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Gift Annuity Agreements of Charitable Organizations



ECONOMIC OUTLOOK

MORTALITY EXPERIENCE

TAX REFORM LEGISLATION

STATE SUPERVISION

ANALYSIS OF GIFT VEHICLES

TERMINOLOGY



FOURTEENTH CONFERENCE

WISE PUBLIC GIVING SERIES, NO. 53

1971

THE OFFICE OF THE
GIFT ANNUITIES

Gift Annuity Agreements of Charitable Organizations

PAPERS PRESENTED AT THE FOURTEENTH
CONFERENCE ON GIFT ANNUITIES, HELD
IN ST. LOUIS, MISSOURI, WEDNESDAY AND
THURSDAY, APRIL 14 AND 15, 1971 UNDER
THE DIRECTION OF THE COMMITTEE ON
GIFT ANNUITIES



COMMITTEE ON GIFT ANNUITIES

1865 Broadway

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WISE PUBLIC GIVING SERIES, NO. 53

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OPENING REMARKS

MR. CHARLES W. BAAS

Chairman, Committee on Gift Annuities

Looking back over the reports of earlier Conferences, your Chairman's opening remarks have covered an extremely wide range of subjects, all the way from a brief history of the Committee on Gift Annuities, to statistical analyses concerning current sponsorship. Missing from these recitations is some information about what the Committee actually does between Conferences. So we will focus on the Committee's activities with the thought that this subject may be helpful to the representatives of sponsoring institutions. The Committee, at the present time, has twenty-two members on its roster. Seven meetings of the full committee have been held since the 1968 Conference. The average attendance at these sessions has been seventeen out of the twenty-two members; which, in my opinion, shows the dedication of this group. You might think that the membership of this committee is rather static — not so! Since the last Conference, there have been nine new members added, nine out of twenty-two — that's a forty per cent turnover.

Now, what has the Committee on Gift Annuities actually been doing since the Thirteenth Conference? One obvious thing is that the Fourteenth Conference had to be planned. Shortly after the Thirteenth Conference the Committee decided that a full-scale actuarial study should be presented to this Conference; not just an actuarial update of old information. Charles Burrall will explain later this morning just what a full-scale actuarial study means. The Committee decided that the scope of the study should encompass at least 100,000 life years and should be a six-year study. The statistics to be presented to you later show that the actual number of life years involved is 147,185, representing data gathered from 23 organizations selected from among those sponsoring the Conference on Gift Annuities. This study is necessary periodically in order to validate the mortality tables used in our rate base. Let me call attention to the actuarial bargain the sponsors are getting. The benefits are two-fold: first, imagine the total cost if each organization had to use its own actuary to

develop rates for its own institution; and second, these studies have been done for the whole constituency by Huggins & Company, Inc. since 1927 and the Committee is charged only with out-of-pocket costs. Probably some of you are aware that our Actuary, Charles Burrall, is the only member of the Committee who is not a direct representative of a gift-annuity issuing organization. From time to time, a question is raised on this subject, but the real reason for having Huggins & Company, Inc. represented on our Committee is the fact that the late Dr. George Huggins was actually the prime mover in the formation of the Committee on Gift Annuities. He was a charter member of that group, active until his death in 1959, and immediately replaced by Mr. Burrall who has been an asset to the Committee. On a cost basis alone, getting an actuarial study and rate tables worked out in detail is certainly worth a triennial membership fee, even if that was all the Sponsors received.

Of course, there is a great deal more to planning the conference than the actuarial study. Conference fees had to be set, location determined, program detailed, arrangements made for the meetings, etc. These were primarily the responsibilities of two Committee on Gift Annuities subgroups, the one dealing with program was chaired by John Deschere and the group handling the arrangements was chaired by Homer Magee. My sincere thanks to these two gentlemen in putting together what I hope will be a useful conference for you.

Like everyone else, the Committee has been spending quite a bit of time with the Tax Reform Act of 1969 and related "fun" with the Internal Revenue Service. I was going to use the word activities, but things move so slowly in Washington anything derived from the word "active" would seem out of place. The Committee sent two separate delegations to Washington, the first was in September 1969 when a group appeared before the Senate Finance Committee. A terrific job was done on your behalf by Vice Chairman Matthies, James Cousins, and Conrad Teitell. Conrad Teitell is not a member of the Committee, but when the Committee needs legal advice his firm is the one we call on for it. Then, in November of 1970, when the Internal Revenue Service was holding hearings on Pooled Income Funds, again we were

represented by Vice Chairman Matthies, this time with Secretary Myrom and Phillip Temple of Conrad Teitell's office. Once more you were ably represented and positive results have come from this confrontation. Though I must say I have been thinking that our delegation did not seem to add any speed to the IRS deliberations. However, the final ruling for the proposal dated July 17, 1970, on Pooled Income Funds was published in the Federal Register on April 6, 1971.

I am sure most of you are aware that the Committee sent several letters to the sponsoring organizations requesting action in the form of letters, etc. to be sent to Washington on specific subjects. Quite a few more individual letters on your behalf in the name of the Committee on Gift Annuities were also sent and I do want to emphasize that we do try to keep requests for constituency action to a minimum. Related to all this and considered often by the Committee, was the question of Deferred Annuities which is sort of "in the wings" at the present time. Your Committee has intentionally avoided pressing the IRS on this subject while other rulings are being promulgated. Also, the Committee has discussed Variable Annuities and a great many other subjects of this nature.

Recently, the Committee changed its By-Laws. Formerly Article VIII stated that "each member is expected to cover his own expenses in coming to the meeting of the Committee and of its Conference on Gift Annuities." This phrase has been dropped from the By-Laws and the expenses of Committee members attending Committee meetings are now paid from Conference funds. I think you will agree that this new procedure is only fair.

Another thing the Committee has been doing is attempting to influence proposed State Insurance regulations. We have had the opportunity to get involved with the Insurance Laws Revision Committee of the State of Wisconsin on the changes contemplated for the insurance law of that state. By being able to make comments while the legislation is in proposed form, I do believe the Committee has been able to remove some objectionable sections. Others, like New Hampshire appear to have been turned off.

One other function your Committee performs is a policing

one. This not only relates to terminology, but to some organizations which exceed the recommended maximum rates. Some issue gift annuities guaranteeing payments of a size that would shock commercial insurance companies. Most of the burden of this activity falls on Secretary Myrom who is in charge of what we call deviates. We are grateful to those of the sponsoring organizations who draw our attention to these situations. Committee member James Cousins has gotten himself into some hot water when attempting to help with this function when these deviations occur within Roman Catholic circles.

Your committee has spent some time during these last few years trying to deal with the subject which was given to it by the Thirteenth Conference. The seventh resolution adopted in 1968 read "Be it resolved that the Thirteenth Conference asks the Committee on Gift Annuities to give study to a program whereby there can be recognition given to the organizations that follow the recommendations of the Conference on Gift Annuities." This Conference action gives me the opportunity to report something new. For the first time in my memory, your committee has failed completely! Considerable time has been spent, subcommittees were appointed, and discussions ensued, but there are a great many ramifications to giving a sort of "Good Housekeeping Seal of Approval." Your committee finally decided that it does not favor the idea and thus brings back its report to this Conference.

These are some of the things that have occupied the Committee during the interval between conferences. Believe me it is by no means a complete list, and while it is an honor to be a member of this august Committee on Gift Annuities, it does entail a great deal of work and requires that a good deal of time be expended in fulfilling its aims and purposes.

Your committee during 1970 sent out about 5,000 pieces of mail. While this may be a little heavier than usual due to it being a pre-conference year, it is not far about the average. All this has been accomplished without a full time staff.

Who generates all this activity? The full roster of Sponsors now totals 661. There are 358 representatives of 283 Sponsoring Organizations attending the Fourteenth Conference.

Of the 661 Sponsoring Organizations

37% represent Educational Institutions

17% Church Boards

16% Other Religious groups
(like the American Bible Society)

13% Homes and Hospitals

6% Foundations

6% Other Secular Groups, and

5% are Professionals.

Very briefly this has been a portrait of your committee and the constituency it serves.

As in the past, the Committee on Gift Annuities recommends that the drafting of resolutions to be considered by this Conference be placed in the hands of a Resolutions Committee. The following persons have been suggested to serve in that capacity:

Dr. Don E. Hall, as Chairman
Director, United Presbyterian Foundation

Mr. Robert D. Jenkins
Associate Director of Development, Oberlin College

Mr. Virgil T. Foss
Director of Development, Saint Olaf College

Mr. Charles L. Burrall, Jr.
Actuary, Huggins & Company, Inc.

Brigadier Frank Moody
Director of Deferred Gifts,

The Salvation Army

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

and your chairman as an ex officio member.

ECONOMIC OUTLOOK

MR. CARL L. A. BECKERS

Vice President, St. Louis Union Trust Company

Welcome to St. Louis, an area of a balanced economy if there is one in the United States. In this community and its surrounding territory, you will find forces that tend to offset "highs and lows" of business forces and, therefore, create a stable performance year in and year out. Not many communities have that virtue.

Your leaders have asked for some comments on the economic outlook.

Anyone speaking on "The Economic Outlook" should admit to humility for any comment relating to the short term, and a feeling of mixed emotions and blessings for the long term. Having been in the position of one trained to "observe" economic conditions so as to arrive at investment decisions and at the same time, as a director of companies serving industry, thereby being placed in a capacity to plan the programs on which investment decisions ultimately rest, I must confess I find it difficult to distinguish between cause and effect.

While my crystal ball is no better than yours as to what will transpire in May or June, I have somewhat more confidence for what I can envision as to the state of our economy five years hence. Let's pursue some of these viewpoints.

Five years from now, I suspect we will have

1. a larger working force;
2. a greater disposable personal income arising from this larger working force and higher hourly rates for the workers efforts;
3. we will have a much larger Gross National Product — a figure of \$1,500 billion is obtainable, for the accomplishment of this level would result from an average annual growth of about 8% beginning with this year;
4. we will have greater industrial production as measured by the Federal Reserve Board Index — today standing at about 165.

But, with these accomplishments, we must be prepared for

1. a lower purchasing value of our dollar;
2. hence, what is important to you people, a higher cost of goods and services;
3. and last but far from least, increased concern for the competitive position of the United States in world markets.

While you may consider me far-sighted, basically, I am attempting to translate into future results, the effect of current conditions and trends.

For a few minutes, let's assess where we are and what changes are necessary if we are to bring about any worthwhile improvement later in 1971.

The target of \$1,065 billion of our Administration for the Gross National Product in 1971 is *a target*. You must realize this concept and that many trend observers question the accuracy or the obtainability of this figure. This paper was produced in March. By mid-April as we gather, we should have the results of the first three months of the year. But even in March there was sufficient evidence to indicate the first quarter of '71 is not the "hoped-for" signal of an early and worthwhile recovery. To achieve the target would have required a \$30 billion improvement from January through March, but it won't be forthcoming. Predictions have been made that the advance would be between \$22 and \$28 billion. While this would sharply exceed the \$4.4 billion gain in the fourth quarter of last year, again I say it does not necessarily signal a soundly reviving economy because roughly half of the gain will reflect a resumption of General Motors Corporation output after its lengthy strike. So while there was a favorable turn evident since the latter part of 1970, the amount of the recovery is disappointing. Therefore, it is becoming evident that a Gross National Product figure no higher than \$1,050 billion appears probable.

Perhaps it would add to this discussion to define Gross National Product as the "value" of goods and services produced and the Index of Production as "volume" *without* price considered. Hence, the effects of inflation are shown in Gross National Pro-

duct — not in the Index of Production. Then when I tell you the \$4 billion Gross National Product increase just mentioned was a 2% growth in “dollar” total but when adjusted for price increases, was actually a 4% decline, we can understand why we are considered to be in a “RECESSION.”

The Federal Reserve Board production index is still *below* a level late last summer before the General Motors strike started. In February the Federal Reserve Board's index fell to a seasonally adjusted 164.8%. This represents a decline from the previous month despite increases in automobile and steel production. Actually, the only reason output rose in December and January was that the General Motors strike ended.

The evidence of a quick turnaround is not present. But, various segments of the economy show considerable diversity. Some are favorable and therein lies the hope of ultimate recovery — slow until late this year but then faster in 1972.

FAVORABLE FACTS

For example, recently housing starts were running at an annual rate of 1,715,000, and this makes it one of the brightest aspects right now.

The other bright spot is the stock market which has advanced almost 44% from its low level last May 26th. The general rise in stock prices in the past six months has been surprisingly dramatic and, in the view of a good many people, unjustified since economic activity hasn't shown anything like a comparable improvement.

CONSUMER PRICES

For the first time last month, there was evidence of some victory in the battle against inflation. In February, the consumer price index rose at an annual rate of only 2.4%, far below the rates recorded during most of 1970. Let's hope there is some measure of truth in the small gain, but this remains to be seen.

BUSINESS SPENDING

Traditionally, Corporate Spending trends to lag behind the general economic trend. Late last year corporations withheld outlays until they could be more certain of the trend in business.

Now we are at a time when we would hope for an increase in such expenditures by manufacturing industries. However, as I shall disclose, a sustained rise in consumer spending for such factory produced goods as automobiles and appliances *must come* before management will feel justified in proceeding with major increased expenditures.

So, let's turn to the subject of the consumer.

In the Oriental calendar, this is the Year of the Boar. In the United States, in our economy, it is the year of the consumer. With the consumer, really the worker of our nation, lies the means of changing the direction of industrial production and the use of money. Why?

As each 1% of savings is now equivalent to \$7 billion a year, we should appreciate the consequence of wage earners holding back 1% or 2% of their income from purchases of goods and services. Personal savings reached an all-time peak of 7.6% of indisposable income in the second quarter 1970 amounting to almost \$53 billion. Later in 1970 *the rate* of saving declined slightly. But the cost of "services, non-durable goods and taxes continued to rise — so the consumer had to cut back on buying durables, and he did! Don't misunderstand, the consumer *earned more* (he hasn't earned less for years!) and *spent more*, but because of how he had to spend his earnings, the effect on productivity was insignificant.

Experience shows that savings peaks are not of long duration. The previous similar 7% level occurred in 1967 but lasted only one quarter of a year and then fell rapidly. Assuming a repetition of this pattern, we can expect a reversal in the downtrend of expenditures for durables with a resultant expanded production of such objects. But the time of such change is still not clear. Only when the consumer is convinced it is wise for him to spend more of his after-tax dollar, will we proceed to a new course.

Perhaps it would be well to remind ourselves that the wage earner still has to absorb his tax liabilities for social security, Federal and, in many cases, state income taxes before he arrives at his take-home pay.

The Commerce Department reported that personal income

rose by an unusually small amount in February. The amount of the increase was \$2.2 billion bringing the annual rate to \$828.9 billion.

A continuation of the dull and disappointing business performance coming in the first quarter could very well lead the Administration to propose an immediate tax cut. Lower taxes which are a deduction from gross personal income would have the effect of increasing disposable income by the amount of any tax cut. A figure of \$4.5 billion a year has been suggested as a possible goal for tax reduction. Should it occur, there would be hope to reduce the "withholding" thus, increasing "take-home pay" and funnelling cash into the spendable stream immediately.

All this points up the fact that the Administration is vitally concerned with the state of the economy and will do whatever it feels possible to turn the direction to a positive one. Whether this can be accomplished without a concurrent return of unwanted inflationary forces remains to be seen. It is fair to say that the Administration has its eye on the elections in November of 1972 and that every effort would be made to set at force the factors that will improve business, cut unemployment and make for a happier voter group by this time next year.

Let's not underestimate the effect of these potential changes or lack of changes on the demand for money. As the consumer spends more, there is a consequent increase in the amount of installment and other debt. This in turn is translated by the producing or selling corporation into a demand for credit with banks. As a part of this demand for money in the production of goods, it is logical to examine the effects on short-term interest rates.

This brings us to the subject of short-term interest rates. Why did they decline so fast and why are they so low?

Dating from the disastrous liquidity condition highlighted by the Penn Central bankruptcy in the middle of 1970, there was first a frantic desire on the part of corporate treasurers to reduce their sizable bank loans. At the time of this liquidity crisis, the banking system had little additional money for loans. Many institutions were indebted to the Federal Reserve System for reserves, and they were charging 8% minimum for the money

they did have to lend. The rapid and concerted efforts by corporate treasurers to reduce loans and the furnishing of additional money by the Federal Reserve gradually changed the situation. Corporate treasurers went into the long-term bond market to get the funds from institutions to pay off the banks. As this procedure continued, banks paid off their debt to the Federal Reserve and then found themselves with plenty of money to lend. But, now borrowers did not need much of the lendable funds. Banks attempted to attract them by reducing the rate to $7\frac{1}{2}\%$ and then 7% . You know the rest. Today the rate is down to $5\frac{1}{4}\%$, still with very few takers. That is why bank rates and other short-term interest rates are so low.

But, now the situation is completely reversed!

The Federal Reserve System appears to have embarked on a deliberate effort to prevent short-term interest rates from falling further, while at the same time continuing to push the cost of long-term borrowing downward.

The reason for this maneuver, which has been dubbed "Operation Twist" in the money market, is the huge deficit rolling up in the nation's balance of international payments. Within the space of one week in March, the Federal Reserve holdings of Government securities on behalf of foreign central banks rose \$564 million (on top of an \$890 million rise the previous week), for a total increase of more than \$3.4 billion since the beginning of the year.

These security holdings are a direct reflection of the payments deficit, aggravated because short-term interest rates in the United States have been below those in foreign money markets.

We should not lose sight of the implications of declining interest rates in the United States upon the international markets. Already the decline in United States short-term rates is having a significant impact on the credit markets of other countries. This is certain to accelerate the flow of international "hot money" into West Germany. Authorities there likely will take action designed to stem the heavy inflow of money. But, at the same time, this action will produce an additional unfavorable effect on our balance

of international payments, recently running at a deficit of \$13.2 billion on the official reserves transaction basis.

Subsequently, we could witness a lessening of the desirability of the dollar in international markets with serious consequences throughout the world.

THE 1971 OUTLOOK

What do we foresee for the remainder of this year? As usual, there are varying opinions. When the consumer chooses to spend more for hard goods and durables, this in turn will require larger inventories, greater working capital, and hence, need for short-term borrowing. Only then can we anticipate an upward trend in bank loans and *short-term* interest rates. The incessant and sizable demand for capital by municipal governments, corporations and the Federal Government could result in a return to higher *long-term* interest rates perhaps early next year.

WHAT DOES THIS MEAN?

To any group of organizations such as these represented here today, the cost of goods and services is of utmost importance. So, we should consider what our monetary and fiscal policy is doing to the price level.

From 1963 through 1970 the general price index is a constant upward curve that has produced annual increases ranging from 1.5% to a maximum rate of 5.7%. With all our efforts in 1970, we are barely successful in arresting the rate of price increase and, thus, dollar devaluation. This year in the interest of overcoming unemployment and of reversing the business trend, we have abandoned some of the restraints initiated in 1969 and early 1970. Whether we can discipline ourselves in any respect from this point on remains to be seen.

There are those who feel our present efforts must surely lead to renewed inflationary forces at least as great as those existing two years ago. Fortunately, recent statements by the head of the Federal Reserve Board seem to indicate a resistance by that body to further pressure for monetary supply increases that could lead to a kind of inflation detrimental to all concerned in this Country.

The return on money must be measured against the amount

of inflation to determine the true interest rate. As there is little sign we are correcting the rate of price inflation, eventually the long-term interest rate will again take its clue from the decline in dollar value.

WHAT AFFECT IS THERE TO BE ON GIFT ANNUITIES?

The determined efforts to attract a supply of money for continuation of philanthropic, educational and other charitable efforts are commendable. At the same time we must recognize how difficult it will be to maintain the balance between the supply of such funds and the need for which the annuities are established. If there is no change in the course, price rises in the next ten years will bring about a 50% reduction in the value of the dollar.

How existing annuities can serve the needs of the life beneficiaries adequately and still perform a need for increased principal and income to the remaining charity is an imponderable.

Whether a combination of stocks and bonds, both selections calling for the choice of unusually appropriate investment can be successful, remains to be seen. While there have been attempts to show that a well-thought-out stock program can produce an annual return of close to 10% including both capital appreciation and annual income on the investments, this has not been the universal case for investment programs in the past several years. There is no certainty of such performance or such results, and there is danger that wrong moves at any time in such a program would defeat the end result.

Frankly, the outlook is not a good one.

Whether the stock and bond market remains the best vehicle for the investment of such funds or whether some other avenue must be utilized is a question before many groups of trustees today.

The answer is not clear to me.

ACTUARIAL REPORT AND OUTLOOK

Report on Mortality Experience Studies and Gift Annuity Rates

MR. CHARLES L. BURRALL, JR.

Consulting Actuary, Huggins & Company, Inc.

The rate at which individuals who purchase gift annuities may be expected to live or die is a key element in the determination of gift annuity rates. For this reason, it is important that the mortality table used in calculating a gift annuity rate be an appropriate yardstick as to what may reasonably be expected to happen in the future. One of the important services that the Committee on Gift Annuities provides for its sponsoring organizations is the periodic study of mortality experience among a substantial number of gift annuitant lives as a check-up on the suitability of the mortality table being used in the determination of the uniform rates. Such a study has recently been completed and will be reported on as a part of this presentation.

Actually, a gift annuity rate represents an interplay of the effects of the following four assumptions; (a) the rate of mortality among annuitant lives; (b) the rate of interest to be credited to invested reserve funds; (c) the portion of a gift required for administrative expenses; and (d) the portion of the total consideration received that is to constitute a gift or "residuum" for the work of the organization.

The present uniform gift annuity rates, which were adopted by the Twelfth Conference in 1965 and reaffirmed by the Thirteenth Conference in 1968, are based on the following assumptions with relation to the four components listed above:

- (a) Rate of mortality — 1955 American Annuity Table, female lives.
- (b) Rate of interest — $3\frac{1}{2}\%$ per annum, compounded annually.
- (c) Expense loading — 5% of the total consideration.
- (d) Residuum — 50% of the total consideration.

The functioning of these assumptions is illustrated in Schedule A which charts the calculation of a gift annuity rate in

the case of a female donor aged 70. Part I of the schedule sets forth the calculation in a manner which is normally most understandable. Here the approach is first to deduct the expense loading and then set aside the 50% residuum, using the assumed interest on the latter during the lifetime of the annuitant, with the principal being payable to the organization at her death. The balance of the total consideration then becomes available, principal and interest, for the purchase of an annuity. The rate is finally determined by adding together the annuity purchased by this balance and the interest that is available on the residuum being held.

Part II sets forth an alternative calculation in which the concept is one of purchasing what is the counterpart of paid-up life insurance in the amount of the residuum, with the balance being then used to provide an actuarially equivalent amount of annuity.

The assumption as to the rate of mortality is involved in lines 6, 12 and 14. The assumption as to the rate of interest is involved in lines 6, 8, 12 and 14. Please note that alternative calculations are shown with interest assumed at the rate of (a) $3\frac{1}{2}\%$ and (b) 4%. The assumption as to expense loading is involved in line 2. Finally, the assumption as to residuum is involved in lines 4 and 12.

Let us proceed to an examination of the mortality study results which are set forth in Schedule B. There is a terrific volume of figures involved here and I am certainly not going to put you through the agonies of having to accept an interpretation of all of them. Instead, I merely want to bring out some of the highlights of the schedule and state what I think are the appropriate conclusions to be drawn therefrom.

A few procedural explanations need to be made. The schedule presents first the results of the most recent study authorized by the Committee on Gift Annuities which covered the six-year period from 1964 through 1969. For comparative purposes the schedule also shows the results of the two preceding studies. You will find that the term "life year of exposure" is used in the second column which relates to the 1964-69 study. This term is used to refer to the number of lives exposed to the risk of death for a period of one year. For example, an annuitant who

received his annuity for the entire 6-year period involved in the 1964-69 study was counted as one life year of exposure at each of six consecutive ages, for a total of six years of exposure, while those who entered the annuity roll or who died during the 6-year period were counted as being exposed to the risk of death with relation to the time when they were actually on the annuity roll.

You will see that the 1964-69 study reflected 147,185 life years of exposure. Since this study covered a 6-year period, the average number of lives included in the study was 24,531 for each of the six years. Although life years of exposure are not shown for the two earlier studies in order to cut down on volume, the 1959-63 study reflected 106,645 life years of exposure and since this study covered a 5-year period, the average yearly number of lives included was 21,329. Similarly, the 1954-58 study, also a 5-year one, included 129,076 life years of exposure, with the yearly average number of lives being 25,815.

For each of the three studies, the actual deaths that have occurred during the period are compared with what is referred to as "expected deaths". The latter are the deaths that would have occurred had mortality during the period been exactly in accordance with the mortality table being used. The comparison of actual and expected deaths is accomplished by developing the ratio of the former to the latter. If the actual deaths paralleled exactly the expected deaths, the ratio of actual to expected deaths would be 100% for each age group and in total. When the ratio of actual to expected deaths is less than 100%, it means that lighter mortality than anticipated has occurred and this is normally referred to as unfavorable annuity mortality experience. Conversely, if the ratio of actual to expected deaths is more than 100%, it means that heavier mortality than anticipated has occurred and the corresponding reference is to favorable mortality experience.

Because it has been the practice for many years in the issuance of gift annuity agreements to base annuity rates on mortality experience among female lives, the upper portion of the schedule is the one of most significance. Here it will be seen that in total during 1964-69 there were 5,408 actual deaths with 4,899 expected deaths, the ratio of actual to expected deaths thus being

110%. Interestingly enough, this is about the same result that emerged from the 1954-58 study where the ratio of actual to expected deaths was 111%. We are confronted with the somewhat illogical result of heavier mortality during the 1959-63 study than during the 1954-58 study. However, it is probably not too much of an overstatement to say that there has not been a very dramatic change in rates of mortality among this group of lives during the 16-year period from 1954 through 1969. This same pattern is borne out when we examine the results for all lives shown in the third section of the schedule where we have ratios of actual to expected of 114% during the first study; 119% during the second study and 115% during the third study.

I believe that this properly leads to the conclusion that, as far as our assumption as to rate of mortality is concerned, it is not necessary that a different table be adopted for purposes of gift annuity rates. The table now being used provides conservatism in viewing future longevity and, therefore, we should not be faced with the problem of having annuity reserves depleted through having people living considerably longer than anticipated.

An indication of the "clientele" served by the organizations issuing gift annuity agreements is set forth in Schedule C which is actually a by-product of the data summarization that was involved in making the mortality studies. This schedule shows by age groups, first for the 6-year period 1964-69 and then for the 5-year period 1959-63, the number of lives introduced into the group. It indicates rather conclusively that the age groups at which most initial gift annuity agreements are "sold" are the five age groups running from 61 through 85. During the 1959-63 period, 72% of the agreements issued were issued within these age groups; while during the succeeding 6-year period, the corresponding percentage was 75%. It must be understood here that this schedule reflects only the ages at which people *first* take out gift annuity agreements. It is not a complete picture of the ages at which all gift annuity agreements are issued since it does not reflect "successor" agreements issued. If such successor agreements were reflected, of course, there would be a heavier concentration of issuance at the older ages.

In addition to considering whether any modification of the

mortality assumption was advisable, the Committee on Gift Annuities also gave careful study to the question as to whether it would be advisable to modify the interest assumption which has been at a 3½% rate since the adoption of the current uniform gift annuity rates in 1965. Here, it was the consensus of the Committee and thus its recommendation to this Conference on Gift Annuities that it would be appropriate to modify the rates through the use of a 4% instead of a 3½% interest assumption. Consequently, the rates being recommended by the Committee for the consideration of this Conference are the result of retaining the existing assumptions as to mortality, residuum and expense loading but at the same time increasing the interest assumption so that the over-all result is a liberalization of gift annuity rates.

It has long been the practice of the Committee to modify the tabular rates; i.e., the rates that are the direct result of the calculations based on the actuarial assumptions, at both the younger ages and the older ages. It is the current judgment of the Committee that it would be advisable to have the schedule of single-life rates show a minimum rate of 4% and a maximum of 10%. A comparison between the present and the proposed single-life rates is set forth in Schedule D. It will be seen that the proposed rates reflect a minimum increase of .4 percentage points, with the maximum increase being 2 percentage points in the rate for annuities issued at ages 86 and over.

A rather interesting evaluation of the proposed rates can be made by reference to Schedule E which presents an historical comparison of the rates that have been recommended by the Committee since 1927. The proposed rates are higher at all ages than those adopted in 1965, 1955 and 1939 and are equal to or higher than the 1934 rates except at ages 53 through 67. In other words, it is necessary to go back to rates adopted before 1934 in order to find a set of rates generally more liberal than those being proposed.

Schedule F sets forth illustrations of gift annuity rates for two lives, joint and survivor, in the manner used for single lives in Schedule E, except for the fact that quinquennial specimen ages have been used. In establishing the recommended rates for two lives, there has been observed a principle that has been followed

in the development of the uniform rates since 1955; viz., that a rate for two lives will always be at least .2 percentage points less than the single-life rate for the younger of the two lives.

In summary, it is the consensus of the Committee on Gift Annuities that (a) the actuarial assumptions relating to mortality, residuum and expense loading which are reflected in the current uniform rates should be retained; (b) the interest assumption should be increased from 3½% to 4%; (c) the schedule of single life rates should show a minimum rate of 4% and a maximum rate of 10% and (d) a rate for two lives should be at least .2 percentage points less than the single-life rate for the younger of the two lives. The resulting schedule of rates represents a significant liberalization in the existing uniform rates.

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

	<i>Interest Assumed at Rate of</i>	
	<i>(a)</i> 3½%	<i>(b)</i> 4%
<i>I—Calculation</i>		
1. Amount of principal donated	\$1,000	\$1,000
2. Expense loading to be deducted: 5% × 1 . . .	50	50
3. Balance for annuity payments and residuum:		
1—2	\$ 950	\$ 950
4. Residuum to be set aside with interest thereon available	\$ 500	500
5. Balance for annuity payments: 3—4	\$ 450	\$ 450
6. Cost of \$1 per year of life annuity	\$11.28	\$10.82
7. Annuity provided by balance in 5: 5÷6	39.89	41.59
8. Interest provided by residuum in 4:		
4 × interest rate	17.50	20.00
9. Total annual income available: 7+8	57.39	61.59
10. Annuity rate: 9÷\$1,000	5.7%	6.2%
<i>II—Alternate Calculation as a Check</i>		
11. Balance for annuity payments and residuum:		
#3 in I	\$950.00	\$950.00
12. Cost of \$500 residuum payable at death	302.64	283.60
13. Balance for annuity payments: 11—12	\$647.36	\$666.40
14. Cost of \$1 per year of life annuity:		
#6 in I	\$11.28	\$10.82
15. Annuity provided by balance in 13: 13÷14 . .	\$57.39	\$61.59
16. Annuity rate: 15÷\$1,000	5.7%	6.2%

SCHEDULE A

MORTALITY STUDY

Expected Deaths Based on the 1955 American Annuity Table, Female Lives

Age Groups	Life Years of Exposure	January 1, 1964 through December 31, 1969			January 1, 1959 through December 31, 1963			January 1, 1954 through December 31, 1958		
		Actual Deaths	Expected Deaths	Ratio A/E	Actual Deaths	Expected Deaths	Ratio A/E	Actual Deaths	Expected Deaths	Ratio A/E
FEMALE LIVES										
0-50	6,932	35	10	350%	16	8	200%	17	10	170%
51-55	3,701	28	15	187	8	12	67	21	14	150
56-60	6,001	39	37	105	22	30	73	32	37	86
61-65	9,810	94	98	96	70	74	95	74	89	83
66-70	14,854	174	251	69	174	188	93	197	214	92
71-75	19,712	480	538	89	324	379	85	361	390	93
76-80	21,260	911	907	100	620	630	98	723	709	102
81-85	17,871	1,215	1,156	105	968	801	121	1,049	968	108
86-90	10,539	1,281	1,018	126	964	742	130	988	780	127
91-95	4,527	870	638	136	540	367	147	504	377	134
96+	1,087	281	231	122	165	103	160	169	144	117
TOTAL	116,294	5,408	4,899	110%	3,871	3,334	116%	4,135	3,732	111%

MALE LIVES

0-50	4,538	14	6	233%	7	4	175%	5	6	83%
51-55	1,336	11	6	183	8	4	200	5	6	83
56-60	2,015	27	12	225	23	8	288	21	11	191

61-65	2,435	38	24	158	31	18	172	32	24	133
66-70	3,361	78	57	137	54	43	126	70	56	125
71-75	4,443	140	121	116	100	84	119	122	190	118
76-80	4,777	239	204	117	169	143	118	220	188	117
81-85	4,164	357	270	132	259	198	131	341	250	136
86-90	2,477	319	238	134	267	189	141	272	221	123
91-95	1,049	208	149	140	116	100	116	146	93	157
96+	296	98	60	163	39	27	144	35	30	117
TOTAL	30,891	1,529	1,147	133%	1,073	818	131%	1,269	988	128%

ALL LIVES

0-50	11,470	49	16	306%	23	12	192%	22	16	138%
51-55	5,037	39	21	186	16	16	100	26	20	130
56-60	8,015	66	49	135	45	38	118	53	48	110
61-65	12,245	132	122	108	101	92	110	106	113	94
66-70	18,215	252	308	82	228	231	99	267	270	99
71-75	24,155	620	659	94	424	463	92	483	493	98
76-80	26,038	1,150	1,111	104	789	773	102	943	897	105
81-85	22,034	1,572	1,426	110	1,227	999	123	1,390	1,218	114
86-90	13,016	1,600	1,256	127	1,231	931	132	1,260	1,001	126
91-95	5,577	1,078	787	137	656	467	140	650	470	138
96+	1,383	379	291	130	204	130	157	204	174	117
TOTAL	147,185	6,937	6,046	115%	4,944	4,152	119%	5,404	4,720	114%

SCHEDULE B

MORTALITY STUDY

Accessions to Group Studied During Period Studied

Age at Entry	January 1, 1964 through December 31, 1969			January 1, 1959 through December 31, 1963		
	Female Lives	Male Lives	All Lives	Female Lives	Male Lives	All Lives
	Number	%	Number	%	Number	%
0-50	491	7	288	13	779	9
51-55	298	4	101	5	399	4
56-60	455	7	144	7	599	7
61-65	801	12	201	9	1,002	11
66-70	1,195	18	279	13	1,474	16
71-75	1,361	20	380	17	1,741	19
76-80	1,224	18	383	17	1,607	18
81-85	667	10	298	13	965	11
86-90	236	3	105	5	341	4
91-95	54	1	20	1	74	1
96+	3	..	3	..	6	..
TOTAL	6,785	100%	2,202	100%	8,987	100%
					5,468	100%
					1,700	100%
					7,168	100%

SCHEDULE C

Gift Annuity Rates — Single Life

Age	Present	Proposed	Increase	Age	Present	Proposed	Increase
35 & Under	3.0% [*]	4.0% [*]	1.0%	60	4.7%	5.2%	.5%
36	3.1°	4.0°	.9	61	4.8	5.3	.5
37	3.2°	4.0°	.8	62	4.9	5.3	.4
38	3.3°	4.0°	.7	63	5.0	5.4	.4
39	3.4°	4.0°	.6	64	5.1	5.5	.4
40	3.5°	4.0°	.5	65	5.2	5.6	.4
41	3.6°	4.1°	.5	66	5.3	5.7	.4
42	3.7°	4.2°	.5	67	5.4	5.8	.4
43	3.8°	4.3°	.5	68	5.5	6.0	.5
44	3.9°	4.4	.5	69	5.6	6.1	.5
45	4.0	4.4	.4	70	5.7	6.2	.5
46	4.0	4.5	.5	71	5.9	6.4	.5
47	4.1	4.5	.4	72	6.0	6.5	.5
48	4.1	4.5	.4	73	6.2	6.7	.5
49	4.2	4.6	.4	74	6.3	6.9	.6
50	4.2	4.6	.4	75	6.5	7.0	.5
51	4.2	4.7	.5	76	6.7	7.2	.5
52	4.3	4.7	.4	77	6.9	7.4	.5
53	4.3	4.7	.4	78	7.1	7.7	.6
54	4.4	4.8	.4	79	7.4	7.9	.5
55	4.4	4.9	.5	80	7.6	8.2	.6
56	4.5	4.9	.4	81	7.7°	8.5	.8
57	4.5	5.0	.5	82	7.8°	8.8	1.0
58	4.6	5.0	.4	83	7.9°	9.1	1.2
59	4.7	5.1	.4	84	8.0°	9.4	1.4
				85	8.0°	9.7°	1.7
				86 & Over	8.0°	10.0°	2.0

^{*}Arbitrarily reduced below computed rate

BASIS OF RATES:

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

Present rates: Interest at 3½%.

Proposed rates: Interest at 4%.

SCHEDULE D

Historical Comparison of Annuity Rates Recommended by the Committee on Gift Annuities

Age	A	B	C	D	E	F*	G
	<i>Date of Conference Action</i>						
	4/29/27	3/17/31	11/20/34	10/05/39	10/04/55	4/07/65	4/15/71 (Proposed)
30	5.0%	4.9%	3.0%	2.5%	3.0%	3.0%	4.0%
35	5.1	4.9	3.0	2.5	3.0	3.0	4.0
40	5.2	5.0	3.5	3.0	3.5	3.5	4.0
45	5.4	5.2	4.0	3.5	3.7	4.0	4.4
50	5.6	5.3	4.5	4.0	3.9	4.2	4.6
55	5.8	5.5	5.0	4.5	4.2	4.4	4.9
60	6.2	5.8	5.3	4.7	4.5	4.7	5.2
65	6.8	6.2	5.7	5.1	5.0	5.2	5.6
70	7.6	6.7	6.2	5.5	5.5	5.7	6.2
75	8.7	7.3	7.0	6.2	6.3	6.5	7.0
80	9.0	8.0	8.0	7.0	7.4	7.6	8.2
85	9.0	8.0	8.0	7.0	7.4	8.0	9.7
90	9.0	8.0	8.0	7.0	7.4	8.0	10.0

*Present rates

BASIS OF RATES:

- A. McClintock Table of Mortality; male lives; interest at 4½%; 70% residuum; tabular rates modified at older ages; no expense loading.
- B. American Annuitants Table of Mortality; female lives; interest at 4½%; 70% residuum; tabular rates modified at older ages; no expense loading.
- C. Combined Annuity Table; female lives; interest at 4%; 70% residuum; tabular rates modified at younger and older ages; no expense loading.
- D. Combined Annuity Table; female lives with ages rated as two years younger; interest at 3%; 50% residuum; tabular rates modified at younger and older ages; no expense loading.
- E. 1937 Standard Annuity Table; female lives with ages rated as one year younger; interest at 3%; 50% residuum; tabular rates modified at younger and older ages; expense loading of 5% of total gift.
- F. 1955 American Annuity Table; female lives; interest at 3½%; 50% residuum; tabular rates modified at younger and older ages; expense loading of 5% of total gift.
- G. 1955 American Annuity Table; female lives; interest at 4%; 50% residuum; tabular rates modified at younger and older ages; expense loading of 5% of total gift.

SCHEDULE E

Committee on Gift Annuities

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

Age of Younger Life Present Proposed Increase Present Proposed Increase Present Proposed Increase

	Age of Older Life								
	90			85			80		
90	7.8°	9:2	1.4						
85	7.8	8.3	.5	7.2	7.7	.5			
80	6.9	7.4	.5	6.6	7.1	.5	6.2	6.6	.4
75	6.2	6.7	.5	6.0	6.5	.5	5.7	6.2	.5
70	5.5	6.0	.5	5.5	5.9	.4	5.3	5.8	.5
65	5.0	5.4°	.4	5.0	5.4°	.4	4.9	5.4	.5
60	4.5°	5.0°	.5	4.5°	5.0°	.5	4.5°	5.0°	.5
55	4.2°	4.7°	.5	4.2°	4.7°	.5	4.2°	4.7°	.5
50	4.0°	4.4°	.4	4.0°	4.4°	.4	4.0°	4.4°	.4
45	3.8°	4.2°	.4	3.8°	4.2°	.4	3.8°	4.2°	.4
40	3.3°	3.8°	.5	3.3°	3.8°	.5	3.3°	3.8°	.5
35	2.8°	3.8°	1.0	2.8°	3.8°	1.0	2.8°	3.8°	1.0
30	2.8°	3.8°	1.0	2.8°	3.8°	1.0	2.8°	3.8°	1.0
		75			70			65	
75	5.5	5.9	.4						
70	5.1	5.6	.5	4.9	5.4	.5			
65	4.8	5.3	.5	4.7	5.1	.4	4.6	5.0	.4
60	4.5°	5.0	.5	4.5	4.9	.4	4.4	4.8	.4
55	4.2°	4.7°	.5	4.2°	4.7	.5	4.2	4.6	.4
50	4.0°	4.4°	.4	4.0°	4.4°	.4	4.0°	4.4°	.4
45	3.8°	4.2°	.4	3.8°	4.2°	.4	3.8°	4.2°	.4
40	3.3°	3.8°	.5	3.3°	3.8°	.5	3.3°	3.8°	.5
35	2.8°	3.8°	1.0	2.8°	3.8°	1.0	2.8°	3.8°	1.0
30	2.8°	3.8°	1.0	2.8°	3.8°	1.0	2.8°	3.8°	1.0
		60			55			50	
60	4.3	4.7	.4						
55	4.2	4.6	.4	4.1	4.5	.4			
50	4.0	4.4	.4	4.0	4.4	.4	3.9	4.3	.4
45	3.8°	4.2°	.4	3.8°	4.2°	.4	3.8	4.2°	.4
40	3.3°	4.8°	.5	3.3°	3.8°	.5	3.3°	3.8°	.5
35	2.8°	3.8°	1.0	2.8°	3.8°	1.0	2.8°	3.8°	1.0
30	2.8°	3.8°	1.0	2.8°	3.8°	1.0	2.8°	3.8°	1.0
		45			40			35	
45	3.8	4.2	.4						
40	3.3°	3.8°	.5	3.3°	3.8°	.5			
35	2.8°	3.8°	1.0	2.8°	3.8°	1.0	2.8°	3.8°	1.0
30	2.8°	3.8°	1.0	2.8°	3.8°	1.0	2.8°	3.8°	1.0
					30				
30				2.8°	3.8°	1.0			

*Reduced in accordance with relationship to younger age single-life rate
BASIS OF RATES: Present and proposed rates: 1955 American Annuity Table, female lives, 50% residuum; expense loading of 5% of total gift

Present rates: Interest at 3½%

Proposed rates: Interest at 4%

SCHEDULE F

TAX REFORM LEGISLATION

DR. ROLAND C. MATTHIES

Vice President and Treasurer, Wittenberg University

THE CHARITABLE REMAINDER ANNUITY TRUST

Greetings, old friends and new! While the place is new, some of us are becoming the venerables of this organization. In fact, the American College Public Relations Association recently awarded me a plaque signifying that henceforth I am to be known as "Seasoned Sage." And I don't mind it a bit! and my wife is quite pleased.

For those of us who have worked with the Conventional Charitable Gift Annuity or Classic Charitable Gift Annuity, as Conrad Teitell refers to it, over many years, it may seem a bit tiresome to review even briefly the chief attributes of that technique for gift-getting. On the other hand, these conferences are designed to be of help to the newcomer as well as to the attenders of long experience. Therefore, as we get into the subject of what the 1969 Tax Reform Act has provided us in the form of an annuity contract let us first quickly review the old tried and true, the Charitable Gift Annuity:

1. The annuity payment is based upon the age of the beneficiary and/or beneficiaries among whom may be the donor. A quite usual situation is for the donor and his wife to be those beneficiaries. Rates currently offered were adopted by the Conference on Gift Annuities April 7, 1965 and are adhered to by approximately 600 institutions in the United States. Consequently, there is little room for "negotiating a better deal" by running from one institution to another.

Of course, the annuitant can agree to take a lesser amount than the published rate schedule would indicate.

2. Thanks to the publication of the "Green Book" by the Committee on Gift Annuities, the actuarial value of the annuity and the resulting charitable contribution deduction are quite readily calculated. The actuarial value, in effect, is what the Treasury Department presumes it

would cost the donor to purchase a similar annuity from a commercial life insurance company.

3. A substantial portion of the annuity payment is permanently excluded from federal income taxation, based upon tables published in the same "Green Book." The excluded portion is considered return of principal and therefore not taxable. The tables are based upon an assumption that the institutions would earn $3\frac{1}{2}\%$ on their investment portfolios.
4. Until the 1969 Tax Reform Act, the capital gains situation was quite clear as it applied to the Charitable Gift Annuity. If the donor's adjusted cost basis in the property transferred was less than the actuarial value of the annuity, the difference is considered capital gain and taxable accordingly. The Treasury Department has just issued Proposed Regulations Sec. 1.1011-2(c) for applying the bargain sale rule to the giving of appreciated property under the Charitable Gift Annuity. Our long wait for a somewhat favorable ruling has ended.
5. A prime attribute of this type of contract is that the entire assets of the institution stand behind the payments even though the original principal is consumed through the extraordinarily long life of one or more of the annuitants.
6. The use of cash or securities to obtain a charitable gift annuity is customary. Instances of utilizing real estate as the transferred property are fairly rare.

So much for laying the foundation as to what we worked with in the days before the 1969 Tax Reform Act, and I am happy to report that, except for the bargain sale implication, the new law was not aimed at the Charitable Gift Annuity.

One of the creatures of the new law is the Charitable Remainder Annuity Trust, as distinguished from the Charitable Remainder Unitrust. The Charitable Remainder Annuity Trust has these attributes:

1. The annuity payment must be a minimum of 5% of the market value of the assets turned over to the institution

at the time of entering into the agreement. That valuation does not change for the life of the agreement and accordingly, the annuity payment does not change. A higher rate than 5% may be agreed upon.

2. There is a complete avoidance of capital gains taxation upon the transfer of appreciated property to the trustee as the basis for such a trust agreement, provided, of course, that the agreement complies with the requirements of the 1969 Tax Reform Act. This can be a great boon to donors who have highly appreciated property.

Likewise, the trust itself will not be subject to a capital gains tax at the time that it sells securities or other property for a profit. Accordingly, if the trust is able to produce income high enough to meet the annuity rate agreed upon in the contract, it is entirely possible that at the maturing of the trust the institution will have for itself the undiminished value of the original asset, hopefully enhanced by capital growth.

3. Specific steps are indicated as to how the income from a Charitable Remainder Annuity Trust is taxed to the beneficiary. Under the new provisions, amounts paid out by the trust to the annuitant are taxed in this sequential manner:

- (A) First, as ordinary income to the extent of the sum of the trust's ordinary income for the taxable year and its undistributed ordinary income carried from prior years.

- (B) Second, as short-term capital gain to the extent of the sum of the trust's net short-term capital gain for the taxable year and its undistributed net short-term capital gains carried from prior years.

- (C) Third, as long-term capital gain to the extent of the sum of the trust's net long-term capital gain for the taxable year and its undistributed net long-term capital gains for prior years.

- (D) Fourth, as other income (including tax-exempt income) to the extent of the sum of the trust's other

income for the taxable year and its undistributed other income for prior years.

(E) Fifth, as a tax-free distribution of trust corpus.

4. The trust may continue for the life or lives of beneficiaries in being, or it may run for a specified term of years which may not exceed 20 years.
5. It is to be remembered that the only guarantee to the annuitant under this contract is the trust asset itself. The institution does not pledge its other assets to back up the annuity payments called for. Thus, an agreed to high annuity rate or poor investment experience might well jeopardize the annuity payments in the later years of the contract.
6. We should continually remember that we are now dealing with a trust situation with a specific asset involved in that trust. The law is exact in stating that no future contributions are to be made to an existing Charitable Remainder Annuity Trust. We should always be aware of the fact that under the new law, where the trust vehicle is used for a charitable gift with income paid back to the donor or beneficiaries, the device must either be a charitable remainder annuity trust or charitable remainder unitrust.
7. Many institutions may be engaged in becoming the trustee in a charitable gift situation for the first time in their history. Care should be taken to make sure that under state law and the provisions of its own charter, the institution is permitted to operate as trustee for itself and designated beneficiaries. State law may provide for a compensation schedule for trustees. This can be cared for in the contract itself where the payment may be waived or where a schedule of fees is indicated. Provision should be made in the contract as to the waiver of bonding for the trustee.

As in most trust situations, the donor should normally not act as trustee for the agreement. If he does not care to utilize your institution or if state law does not so permit, a bank or trust company can be

named as well as an individual. Care should always be taken that when an individual trustee is designated, that provision is made for ample successorship in the case of disability or disinclination to serve.

8. It is clear that the contract may provide that the last payment shall be the one next preceding the termination of the trust rather than allowing for a final fractional payment.
9. It is highly important that the institution determine and record at the time that the property is brought into the trust the donor's holding period and also his cost basis in the property. The trust assumes this holding period and this cost basis. This information is of high importance in making investment decisions within the operation of the trust as it would be brought into focus by short-term or long-term capital gains.
10. Tangible personal property is not to be used to create a charitable remainder annuity trust. The law is specific that the charitable deduction will not be allowed for an interest retained in tangible personal property by transferring it to such a trust.
11. All important to the computation of the actuarial values and the resulting charitable contribution deduction for annuity trusts is Publication 723 A (12-70) of the Department of the Treasury Internal Revenue Service. The book is entitled "Actuarial Values II." The one-life tables are in the third part of that book while the two-life text and tables are in the beginning portions of that book. Happily, the computations involved are less technical than under the charitable remainder unitrust or pooled income funds.

I commend to you the personal working out of computations for the good experience provided. Only with such first-hand knowledge can you be sensitive to the process and thus a good explainer to your donor.

Implications involving the federal gift tax and the federal

estate tax are not here covered but your specific attention is called to the necessity for being knowledgeable in this area so that you may inform your donor and his attorney.

Note: This information is based up *Proposed Regs.*

PROPOSED FEDERAL ESTATE AND GIFT TAX REFORM

For those of us who regularly subscribe to *Taxwise Giving*, Conrad Teitell has provided excellent back-up material in the June and July 1970 issues. I have his permission to quote liberally from his erudition and will do so without apology.

We came through the dread days of the 1969 Tax Reform Act, its conception and its birth, with the sure knowledge that this was but a beginning. There simply was not time for the Congress to go into the matters of Federal estate and gift tax change but that time is close at hand, I feel sure. Again, in the desire to compare what we now have and what we may get I shall briefly review what is now the law in these two areas:

FEDERAL ESTATE TAX. It is a tax on the transfer of property at death and is not to be confused with an inheritance tax. Funeral, administration expenses and other debts, followed by the possible marital deduction if utilized, the charitable deduction and a \$60,000 specific exemption bring us to the calculation of what is the taxable estate to which the tax applies. Going into the estate are the usual property values such as stocks, bonds, real estate and so on. But always to be remembered is that included in the gross estate are the proceeds of life insurance where the proceeds are either payable to the estate or where the decedent retained any semblance of ownership over the policy. Revocable lifetime transfers are another important category to look for. Quoting from the June 1970 issue of *Taxwise Giving*,

"The taxable estate is arrived at as follows:

1. Total all property included in the gross estate.
2. Deduct funeral and administration expenses and debts. The result is the *adjusted gross estate* which is the base for computing the marital deduction.
3. Deduct the marital deduction, charitable gifts and the \$60,000 specific exemption.

4. The resultant amount is the taxable estate—to which the tax rates are applied.

The present Federal estate tax rates range from 3% to 77%.”

Any gift tax paid on property included in the gross estate of the decedent is given credit in the Federal estate tax computation.

It is to be remembered that charitable gifts have an unlimited estate tax deduction allowed.

FEDERAL GIFT TAX. With regard to charitable gifts, there is no Federal gift tax involved when the gift qualifies for an income tax contribution deduction. There is no limit. Contrary to popular opinion, however, a Federal gift tax return should be filed even though the charitable gift involved is a non-taxable situation.

In gifts to others, it is important to remember that the donor in making a lifetime gift removes the property from his highest estate tax bracket and pulls it down to his lowest gift tax bracket.

Often confused are the two most commonly referred to items under the law for the Federal gift tax, the \$3,000 annual exclusion and the \$30,000 lifetime exemption. Put very simply, a donor may give up to \$3,000 each year to as many persons as he chooses and not be involved in even reporting the gift. By having his wife join in the gift, the annual exclusion is moved up to the \$6,000 level. The \$30,000 lifetime exemption, on the other hand, is an accumulative situation so that every gift beyond the \$3,000 annual level must be charged against the \$30,000 lifetime exemption. This is done on the reporting form for Federal gift tax in an accumulative manner. Again, by having the spouse join in, the lifetime exemption can be doubled and \$60,000 be made the lifetime limit.

A gift from one spouse to another enjoys the same double indemnity. One-half is deductible before the annual exclusion and the lifetime exemption apply. Federal gift tax rates go from 2½% to 57½% and are three-fourths as expensive as the Federal estate tax rates.

It should be noted with care that the giving of a future interest does not qualify for the \$3,000 annual exclusion since that is meant to cover an immediate gift. Therefore, each gift of a

future interest cuts into the \$30,000 lifetime exemption and must be reported.

On New Year's Eve, President Nixon signed Public Law 91-614 providing for great changes in making payment of Federal Estate and Gift taxes. The changes effect a speed-up and not a raise in rates.

If there had not been an effective protest made to Treasury, even charitable gifts would have been required to be reported quarterly. But we overcame!

WHAT APPEARS TO BE IN THE OFFING? It seems entirely possible that the Congress may consider major revisions in both the estate and gift tax laws sometime this year. For a time it appeared that this would be brought to a quick decision early in the present session but other demands upon the House Ways and Means Committee have intervened. These proposals were developed by the Treasury under the Johnson Administration and we do not yet have from the Nixon Administration its position.

Here, then, are some of the proposals which will probably be put before the Congress:

The proposals are not designed to deter charitable gifts. On the other hand, the proposed higher taxes and lower exemptions will leave less money and property to be shared with charity. As Taxwise Giving reports, "Since gifts during life are an alternative to gifts at death, taxation of gifts by the living is a natural companion to taxation of gifts at death."

1. Estate and gift taxes have not had a thorough going over by the Congress since 1942. There are many complexities involved and a revision seems to be overdue. The fact that a taxpayer may hold an appreciated asset until he dies with the appreciation not subject to income tax is a present possibility which the Treasury believes needs correction. It is the Treasury's recommendation that the value of assets transferred at death or by gift during life be subjected to the same tax as other capital gains. "To assure equitable application of the tax, it is recommended by Treasury that—

- (A) Only appreciation occurring after the date of enactment be subject to tax;

- (B) The tax on appreciation of transferred assets be allowed as a deduction for estate tax purposes;
 - (C) Taxpayers be allowed a minimum of \$60,000 with the result that no tax at all would be imposed on gains when the total value of assets transferred is \$60,000 or less;
 - (D) Complete exemption be allowed for transfers between spouses;
 - (E) Limited exemptions be allowed for transfers to orphan children and transfers of ordinary personal and household effects;
 - (F) Net unrealized losses on business or investment property be allowed as an offset against capital gains and, subject to appropriate limitations against ordinary income for the three taxable years preceding the decedent's final income tax return;
 - (G) Gains on transferred assets be eligible for averaging." (Taxwise Giving July 1970)
2. Any gain on assets transferred outright to charity during lifetime or through an estate would be exempt from capital gains tax under the Treasury proposals. At present, the Federal estate tax and the Federal gift tax are operated as two separate entities and it is the proposal of the Treasury that these be unified. There is no desire to maintain the dual tax structure nor to maintain a differentiation in tax rates between the two types of taxation. For the more wealthy, under present law, it is a great advantage to make gifts during life. "The separation of the gift tax from the estate tax has necessitated the creation of elaborate rules for determining which tax should apply to situations in which a donor transfers property during his lifetime, but retains some interest in it or some opportunity to recover it. Slight differences in the form of such transfers often lead to substantial differences in the amount of tax which must be paid." (Taxwise Giving July 1970)
3. It appears quite clear that the Treasury has no intention

of affecting outright charitable gifts or deferred gifts which meet the 1969 Tax Reform Act requirements. However, in the case of short-term charitable income trusts, where the charity has only an income interest, no charitable exemption would be intended under the new unified transfer tax.

4. The Treasury recognizes that the taxation of appreciated assets at gift or at death, and the unification of the transfer taxes, will produce substantially increased revenue for the government. To that result, Treasury would recommend that these increases be offset by a steady reduction of the rates imposed upon transfers over a period of perhaps ten years. After the ten-year period had expired, the top rate would probably be 65% compared to the present 77% top bracket for the Federal estate tax.
5. The Treasury will probably recommend an overall exemption of \$60,000 for the unified transfer tax. This one exemption is considerably less than the combined \$90,000 exemption now available under the separate Federal gift tax and Federal estate tax. It is the opinion of Treasury officials, however, that the abandonment of any restriction upon transfers between spouses will make the results even more liberal than at present. I am sure that we can appreciate the fact that the elimination of taxation on transfers between spouses would be a great liberalization.

In preparation for gathering sufficient information to present to the Congress and to the Treasury Department, many colleges and other publicly supported charitable institutions have gathered pertinent information as to how much of their gift-getting is involved with appreciated securities and other appreciated property. In the fine liaison that was established during the dependency of the 1969 Tax Reform Act, we believe that such a relationship can be continued to the benefit of the Congress and ourselves.

Predicting the outcome of this intended legislation would be

foolhardy. Essential to our understanding, it seems to me, is that we realize how closely associated with gift-making to our institutions is the entire area of tax imposition upon transfers during life and at death. We should maintain a very close awareness of the progress that such intended legislation makes. We should offer our complete cooperation to the Committee on Gift Annuities, the American College Public Relations Association, and the 501 (c) (3) Group as they seek to maintain the finest of cooperation with Capitol Hill.

TAX REFORM LEGISLATION

MR. CONRAD TEITELL

Partner, Prerau & Teitell

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CHARITABLE REMAINDER UNITRUSTS

In Brief. Donor irrevocably transfers money, securities or both to a trustee (often the charity) who invests and reinvests the assets as a separate fund. Donor (or other designated beneficiary) receives an amount each year determined by multiplying a fixed percent (a minimum of 5%) by the fair market value of the trust assets, valued each year. Any income not paid out is added to principal. If the income is insufficient to pay the required amount, capital gains and/or principal make up the deficit. On the donor's death (or death of other designated beneficiary) payments terminate and the then assets of unitrust are the absolute property of the designated charitable remainderman.

THREE TYPES OF UNITRUSTS ARE AUTHORIZED.

Plan 1: Specifies that the "recipient" (income beneficiary) is to receive annual payments based on fixed percent (which cannot be less than 5%) of the net fair market value of the trust assets, as determined each year. The percent, determined at time trust is created, remains constant for the entire trust term.

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

Plan 2: Trustee is to pay the beneficiary only the trust income if the actual income is less than the stated percent. Deficiencies in distributions (i.e., where trust income is less than stated percent) are made up in later year(s) if the trust income in later year(s) exceeds the stated percent.

Example: Donor's unitrust provides that he is to receive 5% of the net fair market value of the unitrust assets each year or the actual trust income, whichever is lower. In any later year(s) in which the trust income exceeds 5%, the trustee shall pay the excess to the donor to the extent it makes up deficiencies (actual income was less than 5% of net fair market value of trust) of prior years. Donor funds his unitrust with \$100,000.

	Net fair market value of trust assets	Amount equal to 5% of assets	Actual Income Earned	Beneficiary Receives
1st year	\$100,000	\$5,000	\$4,000	\$4,000
2nd year	\$110,000	\$5,500	\$4,000	\$4,000
3rd year	\$120,000	\$6,000	\$9,000	\$8,500
4th year	\$120,000	\$6,000	\$5,500	\$5,500

Plan 3: The trustee is to pay the beneficiary only the trust income if the actual income is less than the stated percent. Any deficiencies in distributions are *not* to be made up in later years if the trust income exceeds the stated percent.

Example: Donor's unitrust provides that he is to receive 5% of net fair market value of the unitrust assets each year or the actual trust income, whichever is lower. Any deficiencies in distributions are *not* to be made up in later years if the trust income exceeds the stated percent. Donor funds his trust with \$100,000.

	Net fair market value of trust assets	Amount equal to 5% of assets	Actual Income Earned	Beneficiary Receives
1st year	\$100,000	\$5,000	\$4,000	\$4,000
2nd year	\$110,000	\$5,500	\$4,000	\$4,000
3rd year	\$120,000	\$6,000	\$9,000	\$6,000
4th year	\$120,000	\$6,000	\$5,500	\$5,500

Income tax charitable deduction. Donor gets a sizeable income tax charitable deduction in the year he creates the unitrust. The deduction is for the value of the charitable institution's right to receive the unitrust principal (the remainder) after donor's life, as determined by official Treasury tables.

The amount of the charitable deduction depends on (1) Donor's age (and the age of any other beneficiary), (2) the percent to be paid, and (3) the amount of money or fair market value of long-term securities contributed. See the end of this section for a chart showing the tables to use to compute the charitable deduction.

Donor's gift is deductible up to 50% of his adjusted gross income when the unitrust is funded with money and the beneficiary is a school, church, hospital or other publicly supported charity. Any "excess" is deductible until exhausted over the five following years—up to 50% of each year's adjusted gross income. For unitrusts funded with long-term appreciated securities, the contribution is deductible up to 30% of adjusted gross income—with a five year carryover for any "excess". In some cases, the ceiling can be increased to 50% with a five year carryover by electing to reduce the amount of the charitable deduction by one-half the appreciation allocable to the remainder interest.

Typical deductions. This table shows the charitable deduction for each \$10,000 transferred to a unitrust which pays donor each year for life 5%^o of the fair market value of the unitrust's assets (as valued each year) before the principal goes to the charitable institution.

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

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

Contribution Deduction
for each \$10,000 given to trust

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

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

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

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

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

Fourth, as a tax-free distribution of principal.

Favorable tax treatment for trust payments. Part of the income received by the donor each year can often be taxed at favorable capital gains rates or even be tax-free. This can be achieved by a growth rather than an income oriented investment policy. In the Plan 1 trust (described above), the income beneficiary receives the stated percent each year even though the unitrust income is less than the stated percent. Capital gains or principal are distributed to make up any deficit. The following examples show the different tax treatment for growth and income investment policies.

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

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

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

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

Examples showing investment policy combining income and growth.

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

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

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

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

The securities are growth securities and earn only \$1,000 in dividends during the year. Donor is entitled to \$5,000 for the year so the trustee sells a block of stock worth \$4,000 which cost \$2,000. Of the \$5,000 payment, donor receives \$1,000 taxed at ordinary income rates, \$2,000 as long-term capital gain and \$2,000 as a tax-free return of principal.

The next example is more detailed — covering three years.

Example 5:

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

During the year the trust:

Received: \$2,000 in dividends.

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

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

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

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

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

During the year the trust:

Received: \$6,000 in dividends.

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

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

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

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

During the year the trust:

Received: \$2,250 in dividends.

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

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

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

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

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

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

*Exception. Unitrust is not exempt from tax in any year it has income which would be taxable unrelated business income if trust were an exempt organization. Unrelated business taxable income includes debt-financed income.

the charitable institution's right to the unitrust principal on the death of the survivor — is completely free from estate tax.

Gift tax implications of two-life unitrusts. A donor who funds his unitrust with his own property and provides for income first to himself and then a survivor, makes a gift to the survivor. However, proper drafting of the trust agreement — the donor's retained right to, by his Will, revoke the survivor's interest — can make the gift to the survivor free of gift tax. The specimen unitrusts in this volume contain such a provision.

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

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

Husband's estate (assume first to die)

Adjusted gross estate	\$600,000
Less:	
Marital deduction	\$300,000
Charitable deduction	30,000
Specific exemption	60,000
Total deductions and exemptions	\$390,000
Taxable estate	\$210,000
<i>Estate Tax</i> (before any credits)	\$ 53,700

Wife's estate: No tax because her entire estate goes to the charity.

Alternate plan saving estate taxes and increasing wife's income. Donor's will gives \$300,000 (one-half of his adjusted gross

estate) outright to his wife, assuring the maximum marital deduction. His Will gives \$30,000 outright to charity and creates a charitable unitrust with the remaining \$270,000 with 5% unitrust payments going to his widow for life. Then the unitrust principal comes under the complete ownership of the charitable institution. The tax consequences are:

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

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

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

POOLED INCOME FUNDS (LIFE INCOME CONTRACTS)

In Brief. Donor irrevocably transfers money, securities or both to a qualified charity's separately maintained pooled income fund, where it is invested together with transfers of others who make similar life income gifts. Donor (or other designated beneficiary) receives his share of the pooled income fund earnings each year.

Example: Mr. Clark's \$10,000 life income contract gift is invested in a pooled income fund. The fund earns 5% this year, so he receives \$500 for the year.

On donor's death (or death of other designated beneficiary) the payments terminate and the charity removes donor's gift from the pooled fund and uses it for its charitable purposes.

TO QUALIFY AS POOLED INCOME FUND, THE CHARITABLE REMAINDERMAN MUST BE ORGANIZATION DESCRIBED IN CLAUSE (i), (ii), (iii), (iv), (v) OR (vi) OF IRC §170(b) (1) (A).

Qualified remaindermen are:

Churches or conventions or associations of churches. Described in IRC §170(b) (1) (A) (i).

Tax-exempt *educational organizations* with a regular faculty and curriculum and a regular student body attending resident classes. Described in IRC §170(b) (1) (A) (ii).

Tax-exempt *hospitals*; and under certain circumstances organizations directly engaged in continuous medical research in conjunction with exempt hospitals. Described in IRC §170(b) (1) (A) (iii).

Organizations operated exclusively to *hold and administer property for state and municipal colleges and universities*. Described in IRC §170(b) (1) (A) (iv).

Governmental units. Described in IRC §170(b) (1) (A) (v).

Publicly supported institutions. Organizations exempt as charitable, religious, educational, scientific or literary, or an organization organized to prevent cruelty to children or

animals — when they receive a substantial part of their support from the general public. Examples of publicly supported institutions are: Red Cross, American Cancer Society, many health organizations, museums, and orchestras. Described in IRC §170(b) (1) (A) (vi).

Protection against inflation. When a donor invests in a life income contract, he receives units in the pooled income fund. His share of the fund income reflects any increase in the value of his units.

Example: Mrs. Kent invested \$10,000 in a pooled income fund last year. Because of wise investments, her units in the fund are worth \$11,000 this year. If the fund earns 5.2% this year, Mrs. Kent will receive \$572 for this year ($\$11,000 \times 5.2\%$).

Income tax charitable deduction. Donor gets a sizeable charitable contribution deduction on this year's federal income tax return. The amount of the deduction is determined by official Treasury tables, which discount the gift by the value of the life income interest. The exact amount of the deduction depends on donor's age and the pooled income fund's earning experience in recent years. Funds with less than three years experience are deemed to have a 6% rate of return for purposes of computing the charitable deduction. If a fund has more than three years experience, the highest rate earned in the last three years is used in computing the deduction. See the end of this section for a chart showing the tables to use to compute the charitable deduction.

Ceiling on the income tax charitable deduction. When a life income contract is funded with money, the charitable contribution is deductible up to 50% of adjusted gross income. Any part of the gift not deductible in the year of the gift is deductible over the five following years until exhausted—up to 50% of adjusted gross income each year.

When funded with long-term appreciated securities, the ceiling on deductibility is 30% of adjusted gross income — with a five year carryover for any "excess". In some cases it is possible to increase the ceiling for gifts of long-term securities to 50% of ad-

justed gross income — with a five year carryover for any “excess” — by electing to reduce the amount of the charitable deduction by one-half the appreciation allocable to the remainder interest.

Advantages to funding a life income contract with appreciated securities. The life income contract is a way to shift investments without paying a penalty capital gains tax. There is no capital gain when a donor transfers appreciated securities to the pooled income fund.

Pooled income funds pay no capital gains taxes on sales by the fund of securities held more than six months. The fund takes over the donor's holding period. So if the donor held his securities more than six months before transferring them to the pooled income fund, there will be no capital gains tax on a sale by the fund. Nor will there be capital gain if the combined holding period — the time donor held the securities plus the time the fund holds the securities — exceeds six months before a sale by the fund. In brief, the only time there can be capital gain is on the sale by the fund of short-term securities (held six months or less). In this case, the gains tax is paid by the fund itself. Donor is not personally subject to the gains tax.

Example: Miss Lois purchased securities a number of years ago for \$6,000 but which now have a market value of \$10,000. The securities are growth stock and pay little income. Miss Lois would like to sell these securities and invest the proceeds in stock paying higher income. However, on her sale there would be a \$4,000 capital gain.

Instead, she invests the securities in a qualified charity's pooled income fund. There is no capital gain to Miss Lois or the fund when she transfers the securities. Nor is there a capital gain to Miss Lois or the fund if the fund sells her securities and invests in securities having a higher yield.

Another advantage to funding a life income contract with appreciated securities is shown by this example:

Mr. Lane funds his life income contract with securities which cost him \$6,000 many years ago, but which are now worth

\$10,000. On transferring the securities to the fund, he receives units based on \$10,000 — the current market value of the securities. And his charitable deduction is determined by multiplying the appropriate actuarial factor from the Treasury table by the securities' full present fair market value — not their lower cost.

Providing income for another. A life income contract can provide income for both donor and another for as long as either lives (e.g., a wife, child, parent or anyone else donor names as second beneficiary). The income paid is not reduced because it is paid to two beneficiaries. Whether the donor receives income alone, or another receives income concurrently or as a survivor, the income paid each year will be the gift's share of the pooled income fund earnings. And the ages of the income beneficiaries do not affect the annual income paid. The charitable deduction will be smaller for a two life contract because the time before the gift becomes the unconditional property of the charity is extended.

Estate tax benefits. If the life income contract is for the donor's life alone the full amount of the contract is removed from his taxable estate. For a life income contract written on two lives rather than on one: When the donor is the first of the two beneficiaries to die, only the life interest of the survivor is subject to estate tax. The value of that interest is computed on the basis of the survivor's age at the donor's death. The value of the charitable institution's right to receive the life income contract principal on the survivor's death is completely immune from estate tax. If no life income contract was created, the entire value of the assets would be subject to estate tax.

If the second beneficiary does not survive the donor, no amount at all is taxed in the donor's estate.

Example: A two life income contract for \$100,000 is issued for donor and his sister this year. Based on the ages of donor and his sister, donor has a \$48,000 income tax charitable deduction this year. Fifteen years later, donor dies. The value of donor's units in the fund is then \$120,000. Based on his sister's age on donor's death, donor's estate gets a \$72,000

estate tax charitable deduction. Therefore, only \$48,000 is subject to estate tax. The entire \$120,000 would have been subject to tax if donor had not benefited the charitable institution with his life income contract. If donor's sister does not survive, the entire \$120,000 is immune from estate tax.

Gift tax implications of a two-life pooled income fund gift. A donor who funds his life income contract with his own property and provides income first to himself and then to the survivor, makes a gift to the survivor. However, proper drafting of the life income contract — the donor's retained right to, by his Will, revoke the survivor's interest — can make the gift to the survivor free of gift tax. The specimen agreements in this volume contain such a provision.

More advantages.

1. Donor gains the advantage of a diversified investment portfolio when he invests in a pooled income fund.
2. The income tax charitable deduction generated by shifting investments to a pooled income fund can actually increase the return on donor's property. See examples below.
3. Donor may prefer not to manage his funds any longer. The life income contract pooled income fund takes over this chore for him. Or, he may be reluctant to permit inexperienced members of his family to manage his estate.
4. The life income contract provides for distribution of property at death — just as surely as through a Will.

EXAMPLE-GIFT OF MONEY

How life income contract actually increases spendable income

Miss Green wishes to make a \$10,000 gift to a charitable institution. However, she would like to also have income from her \$10,000 for life. So she invests her \$10,000 in a life income contract with a charity. Miss Green's top income tax brackets average 35%.

Miss Green gives in cash \$10,000
for which she receives a contribution deduction

(based on her age and the fund's recent earning experience) of	\$5,000
and this saves her, in income taxes	\$1,750
which reduces the actual cost of her gift to ...	\$ 8,250
	(\$10,000 less \$1,750)

Miss Green receives the income from the principal of \$10,000 during her lifetime at—for purposes of this example—5%

	\$ 500
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However, computed on the actual cost of establishing the plan (\$8,250) her effective rate of return on her investment is

	6.06%
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EXAMPLE-GIFT OF SECURITIES

- *How life income contract actually increases spendable income*
- *Extra tax benefits for appreciated securities*

Mr. Drummond wishes to make a \$25,000 gift to a charitable institution. However, he would like to receive income from his \$25,000 for life. He also wants his wife to have income if she survives him. To accomplish his objectives, he transfers to the charity's income fund securities now worth \$25,000 for a life income contract. The securities originally cost him \$15,000. Mr. Drummond's top income tax brackets average 50%.

Mr. Drummond gives in appreciated securities	\$25,000
for which he receives a charitable deduction (based on the ages of donor and his wife and the fund's recent earning experience) of	\$12,000
and this saves him, in income taxes	\$ 6,000
plus saving of the capital gain tax on the securities' appreciation which would be imposed on a sale by donor (\$25,000 less \$15,000 x 25%)	\$ 2,500
for a total saving of	\$ 8,500
which reduces the actual cost of the gift to ..	\$16,500
	(\$25,000 less \$8,500)

Mr. and Mrs. Drummond receive the income from the principal of \$25,000 for life at— for purposes of this example—5% 1,250

However, computed on the actual cost of establishing the plan (\$16,500) the effective rate of return on their investment is 7.58%

EXAMPLE OF RECEIPTS

* With this income amount actually received by the beneficiaries.
 * Even in periods for annuity payments.

The Drummond couple make a \$25,000 gift to a trust which provides for the life of the donor and the life of the donor's wife. The trust is to pay to the donor for life the net income from the trust property. The donor's income tax liability is \$1,250 for the first year. The trust is to pay to the donor's wife for life the net income from the trust property. The donor's income tax liability is \$1,250 for the first year.

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DEVELOPMENTS IN STATE SUPERVISION AND REGULATIONS

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

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

When I was informed that I was again speaking on this topic, I went back over three of my own talks and one that Chester Myrom gave in 1965 and I found that we have gotten into the habit of saying, "Well what states are regulating gift annuities"? "How many states are considering placing annuities under regulation"? At this point we would have a general discussion. I thought for a change that we should ask ourselves the questions —What do we really mean by state regulation? How does it affect those organizations that are now regulated, and how may it affect the rest of us? I will use New York State as an illustration.

In 1938 our Attorney for the Propagation of the Faith brought to our attention the fact that a bill was pending in Albany concerning annuities. The attorney and myself met with the Committee on Gift Annuities (I did not know them at that time) and with the American Bible Society, and through our united efforts we were able to have a Bill passed with which we have been able to live. (I will mention this point later on because it is very important.) The Bill went into effect in January of 1940. It provided that any organization having less than \$80,000 in annuities was not required to apply for a permit, however, they did have to maintain the customary reserves and a 25% minimum surplus. An organization having over \$80,000 had to apply for a permit. The application to be submitted was simple, it included a balance sheet, income statement and a few minor schedules. It is more difficult today! At the end of the first year and yearly thereafter it was required that an annual statement be filed at the end of the calendar year to reach the Insurance Department by February 28th.

Harry Steinberg, who is one of the Chief Examiners in New York State, mentioned in one of his talks that this is a simple

statement which consists only of fifteen pages. What he forgot to say was that this statement was 19" x 12". You start off with the balance sheet on an accrual basis, followed by an income statement on a cash basis. If any of you have ever taught in accounting, you know what this would do to an average book-keeper. It still gives me trouble! After these two statements we have a series of schedules — each one of these schedules has a minimum of 21 columns. I will not describe all of the schedules, but let us take the mortgage schedule. This schedule starts with the number of the mortgage, then under Column 1 in two subdivisions, year given, year due. In Column 2 under the general heading record of mortgage, four subdivisions: the state, the county, the book and the page in which the mortgage has been recorded. This is followed by Column 3, amount unpaid at the end of the previous fiscal year; Column 4, amount loaned during the year; Column 5, amount paid on account or in full during the year; Column 6, amount unpaid at the end of the year of statement; Column 7, date due; Column 8, rate of interest; Column 9, amount past due at end of year; Column 10, amount accrued at end of year; Column 11, gross amount received during year; Column 12, paid for accrued interest on mortgages acquired during year; Column 13, value of lands mortgaged; Column 14, value of buildings; Column 15, amount of fire insurance held by corporation on the building; Column 16, location and description of property. This schedule sounds complicated so let us take a simpler one. Schedule D, part 1 — Bonds: Column 1, complete description broken down according to classification such as government, public utilities, private insurance and so forth; Column 2, interest subdivided according to rate and how paid; Column 3, date broken down into maturity, year and month, call option year, and call price (the call price must be the call price at the end of the year); Column 4, book value; Column 5, par value; Column 6, rate used to obtain market value; Column 7, market value excluding accrued interest; Column 8, actual cost excluding accrued interest; Column 9, subdivided as to amount due and accrued December 31st of current year on bonds not in default and gross amount received during year; Column 10, increase by adjustment in book value during year; Column 11, decrease by ad-

justment in book value during year; Column 12, amount of interest due and accrued December 31st of current year on bonds in default as to principal and interest; Column 13, are these bonds amortizable; Column 14, year acquired; Column 15, effective rate of interest at which purchase was made; Column 16, amortized or investment value December 31st of current year; Column 17, increase in amortized value during year; Column 18, decrease in amortized value during year. These schedules continue on for fifteen pages!

Two years ago in a joint annuity, husband and wife, the man wanted to get away from the gift tax responsibility if the wife survived. In order to cover this possibility, the Society inserted Conrad Teitell's clause in which the donor reserved the right to revoke the beneficiary's interest. This was the only contract out of over 3,500 that did not comply, but we were told that we should have filed a sample of it with the Insurance Department.

Now for a few other examination requirements. After each meeting of the Board of Directors and the Finance Committee of the Board, a certified copy of the motions in the Minutes dealing with the Annuity Fund must be sent to the Insurance Department. The examiners have suggested that by indexing or separating from other irrelevant matters (to them) it will not only save the examiner time, but prevent him from looking into matters that do not concern him. They request that a file be kept on all advertisements and promotional literature used by the Society. High pressure promotion which promises little income but large tax benefits has attracted annuitants who are not necessarily interested in charitable, religious, educational or other philanthropic aims of the issuing society. This is bound to have repercussions on such things as proof of age, both of the primary annuitant, as well as any joint life and survivors under the agreement. Furthermore, it is necessary to have procedures for verifying the survivorship of the annuitant. Complete and up to date signature cards of all beneficiaries should be obtained as a routine matter. One of the examiners related a story of a benefactor who offered to contribute certain real estate as consideration for an annuity with the hope of considerable tax savings. In its eagerness to make a favorable impression for possible

future gifts, the organization made a number of unfortunate mistakes. It allowed a reasonable appraisal of the property to be considerably inflated. On the basis of this inflated value they issued an annuity, although they did not obtain the property for a year afterwards. When they finally did get possession there had been a further drop in the value of the gift which, about three years after the date of the annuity, was sold for about 50% of the appraised value. Departmental counsel has held that Section 45, of the New York Insurance Law authorizes the issuance of gift annuities only upon the receipt of monies, which implies that property must first be converted into cash before the annuity can be guaranteed or commenced.

More recently the Insurance Department has been concerned with such subjects as emergency measures to be taken to protect personnel and essential records in the event of some catastrophic occurrence. This requires consideration of an advance program or plan to continue operations. The Society has a second Board of Directors scattered throughout the country ready to step in, in the event of destruction in New York. Among this second Board of Directors there is a second group of officers ready to take over. All of our new annuity contracts and other important papers are microfilmed each month and the reel of film is sent for storage to Iron Mountain, New York.

Now for other states — California is the next in line in the supervision of gift annuities. We have found it to be quite reasonable and where an organization is under the supervision of the New York State Insurance Department, it may satisfy the California requirements by filing a photostatic copy of the annual report. The one inconvenience in California is that it is necessary to submit a copy of each new contract and pay a filing fee. On each annuity contract filed in California there must appear a notation of the reasonably commensurate value as of the date of such agreement of the benefits thereby created. This value shall not exceed by more than 15%, the net single premium for such benefits determined in accordance with the standard evaluation set forth in subdivision (a) (b) of Section 11521 which is applicable to such agreements as the minimum standard evaluation. In fulfillment of the latter requirement, a rubber stamp with this

wording on it may be made to imprint the information on each California contract issued.

Thirteen states replied to inquiries that although they did not have specific laws covering the issuance of gift annuities, they felt that an annuity should not be issued unless the organization complied with the general insurance laws of the state. These states are as follows:

Arizona	Louisiana	Puerto Rico
Delaware	Maryland	Utah
Illinois	North Dakota	Virginia
Kentucky	Oklahoma	Washington
	Oregon	

Information received from other states concerning the matter follows:

WISCONSIN

Bill No. 373S, Chapter 90 — Wisconsin laws of 1961 would seem to indicate that this Bill clearly outlines the procedures for issuing annuity contracts. It does not require licensing of the organization nor does it provide for supervision. At the present time the Insurance Department of Wisconsin is working on a Bill that will permit supervision of annuity-issuing organizations. Copies of the proposed law have been sent to the Committee on Gift Annuities and through its efforts the proposed Bill has been softened a bit. I understand that the Bill is being presented at the present time to the State Legislature.

NOTE: *After Mr. Cousins finished the lecture, Mr. Paul A. McCann, Director of Special Gift Programs and Bequests at Marquette University, Milwaukee, Wisconsin and a member of the Committee on Catholic Charitable Giving, brought to the attention of Mr. Cousins the latest information on Wisconsin. Mr. McCann was asked to present this before the next speaker. In order to have continuity, Mr. McCann's remarks are quoted at this time.*

Mr. McCann said that to his knowledge, Chapter 199 of the Wisconsin Statutes is still law and that, at this time, no new provisions replace it. A group called the Insurance Laws Revision

Committee under the direction of Dean Kimball of the Wisconsin University School of Law had been at work on the total recodification of the insurance laws of the State of Wisconsin and had, in fact, drafted a proposed new statute to replace Chapter 199. The Insurance Laws Revision Committee, composed of legislators and private citizens, had met on Monday and Tuesday, March 15th and 16th, 1971, but their work on the recodification was so vast that the matter of gift annuities did not come into their discussions. An attorney who was at hand on behalf of the Wisconsin Association of Independent Colleges and Universities suggested that the matter might not be approached for considerable time due to the heavy load of work on possibly more important matters which lay ahead for committee attention and action. Mr. McCann concluded by stating that regardless of the changes which might become effective in the process of the recodification of Wisconsin's statutes, charitable organizations and institutions issuing gift annuities need not be frightened by more intense jurisdiction if they follow the rate schedules suggested by the Committee on Gift Annuities.

HAWAII

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

ILLINOIS

"We have read your letter dated May 24, 1967 by which you inquire *whether a gift annuity is insurance* and under control of this Department. We do not know the term *gift annuity* and do not find that term in any legal or English dictionary available in any of the libraries in our City of Springfield, Illinois. Our dictionaries define a *gift* as something for nothing — a transfer of property from a donor to a donee without anything being transferred or expected or promised as return. Our dictionaries define *annuity* as an investment to purchase as return, annual or more frequent payments to the donor. (Compare Random House Dictionary 1966).

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

Needless to say, I did not answer this letter.

MASSACHUSETTS

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

MINNESOTA

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

NEW JERSEY

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

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

NORTH CAROLINA

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

NORTH DAKOTA

In this particular state there appears to be considerable confusion. The Commissioner of Insurance stated that there was no plan for definite regulation of annuity issuing organization. However, the Deputy Securities Commissioner and legal counsel as regional administrator of the SEC states that annuities are con-

sidered to be securities and therefore, come under the North Dakota Security Act. For those of you who wish additional information, I would refer you to the 1968 Conference booklet, Wise Public Giving Series, No. 52, page 66.

RHODE ISLAND

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

SOUTH CAROLINA

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

TEXAS

"In response to your second question, we advise that 548 legal reserve companies are licensed in this state. We do not know how many of these are actively writing annuities, but any of them would be authorized to do so. The total assets of these companies and the annuities in force could be determined only by review of the annual statements. We regret that we do not have personnel to compile this information. The institutions to which we have referred are commercial and insurance companies. An organization known as College Retirement Equities Fund has been active in issuing variable annuities in this state. The last session of the Legislature has now authorized all insurance companies, upon meeting requirements prescribed by administrative regulations, to sell variable annuities."

VERMONT

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

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

Now let us take the question — Should we try for state regulation of our Annuity Programs or should we continue as we have in the past of trying to avoid state laws regulating annuity programs? In discussing this matter with the Committee on Tuesday night, the Committee was of the opinion that unless we could get a uniform act for all the states, it would be well to avoid any efforts at further state regulation. It is already too confusing. Therefore, may I suggest as we have done in the past, that your attorney is the best man to tell you what to do. He should be familiar with state legislation and should check from time to time to make certain that new bills are not being introduced that may cause you difficulty. If such bills are introduced, then it is very important that your attorney and one of your officers attend the hearing and make specific recommendations to remove any harsh paragraphs in the proposed Bill. However, the Committee and myself are always willing to help you in any way we can.

In conclusion, I will quote from a paper written in 1959 by Dr. Darlington:

"Your Committee on Gift Annuities should be prepared to make it clear to any states that do not now regulate gift annuities, that an immediate single premium non-refundable gift annuity is not a negotiable investment.

"It has no cash surrender value, cannot be sold or used as collateral, and cannot be transferred.

"If the Insurance Department of any state does not claim jurisdiction over it, this should not open the door to the Security Exchange Commission or to any other agency of the federal or state governments. If any such attempt is made, please inform the Committee on Gift Annuities at once. As Gift Annuities guarantee the payment of a sum certain during the lifetime of the annuitant and as the rates, especially

in the higher ages, are more than can be safely earned by current investments, there is good reason why some states may wish their Insurance Department to make sure that sound actuarial and financial experience and correct legal language is used in the rates offered, investments made, and publicity and promotion used. The Insurance Departments of the states have the knowledge and experience to safeguard the public in these matters. The Committee on Gift Annuities seeks by self regulation of its members to make state regulation unnecessary by the Insurance Departments of additional states, but any attempt by other agencies of the states or federal government should in my judgment be vigorously opposed by your Committee. Please keep the Committee informed."

Where a state regulation exists it may give us extra work, yet I believe that it is well worth it because of the soundness of procedure, stability and safety which enables us to protect our annuitants. In the words of Chester Myrom, "It would be the Committee's recommendation that all of you, regardless of location, conduct your gift annuity program as though it were already under the oversight of the insurance laws of your respective states. Administration of this character will reflect to the credit of your institution and may in itself be what is most needed to prevent further legislation from being enacted."

COMPARATIVE ANALYSIS OF GIFT VEHICLES (DEFERRED GIFTS)

DR. R. ALTON REED

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

MR. GEORGE L. SHEARIN

*Attorney and Associate Executive Secretary
Baptist Foundation of Texas*

If you are having trouble adjusting to the 1969 Tax Reform Act, you are not alone.

Deputy Assistant Secretary of the Treasury for Tax Policy John S. Nolan recently explained to a tax conference the size and the challenge of the task of implementing the Reform Act. He illustrated some of the difficulties facing the Treasury Department by quoting the "deathless prose" of new Code Sec. 2(c), to the effect that "for purposes of this part, an individual who, under Section 143(b), is not to be considered as married shall not be considered as married" and of Code Sec. 509(a), newly added to the Code: "for purposes of paragraph (3), an organization described in paragraph (2) shall be deemed to include an organization described in Section 501(c) (4), (5), or (6) which would be described in paragraph (2) if it were an organization described in Section 501(c) (3)."

It is not only with language difficulties, however, that Mr. Nolan said Treasury is deeply concerned. He cited specific difficulties with formulating regulations in these new Reform Act areas: private foundations, charitable contributions, accumulation trusts, the minimum tax, employee benefits (including difficulties with the new maximum tax) and real estate.

Former Commissioner of Internal Revenue Sheldon Cohen tells of meeting a friend who is a tax lawyer at a tax institute in New York. "I asked him why would a tax lawyer come to a meeting like that, since he really ought to know the law. He said that he was confused by the new law. And he had a right to be. I suppose we all are. At the luncheon break, after we had three or

four speakers, I asked him, 'Well, how's it going?' He said, 'Well, I'm still confused, but on a higher level.' We hope that will not be the case here.

Insofar as most of us are concerned, the big news in the 1969 tax bill was the major revision of the tax rules in the charitable contributions area. According to Harvard Law professor, Stanley Surrey, who was Assistant Secretary of the Treasury for Tax Policy from 1961 until 1969, "The charitable contributions deduction, a feature of the income tax since 1917, occasioned more discussion during the 1969 legislation than at any other time in the intervening period and certainly far more than on its adoption." He adds, "The 1969 Act's final passage saw Congress cutting back the mechanisms by which tax advantages could be obtained from charitable contributions." Others would say some radical surgery was performed on the subject of charitable deductions.

In any event, the changes in the charitable contribution rules are of considerable substance and complexity. Because of their practical applicability to so many of the individuals with whom we deal, we should strive to achieve a working knowledge of the new rules or, putting it another way — what you don't know won't help you.

Of course, the charitable contribution rules cover a lot of ground. You've already been exposed during the Conference to most of the rules changes, so this presentation will be limited to a general consideration of the impact of the new law on planning deferred gifts to charity, or more specifically, gift annuities, charitable remainder annuity trusts, charitable remainder unitrusts and pooled income funds.

Before turning to the new approved forms for obtaining a contribution of a remainder interest in trust to a charity, it seems appropriate to comment on the gift annuity.

Gift Annuity

The gift annuity arrangement generally takes the form of a gift to a charitable organization in return for a commitment by the organization to pay a certain sum each year to the donor for his life. For tax purposes, the transaction has two elements — a

gift and the purchase of an annuity. The consideration paid to the charity is divided into two parts and a charitable deduction is allowed for the portion in excess of the present value of the annuity.

More complicated problems arise where the annuity plan involves appreciated property. Prior to the '69 Act, if a donor exchanged his stock which cost him \$10,000 for an annuity contract worth \$15,000, he realized taxable capital gain in the amount of \$5,000. This gain was taxable in the year of the exchange. Conversely, there was no realization of gain on the funding of a gift annuity with appreciated property if the property's tax basis equaled or exceeded the annuity's actuarial value. The gift annuity was not affected by the Act except as the bargain sale provision might apply.

It has been apparent, of course, that if a gift annuity transaction is construed to be a bargain sale, the transaction now would give rise to a taxable gain in those instances where none was previously realized and to a larger taxable gain in instances where part of the appreciation previously would have been subject to tax. This result obtains because a portion of the basis in the property transferred must be assigned to the gift.

We don't have to speculate on this point any longer. By virtue of the proposed regulations on Section 1011(b) published just a few days ago we've learned, as expected, that as far as the Service is concerned, the bargain sale rule does apply to the gift annuity.

However, an unexpected benefit has surfaced in the proposed regulations. If adopted, it may stimulate renewed interest in the transfer of appreciated property in exchange for a gift annuity.

Under prior law, a gift annuity donor was subject to an immediate tax on any capital gain recognized by reason of the gift annuity transaction. The new wrinkle provides some relief at this point. Now, under regulations which would affect sales and exchanges made after December 19, 1969, the recognized gain is to be reported by the donor ratably over the period of the expected return. In other words, the tax on the recognized gain is postponed until payments are actually made.

For example, using the illustration set forth in the proposed regulations, assume a male donor, aged 65, is to receive an annuity of \$5,000 per year for life and the exclusion ratio is 79.7%. He has a recognized long term capital gain of \$47,804 on the bargain sale (he transferred appreciated securities) and the expected return multiple is 15.

The exclusion ratio remains constant for the donor's life. During the first 15 years of the annuity, the donor is required to report ordinary income of \$1,015 (\$5,000 annual payment less \$3,985 annual exclusion) and long term capital gain of \$3,186.93 (\$47,804 recognized gain over expected return multiple of 15) with respect to the annuity payments the donor receives. When the total long-term capital gain of \$47,804 has been reported by the donor, he is required thereafter to report only ordinary income of \$1,015 per year.

Taxing the total gain in small yearly segments helps reduce the tax burden. Presumably, if the donor fails to live for more than a few years, a part of the tax liability will never be incurred. This point, and others, however, will require clarification.

The gift annuity donor is still allowed a deduction (subject to the applicable percentage limitations) for the difference between the value of the property transferred and the cost of the annuity.

Future Interests

Following an over-all study of the charitable deduction, the Treasury recommended a tightening of the rules for future interests. It concluded that, for various reasons, the deduction allowed did not necessarily have any relation to the value of the benefit actually received by charity. It is also true, although this does not seem to have been a significant reason for the change, that there was a great uncertainty, and much litigation, as to whether a given remainder interest qualified for the charitable deduction.

Gone are the days when a charitable deduction was allowable for a transfer in trust to pay income to an individual beneficiary, with part of the remainder going to charity and the rest to a noncharity. Since the deduction is not allowed for such

transfer under the charitable remainder trust rules, the grantor has to set up two trusts providing separate trust corpus for both the charitable and noncharitable trusts.

Moreover, certain accepted forms of charitable remainders in trust no longer give rise to any charitable deduction. These include certain remainders where there is a power of invasion subject to an ascertainable standard. In addition, they include remainder interests where the income interest is not specifically for life or a term of years — for example, a trust to terminate on the beneficiary's having received a specified sum of money in the aggregate. In these situations, there is no longer any tax incentive to give the remainder to charity.

The 1969 Act provides definite, strict rules as to when a charitable deduction will be allowed for a remainder interest. Under the Act, a contribution of a remainder interest in trust to charity will not qualify for income, gift and/or estate tax deductions unless it is made in the form of a "charitable remainder unitrust," a "charitable remainder annuity trust," or to a "pooled income fund," each of which is the subject of a statutory definition. These restrictions do not apply, however, to the following interests given to a charity: (1) a remainder interest in a personal residence or farm, or (2) an undivided portion of the donor's entire interest in property. In essence, the basic gift of a future interest to charity is still retained, but how favorably prospective donors respond to these prescribed forms for giving remains to be seen.

Planning Considerations

Which vehicle should a donor use to make a deferred gift?

Each situation must be evaluated on its own merits, of course, taking into consideration such factors as the donor's age and family responsibilities, his financial and tax status, his need for income and his interest in the particular cause.

For example, "Where an individual's goal is to increase his current after-tax income rather than to obtain long-term appreciation, a transfer of property in trust reserving the income to himself for life or a term of years will produce the current income tax benefits desired, since the value of the remainder interest

given to charity is deductible from current income. By eliminating the value of the remainder interest from the donor's estate, the transfer in trust can also produce estate tax savings."

On the other hand, some people don't like the idea of transferring their property, even in trust, while alive. In that case, they can set up a testamentary trust — one which takes effect after their death.

Whatever the situation, and they are varied, it must be remembered that income, estate, and gift tax charitable deductions, respectively, for a remainder interest will be allowed (with minor exceptions for certain "partial interests") only if the transfer is in trust and the trust is a charitable remainder trust or a pooled income fund.

Charitable Remainder Trusts

A charitable remainder trust is a nontaxable entity unless it has unrelated business income, then the trust is subject to income tax on all of its income, not just the unrelated business income. Also, the beneficiary or beneficiaries of a charitable remainder trust must be living at the time the trust is established.

While the annuity trust is a relatively old estate planning device, the unitrust is a rather new one. The difference between the annuity trust and the unitrust is that, in the annuity trust the annuity is fixed from the beginning of the trust term, while in the unitrust it fluctuates with the value of the trust corpus.

Generally, a charitable remainder annuity trust is a trust from which a definite amount (a "fixed annuity"), not less than 5% of the initial value of the property transferred in trust is to be paid, at least annually, to one or more noncharitable income beneficiaries for life or a term of not more than 20 years.

For example: A donor places securities valued at \$100,000 in trust to receive \$6,000 annually for life, with remainder to his church.

Generally, a charitable remainder unitrust is a trust from which a definite percentage (a "variable annuity trust"), again not less than 5% of the net fair market value of the trust assets, valued annually, is paid, at least annually to one or more non-

charitable income beneficiaries for life, or for a term of not more than 20 years.

For example: A donor places securities in trust, specifying that his son is to receive annual payments equal to 6% of the net fair market value of the trust, determined annually, for life, with remainder to his college.

In order to provide some flexibility, under a qualified unitrust, a donor may, if he chooses, direct that the payment be the specified percentage or the trust's income, whichever is smaller, with a "make-up" provision, if desired, out of excess income in later years.

Whatever form the payments to the noncharitable beneficiaries take, the remainder interest in the annuity or unitrust must pass to, or for the use of, a charitable organization, or it may remain in the trust for such use.

No payments other than those stated may be made to the noncharitable beneficiaries, meaning that no power may be given the trustee to invade corpus for any purpose.

The new actuarial tables differentiate between male and female measuring lives and assume a 6% income, rather than the old 3½%. A series of tables spell out the amount of the charitable deduction allowable for tax purposes for a remainder interest in a unitrust. The deduction allowable for a remainder interest in an annuity trust is the value of the gift, less the present value of the annuity as computed under the estate tax regulations. The charitable remainder interest of an annuity or unitrust is to be valued for deduction purposes on this basis: That an amount equal to 5 percent of the net fair market value of the trust's assets (or a greater amount if required under the terms of the agreement) is to be distributed to the noncharitable beneficiary each year. An annuity trust seems to give rise to a substantially larger deduction than a unitrust.

For example, "assume that a 50-year-old male transfers \$100,000 to a unitrust under which he will receive, for his life, annual payments equal to 5% of the value of the trust each year. Using the new tables, assuming the first payment in one year, the value of the charitable remainder interest is \$37,816. If the same 50-year-old individual transfers \$100,000 to an annuity trust

under which he will be paid \$5,000 annually for life, the present value of his annuity is \$56,665. So, the value of the charitable interest — and his deduction — is \$43,335.”

The fact that the value of the remainder interest following an annuity is approximately 20% more than the value of a remainder which follows a unitrust may be a significant factor in the choice between unitrusts and annuity trusts.

Under both the annuity trust and the unitrust there is no capital gain tax on the transfer of appreciated property to the trust.

The taxation of payouts to noncharitable beneficiaries is covered by the proposed regulations. Payouts are taxed first as ordinary income, then as capital gain (short-term and then long-term), then as other income and finally as a principal distribution. The regulations define how trust expenses are to be used to reduce the various classes of income; also, how income is allocated among several beneficiaries. Distributions of appreciated property are treated as a sale, giving the recipient a new basis and giving the trust a capital gain.

Of course, the unitrust and the annuity trust operate under different rules in some respects. For example, additional contributions may be made to a unitrust, but not to an annuity trust and, in order to qualify, a trust must be one type or the other in every respect. In this connection, it should be noted that a revocable trust may become a charitable remainder trust when it becomes irrevocable, provided all of the other requirements of a charitable remainder trust are met.

Pooled Income Fund

The “pooled income fund” is a trust maintained by a public charity to which each of several donors transfers an irrevocable remainder interest in the property contributed to the fund. Each donor retains an income interest for the life of one or more noncharitable beneficiaries living at the time of such transfer. The fund is taxable, but only to the extent of any undistributed short-term capital gain realized. Final regulations on the definition of pooled income funds have been adopted and were released only last week.

All property transferred to the fund is commingled, and all is to be used by or for the public charity to which the remainder is contributed. Each income beneficiary must be assigned a proportionate share of the annual income, or a unit of participation, based on the fair market value of the property on the date of transfer. The income paid to the income beneficiary is determined by the rate of return earned by the fund for the year. No gain or loss is recognized to the donor on a transfer of property to a pooled fund.

Accordingly, it serves the same basic type of function as did the various types of "life income contracts" widely used by charities, particularly schools and colleges, prior to the 1969 Act. The trust is limited in that none of the corpus can be invested in tax-exempt securities.

A charitable deduction is allowed for the fair market value of the transferred property less the value of the income interest, determined by reference to the fund's experience.

Thus, the value of the income interest is determined on the basis of the highest rate of return earned by the fund for any of the three taxable years immediately preceding the taxable year of the fund in which the transfer is made.

If the fund has not been in existence for three years, a 6% rate of return is used (with the Secretary or his delegate having the right to prescribe a different rate).

Conclusion

Each of the methods of giving we have discussed offers certain advantages along with some less desirable characteristics, depending on the needs and objectives of the donor.

For instance, both the gift annuity and the annuity trust provide a fixed dollar return. This feature is highly desirable for many people, especially older persons, who are not particularly interested in nor attracted by glowing promises of more income in future years, provided the economy holds up. They usually prefer to know how much they are going to receive each time the postman delivers their check.

Aside from providing a certain number of dollars, the gift annuity and the annuity trust are quite different. The annuity

trust avoids any problems of taxable gain to the donor at the time of the initial transfer. We have already discussed this aspect of the gift annuity transaction. Payments received by the beneficiary under the respective plans are taxed in a different manner. Another distinction — the gift annuity arrangement involves an unconditional promise on the part of the charity to make the annuity payments, come what may, but distributions from an annuity trust are required to be made only so long as the trust has sufficient assets out of which to make the payments.

The annuity, as such, is unusually vulnerable in one respect. Every year prices keep going up. We live in an age of creeping inflation. In a current national magazine article a distinguished economist observes, "You have to be over thirty to remember a year in which the price level declined. The purchasing power of the dollar has precisely halved since the end of World War II. The steady erosion of the value of money shows no sign of ending . . . the inflation creep has become a trot. . . . All we are given to hope by the Administration is that the recent price increase of five percent a year will simmer down to a price increase of three percent a year. At five percent, the value of money halves in 14 years. At a three percent rate of inflation, this deterioration takes 24 years. In any case, the man who holds on to a dollar long enough stands to lose most of its purchasing power."

It is most important, then, not to underestimate inflation when discussing fixed dollar types of arrangements with prospective donors.

On the other hand, the unitrust, which might be referred to as a "variable annuity trust," is an arrangement that can be used to fight inflation as well as to provide a good payout, possibly of capital gains or even tax-exempt income. Because the interests of both the private beneficiary and the charitable remainderman rise and fall with the value of the trust corpus, the two beneficiaries would naturally want the trustee to pursue an investment policy which seeks the greatest amount of appreciation of the total fund, whether that appreciation comes about as a result of an investment in yield or growth securities. The trustee, not burdened with the necessity of investing for income to satisfy the private beneficiary, can pursue a more aggressive investment

policy. As long as he believes he can generate a cash flow sufficient to pay the unitrust share, the trustee can invest in those securities, real estate and so on, which he believes will benefit both the private beneficiary and the charitable remainderman in the long run.

The pooled income fund may well become one of the most attractive vehicles in charitable tax planning. It is very much like a charitable remainder trust with reserved income for life except the donor's irrevocable gift is commingled with similar contributions.

Like a common trust fund administered by a bank or trust company, the pooled income fund can effect diversification (more so than a charitable remainder trust), facilitate efficiency in management, and secure a greater yield on investment at a lower cost. Banks usually charge lower fees for trusts invested in their common trust funds. The pooled income fund can be particularly useful in attracting gifts otherwise considered too small to be handled economically as separate trust accounts.

At the same time there are more restrictive rules for a pooled income fund which may make it less attractive. For example, a pooled income fund cannot hold tax-exempt securities, but a charitable remainder trust may do so. Also, payments from a pooled income fund must be for life, but payments under a charitable remainder trust can be for a term of years.

Another point of comparison may be made. The use of a charitable remainder trust permits a wider selection of charitable recipients of the remainder interest, since the remainder under a pooled income fund must go to only one organization (and its affiliate local organizations). If the gift in question involves a major part of the donor's estate, this consideration may be important.

In determining which method of giving is most appropriate in a given situation, perhaps a statement by a leading author on estate planning, Robert Brosterman, provides the best guideline: "The whole matter of charitable giving, during life or at death, is one in which many motives, desires, and needs interact; some philanthropic, some personal, and some financial. One type of charitable giving arrangement is better than another only insofar as it fits in with and improves both the estate and personal plan of each individual."

AGREEMENT FORMS AND CORRECT TERMINOLOGY

DR. J. HOMER MAGEE

*Assistant General Secretary, Council on World Service
and Finance of the United Methodist Church*

It was a century ago that Longfellow said, "Things are not what they seem." This is definitely true of some of our terminology. Some of our people have been misinformed because some people who should know better have not been able to draw distinctions. So a percentage yield may or may not be interest, and an agreement to pay at a certain rate may or may not be a bond. Words which are taken as synonyms may not carry the same meaning. In a recent cartoon three little girls are indulging in some "girl talk". One says, "Francine, has Arthur told you you're beautiful?" To which Francine replies, "Well . . . not in so many words. He said, 'Darling, you are far from the most repulsive creature in the world'." On a more mature level, "vision" and "sight" are considered synonyms, but I advise the men in the audience that it is far safer to tell a woman that she is a vision than that she is a sight. Similarly, in choosing your words, it is far better to tell a lady that time stands still when you gaze into her eyes than it is to tell her that she has a face that would stop a clock. This is slightly off the subject, but I hope that it does emphasize my main theme of correct terminology, whether it be in agreement forms, in advertising, or in verbal or written explanations to prospects.

TERMINOLOGY

The Committee on Gift Annuities has been very much interested in terminology, along with its many other interests to avoid misleading statements, or to prevent the representatives of institutions from giving wrong impressions. In addition, incorrect terminology may lead the uninformed into wrong tax situations. Our selling point is our institutions, but anything that will help our clients take advantage of the encouragement which the government has built into the tax structure not only gives him more confidence in the institution's reliability, but makes it possi-

ble for him to give the institution more without increased cost to him. In addition, until people (including some of us) become more familiar with some of the new tax reform terminology and regulations, we need to be on our toes to be certain that we are informed and that we are communicating with our prospective clients and donors.

Let us begin with the *gift annuity*. The pamphlet issued by the Committee on Gift Annuities under the title, "Philosophy of Gift Annuity Agreements" states, "When a person enters into a gift annuity with a religious, charitable or educational institution, he is actually doing two things. He is making a gift to the institution and is also purchasing a fixed income for life."

There is one difference we should note between a gift annuity and a commercially written annuity. A gift annuity differs from an annuity written by an insurance company in that it is an agreement with a religious, charitable or educational institution, and to qualify as a gift annuity must have a gift portion or residuum of not less than fifty percent of the face value of the annuity at the time of the death of the annuitant or annuitants. The rates which can be offered in a gift annuity are therefore not competitive with those which can be given by an insurance company which is not interested in a gift portion. Rates cannot be our largest selling point for gift annuities. You have gathered that the gift portion left to the institution after the death of the annuitant is known as the *residuum*, and that the person receiving the payments is the *annuitant*.

This brings up a distinction that came up in some of the discussions and that is that the donor may not be the annuitant. The donor is the one who purchases the annuity and we use the term "donor" because it emphasizes the gift portion of the annuity, but he may purchase the annuity for someone else and in such a case the donor is a different person from the annuitant.

One other thing of especial importance to note is that while the *annuity payment* is stated as a percentage of the face value of the gift, it is not interest and should never be called that. It should be called "*rate of annuity payment*". The tax laws governing annuity payments and interest payments are entirely different and terminology which would cause confusion should never be

used. *Annuity payments* include return of donation as well as earnings, while interest is entirely earnings.

A corollary, perhaps, of this is that an *annuity agreement* is not a bond and should not be called one. While both are agreements to pay at a certain rate per annum, the tax implications are entirely different. A bond pays interest, while an annuity pays *annuity payments*. An *annuity agreement* is a contract, and it is correct to call it an *annuity contract*, but the Committee on Gift Annuities leans toward calling it a *gift annuity agreement*, mostly in the interest of public relations, to get away from the stiffness of the term "contract". Similarly, "enter into a gift annuity agreement" is better terminology from the public relations point of view than "buy a gift annuity".

The recent revisions of the tax law have made material changes, not only in the tax situation, but also in the terminology which we must use and teach to our clients and patrons, and probably to some of the trustees of our institutions. The tax implications are not within the field of this paper, but we should know some of the terminology. Some of the tax information is now available and more is in the process of preparation. The Committee on Gift Annuities will be revising its guides on tax implications when the full information is available.

Not a new term, but one with a new application is *bargain sale*, which is the sale of appreciated property by a donor to a charitable organization for less than the present fair market value of the property. The importance of the term at this point is that, where this has previously applied to gifts to a charitable organization, many of you have noted in the November, 1970 issue of *Taxwise Giving* that the Treasury Department has tentatively decided that funding a gift annuity with appreciated property is a bargain sale. If this becomes permanent policy, "there will be a capital gain on the transfer of appreciated property in those cases where none was incurred previously *and* a larger capital gain than before in those cases where part of the gain was taxable." (*Taxwise Giving*, November, 1970, P. 1)

The *life income contract* as we have known it is still a valuable tool, but should be distinguished from other funds by being designated as a *pooled income fund* gift. There are restric-

tions on this form of giving and many pooled funds which have been used for life income contracts must have their provisions revised, but we are thinking about the contract wherein a person gives a gift of money or property to a qualified institution, in return for which the institution signs a legal contract to pay the donor an annual income for the rest of his life.

Slightly different is a *life income (charitable remainder) trust*. In this arrangement the funds are not commingled, but a *life income trust* is set up by transferring money, securities or other property to a trustee who keeps the trust assets in a separate fund. In most instances he can reinvest the properties but the income, and principal if necessary, is paid to the income beneficiary for life. The trust can also provide that income should be paid to a survivor. In a *life income (charitable remainder) trust* upon the death of the income beneficiary (or beneficiaries) the property becomes the sole property of the specified qualified institution.

The requirements for what was formerly a charitable remainder trust have been made more complicated and can take either of two forms. A *unitrust* is a trust set up in which the principal and income are commingled, and treated as a single fund. The agreement must specify that the income beneficiary is to receive a percentage (the minimum is 5%) of the fair market value of the trust's assets as determined each year. When a charitable institution becomes the owner upon the death of the income beneficiary, the unitrust becomes a *charitable remainder unitrust*.

The other form which a charitable remainder trust can take is an *annuity trust*. An *annuity trust* specifies in dollar terms (which must be at least five percent of the fair market value of the transferred property) the amount of the annuity which is to be paid to the income beneficiary. *Taxwise Giving* states the difference between a gift annuity and a charitable remainder annuity trust in these terms: "It has been suggested that the annuity trust is a substitute for the classic charitable gift annuity. We believe it is an alternative and not a substitute. For the annuity trust, the payments are required only so long as the trust has sufficient assets to make the payments. In the classic gift annuity,

the payments are backed by all of the charity's assets — not just the donor's gift." (*Taxwise Giving*, January, 1970, P. 5)

AGREEMENT FORMS

My assigned subject is "Agreement Forms and Correct Terminology". We have been trying to define some terminology, and have tried to emphasize the fact that the 1969 revisions of the tax law make it especially essential that we use our terms correctly. These same revisions make it imperative that we be extremely careful in the wording of our agreement forms to be absolutely certain that we are stating provisions which comply with the new tax laws.

As of the writing of this paper, the regulations are not codified to the extent that we can at this moment be of much help. However, as soon as the Treasury Department has issued sufficient regulations to cover the field of agreement forms the Committee on Gift Annuities expects to revise its materials, or prepare new materials which will be authentic in the preparation of agreement forms as well as in tax regulations. (Since the regulations on pooled income funds were released last week, the committee on revising the "Red Book" can now get to work.)

In the meantime we recommend caution in the making of commitments until final regulations can be formulated and publicized. The Treasury Department assures us that it is making as much speed as possible in the issuing of regulations, and the Committee on Gift Annuities assures you that it will do its best to pass on to you as quickly as possible information concerning regulations, tax implications and suggestions for agreement forms. Most of all, we hope that this period of uncertainty will not do too much damage to the institutions you represent in the field of solicitation of funds for your institutions.

HISTORY OF THE COMMITTEE ON GIFT ANNUITIES

DR. ASHTON A. ALMAND

*Vice President for Financial Affairs, West Virginia
Wesleyan College.*

We are here today largely because of our professional interest in fund raising and especially in the area of deferred giving. I heard a story recently of a boy about 9 years old who still walked to school and carried his lunch in the semi-rural community where he lived. One day in mid-spring he noticed a beautiful tomato patch growing on the side of the path he usually walked. He envisioned how good a nice fresh ripe tomato would be in his lunch. With this in mind he climbed up the little bank into the patch and to his surprise the owner was there. The man asked the lad what he could do for him and the boy responded he wanted to buy a tomato for his lunch. The gardener suggested the boy look around, pick out the one he wanted and call him for the price. Shortly the lad called and pointed out a luscious, rich red, big tomato and asked the price. "That one will be 5c", the man told him and the lad replied he had only 3c, so he could not buy it. The understanding gardener suggested he pick out another and maybe they could make a deal. Soon the boy called him to another. This one was larger than the first and quite green. "How much is this one?", he asked and the man said 3c. "All right, I'll take it", and he gave the 3c to the man and started away. The gardener said, "Wait, son, you forgot your tomato." "Oh, no I didn't, I'll come back and get it in about a week." It seems to me that we who spend much of our time and energy in deferred giving are really trying to buy green tomatoes we hope will, in due season, ripen advantageously for our agency. How much we can pay for the future benefit and how long we can profitably wait for it are two complicated but basic questions and for nearly 50 years the Committee on Gift Annuities has been trying to assist agencies like ours to get the best possible answers to these and many more questions.

In 1922 a conference of treasurers and financial secretaries of

home missions boards was called by the then secretary of the Home Missions Council to discuss mutual financial problems. A second conference followed about a year later and this resulted in the appointment of a Committee on Financial and Fiduciary Matters. The Committee, having no official home nor relationship, took itself to the Federal Council of Churches and asked if it would be willing to adopt it. The Federal Council did adopt it, or at least gave it the benefit of operating under its broad shadow without fiscal responsibility for the Federal Council nor any of the Council's own programs. From this adopted committee came a subcommittee on Annuities which began its real service with a Conference on Annuities about 1925. The Federal Council passed away, but both the need for a Committee on Annuities and the Committee itself survived and our presence here today is the result of this survival.

Over the first good many years of its life, the Committee on Annuities met at Atlantic City in conjunction with the Federal Council or the Home Mission Council, but then some of the leadership recognized the Committee should serve more than the east coast metropolitan areas and more than those agencies which had traditionally been a part of the Federal Council. So, following the Council meeting in March 1931, a Committee was named to explore holding a conference in the mid-west. This group, 13 strong, met in Chicago for a luncheon meeting April 13, 1931 — 40 years ago yesterday! From this meeting came the first expansion of the Committee on Annuities beyond its original New York area. In 1932 a Conference on Annuities was held in Chicago and the inclusion of the mid and far west was begun.

From its humble beginning with participation of only 30 groups the Committee, now known as the Committee on Gift Annuities has expanded to serve nationally and internationally, and this Conference will report over 600 different agencies and institutions in participation, including colleges, hospitals, church and denominational agencies representing Protestant, Evangelical, Catholic and Jewish groups throughout the nation. The Committee on Gift Annuities, and its predecessor groups, has been in continuous existence since its creation and has an enviable record of service to its supporters.

Over the years of service the Committee has been a non-profit group in more ways than one. It has never attempted to make a profit from its services, although it has attempted to recover the cost of its literature and materials for only in so doing could it have resources to continue its work. The records available reveal the chairman and members of this Committee have never been on salary with the Committee, but have served as willing, enthusiastic and capable volunteers. Much of the reason for its continued existence and service lies in the very fact that it has been a voluntary group, created and preserved to collect and coordinate vital material in the areas of deferred giving and make these materials available to all its supporters. The shadow of influence of one man has shown through in every era of the Committee's existence. This man is Dr. Gilbert Darlington, Honorary Chairman of the Committee. In a write-up of the meeting of the Committee in November 1930, the following report is found:

"The work of the Committee is distributed among its members. Mr. Darlington has probably made a more exhaustive study of federal and state laws than any other person connected with the annuity business of the organizations with which we are concerned."

And the write-up continued to point up the invaluable assistance given by Mr. Huggins, the Actuary. Mr. Huggins died several years ago, but Mr. Charles Burrall, his successor in the firm of Huggins & Company, continues this unbroken line of superb service to the Committee. From a group of 13 people assembled in Chicago 40 years ago we have grown to our present conference with several hundred here at lunch today. The history reveals the Committee has been very faithful to its supporters and has tried to hold to its purpose.

This Committee is nearly 50 years old and came into being for one specific purpose — that of gathering together, evaluating and disseminating all the data and materials possible which could be of beneficial interest to the charitable, educational and benevolent agencies involved in securing financing through the distribution of Gift Annuities. Never has the Committee seen itself as a governing body, nor has it been a policing agency. It is

made up of people professionally related to Deferred Giving programs who share in the gathering, evaluating and distributing of facts related to Gift Annuities. Although economic conditions have varied tremendously over these past 50 years, the agencies which have voluntarily adopted the plans, proposals, rates, and recommendations of the Committee and Conferences have had quite favorable experiences with their annuity programs and have maintained a good relationship with governmental taxing agencies. Some who have not accepted the objective recommendations of the Committee have found themselves in fiscal difficulty with their annuitants and in legal difficulty with the taxing agencies involved. The purpose then has been and continues to be somewhat like that of a kind, benevolent grandfather — willing to share all it has to help avoid pitfalls and dangers through suggesting practical courses of action regarding rates, advertising, terminology, tax matters and fiscal management of Gift Annuity Agreements and Funds — and all the time without having nor attempting to exercise authority over anyone. It is gratifying to see the ever-increasing number of Gift Annuity issuing agencies which adopt and abide by the recommendations of the Committee.

What lies ahead for the Committee is, at this point, an unknown factor. The Committee has expressed its willingness to continue its career of service. Whether or not this service should be restricted to Gift Annuities (and of later years, Life Income Agreements), or should be expanded to include the variety of Deferred Income plans now available, will soon have to be determined by the Committee in consultation with you people who are the supporters. In looking back over its long and creative history, it would appear the Committee has been of invaluable service to its supporters and has built a foundation on which many more years of service could be structured. This requires long range planning involving a look at where we have been, where we are, and where you want the Committee to be in the years ahead.

ACCOUNTING PROCEDURES

MR. ROBERT GREINER

Treasurer, Church of the Brethren General Board

The following material was the outline used for the discussion group meeting held on Wednesday evening, April 14, 1971

I. *Structure and Volume.*

As background for this presentation, it might be helpful for you to know the nature of our Board's operation in the gift annuity and life income agreement field. As part of our denominational stewardship enlistment team, two staff persons work at this task, the second person giving half time. The Treasurer's office processes gifts, issues agreements, and sends out the semi-annual annuity checks.

We have the following activity:

Annuity agreements in effect	775
Life income agreements	40
Approximate number of new gifts per year:	
Gift annuities	90
Life income gifts	15

From annuitants deceased during 1969 and 1970, there was a residuum of approximately 64%.

II. *Property accepted for gift agreements.*

Caution should be exercised in receiving non-cash property for an annuity gift or life income gift. Some examples are:

1. *Stocks.* The fair market value or gift value is usually determined by the average of the high and low quoted prices on the date of valuation. Large risks may be involved when stocks are accepted which have a very limited market, or where their value is difficult to determine.
2. *Government or Corporate Bonds.* Normally the fair market value as of the date of the gift is to be used. Under

special circumstances, it might be acceptable to receive bonds at their face value where their maturity date is relatively soon, and where the face amount is assured at the maturity date. For example, we have currently accepted for an annuity agreement government bonds which will have a maturity value of \$16,000 in 1974.

3. *Real Estate.* We accept real estate only if we are free to sell it immediately. Because of the difficulty in determining its value, we usually do not issue the gift agreement until we have received good title, and complete the sale.
4. *Other property.* Occasionally donors offer property of doubtful worth or salability, and for which we generally will not issue a life income agreement. For example, five years ago a donor gave us speculative real estate trust shares which were supposedly worth \$45,000.00. We did not agree to make any payments to the donor other than the amount of the income that was actually received. After reorganization, the shares in 1971 are supposedly worth \$2,700.00, but it is doubtful if we will receive any dividends or be able to liquidate the shares.

III. *Agreement forms.*

It is important that we use proper annuity and life income agreement forms. Our Board uses the forms suggested by the Committee on Gift Annuities. I might at this point also indicate that we do not issue agreements covering more than two persons.

IV. *Income Tax Information.*

Other sessions will be devoted to tax implications, but I would like to add a few remarks, from the accounting standpoint.

1. Immediately upon receipt of the gift, we provide our stewardship staff with the official agreement for them to mail. Also, at the same time we provide the tax information, showing the amount that may be taken on the donor's current tax return as a contribution to our Board; capital gains information if a non-cash asset is received; and the taxable amount of the annuity that the donor should include on his annual income tax returns.

Annuitants greatly appreciate this tax information, and sometimes they ask us to compute the tax data on annuities that they have with organizations that do not provide the data. Our impression is that such organizations lose repeat annuity gifts, and the gifts tend to come to our Board.

2. *Tax computations.* We use the tables provided by the Committee on Gift Annuities as the basis for computing the tax data to be given to the donors. This is undoubtedly the most complicated part of our accepting donations for gift annuities and life income agreements.
3. *Gift and inheritance taxes.* In connection with these gift arrangements, we must be aware of possible inheritance tax problems for the donor or his spouse. Seemingly donors to our Board are not exceeding their exemptions, and most of our gifts are under \$15,000. Thus, I will not say more on this subject.

V. *Payments to donors.*

We send payments semi-annually on the uniform dates of January 1 and July 1. Depending on the date that the gift is received, the first payment is usually fractional, but payments end as of the last January or July 1 prior to the date of the decease of the donor. We feel that prompt payment is very important, and we try to have the checks in the annuitant's hands a day before the due date.

The back of our check has a printed statement requiring the personal endorsement of the annuitant. At least once a year we compare the endorsements on the checks to the signature on the gift agreements. Even so, we find that occasionally the endorsement is forged. We recently had a case where four annuity checks were endorsed after the annuitant's decease. Upon calling this to the attention of the paying bank, we were immediately reimbursed for the amount involved.

VI. *Investment of funds.*

Our annuity and life income gifts are invested with our other endowment and capital funds. Part of the funds are used for mortgage loans, and the balance is invested in bonds and stocks

under the guidance of Moody's Investors Service. Our capital gifts programs cannot be successful without the wise investment of the funds.

VII. *Individual annuity records.*

You are aware that under these annuity arrangements the original annuity gift is reduced each year to the extent that the payment to the annuitant exceeds the investment earning on the gift. As recommended by our auditors, we in 1953 established individual annuity accounts which record this data to the date of decease. In addition to the annuitant and tax data, the below account number 2491 shows the typical data:

Date	Entry	Payments to	Investment	Declining
		Annuitants	Income Credit	Balance
		Dr.	Cr.	Cr.
7/3/68	Receipt of Gift			\$1,000.00
1/1/69	Investment Credit 4.9%		\$49.00	1,049.00
1/1/69	Payment to Annuitant	\$28.50		1,020.50
7/1/69	Payment to Annuitant	28.50		992.00
1/1/70	Investment Credit 4.9%		48.60	1,040.60
1/1/70	Payment to Annuitant	28.50		1,012.10
7/1/70	Payment to Annuitant	28.50		983.60
1/1/71	Investment Credit 5.25%		51.64	1,035.24
1/1/71	Payment to Annuitant	28.50		1,006.74
7/1/71	Payment to Annuitant	28.50		978.24

(End of third year)

VIII. *Death of annuitant.*

We don't use any of the annuity gift for program purposes until the decease of the annuitant and co-annuitant, if any. At the decease of the annuitant, we charge against the annuity gift 3% of the original amount as a source of funds for our stewardship staff expense, and a 1% charge is made for the services of the treasurer's office. The balance of the gift is then transferred for the use of our church board.

When word is received about the decease of the annuitant, it is again a good time to build good will with those handling the affairs of the annuitant. Some ways are as follows:

1. Correspondence with the surviving annuitant, indicating continuation of checks, etc.
2. Emphasize the length of time that the payments have been made to the annuitant, despite changing economic conditions. We are still making payments under an annuity that was written in 1909.
3. It is well to indicate to surviving relatives the purpose for which the completed gift will now be used. Significant gifts might be reported in the denominational or institutional paper.

As treasurer of our denominational Board, I find this special gifts activity exciting. I am pleased to share the above information as a basis for our further discussion.

MINUTES

Fourteenth Conference on Gift Annuities
Hotel Sheraton-Jefferson, Saint Louis, Missouri

Wednesday, April 14, 1971

The meeting was called to order at 9:30 a.m. by Chairman Charles W. Baas.

Invocation was offered by the Reverend R. D. Merrill, Assistant Secretary, American Baptist Home Mission Societies.

Word of Welcome was extended by Mr. Baas. His remarks are separately set forth under that title.

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

Chairman: The Rev. Dr. Don E. Hall,
Director, United Presbyterian Foundation
Mr. Robert D. Jenkins,
Associate Director of Development, Oberlin
College
Mr. Virgil T. Foss,
Director of Development, Saint Olaf College
Mr. Charles L. Burrall, Jr.
Actuary, Huggins & Company, Inc.
Brigadier Frank Moody,
Director of Deferred Gifts, Salvation Army
Dr. Chester A. Myrom,
Director, Lutheran Church in America
Foundation
Mr. Charles W. Baas—Ex officio
Treasurer, American Bible Society

MOVED AND Seconded that the proposed committee be approved.

MOTION CARRIED

Mr. Carl L. A. Beckers, Vice President, St. Louis Union Trust Co., was then presented. His address, entitled "Economic Outlook," is separately set forth.

His address was informative and enlightening. Numerous

questions were asked from the floor, to all of which able and willing response was made.

Of the several questions asked, these two are recorded:

QUESTION: Is "increased saving" bad for the economy?

ANSWER: The "velocity of money" is an important element. Money in savings tends to retard. In Japan, 20% of income is saved; in U.S., 7%. Japan's economy is expanding because money is moving. Money into services and non-durables, as is the case here, doesn't help the economy.

QUESTION: What effect will continuing inflation have on the investment of gift annuity reserves?

ANSWER: It will be difficult to maintain a balance. Price rise will reduce dollars by 50% during the life expectancy of the average annuitant. The outlook is not a good one. Whether stocks or bonds are best, remains to be seen. I would propose that future conferences schedule a panel discussion on this matter. There likely is no single answer.

A coffee break, the first ever at a Conference on Gift Annuities, was then enjoyed.

The agenda resumed with a presentation by Mr. Charles L. Burrall, Jr., Actuary, Huggins & Company, Inc. His remarks appear elsewhere under the title "Report on Mortality Experience Studies and Gift Annuity Rates."

Six helpful exhibits to his talk had been distributed to registrants with the conference packet. Exhibit I illustrated precisely how a gift annuity rate is calculated. The others gave background information derived from the mortality study that had been made in preparation for this conference.

The conclusion reached from the study, Mr. Burrall pointed out, was that a modest upward revision of the rates could be achieved through changing the interest assumption from 3½% to 4%. Exhibit D shows the changes that would take place, modified at the upper and lower ages to provide a maximum rate of 10%, at age 86 and over, and a minimum rate of 4%, at age 40 and under.

In the discussion period which followed his basic talk, Mr.

Burrall commented, "*For annuity purposes*, heavier mortality than expected is 'favorable,' lighter mortality is 'unfavorable.'"

Fitting conclusion to this discussion was given by Chairman Baas in a bit of verse, of unknown authorship at the American Bible Society but frequently cited there. At the request of the floor, it is reproduced here:

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

The meeting was recessed at 12 Noon, to reassemble in another room for luncheon.

Prayer was offered by the Reverend James La Reau of St. Lawrence Seminary.

Following the luncheon, Dr. Ashton A. Alman, Vice President, West Virginia Wesleyan College, and a member of the Committee on Gift Annuities, presented a most interesting historical resumé of activities dating back to early 1920's that resulted eventually in the formation in the early 1950's of the Committee as it is presently constituted. His address is set forth under the title: *History of the Committee on Gift Annuities.*"

The Conference resumed session at 2 p.m. Chairman Baas presented Dr. Roland C. Matthies, Vice President and Treasurer, Wittenberg University, and Attorney Conrad Teitell, philanthropic tax consultant. Between them they gave an authoritative and informative description of current gift income plans and tax reform legislation.

Dr. Matthies' talk was in two parts. The first dealt with "Proposed Estate and Gift Tax Reform." It appears elsewhere under that title. The second portion of his remarks covered first "Gift Annuity Agreements," which are unchanged by the Tax Reform Act of 1969. Then he went on to the new creatures of that act, namely, "Charitable Remainder Annuity Trust" and "Charitable Remainder Unitrust."

Conrad Teitell then told of the "bargain sale" provisions of the new law, as they affect gifts of "appreciated property" under gift annuity agreement. Following this, he detailed the final regulations relative to "pooled income fund," as set forth in the recently released and long-awaited regulations. They had appeared in the Federal Register dated April 6, 1971.

Extended questioning from the floor followed both presentations, attesting to the timeliness of the subject matter, the lively interest of all in it, and the trust of the assembly in the ability and competence of the two speakers.

The meeting recessed at 5 p.m. with announcement that the Resolutions Committee would have a "working dinner" session beginning at 6 p.m. The rest of the registrants were invited to participate in informal discussion groups under these two headings:

1. Accounting Procedures,
2. Promotion Techniques.

These sessions were subsequently attended in large numbers and were deemed helpful.

Thursday, April 15, 1971

The Conference resumed formal session at 9 a.m. with Chairman Baas presiding.

The Chairman of the Resolution Committee, the Reverend Dr. Don E. Hall, was recognized. On behalf of the committee he submitted the following resolution:

- I. BE IT RESOLVED that gift annuity rates based on the 1955 American Annuity Table, female lives; interest at 4%; 50% residuum; expense loading of 5%; modified at the upper and lower ages and extending to age 86 at 10%, be adopted by the Fourteenth Conference on Gift Annuities as the maximum uniform rates to be effective no earlier than June 1, 1971.

He moved its adoption. It was promptly seconded. A few questions were asked for clarification. The question was called for.

MOTION CARRIED

Since much less than the time allotted for consideration of the rate schedule matter had been taken up, Chairman Baas invited Dr. Hall to submit for consideration by the assembly at this time some of the resolutions that normally would come up later in the agenda.

Resolutions II, III, IV, V, VIII, IX, X, XI, XII and XIII were presented. Each was individually approved. They appear as a supplement to these minutes.

At 9:20 a.m. Mr. James A. Cousins was introduced. He is National Auditor, The Society for the Propagation of the Faith. He presented a report entitled "Developments in State Supervision and Regulations." His remarks are separately set forth. A period of lively discussion and extensive questioning took place. These comments are noted from among several:

Request was made from the floor, by Paul Turner, American Funds Service Committee, that the Committee on Gift Annuities provide guidelines as to what we can properly do in the various states toward (1) solicitation and (2) writing agreements (a) by correspondence and (b) by direct solicitation.

Request was made privately to the secretary that, if possible, a roster of registrants be provided as part of the conference packet.

In response to a question, Mr. Burrall stated that for purposes of administrative simplicity the Committee has used a rate table based on female lives only. He recalled to the group from the exhibit material of his earlier presentation that four-fifths of annuities issued are for women.

Relative to the reference by Mr. Cousins that the State of Wisconsin may be the next state to require licensing, Mr. Paul A. McCann of Marquette University, Milwaukee, Wisconsin, made this comment. He said, "the recodification of the State's Insurance Law was so vast that gift annuity agreements were not even mentioned." He went on to say that "if the Committee's recommendations on rates and practices are followed, we have nothing to fear."

At 10:40 a.m. the Conference recessed for a coffee break. The program was resumed at 11 a.m.

Dr. R. Alton Reed, President and Chief Executive Officer, Annuity Board, Southern Baptist Convention, and Mr. George L. Shearin, Associate Executive Secretary, Baptist Foundation of Texas, were presented. Between them they presented a Comparative Analysis of Gift Vehicles. Their formal statements are separately set forth.

Again there was an extended period of questions and discussion. Among the questions asked were these:

QUESTION: Will the Committee develop a new "pooled income fund" contract form?

ANSWER: The answer will be "yes."

QUESTION: Will the Committee provide a "print-out" of the gift value factors under the new gift plans?

ANSWER: There is no plan as yet to do so. This matter will be an agenda item at the next meeting.

The Conference recessed to another room for the final luncheon. The Chairman announced that the remaining items of the agenda would be presented in the dining room, permitting an earlier adjournment than the time originally scheduled.

Prayer was offered by the Reverend W. E. Reed, Executive Secretary-Elect, Church of God Executive Council.

When luncheon was completed, the program resumed. Dr. J. Homer Magee, Assistant General Secretary, Council on World Service and Finance, the United Methodist Church, was presented. His paper, "Agreement Forms and Correct Terminology," is set forth elsewhere.

The chairman of the Resolutions Committee, Rev. Dr. Don E. Hall, then presented Resolutions VI, VII and XIV, as set forth elsewhere in these minutes. Each was individually approved.

There being no further business to come before the Conference, Chairman Baas pronounced the meeting adjourned at 1:40 p.m.

Closing prayer was offered by the Reverend George F. Eichorn, Director of Church Relations and Deferred Giving, Muhlenberg College. The manuscript of his prayer, helpfully provided, makes possible its reproduction here:

“Our Father, from whom all blessings flow, bless us with thy grace and spirit as we to appointed place go.

Make us enablers of Thy Will by calling men their stewardship to fulfill.

Strengthen each instrument of love we serve.

And our own souls, we pray, through might by faith and love preserve.

Amen.”

REPORT OF THE RESOLUTIONS COMMITTEE

- I. BE IT RESOLVED that gift annuity rates based on the 1955 American Annuity Table, female lives; interest at 4%; 50% residuum; expense loading of 5%; modified at the upper and lower ages and extending to age 86 at 10%, be adopted by the Fourteenth Conference on Gift Annuities as the maximum uniform rates to be effective no earlier than June 1, 1971.
- II. BE IT RESOLVED that the Fourteenth Conference note with special interest and genuine satisfaction the information set forth in Chairman Baas' opening statement regarding the record number of sponsors that have been developed for this conference, now 665, and give recognition that growth to this extent would not have come about without the active personal promotion and support of individuals attending this and prior conferences.
- III. BE IT RESOLVED that the Fourteenth Conference on Gift Annuities express its deep appreciation to Mr. Carl L. A. Beckers, Vice President, St. Louis Union Trust Company, for the informative and authoritative address: "Economic Outlook."
- IV. BE IT RESOLVED that the Fourteenth Conference on Gift Annuities express appreciation to Mr. Charles L. Burrall, Jr., Actuary, Huggins & Company, Inc., for his continuing valuable services to the Committee and for his special presentation: "Report on Mortality Experience Studies and Gift Annuity Rates."
- V. BE IT RESOLVED that the Fourteenth Conference on Gift Annuities express special appreciation to Dr. Roland C. Matthies, Vice President and Treasurer of Wittenberg University; and Mr. Conrad Teitell, partner, law firm of Prerau & Teitell, for their timely and informative description of current gift income plans and tax reform legislation.

VI. BE IT RESOLVED that the Fourteenth Conference on Gift Annuities express its appreciation to the several individuals who made notable contribution out of their experience to the success of the program of this conference, namely the following:

Dr. Ashton A. Almand, Vice President, West Virginia Wesleyan College

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

Miss Florence Little, Treasurer, Women's Division of the Board of Missions, The United Methodist Church

Mr. James A. Cousins, National Auditor, The Society for the Propagation of the Faith

Dr. R. Alton Reed, President and Chief Executive Officer, Annuity Board, Southern Baptist Convention

Mr. George L. Shearin, Associate Executive Secretary, Baptist Foundation of Texas

Dr. J. Homer Magee, Assistant General Secretary, Council on World Service and Finance, The United Methodist Church

VII. BE IT RESOLVED that the Fourteenth Conference on Gift Annuities recommend to the various societies, agencies, boards and colleges that for the purpose of uniformity and a better understanding of gift annuity agreements:

1. the agreement between the donor and the issuing agency be referred to as a "gift annuity agreement";
2. the periodic payment under gift annuity agreements be referred to as "annuity payments";
3. in discussing, promoting or advertising gift annuity agreements such terminology as "bonds," "interest," "investment," "principal," which apply

to other forms of financial transactions, be carefully avoided.

- VIII. BE IT RESOLVED that the Fourteenth Conference on Gift Annuities recommend that organizations issuing gift annuity agreements maintain the funds related to their gift annuity program as "segregated funds" to make certain that all required annuity payments can be made.
- IX. BE IT RESOLVED that the Fourteenth Conference on Gift Annuities recommend that religious, educational, and charitable groups which cooperate with the Committee on Gift Annuities be requested to send in to the Chairman of the Committee copies of new rulings by Federal or State authorities dealing with gift annuities or life income agreements.
- X. BE IT RESOLVED that the Fourteenth Conference on Gift Annuities urge and encourage all organizations issuing gift annuity agreements to adopt the Uniform Gift Annuity Rates as maximum rates.
- XI. BE IT RESOLVED that the Fourteenth Conference on Gift Annuities send greetings to Dr. Gilbert Darlington, Honorary Chairman; to Mr. Forrest Smith, Honorary Treasurer; and to Lt. Col. G. Blair Abrams, Honorary Member, remembering their pertinent observations and wise counsel based on many years in the gift annuity field.
- XII. BE IT RESOLVED that the Fourteenth Conference on Gift Annuities express its appreciation for the special helpfulness extended to this group by Miss Petra Fakos, Mrs. Welenia Mason, Miss Edith Soffel, the St. Louis Convention Bureau and the staff and management of the Sheraton-Jefferson Hotel, St. Louis, Missouri.
- XIII. BE IT RESOLVED that the Fourteenth Conference on Gift Annuities express its warm thanks and hearty commendation to Mr. John Deschere and Dr. J. Homer Magee for their leadership in arranging the program and facilities for this Conference.

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

Don E. Hall
Robert D. Jenkins
Virgil T. Foss
Charles L. Burrall, Jr.
Frank Moody
Chester A. Myrom
Charles W. Baas, ex officio

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 Mennonite Board of Missions and Charities, Elkhart, Indiana
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 Waterloo Lutheran University
 Wayside Cross Rescue Mission
 Wesley Manor
 Wesley Medical Center
 Wesley Theological Seminary
 The Wesleyan Church
 West Virginia Wesleyan College
 Western Bible Institute
 Western College For Women
 Westmar College
 Westminster College
 Westminster Theological Seminary
 Westmont College
 Wheaton College
 Norton, Massachusetts
 Wheaton College
 Wheaton, Illinois
 Whitman College
 Wildwood Sanitarium & Medical
 Missionary Institute
 Willamette University
 Mr. A. L. Williams
 Williams College
 Wilmington College
 Winebrenner Theological Seminary
 Winona Lake Christian Assembly,
 Inc.
 Wisconsin Baptist State Convention
 Wisconsin State University
 Wittenberg University
 Woodward, Ryan, Sharp & Davis
 Worcester Polytechnic Institute
 World Evangelistic Enterprise
 Corporation
 World Gospel Mission
 World Literature Crusade
 World Neighbors
 Wycliffe Bible Translators, Inc.

 Yellowstone Boys Ranch
 Brigham Young University
 Young Life Campaign
 YMCA Metropolitan Minneapolis
 Youth for Christ International, Inc.

CONSTITUTION
of the
COMMITTEE ON GIFT ANNUITIES

Article I

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

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

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

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

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

Article II

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

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

Article III

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

Article IV

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

Article V

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

BY-LAWS

Committee on Gift Annuities

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

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

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MEMBERS OF THE COMMITTEE ON GIFT ANNUITIES

Chairman

MR. CHARLES W. BAAS
Treasurer, American Bible Society

Vice Chairman

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

Treasurer

MISS FLORENCE LITTLE
Treasurer, Women's Division of
the Board of Missions, The United
Methodist Church

Assistant Treasurer

MR. WILLIAM E. JARVIS
Treasurer, American Baptist
Foreign Mission Society

Secretary

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

DR. ASHTON A. ALMAND
Vice President for Financial
Affairs, West Virginia Wesleyan
College

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

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

MR. JOHN M. DESCHERE
Comptroller, Vassar College

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

MR. JOHN M. DOZIER
Vice President for Financial
Affairs, Macalester College

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

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

Assistant Secretary

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

Honorary Chairman

DR. GILBERT DARLINGTON
Consultant, American
Bible Society

Honorary Treasurer

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

Honorary Member

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

MR. JOHN J. JACKSON
Treasurer of the Board of
National Missions of the United
Presbyterian Church in the U.S.A.

MR. DAVID E. JOHNSON
Vice President, St. Olaf College

MR. FRED MACDONALD
Senior Trust Officer & Manager,
Loma Linda University
Foundation

BRIGADIER FRANK MOODY
Director of Deferred Gifts,
The Salvation Army

MR. JAMES A. NEILSON
Treasurer, Board of Christian
Education, The United
Presbyterian Church in the U.S.A.

DR. WM. KINCAID NEWMAN
Executive Vice President, The
Pension Boards, United Church
of Christ

DR. R. ALTON REED
President and Chief Executive
Officer, Annuity Board, Southern
Baptist Convention

DR. ROBERT A. ROBINSON
President, The Church Pension
Fund