you know, was unfair and confusing. It was unfair because the 3 percent rate was arbitrary; annuitants often had to live far beyond their life expectancies to recover their investment and, if they did, their tax burden on the annuity income became greater when they could least afford to pay. Confusion arose because the tax treatment changed when cost was recovered.

The new law (Section 72) eliminates, I believe, both the unfairness and the confusion of the old rule. Now any annuitant or series of annuitants who live to their life expectancy will recover tax-free their investment in the contract. Of perhaps equal importance, however, is the fact that, once the amount of the excludible portion of the annuity has been determined, it remains unchanged, whether or not life expectancy is exceeded.¹⁵

Simply stated, the amount of the annuity payment which is excludible from income is determined by dividing the investment in the contract by the expected return, i.e., the annual payment multiplied by years of life expectancy, and then applying this percentage to the annual payment.¹⁶ The excess of the annual payment over the excluded

¹⁴See 1939 Int. Rev. Code §22(b) (2) (A).

¹⁵In the case of variable-payment joint and survivor annuities, the exclusion ratio, rather than the excludible amount, remains constant. See T.D. 6118, 19 Fed. Reg. 9896 (1954) (subsequently published as I.R.S. publication No. 76).

¹⁶1954, Int. Rev. Code §72(b).

amount represents the amount of reportable income. In the example used previously, 85.5 percent of the annuitant's annual payment would be excluded, since her cost of \$1,570 is that percentage of her expected total return of \$1,836 under the contract. Only \$14.80 of each annual payment would, therefore, be taxable.

A comparison of the present tax treatment with the former 3 percent rule, assuming our annuitant lives for 5 or 15 years, demonstrates the effect of the change:

<i>Annuity in effect for</i>	<i>Taxable Amount</i>	
	<i>New</i>	<i>3 percent rule</i>
5 years	\$ 74.00	\$235.50
15 years	222.00	706.50

A full statement of the rules and actuarial tables to be used for single-life and other annuities is found in IRS Publication No. 76.¹⁷ This publication may, I understand, be obtained by writing to Commissioner of Internal Revenue, Washington 25, D. C.

Before leaving the subject of present tax treatment under Section 72, it is worth while, I think, to mention several points with respect to annuity contracts issued prior to 1954 which are still in force. First, the rules explained above have prospective application only, that is, from January 1, 1954 on.¹⁸ Accordingly any amount of an annuitant's original investment in his contract which has been excluded from income under the "recovery-first" or 3-percent rules reduce the investment computed at January 1, 1954.¹⁹ Second, special rules may apply to joint and survivor annuities where the first annuitant died after December 31, 1950 but before January 1, 1954.²⁰

Finally, it should be noted that the survivor annuitant may be permitted a partial income-tax deduction on account of the estate taxes paid on the death of prior annuitant, if certain conditions are satisfied.²¹

¹⁷See note 15, *supra*.

¹⁸1954 Int. Rev. Code §72(c) (4).

¹⁹1954 Int. Rev. Code §72(c) (1) (B).

²⁰1954 Int. Rev. Code §72(i).

²¹1954 Int. Rev. Code §691(d) specifically includes amounts received by the survivor under joint and survivor contract in the "income in respect of decedents" category.

(B) *Gift tax rules*

While the 1954 Revenue Code made a number of changes in the gift tax law, none of these changes seem to be of any consequence to the person who transfers property to a charity and obtains an annuity contract. Under the new law and the old law, therefore, the question is "Was a gift made on the transfer and, if so, how should the gift be valued?" The courts have consistently held that the transferor makes a gift equal to the excess of the fair market value of the property transferred, over the present value of the annuity payable to himself.²² In the example discussed previously we have seen how the Treasury Department computes the amount of the gift made to the charitable organization. That example, however, involved a single-life annuity payable to the transferor. The valuation problem becomes more difficult when the annuity contract is either a self-and-survivor agreement or a joint-and-survivor contract, under which neither of the named annuitants is the transferor.

The Treasury Department's Regulations prescribe two possible valuation methods which may be used to value the gift. First, these regulations state that annuities purchased from life-insurance companies or other companies regularly engaged in issuing annuity contracts are to be valued through the sale of that contract or through the sale of comparable contracts.²³ Second, the Regulations declare that all other annuities should be valued by use of the tables contained in the Regulations—which for gifts after 1951 assume a $3\frac{1}{2}$ -percent interest factor—and, if the annuity involves more than one life, values are to be based on Table 38 of U. S. Life and Actuarial Tables, 1939-1941, with interest at $3\frac{1}{2}$ percent.²⁴ Comparing these two rules, it is apparent that life-insurance company costs are to be used if the annuity was acquired by "purchase" or "sale" and the issuing company was regularly engaged in selling or issuing these contracts. Accordingly, one would think that life-insurance costs would not apply to charitable annuities. In at least one case, however, which involved a nationally known religious and charitable organization, the Treasury Department

²²Continental Illinois Bank & Trust Company, 29 B.T.A. 940 (1934); Anna L. Raymond, note 4 *supra*; Estate K. Bartman, 10 T.C. 1073 (1948).

²³U. S. Treas. Reg. 108, §86.19(f) and (i).

²⁴U. S. Treas. Reg. 108, §86.19(f) (1) and (5).

has ruled that life-insurance costs apply, and has valued the gift made by reference to the 1937 Standard Mortality Table, with ages set back one year, interest at 2 percent and a loading of 6½ percent. This is, as you know, the same table which is used in computing the amount of the gift to the charity in our previous example. As such it represents a logical extension of the Treasury's interpretation of the Raymond case,²⁵ but it ignores the fact that charitable annuities are not obtained by purchase or sale in the true meaning of those words. It may be that the Treasury's position, in each case, would depend exclusively on whether the charity has a "regular" annuity program or whether its contracts are issued as isolated transactions.²⁶ If so, then someone must answer the difficult question of "When do isolated transactions become a regular program?" I might add that some assistance in the question of deciding how these gifts are to be valued should be forthcoming when the new gift-tax regulations are issued. I understand that these regulations may contain a specific reference to charitable annuities and, in addition, that reference to these contracts may also be made in the yet unissued regulations under Income Tax, Section 101. (*Author's note:* A few days after this address was delivered the proposed regulations under Section 101—Certain Death Benefits—were published in the Federal Register (20 Fed. Reg. 7484, October 7, 1955). Section 1.101-2 (Employees' Death Benefits) of these proposed regulations contains (paragraph (e) (iii) (b)) the following valuation rules:

"The present value of an annuity—to the employee or to his estate or beneficiary—shall be determined as follows:

"(1) In the case of an annuity paid by an insurance company, by use of the discount-interest rates and mortality tables used by the insurer in determining the installment benefits;

²⁵See note 4, *supra*.

²⁶A statement in IRS Publication No. 11, "Actuarial values for estate and gift tax" (1955) indicates the Treasury Department believes that a true "sale" or "purchase" is not required before insurance-company costs apply. There, (Chapter 4, para. 1, p. 17) it is said that "As to the basis to be used in the valuation of annuity contracts issued by life-insurance companies, or other companies regularly engaged in issuing annuity contracts, see the appropriate sections of the estate and gift tax regulations." Unlike the Regulations cited in note 23, *supra*, this language contains no reference to the words "purchase," "sale," or "selling."

"(2) In the case of an annuity paid by an organization (other than an insurance company) regularly engaged in issuing annuity contracts, by reference to the cost of a comparable contract purchased from an insurance company;

"(3) [The proposed regulations then state that,] in the case of any annuity to which neither of the above rules apply, the tables in the estate-tax regulations should be used."

It will be noted that these proposed regulations, unlike the gift and estate-tax regulations under the 1939 Internal Revenue Code, do not contain the words "purchase, sale, or selling." Instead, the test as to the application of insurance-company costs is whether the paying organization regularly issues annuity contracts. While Section 101(b) will probably not directly involve charitable annuities, it is reasonable to expect that the language of the proposed regulations will be repeated in the gift and estate-tax regulations under the new law, when they are published. These latter regulations are, of course, of great importance to issuing charitable organizations.

(C) *Estate tax rules*

In the case of a single-life annuity under which payments cease on death, there would ordinarily be no estate-tax question present. Annuities that provide for payments after death—as, for example, a survivor annuity—require consideration of the estate-tax rules. Under the old law survivor annuities, if made after March 3, 1931,²⁷ were generally includible in the decedent's estate on the theory that they were transfers in which the decedent had retained a life estate.²⁸ The new law contains a specific provision relating to annuity contracts. Section 2039 states that the value of the annuity to which a beneficiary is entitled by reason of surviving the decedent is includible in the decedent's gross estate. The law further provides that the includible amount is limited to that portion of the annuity which is attributable to the consideration furnished by the decedent.

I should add that the question of the proper method of valuing the

²⁷The effective date of Section 811(c) (1) (B) of the Internal Revenue Code of 1939.

²⁸*Mearkle's Estate v. Comm.*, 129 F. 2d 238 (3d Cir. 1942), affirming 45 B.T.A. 894 (1941); *Comm. v. Wilder's Estate*, 118 F. 2d 281 (5th Cir. 1941).

survivor's annuity—which was discussed with respect to gift-tax problems—is also present in the estate-tax field. That is, should insurance-company costs or estate-tax tables be used in determining the valuation of a charitable annuity contract for estate-tax purposes? The Treasury Department's position on this matter will, I hope, be set forth in the regulations under the new law, when they are issued.²⁹

Previously I said that in the single-life annuity there would ordinarily be no estate-tax question. The reason for this, of course, is that even if under some theory of the law—the retention of a life interest, for example—it were determined that the transfer of property to the charity took place at death rather than when the contract was issued, the value of the property interest given to the charity would be deductible for estate-tax purposes. The amount would under this theory be includible in the gross estate but would also be deductible. In the field of state taxation, however, particularly under inheritance-tax statutes where the tax is paid by the beneficiary directly rather than by the estate, charitable organizations have faced a special problem. On occasion, in fact, some charities have had to pay a tax. The basic reason for this is the system which the individual States use in extending recognition to organizations which are charitable in nature. Generally, States recognize the deductible nature of the transfer when the recipient is a charity incorporated or organized under its laws. In addition, many States have entered into reciprocal agreements with other States under which charities organized in one State are recognized in the other. These reciprocal agreements do not extend to all States, however, with the result that recognized charitable and educational organizations, or the estate, have been held liable for death taxes on annuity contracts, even though such contracts were issued long before death. In a 1949 Californian decision,³⁰ for example, a prominent university organized in a State which did not have a reciprocal agreement with California was obliged to pay an inheritance tax on property transferred for an annuity.

²⁹See "Author's note" relating to proposed regulations under Section 101 of the new law.

³⁰*Johns Hopkins University v. Kuchel et al.*, 206 P. 2d 420 (1949). This case is discussed by an Iowa court in *In re Sayre's Estate*, 60 N.W. 2d 120 (1953).

Living-Income Agreements

Unlike charitable annuity contracts, living-income agreements are not easily defined. Primarily, the reason for this difficulty is that such agreements take a variety of forms and include provisions which are somewhat like annuity contracts and other provisions which are comparable to trust agreements. Definition, therefore, might best be accomplished by the use of examples. The first example which suggests itself is the case of a charitable organization which issues income participation certificates to individuals who contribute to a fund and who by reason of such contribution are entitled to receive payments from the net income, if any, earned by a dormitory pledged to provide such payments.³¹ These payments are to be made quarterly up to certain maximum percentages and vary with the age of the donor. Another example of a living-income agreement is found in the case of the donor who transfers funds to a recognized tax-exempt organization which agrees to pay the donor annual amounts determined by the percentage of earnings which are realized by its investments. In some instances, at least, the amount of its earnings can reasonably be forecast; but, like the above illustration, no guarantee that a specified sum is payable is made.

The Treasury Department's present view on these agreements is that neither of them constitutes an annuity contract.³² The basis for this conclusion is that neither agreement guarantees future payments of any amount to the donor, but instead is restricted to a proportionate part of future earnings. Accordingly the Treasury's view is that these transactions represent gifts made to a charity, subject to a retained life estate. From an income-tax viewpoint this means that the full amount of any payment received by the donor is to be included in his income and subject to tax, without the donor receiving any benefit from the more liberal annuity rule discussed previously. It also means that if appreciated property is transferred, the transferor-donor will not realize any taxable gain. This is another point where tax treatment differs from that applied to annuities.

³¹This factual situation is set forth in Rev. Ruling 55-275, 1955, Int. Rev. Bull. No. 19, at 18 (1955).

³²*Ibid.* See I.T. 3707, 1945 Cum. Bull. 114.

The gift-tax consequences of the transfer are also different. The amount of the gift made, for example, is determined by valuing the retained life estate and deducting this amount from the value of the property transferred. The retained life estate is—for transfers made after 1951—to be determined by using gift-tax Table I, found in Section 86.19(f) of the gift-tax regulations.

If several lives are involved in the retained interest, the Internal Revenue Service will furnish a valuation of the gift, if complete details of the transaction are submitted to it.

Finally, from an estate-tax viewpoint, the transfer is one in which the transferor has retained a right to income for life. As such, the transfer should be included in the decedent's gross estate, and a deduction for a charitable transfer should then be claimed.³³

In conclusion, I would like to say that I appreciate having the opportunity to talk to you today, and I hope that my remarks have been of some assistance.

³³See note 31, *supra*.

U.S. TREASURY DEPARTMENT'S LETTER OF SEPT. 9,
1955; AND TWO INTERNAL REVENUE PRONOUNCE-
MENTS . . . (Referred to in said letter)

U. S. TREASURY DEPARTMENT
WASHINGTON 25

Office of
Commissioner of Internal Revenue
Address Reply to
Commissioner of Internal Revenue
and refer to
T:R:I
JCF-2

September 9, 1955

The Board of Christian Education of the
Presbyterian Church in the United States of America
Witherspoon Building
Philadelphia 7, Pennsylvania

Gentlemen:

This is in reply to your letter of July 21, 1955, in which you state that the Board has been ruled to be a "church" for the purposes of charitable contributions under section 170 (b) (1)(A)(i) and for many years has issued Gift Annuity Agreements upon the receipt of contributions from donors.

In order to be able to furnish donor-annuitants information essential to their proper reporting of the deductions or taxable income, if any, from such contributions and gift annuity agreements, you submitted questions based on the following illustrative example:

A donor-annuitant, male, aged 50, would receive an annuity of \$40 in respect to each \$1,000 given to the Board subject to an annuity. The said \$1,000 would, in accordance with the Board's standard practice and procedure, be divided between the "cost of the annuity" (approximately \$760) and the "gift portion" (approximately \$240).

The questions listed in your letter and the answers thereto follow:

QUESTION (1): If, in the foregoing example, the entire \$1,000 were represented by money, it is the Board's understanding that:

(a) subject to statutory limitations, the amount of approximately \$240 would be deductible as a charitable contribution by the donor-annuitant, and

(b) the amount of approximately \$760 would represent the donor-annuitant's "investment in the contract" for the purposes of the exclusion ratio under section 72 (b) of the Internal Revenue Code of 1954.

ANSWER: The Internal Revenue Service has concluded that an individual who purchases an annuity from a corporation, trust, or community chest, fund, or foundation organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes, is entitled to claim a deduction, in the year in which such annuity is purchased, for the difference between the amount which he pays to the organization and the present value of the right of the annuitant to receive payments to which he is entitled under the contract, subject to the limitations of section 170 of the Internal Revenue Code of 1954. The present value of the right of the annuitant to receive payments to which he is entitled under the annuity contract is computed in accordance with the factors used by reputable commercial insurance companies which sell annuities.

Such annuities should be valued at on the basis of the 1937 Standard Annuity Mortality Table with interest at 2 percent, ages set back 1 year, and a loading of $6\frac{1}{2}$ percent. The value, on a replacement basis, of the rights of a male, aged 50, to receive an annuity of \$40 payable in annual installments during his lifetime on a contribution of \$1,000, is \$800.64. The amount of taxable income received from the annuity is computed in accordance with the rules provided under section 72 of the Internal Revenue Code of 1954.

(a) Accordingly, subject to statutory limitations, \$199.36 would be deductible as a charitable contribution by the donor-annuitant, male, aged 50, who will receive \$40 in annual installments with respect to \$1,000 given to the Board.

(b) The cost, for Federal income tax purposes, of the annuity of \$800.64, will represent the investment in the contract for the purposes of determining the exclusion ratio under section 72 of the 1954 Code.

QUESTION (2): If, in the foregoing example, the amount of \$1,000 were represented in part or entirely by the fair market value of property (other than money) which has a lesser (or greater) adjusted tax basis in the hands of the donor-annuitant, it is the Board's understanding, derived from Rev. Rul. 55-275, that:

The appreciation in the value of such property will not constitute taxable income (and depreciation in value of such property will not constitute an allowable deduction) to the donor-annuitant.

ANSWER: Your attention is invited to the fact that the treatment for Federal income tax purposes of annuity contracts issued by charitable, religious, and educational institutions differs from that accorded so-called (life income agreements) entered into with such organizations covered in Rev. Rul. 55-275, I.R.B. 1955, 18.

The following statement appears in the last paragraph of Rev. Rul. 55-275 relative to property transferred to an income participating fund of an organization exempt from Federal income tax under section 101 (6) of the Internal Revenue Code of 1939.

"In the event the donation to the fund is in the form of property having a value in excess of its basis in the hands of the donor, the appreciation in the value of such property will not constitute taxable income to the donor. As stated hereinbefore, the basis of calculating the amount of the gift of property, other than money, will be the fair market value of such property as at the time of its transfer to the corporation under the agreement."

However, under the circumstances presented in your letter, where property having a fair market value of \$1,000 and an adjusted basis of a lesser amount is exchanged by the taxpayer for an annuity contract having a present value of \$800.64, the transaction is a taxable exchange combined with a gift and results in taxable gain to the extent the present value of the annuity contract exceeds the taxpayer's basis in the property. G. C. M. 1022, C. B. VI-1, 12 (1927). Assuming that the property is a capital asset in the hands of the taxpayer which has been held for more than 6 months the gain will constitute long-term capital gain.

Generally speaking, if under an annuity contract a portion of each annuity payment is excludable and a portion includible under section 72 of the 1954 Code, after the total of the "exclusions" which are not taxable equals the taxpayer's basis in the property transferred, subsequent payments to the extent that they exceed the "inclusions" are taxable as gain from the exchange of the property for the annuity until the total payments so taxed equal the excess of the fair market

value of the annuity over the basis of the property. Thereafter, the annuity payments are taxable as provided in section 72 of the 1954 Code.

QUESTION (3): It is also the Board's understanding that, in the case illustrated under (2), the amount deductible as a charitable contribution and the amount representing the "investment in the contract" would be the same as in the case illustrated under (1).

ANSWER: The amount deductible as a charitable contribution and the amount representing the "investment in the contract" would be the same as indicated in our answers to 1 (a) and 1 (b).

(Signed)

Very truly yours,
H. T. Swartz
Director, Tax Rulings Division

**SECTION 23(o).—DEDUCTIONS FROM GROSS
INCOME: CHARITABLE AND OTHER
CONTRIBUTIONS**

REGULATIONS 118, SECTION 39.23 (o)-1: Contri- Rev. Rul. 55-275
butions or gifts by individuals.

(Also Sections 811(c), 812(d); Regulations 105, Sections 81.17,
81.44.)

Method of reporting, for income, gift, and estate tax purposes, contributions of money and property made to an income participation fund of an organization exempt from Federal income tax under section 101(6) of the Internal Revenue Code of 1939, where payments from the net income of the fund, if any, are to be made to the contributors or to the contributors and their designated coparticipants during their lives.

An inquiry has been received relative to the method to be followed in reporting for income, gift, and estate tax purposes a donation of money or property under the following circumstances.

A corporation, contributions to which have been determined deductible under section 23(o) and section 23(q) of the Internal Revenue Code of 1939, issued income participation fund certificates, in the principal amount of 100x dollars outstanding at any one time, to certain individuals desirous of contributing to the fund but who wished to reserve the right to receive some income during their lives or the lives of themselves and a designated coparticipant. Under the plan, the donors contributed specified dollar amounts, or specifically valued property, to aid in retiring a debt incurred in the construction of a dormitory.

In return for such donation, the donor was issued a certificate in the form indicated and he will, from time to time, receive payments from the net income, if any, of the dormitory which is pledged to provide the payments to the contributors to the fund. Payments will be made to the holders of the certificates outstanding on each quarterly payment date up to the maximum specified annual percentages shown upon the face of the certificates. Each certificate shows the maximum return possible, determined by the age of the donor, or the younger of the donor and his coparticipant, at the time the certificate is issued.

Since the payments made to the donor are limited to a proportionate share of the aggregate income and since the plan in no way guarantees future payments in any amount to the donors, the payments would not constitute annuities for purposes of section 22(b) (2) of the Code or for gift tax or estate tax purposes. The effect of the agreements entered into by and between the corporation and the donor, whereby he alone or with another would receive income payments, is to create an irrevocable trust.

Section 23(o) of the Code provides for the allowance of contributions or gifts, payment of which is made within the taxable year "to or for the use of" charitable, educational, and other designated types of institutions and organizations.

The Internal Revenue Service has held that the phrase "for the use of" is intended to convey a meaning similar to that of "in trust for". See Rev. Rul. 194, C. B. 1953-2, 128. In I. T. 1776, C. B. II-2, 151 (1923); it was held, under the Revenue Act of 1921, that where a donor by written instrument gave a life estate in bonds to an individual and the remainder interest to a church, the cash value of the gift to the church was deductible. In I. T. 3707, C. B. 1945, 114, it was held that where a taxpayer creates an irrevocable trust, reserving the income to himself for life with remainder over at his death to a beneficiary which meets the requirements of section 23(o) (2) of the Code, the present value of the remainder interest is deductible by the taxpayer in his income tax return for the taxable year in which the property is transferred in trust, subject to limitations prescribed in section 23(o) of the Code.

Therefore, it is held that under the agreements in the instant case, whereby the donor alone or the donor with another would receive income payments, a gift was made subject to a life estate or life estates. The amount to be allowed as a deduction in the year in which specified dollar amounts or specifically-valued property is transferred, is the present value of the remainder interest. See I. T. 3707, *supra*. The basis for calculating the amount of the gift of property, other than money, will be the fair market value of such property at the time of its transfer under the agreement.

With respect to a gift made after December 31, 1951, the value of

the right retained by the donor is to be computed in accordance with Table I, section 86.19(f) of Gift Tax Regulations 108. The difference between the value of the property transferred and the value of the right retained by the donor is the value of the gift for gift tax purposes. If all the payments are to cease at the death of the donor, the entire value of the gift may be deducted on the gift tax return as a charitable gift. If, however, a survivorship right is involved, the value of the gift postponed until the death of the last to die of two persons will be furnished by the Internal Revenue Service, in connection with any completed transaction, upon the receipt of a request disclosing the name, address, age, and date of birth of the donor, and the name, address, age, and date of birth of the individual donee.

Since under the agreements the income is to be used in making the payments to the donor-beneficiaries and/or the coparticipants, the income is taxable to them.

Since the transfer is one in which the donor retained for his life the right to the income from the property within the meaning of section 811 (c) (1) (B) of the Internal Revenue Code, it should be reported in the estate tax return filed for his estate and a deduction therefor claimed under section 812(d) of the Code.

In the event the donation to the fund is in the form of property having a value in excess of its basis in the hands of the donor, the appreciation in the value of such property will not constitute taxable income to the donor. As stated hereinbefore, the basis of calculating the amount of the gift of property, other than money, will be the fair market value of such property as at the time of its transfer to the corporation under the agreement.

SECTION 202.—DETERMINATION OF AMOUNT OF GAIN OR LOSS

ARTICLE 1561: Determination of the amount of
gain or loss.

VI-3-3047
G. C. M. 1022

(Also Section 213(b), Article 72.)

REVENUE ACT OF 1926.

Where the taxpayer in 1925, in consideration of an annuity contract, conveyed real estate to a corporation, taxable gain was derived or (assuming the disposition of the real estate was a transaction entered into for profit) deductible loss was sustained for the year 1925, depending upon whether the value of the annuity contract was in excess of or less than the cost or other basis of the real estate. Annuity payments received will not constitute income until the cost or other basis of the annuity contract has been wholly recovered. Thereafter they will constitute income for the year of their receipt.

An opinion is requested relative to the income tax liability of the taxpayer arising out of the following transaction:

In 1925 the taxpayer conveyed to the M Company an apartment house in the city of R, and on the same date received from it an annuity contract, under which the corporation agreed to pay him, in consideration of the conveyance, the sum of $12x$ dollars annually during his lifetime. At the time of the conveyance the taxpayer was y years of age. The corporation has paid the taxpayer the sum of x dollars monthly, as provided in the annuity contract.

Upon the facts stated, it is the opinion of this office that taxable gain was derived or (assuming the disposition of the apartment house was a transaction entered into for profit) deductible loss was sustained by the taxpayer for the year 1925 on the exchange by him of the apartment house for the annuity contract, depending upon whether the value of the annuity contract (computed in accordance with the table published as "Table A" on page 20, Regulations 70, relating to the estate tax) was in excess of, or less than, the cost or other basis, with proper adjustment for depreciation, etc. (sec. 202, Revenue Act of 1926; art. 1561, Regulations 69), of the apartment house. (Sec. 204, Revenue Act of 1926; arts. 1591-1603, Regulations 69.)

As in the case of any other taxable exchange, the cost or basis to

the taxpayer of the property received in exchange, i. e., the annuity contract, must be deemed to be its value at the time of its receipt. This cost or basis represents "the aggregate premiums or consideration paid" for the annuity contract within the meaning of section 213(b)2 of the Revenue Act of 1926, and pursuant to that section the annuity payments received by the taxpayer will not constitute income until such time as he shall have wholly recovered the cost or basis to him of the annuity contract, after which time the payments received under the contract will constitute income for the year of their receipt.

A. W. GREGG,
General Counsel, Bureau of Internal Revenue.

REPORT ON QUESTIONNAIRES SENT OUT BY THE COMMITTEE ON ANNUITIES

CHARLES W. BAAS

Assistant Treasurer, American Bible Society

Institutions that registered delegates for the Ninth Conference on Annuities received information concerning the conference and a questionnaire requesting financial statistics regarding their gift-annuity funds. Forty-three institutions responded to the gift-annuity questionnaire, providing factual information for as many of the questions as they were able to complete.

The information provided by the questionnaire was used to prepare composite figures giving some indication as to what the issuers of gift annuities were doing with their funds. Please remember that the following figures represent an average and thus are not actually the figures of any institution, but rather a yardstick which can be used to measure the practices of an institution.

1. *Investment income based on book value of gift-annuity fund investments*

Investment income on asset values combined, 4.3 percent

This percentage was derived on the basis of earnings on assets exceeding a total of \$40,000,000 in book value. The investment income ranges from a low of 2.5 percent to a high of slightly over 5 percent. One small college reported an income of 12.1 percent, with most of its assets in real estate. I could not help but wonder whether this institution rented quarters to its faculty at exorbitant rates.

2. *Annuity investments (book value) as a percent of the face value of annuities outstanding*

	Range	
	High	Low
90.4%	118.4%	48.0%

Legal reserves tend to keep this percentage above a minimum of 60 percent for institutions thus regulated. It is the policy of some institutions to keep reserves equal to 100 percent of the annuities outstanding to safeguard their annuitants. These institutions usually have a higher rate of return on annuity investments because their excess

reserves are generally invested in higher income-producing assets. The institution reporting assets of only 48 percent of the face value of annuities outstanding would seem in danger of eventually drawing on other funds to meet its gift-annuity commitments.

3. *Annuity investments (book value) as a percent of the required legal reserve*

	Range	
	High	Low
172.3%	240.9%	100.0%

The funds which must maintain a legal reserve keep excess reserves of 72.3 percent above the legal requirement. Seventeen out of the forty-three reporting institutions keep legal reserves and are subject to New York and/or California insurance laws. An analysis of the portfolios of these institutions indicates that relatively few annuity funds invest their excess reserves in investments which are not eligible for legal reserve purposes.

4. *Total annuity assets by type of investment (market values)*

	Asset Values Combined
Bonds	44.2%
Preferred	15.3
Common	28.4
Mortgages	10.2
Others	1.9
Total	<u>100.0%</u>

Based on a market value exceeding \$40,000,000 of admitted assets, the percentages give combined holdings of all gift-annuity funds reporting such information. This combination gives greater weight to the investment policy of the major funds. If we adopt another statistical method giving equal weight to each fund in measuring investment policy, the results would be: bonds 53.8 percent, preferred 12.8 percent, common 11.1 percent, mortgages 9.1 percent.

The ten-percent increase in the bond category is indicative of the lack of diversification found in many of the smaller funds. Some funds include only long-term Government bonds; others, only real estate. As a rule the funds that seem to lack diversification have a rate of income and a market value of investments that are considerably below average.

5. *Market value of annuity investments as a percent of book value*

	Range	
	<i>High</i>	<i>Low</i>
113.3%	129.5%	96.7%

All funds reporting, with the exception of two, showed unrealized capital gains in their portfolios. Those funds holding common stocks reported the greatest excess of market value over book value.

6. *Investment income as a percent of annuities payable*

	Range	
	<i>High</i>	<i>Low</i>
68.6%	110.2%	35.9%

Several of the institutions reporting had investment income that exceeded annuity payments in a recent year. It is quite obvious that the degree to which annuity payments can be offset by investment income is an important factor in determining the amount available when annuity agreements terminate.

7. *Annuity expense as a percent of annuity agreements written in most recent year*

	Range	
	<i>High</i>	<i>Low</i>
5.2%	12.0%	1.8%

The proposed rates have a loading factor of 5 percent, which seems to be substantiated by this study. However, many institutions state that they do not have any expenses (which is impossible if they issue gift annuities) or budget for this expense in their general operations. If the results of a gift-annuity program are to be measured, these expenses must be considered and provision to meet them from gift annuity funds should be made.

8. *Total contributions, for last five years, to general work from annuity funds as a percent of the face value of annuities now outstanding*

	Range	
	<i>High</i>	<i>Low</i>
5.7%	22.2%	0

An average contribution of about one percent per year of the total annuity funds to the general work of the institutions seems rather small. Evidently some of the funds are building excess reserves and are currently appropriating little or no annuity funds to general income.

Some of the ecumenical institutions issuing gift annuities are be-

coming increasingly concerned about their inability to secure the residuum anticipated by the rate schedule in current use. The source of the problem is the ability of annuitants as a group to live longer than was expected several years ago, and the problem will remain because new advances of medical science seem to indicate even further prolonging of the human life-span. The problem must be acknowledged and can be solved by the use of one or both of two alternative actions on the part of the institutions issuing gift annuities, namely: (1) reduce the current schedule of gift annuity rates, and/or (2) increase investment income from annuity assets. Many prospective annuitants believe the current schedule of annuity rates is not high enough to be attractive; presumably the first solution could be invoked only with the expectation of writing a smaller amount of new annuities. The second solution is the more satisfactory, with considerable evidence that many gift-annuity funds can safely initiate practices which would produce more income from their investment portfolios. The most obvious method of increasing income is to maintain a larger amount of invested reserves. In my opinion gift-annuity funds which maintain less than a 50-percent excess reserve above the legal reserve (approximately 90 percent of face value of outstanding annuities) should permit their annuity funds to accumulate until the reserves surpass this percentage. Where a legal reserve is required, investment income can also be increased by holding a portion of the legal reserve in eligible securities of higher income-producing character, such as preferred stocks and mortgages. The fact that the average yield from total annuity investments can be raised considerably by investing a portion of the excess reserve funds in high-quality equities should not be overlooked.

An investment program must be followed which will be altogether fair to the annuitant by not only assuring the ability to pay the required annuity, but in guaranteeing that the generous gift donated when the contribution was made will be available for use in the work of the institution. Such a program would require that many institutions set aside additional reserves and seek skilled investment advice in attempting to produce a higher yield by taking fuller advantage of the investment opportunities possible in their gift-annuity fund investments.

MINUTES
NINTH CONFERENCE ON ANNUITIES

St. Bartholomew's Community House
New York City

Monday and Tuesday, October 3-4, 1955

Dr. Gilbert Darlington, Chairman of the Committee on Annuities, called the meeting to order at 10:00 o'clock and asked Dr. Thomas B. Lugg of The Methodist Council on World Service and Finance to lead in the invocation.

Dr. Marcus Nadler, Professor of Finance, New York University, delivered his interesting and informative address on "interest rates," which is reprinted in full on page . Following this Dr. Darlington welcomed the delegates to the Conference, pointing out that this was the first conference of its kind since April 10, 1946, and that it was called at this time for five reasons:

1. Change in interest rates during this period.
2. Availability of information on mortality experiences.
3. The unfair valuation of gift annuities by the U. S. Government.
4. The difficulty which we now have with present uniform rates for two females each fifty years of age.
5. The need for using correct terminology in promoting and writing annuities.

After his remarks Dr. Darlington presented suggested names for a Resolutions Committee, which were approved unanimously by the Conference. This Committee is composed as follows:

- DR. R. ALTON REED, Chairman—Executive Secretary Relief & Annuity Board, Southern Baptist Convention, Dallas, Texas.
- DR. WESLEY O. CLARK, Treasurer, Board of Mississippi of the Evangelical Brethren Church, Dayton, Ohio.
- MISS HENRIETTA GIBSON, Treasurer, Woman's Division of Christian Service Board Missions, Methodist Church, New York City.
- DR. ROLAND C. MATTHIES, Vice President and Treasurer, Wittenberg College, Springfield, Ohio.
- MR. JAMES NEILSON, Assistant Treasurer, Board of Christian Education of the Presbyterian Church in the U. S., Philadelphia.
- MR. HARMON O. PRITCHARD, Actuary, Pension Fund of the Disciples of Christ, Indianapolis, Ind.
- MR. H. ALLEN SCOTT, Actuary, Board of Annuities and Relief, Presbyterian Church in the U. S. (Southern), Atlanta, Ga.

Ex Officio:

- DR. GILBERT DARLINGTON, Treasurer, American Bible Society, New York City.
- DR. GEORGE A. HUGGINS, Consulting Actuary, Philadelphia, Pa.

Dr. Darlington then introduced the Reverend H. Burnham Kirkland, Treasurer of the Division of World Missions, of The Methodist Church, who presented a paper on "State Supervision of Gift Annuities." This, too, is printed in full on page .

Following a brief question period Mr. John Rosengrant, Director of Annuities of the Board of Foreign Missions of the Presbyterian Church in the U.S.A., was introduced and spoke to the Conference on the "Correct Terminology in Promoting Gift Annuities." His address is printed on page .

At twelve o'clock the Conference recessed for lunch.

At two o'clock Dr. Darlington called the Conference to order and announced a meeting of the Committee on Resolutions for 9 A.M. the following day. Dr. George A. Huggins, Consulting Actuary, Huggins & Co., Philadelphia, then presented his study of annuity rates. The rest of the afternoon was spent in discussing these findings, which are to be found on page .

At 4:00 P.M. the Conference adjourned for the day.

Tuesday, October 4, 1955

At ten o'clock Dr. Darlington called the Conference to order and asked Dr. Charles Calkins of the Board of Pensions in the Methodist Church to lead in the invocation, and then followed a continuation of the discussion on rates. Dr. Thomas B. Lugg moved that there be a study of rates at least every four years, and a conference of this same nature called for the purpose of discussing the study. This was regularly seconded and approved unanimously by the Conference.

A motion was made to adopt the rates recommended by the Committee on Annuities and extend the joint life tables to ages 90. This motion was tabled in order to take up seriatim the questions of maximum and minimum rates.

Mr. Harmon O. Pritchard moved to keep the lower rates at 3%. This was regularly seconded and adopted unanimously. Mr. Pritchard then moved that the maximum rates be set at 7.4%. This was seconded and adopted unanimously. On motion by Mr. Pritchard it was voted

to extend the two-life table for joint-life from 80-80 to 90-90, provided the rates do not exceed 7.4%.

On motion duly made and seconded it was voted to adopt rate schedules E and F contained in Mr. Huggins' report as modified above.

Mr. Huggins reminded the Conference that the rates adopted by them must be passed by the Church bodies.

On motion of Mr. John Rosengrant it was voted to recommend that the rates just adopted be put in effect by July 1, 1956.

Mr. Ralph Concannon, Attorney of Lord, Day & Lord then addressed the Conference on the subject "Charitable Annuities and the New Tax Law." This address is contained on page .

At twelve o'clock the meeting adjourned for lunch.

At two o'clock Dr. Darlington called the meeting to order and introduced Mr. Charles W. Baas, Assistant Treasurer, American Bible Society, who reported on the questionnaire sent out by the Committee on Annuities. His report is contained on page .

The Chairman of the Committee on Resolutions, Dr. H. Alton Reed, then presented the report of that Committee, which after discussion was adopted as amended; and the amended report is contained herewith in detail.

Dr. Darlington then called upon Dr. Thomas B. Lugg to pronounce the benediction, and the Conference was adjourned at 4:00 P.M.

H. BURNHAM KIRKLAND,

Secretary

REPORT OF THE
RESOLUTIONS COMMITTEE

- I. Whereas the beautiful St. Bartholomew's Community House has been made available to our Ninth Conference on Gift Annuities, and

Whereas the management has been so cooperative in giving to our Conference every comfort for our meetings;

Therefore, Be It Resolved that we extend to St. Bartholomew's Church our deep appreciation for the use of their Community House and to the Reverend Irving S. Pollard and the staff for their many courtesies.

- II. Be It Resolved that the Ninth Conference on Gift Annuities desires to express sincere appreciation to Dr. Marcus Nadler, professor of finance, New York University, for his courtesy in presenting a most informative and instructive address on "Interest Rates" and thus contributing substantially to the success of the Ninth Conference.

- III. Whereas the Ninth Conference on Gift Annuities has been ably served by the several persons who have had a part in the program of this conference, and

Whereas the high caliber of the program and the effectiveness of the Conference have been due to the untiring efforts and discerning leadership of Chairman Gilbert Darlington and Consulting Actuary George Huggins,

Now, Therefore, Be It Resolved that the Ninth Conference on Gift Annuities extend this expression of thanks to them and to the following men who have presented addresses and have led this Conference in its discussion periods:

Mr. H. Burnham Kirkland

Mr. Ralph Concannon

Mr. Charles W. Baas

Mr. John Rosengrant

IV. Be It Resolved that the Ninth Conference on Gift Annuities recommend to the various societies, agencies, boards and colleges, the following:

For the purpose of uniformity and a better understanding of all concerned, that:

1. a) the agreement between the donor and the issuing agency be referred to as a "Gift Annuity Agreement";
b) the payments on account of this gift annuity agreement be referred to as "Annuity Payments."
2. That all use of terminology that applies to trust funds, living trusts, life-income agreements, such as "bonds," "interest," "principal," "residuum," *et cetera*, must be carefully avoided in speaking of promoting or advertising gift annuity agreements, to avoid confusion.

V. Be It Resolved that it is the consensus of this Ninth Conference on Gift Annuities that an amount equivalent to the required actuarial reserve, plus a reasonable margin for contingencies, be segregated and be held only for the purpose of making the required annuity payments under all outstanding gift annuity agreements. To insure the realization of this worthy objective it is recommended that such segregated fund should be invested in recognized and sufficiently diversified securities, so as to safeguard properly the principal and yield the expected net return.

VI. Whereas it is understood that some organizations having gift annuity agreements are not legally segregating such funds,

Therefore, Be It Resolved that organizations offering gift annuity agreements be cautioned to so segregate their annuity reserve funds so as to make such funds judgment-proof in their respective States in which they are incorporated.

VII. Be It Resolved that this Ninth Conference on Gift Annuities approve of the Chairman of the Committee on Gift Annuities and of the Committee on Gift Annuities in questioning the fairness of the Treasury Department in valuing gift annuities as indi-

vidual annuities and at an interest rate of 2 percent, when most annuities issued today by life-insurance companies are figured at 2½ percent interest. Since the recent studies covering 90,600.5 life years of exposure of gift annuities show that the Standard Annuity Table, female lives, set back one year, is a fair gauge of gift-annuity mortality; and as earnings are well over 3 percent, the standard adopted by the Treasury Department is not a fair valuation of charitable gift annuities.

Furthermore, this Ninth Conference on Gift Annuities, in session October 4, 1955, has adopted for recommendation to religious, educational and charitable organizations issuing gift-annuity agreements as uniform rates, single-life and two-life (joint and survivor) on the basis of the Standard Mortality Table — ages set back one year, with interest at 3 percent and a loading of 5 percent of the gross premium.

VIII. Be It Resolved that religious, educational and charitable groups which cooperate with the Committee on Gift Annuities be requested to send in to the Chairman of the Committee on Gift Annuities copies of any rulings by Federal or State authorities dealing with gift annuities, in order that this information may be made available to others.

IX. Whereas the existing gift-annuity rates have been in uniform use since their adoption by the Seventh Conference on Annuities, held on April 29, 1941, and

Whereas the Committee on Gift Annuities has presented to this Ninth Conference on Gift Annuities for its consideration a revised set of single-life and two-life gift annuity rates based upon (1) a table of mortality (Standard Annuity Table, female lives, ages set back one year) which studies of the mortality experience among gift annuity lives have shown to be consistent and adequate, such studies to have included the combined data submitted by 15 agencies issuing gift annuity agreements and parallel studies by the American Bible Society, giving their annuitant lives, all as shown in the paper presented to the Ninth Conference on Gift Annuities by Dr. George A. Huggins; (2)

interest rates at the rate of 3 percent; (3) allowance for an expense loading 5 percent of the total gift; (4) the rates at the younger ages adjusted to 3 percent; (5) the maximum rates for both single-life and two-life rates limited to 7.4 percent; and (6) all rates shown up to age 90, exclusive.

Now, Therefore, Be It Resolved that this Ninth Conference on Gift Annuities hereby adopt such rates as shown in the above-mentioned paper presented by Dr. George A. Huggins, actuary, and recommend that all organizations issuing gift-annuity agreements give consideration to the adoption of such rates as Uniform Gift Annuity Rates, with the view to putting them into effect, if possible, as of July 1, 1956.

- X. Whereas the Committee on Annuities was originally a sub-committee of the Federal Council of the Churches of Christ in America and has been cooperating with the National Council of the Churches of Christ in the United States of America; and

Whereas it is the consensus of this Ninth Conference on Gift Annuities that the Committee on Gift Annuities should be perpetuated as an independent agency of service to religious, educational and charitable organizations; and

Whereas the Committee on Annuities has had no regular means of financing its research and related activities;

Therefore, Be It Resolved that:

1. The Committee on Gift Annuities, as now constituted, be made a permanent independent agency of service to religious, educational and charitable organizations; and that
2. The Committee on Gift Annuities be empowered to adjust and increase its membership to a maximum of twenty-five (25), striving to broaden its representation and at the same time avoiding double membership from any one representative sponsor; and that
3. These organizations which are here in attendance in fact or by proxy, and which have made the current \$10 contribution, shall be named the Sponsors of the Committee on Gift An-

- nuities, an unincorporated body for the study and promotion of Gift Annuity Agreements; and that
4. The Committee on Gift Annuities be empowered to request regular contributions from the Sponsors of the Committee on Gift Annuities to cover the expenses of the on-going work of the Committee, the amount and term to be discretionary with the Committee; and that
 5. Further conferences of the Sponsors of the Committee shall be at the call of the Committee; and that the "Continuing Committee on Gift Annuities" be authorized to call a meeting of all religious, educational and charitable organizations engaged in the writing of annuities at a time not later than four years from now (October 4, 1955), and sooner if the "Continuing Committee" deem it desirable.
 6. The Committee on Gift Annuities shall be a self-perpetuating body, unincorporated, and shall in no way be a legal agent of any of the Sponsors of the Committee, except when authorized by specific and detailed action of the Sponsors meeting at a duly called conference; and that
 7. This Committee on Gift Annuities shall continue to cooperate fully with the Committee on Wills and Special Gifts of The National Council of the Churches of Christ in the United States of America.

RESOLUTIONS COMMITTEE

NINTH CONFERENCE ON GIFT ANNUITIES

DR. R. ALTON REED, *Chairman*

DR. WESLEY O. CLARK

MISS HENRIETTA GIBSON

DR. ROLAND C. MATTHIES

MR. JAMES NELSON

MR. HARMON O. PRITCHARD

MR. H. ALLEN SCOTT

Ex Officio:

DR. GILBERT DARLINGTON

DR. GEORGE A. HUGGINS

LIST OF THOSE WHO ATTENDED THE NINTH CONFERENCE ON GIFT ANNUITIES

OCTOBER 3-4, 1955

(*Registered but could not attend)

Organization	Represented by
American Baptist Convention—Board of Education, New York City.	Rev. James L. McHett Mr. Alois Rutz
American Baptist Convention—Ministers & Missionaries Benefit Board, New York City.	Mr. John W. Thomas Mr. J. H. Wallace Young Miss Annie E. Root Mr. Forrest Smith Dr. Irene Jones Mr. Charles W. Baas Dr. Gilbert Darlington Mr. Richard J. Dosker Miss Anne M. Greene Dr. Robert T. Taylor
American Baptist Foreign Mission Society, New York City. (Woman's Division)	
American Bible Society, New York City.	
American Board of Commissioners for Foreign Missions, Boston, Mass.	Mr. Harold B. Belcher
American Friends Service Committee, Philadelphia, Pa.	Mr. Roy E. Leake, Jr. Mr. Hans Breitung Mr. Harold Hendersen Rev. A. W. Weber
American Leprosy Missions, Inc., New York City.	
American Lutheran Church, Columbus, Ohio.	Mrs. George Fielding Eliot
American Society for Prevention of Cruelty to Animals, New York City.	Mr. John H. Talley Mr. Henry G. Perry
American Sunday School Union, Philadelphia, Pa.	Mr. Walter E. Savage Rev. J. Robert Ashcroft Miss Jessie Dorr *Dr. Theodore A. Distler *Mr. R. Lloyd McAllister
American Tract Society, New York City.	Mr. David M. Church
Asbury Theological Seminary, Wilmore, Kentucky.	Mr. Otto Leonardson
Assemblies of God, Inc., Springfield, Mo.	Mr. L. D. Bibbee Dr. Dean G. McKee
Association of American Colleges, Washington, D. C.	*Mr. W. Clayton Berkshire Mr. Cecil C. Ikenberry
Association of Fund-Raising Counsel, New York City.	
Augustana Lutheran Foundation, Minneapolis, Minn.	Mr. Judson A. Rudd *Mr. Dayton L. Ranck
Berea College, Berea, Kentucky.	
Biblical Seminary in New York, New York City.	
Brethren Church—Missionary Board, Ashland, Ohio.	
Bridgewater College, Bridgewater, Va.	
Bryan, William Jennings University, Dayton, Tenn.	
Bucknell University, Lewisburg, Pa.	

Organization

Carroll College, Waukesha, Wis.
 Central Bible Institute, Springfield, Mo.
 Christian & Missionary Alliance, New York City.
 Church of the Brethren—General Brotherhood Board, Elgin, Illinois.
 Church of God—Board of Church Extension and Home Missions, Anderson, Indiana.
 Church of God World Service, Anderson, Ind.
 Church of The Nazarene—General Board, Kansas City, Missouri.
 Church Pension Fund, New York City.

Cincinnati Goodwill Industries & Rehabilitation Center, Cincinnati, Ohio.
 Congregational Christian Churches—Board of Home Missions, New York City.
 Congregational Christian Churches—Missions Council, New York City.

Dartmouth College, Hanover, New Hampshire.
 Davidson College, Davidson, N. C.
 Davis, Paul H., Los Angeles, Calif.
 Disciples of Christ—Board of Church Extension, Indianapolis, Indiana.
 Disciples of Christ—Pension Fund, Indianapolis, Indiana.
 Drew University, Madison, N. J.

Eastern Baptist Theological Seminary, Philadelphia, Pa.
 Eastern Mennonite College, Harrisonburg, Va.
 Episcopal Church Foundation, New York City.
 Evangelical Lutheran Church, Minneapolis, Minn.
 Evangelical & Reformed Church—Board of International Missions, Philadelphia, Pa.
 Evangelical United Brethren Church—Board of Missions, Dayton, Ohio.

Fairleigh Dickinson College, Rutherford, N. J.
 First Presbyterian Church, Syracuse, N. Y.
 Free Methodist Church of North America—General Missionary Board, Winona Lake, Ind.

Glenmary Missioners, The, Glendale, Ohio.

Represented by

Mr. Robert D. Steele
 Mr. C. C. Burnett
 Mr. J. O. Carlsen
 Rev. Bernard S. King
 Mr. Robert Greiner
 Rev. H. Spenser Minnich
 Mr. E. F. Adcock
 Mr. J. C. Thompson
 Mr. C. W. Hatch

Mr. John Stockton
 Mr. Gilbert E. Ault
 Mr. Harry A. Clarke
 Mr. Robert Worthington

Mr. Leonard Garver, Jr.
 Mr. Samuel W. Keck
 Miss Gertrude B. Richards

Dr. Walter C. Giersbach

Mr. J. Ross Gamble
 Mr. John R. Cunningham
 Mr. Paul H. Davis

Mrs. Blanche Wickes
 Mr. Albert Fred Allan
 Mr. Harmon O. Pritchard
 Mr. Noel E. Bensinger

Mr. John A. Baird, Jr.

Mr. Samuel Z. Strong

Mr. Robert D. Jordan

Mr. Alf W. Jorgenson

Mr. Laverne R. Danderman

Mr. Wesley O. Clark

Mr. Alvin L. Herald
 Dr. William H. McConaghy

Dr. C. H. Zahniser

Rev. James P. Kelly

Organization

Hastings College, Hastings, Nebr.
Hope College, Holland, Mich.
Howell Advertising Agency, Elmira, N. Y.
Huggins & Company, Consulting Actuaries,
Philadelphia, Pa.

Illinois Wesleyan University, Bloomington,
Ill.
Iowa Methodist Hospital, Des Moines, Iowa.

John Price Jones Company, Inc., New York
City.
Juniata College, Huntingdon, Pa.

Kansas Christian Missionary Society, Topeka,
Kansas.

Lasser, J. K., Tax Institute, New York City.
Luther College, Decorah, Iowa.
Lutheran Hour, The, St. Louis, Mo.
Lutheran Laymen's Movement, New York
City.

Massachusetts Society for Prevention of Cru-
elty to Animals, Boston, Mass.
Mennonite Publishing Company, Scottsdale,
Pa.

Methodist Church, Inc., in Illinois, The—
Board of Pensions, Chicago, Ill.

Methodist Church, The—Council on World
Service and Finance, Chicago, Ill.

Methodist Church, The—Division of National
Missions, Philadelphia, Pa.

Methodist Church, The—Division of World
Missions, New York City.

Methodist Church, The—Woman's Division
of Christian Services of the Board of
Missions, New York City.

Methodist Home for Aged, Charlotte, N. C.

Methodist Home for the Aged for the In-
diana Conference of The Methodist
Church, Inc., Indianapolis.

Methodist Hospital of Brooklyn, Brooklyn,
N. Y.

Michigan Temperance Foundation, Lansing,
Mich.

Midway Junior College, Midway, Ky.

Monmouth College, Monmouth, Ill.

Moody Bible Institute, Chicago, Ill.

Represented by

Mr. Walter B. Schoggen
Mr. Irwin J. Lubbers
Mr. Everets H. Howell
Mr. Charles L. Burrall, Jr.
Dr. George A. Huggins

Mr. George T. Oborn
Rev. Lloyd Scheerer

Mr. A. C. Gumbrecht
Mr. Harold B. Brumbaugh

Mr. John D. Zimmerman

Mr. Sydney Prerau
Mr. A. O. Davidson
Dr. Eugene R. Bertermann

Mr. Henry Endress

Miss Eunice C. Pickett

Mr. Joseph R. Buzzard
Dr. Charles L. Calkins
Mr. Donald R. McKee
Dr. Kenneth F. Thompson
Mr. James B. Hoge
Dr. Thomas B. Lugg
Dr. J. Homer Magee
Mr. George L. Hergesheimer
Mr. H. Connell Snoke
Mr. H. Burnham Kirkland
Mr. David M. Stevens
Miss Henrietta Gibson
Miss Marguerite Harris
Mrs. Alice C. Williams
Mr. Willard S. Farrow

Mr. Sumner L. Martin

Rev. F. Howard Callahan

Mr. Ross J. McLennan
Mr. David L. Cleveland
Mr. Louis S. Gibb
Mr. Carl J. Frizen
Mr. L. E. Johnson

Organization

National Benevolent Ass'n. of the Christian Church, St. Louis, Mo.
National Council of the Churches of Christ in the U. S. of A., New York City.
National Woman's Christian Temperance Ass'n., Evanston, Ill.
Nebraska Wesleyan University, Lincoln, Nebr.
New York Bible Society, New York City.

New York University, New York City.
North American Baptist General Conf., Forest Park, Ill.
Northern Baptist Theological Seminary, Chicago, Ill.
Northwestern University, Evanston, Ill.

Ohio Methodist Conference—Board of Conference Claimants, Wilmington, Ohio.
Otterbein Home, Inc., The, Lebanon, Ohio.

Pacific Home Corporation, The, Los Angeles.
Philadelphia Bible Institute, Philadelphia, Pa.
Pomona College, Claremont, Calif.

Presbyterian Church in the United States—Board of World Missions, Nashville, Tenn.

Presbyterian Church in the United States, Inc.—Board of Church Extension, Atlanta, Ga.

Presbyterian Church in the U.S.A.—General Council, New York City.

Presbyterian Church in the U. S. A.—Board of Christian Education, Philadelphia, Pa.

Presbyterian Church in the U. S. A.—Board of Foreign Missions, New York City.

Presbyterian Church in the U. S. A.—Board of National Missions, New York City

Presbyterian Church in the U. S. (Southern)—Board of Annuities & Relief, Atlanta, Ga.

Princeton Theological Seminary, Princeton, N. J.

Providence-Barrington Bible College, Providence, R. I.

Reformed Church in America—Board of Pensions, Philadelphia, Pa.

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Mr. Clarence D. Cowdery
*Mr. Hobart L. Foshier

Rev. Thomas K. Thompson

*Mrs. H. F. Powell
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Dr. David J. Fant
Mr. William H. Moorehead
Dr. Marcus Nadler

Dr. Frank H. Woyke

*Mr. William H. Griffith
Mr. Ralph K. Ball
John F. Norman

Mr. T. S. Townsley
Miss Mary McKenzie

Dr. Edward P. O'Rear
Mr. V. Clifford Harrington
Mr. Allen F. Hawley

Mr. Curry B. Hearn

Mr. G. B. Strickler

Mr. Roger H. Johnson
Rev. Paul H. Hazlett, Sr.
Mr. James Neilson

Mr. John Rosengrant
Miss M. J. Hoym
Mr. D. Allan Locke
Dr. F. Campbell Symonds

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Mr. Edwin C. Halter
Mr. Sidney A. Rasanen
Mr. J. Arthur Reed
Mr. Howard H. Shedd

Dr. Gerard R. Gnade

Organization

Salvation Army, The, New York City.
San Diego Methodist Home Corporation,
Chula Vista, Calif.
Seventh Day Adventists—General Confer-
ence, Washington, D. C.
Seventh Day Adventists—S. E. California
Ass'n., Arlington, Calif.
Society for the Propagation of the Faith,
New York City.
South Dakota Methodist Foundation, Huron,
S. Dakota.
Southern Baptist Convention—Relief & An-
nuity Board, Dallas, Texas.
Stone, David G.—Consulting Actuary,
Newark, N. J.

Teachers Insurance & Annuity Association of
America, New York City.

Union Theological Seminary in Virginia,
Richmond, Va.

United Christian Missionary Society, Indi-
anapolis, Ind.

The United Church of Canada, Toronto,
Canada.

United Church Women, New York City.

United Lutheran Church in America—Board
of Pensions, Philadelphia, Pa.

United Presbyterian Church Board of For-
eign Missions, Philadelphia, Pa.

United Theological Seminary, Dayton, Ohio.

University of Pittsburgh, Pittsburgh, Pa.

University of Redlands, Redlands, Calif.

Vassar College, Poughkeepsie, N. Y.

Washington College, Chestertown, Md.

Wells College, Aurora, N. Y.

Western Theological Seminary, Pittsburgh,
Pa.

West Virginia Wesleyan College, Buckhan-
non, W. Va.

Wittenberg College, Springfield, Ohio.

Woodward, Ryan, Sharp & Davis, Consulting
Actuaries—New York City.

Y. M. C. A. Retirement Fund, New York
City.

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Brig. Horace Weatherly

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Mr. John Paul Good

Mr. M. W. Norfleet, Jr.

Mr. Ira Paternoster

Rev. V. T. Mooney
Mrs. Annah L. Tucker
Rev. George H. Berkheimer, D.D.
Mr. J. Blaine Saltzer
*Mr. Roswell W. Caldwell
Rev. Hugh E. Kelsey
*Dr. Walter Shutz
Mr. William Wallace Booth
Mr. Francis C. Pray
Mr. Charles O. Pierpoint

Mr. George T. Welch

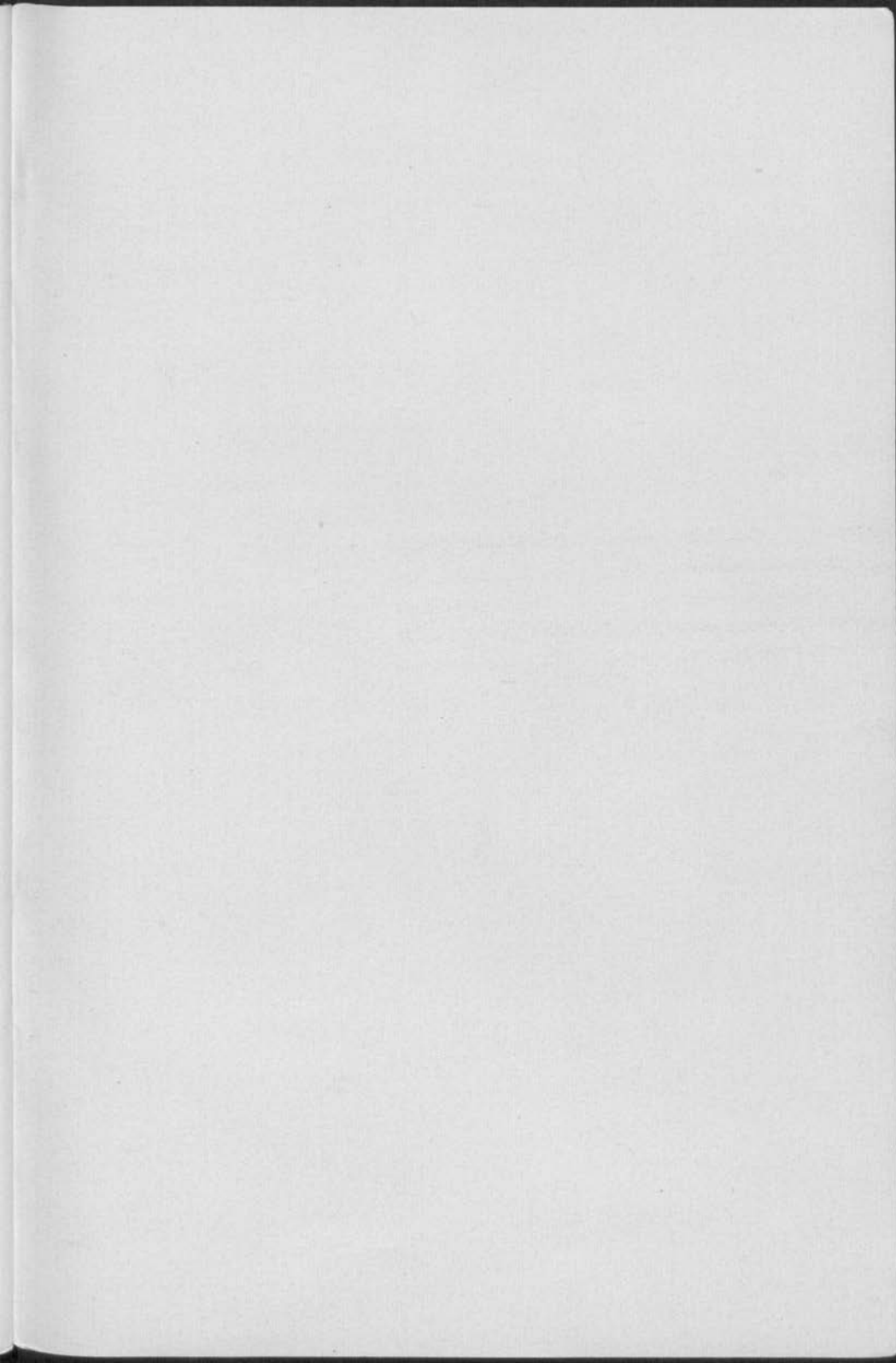
Mr. W. J. Gard, Jr.
Mr. W. E. Camp

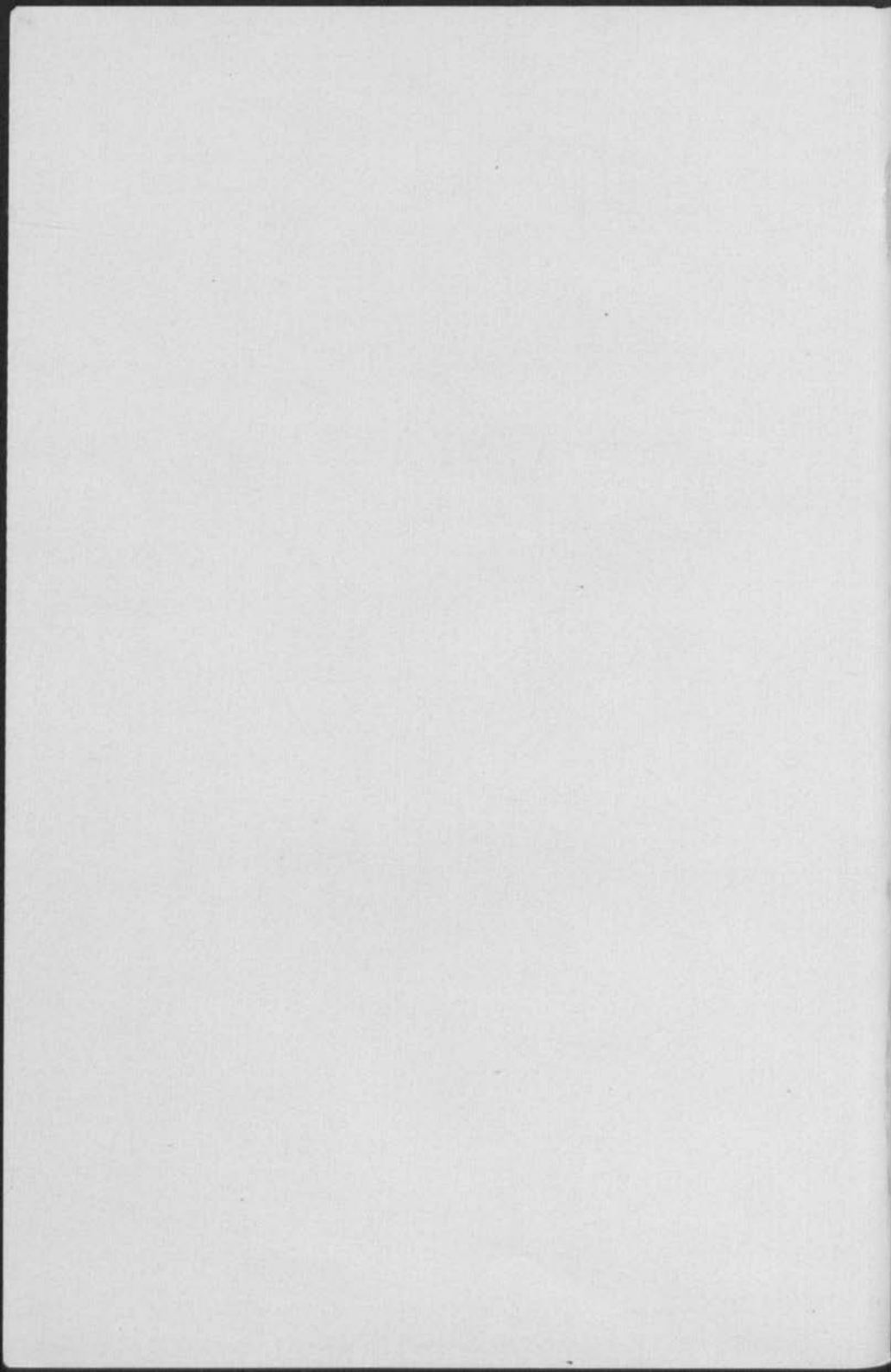
Mr. John C. Bramer, Jr.

*Mr. James I. Ling
Dr. Roland C. Matthies

Mr. Ralph Concannon

Mr. Earl W. Brandenburg





UNIFORM GIFT ANNUITY RATES

SINGLE LIFE

Adopted by the American College of Trust and Estate Counsel, October 1, 1972

Age	Rate	Age	Rate
20	4.00	50	4.25
21	4.00	51	4.25
22	4.00	52	4.25
23	4.00	53	4.25
24	4.00	54	4.25
25	4.00	55	4.25
26	4.00	56	4.25
27	4.00	57	4.25
28	4.00	58	4.25
29	4.00	59	4.25
30	4.00	60	4.25
31	4.00	61	4.25
32	4.00	62	4.25
33	4.00	63	4.25
34	4.00	64	4.25
35	4.00	65	4.25
36	4.00	66	4.25
37	4.00	67	4.25
38	4.00	68	4.25
39	4.00	69	4.25
40	4.00	70	4.25
41	4.00	71	4.25
42	4.00	72	4.25
43	4.00	73	4.25
44	4.00	74	4.25
45	4.00	75	4.25
46	4.00	76	4.25
47	4.00	77	4.25
48	4.00	78	4.25
49	4.00	79	4.25
50	4.00	80	4.25
51	4.00	81	4.25
52	4.00	82	4.25
53	4.00	83	4.25
54	4.00	84	4.25
55	4.00	85	4.25
56	4.00	86	4.25
57	4.00	87	4.25
58	4.00	88	4.25
59	4.00	89	4.25
60	4.00	90	4.25

UNIFORM GIFT ANNUITY RATES

SINGLE LIFE

Adopted by Conference on Gift Annuities, October 4, 1955

<i>Age</i>	<i>Rate</i>	<i>Age</i>	<i>Rate</i>
30	3.0%	61	4.6%
31	3.0	62	4.7
32	3.0	63	4.8
33	3.0	64	4.9
34	3.0	65	5.0
35	3.0	66	5.1
36	3.1	67	5.2
37	3.2	68	5.3
38	3.3	69	5.4
39	3.4	70	5.5
40	3.5	71	5.7
41	3.6	72	5.8
42	3.6	73	6.0
43	3.7	74	6.1
44	3.7	75	6.3
45	3.7	76	6.5
46	3.8	77	6.7
47	3.8	78	6.9
48	3.9	79	7.1
49	3.9	80	7.4
50	3.9	81	7.4
51	4.0	82	7.4
52	4.0	83	7.4
53	4.1	84	7.4
54	4.1	85	7.4
55	4.2	86	7.4
56	4.3	87	7.4
57	4.3	88	7.4
58	4.4	89	7.4
59	4.5	90	7.4
60	4.5		

