Gift Annuity Agreements of Charitable Organizations

★

ECONOMIC REVIEW
POOLED LIFE INCOME
STATE AND FEDERAL REGULATIONS
ADMINISTRATIVE GUIDES

★

SEVENTEENTH CONFERENCE

WISE PUBLIC GIVING SERIES, NO. 56
1980

GILBERT S. B. DARLINGTON
1892—1980

The Reverend Dr. Gilbert S. B. Darlington, one of the founders of the Committee on Gift Annuities, a longtime friend and mentor, former treasurer and investment officer of the American Bible Society died at his home in New York City on May 30, 1980.

Dr. Darlington served on The Committee on Annuities, which was a subcommittee of The Federal Council of the Churches of Christ in America, from April 29, 1927 until after the 1934 Conference, contributing papers on Federal and Local Taxation. The 1939 Conference was the first one at which he presided as Chairman, a post he continued to hold after the Committee on Gift Annuities became a separate entity in 1946.

His continued pursuit of legislation favorable to the organizations issuing Gift Annuities and his zeal in promoting common terminology and secure policies in the promotion and administration of the Gift Annuity never ceased. Along with the Actuary, George A. Huggins, rates were advocated that would be as attractive as possible to the donor without endangering the financial security of the issuing organizations.

When in 1958 he retired as Treasurer from the American Bible Society, his successor in that post, Charles W. Baas, was also elected to follow Dr. Darlington as Chairman of the Committee on Gift Annuities.

Dr. Darlington, a Priest of the Protestant Episcopal Church, ordained in 1916, held a A.B. degree from Columbia University, a D.D. degree from Dickinson College, Carlisle, Pennsylvania, graduated from General Theological Seminary and also attended Union Theological Seminary. He married the former Elizabeth Remsen Thompson in April 1919. Mrs. Darlington died in 1971.

Among Dr. Darlington's notable contributions to the Bible cause was his production of the Sermon on the Mount which subsequently became the first Scripture Selection ever published by the American Bible Society. He also developed the first illustrated New Testament which contained more than 500 photographs and maps which became a model for similar publications worldwide.

The American Bible Society is indebted to him for commissioning many of the oil paintings of former officers of the Society which are hung in Bible House, New York, and he and his wife contributed the funds to establish the magnificent library in Bible House to provide adequate and proper housing for the extensive Bible collection acquired over many years.

He had a longtime affiliation with the United States Navy where he served as Lieutenant (jg) Chaplins Corps. He was on Admiral William S. Sims' staff during 1918, became a Lieutenant, Chaplains Corps New York Naval Militia in April 1928, and later a Lieutenant Commander, retiring in 1956.

At the time of his death he was Chaplain Emeritus of the New York Council of the Navy League of the United States, and Chaplain, Order of Lafayette.

Dr. Darlington was a member of the Society of Colonial Wars, Sons of the Revolution, Pilgrims of the United States, St. Andrew's Society of the State of New York, St. Nicholas Society of the City of New York and the Huguenot Society of America among others.

A distinguished scholar, humanitarian and a tireless crusader in the Bible cause, he has left a mark in Bible circles toward which to strive.

Charles W. Baas
Chairman, Committee on Gift Annuities

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PAPERS PRESENTED AT THE
SEVENTEENTH CONFERENCE ON GIFT ANNUITIES
HELD IN KANSAS CITY, MISSOURI
WEDNESDAY AND THURSDAY, MAY 7 & 8, 1980
UNDER THE AUSPICES OF
COMMITTEE ON GIFT ANNUITIES

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

WISE PUBLIC GIVING SERIES NO. 56
1980

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OPENING REMARKS

Dr. Charles W. Baas

Chairman, Committee on Gift Annuities

Welcome to the Seventeenth Conference on Gift Annuities.

Before our recent Conferences the thought has occurred to me that it should be possible one of these times for the Chairman to get up and say there are fewer delegates attending the Conference than the previous one.

It is *not* this time!

Present for the 17th Conference we have 563 delegates plus or minus a couple—representing 400 organizations.

Both numbers are new conference records.

Just to give you some idea of what has been happening, let's look back to the 14th Conference in 1971—a little over nine years ago.

The Sponsors in 1971 totaled 661—now there are 1,104. I'm not sure whether I should say your Committee has been doing something right—or doing something wrong. Growth has included all categories of organization with a bit above the average for the Educational and the Home & Hospital categories. If you are interested in further data, the pages in the back of this booklet list the present sponsoring organizations.

The whole of this afternoon's session and most of tomorrow morning's session has been organized for workshop sessions. The reason your Committee set up the Conference in this manner was their belief that this was the desire of the Conference constituency. In the past, quite a few delegates have let us know in one way or another what they thought of the Conference and some also made helpful suggestions. Your Committee would like to encourage this practice and recommends that the best way is for you to drop a note to a Committee member after you have returned from the Conference and had a chance to reflect on what transpired. While we are on the program, talking about workshops, let me apologize to those not registering early for this Conference who most likely are not placed in all of their first choice groups. In case you haven't added up the workshops, if you are not attending four, something has gone wrong. Please note that as has been our habit in the past, time has been allotted at workshops as well as plenary sessions for questions from the floor. It is up to you to take advantage of this opportunity.

Perhaps some of you have been wondering what your Committee has been doing in the three years since we last had a Conference. The full Committee met six times with meetings of several Sub-committees totaling more than that number. A good deal of this activity had to do with the increasing complications of State Regulations. There will be a report later this morning which will bring you up to date on that subject. One obvious thing the Committee did was to plan this Conference. It also authorized an actuarial study which will be presented to you and as a result, a rate change is being proposed to you by the Committee. Frankly, your Committee members worked hard. Keep in mind that they are volunteers with no direct compensation for what they do and without a paid staff to help carry out their functions. It's amazing to me that the Committee has been able to operate under this arrangement for so long and so well. I'm sure you realize that this is due to the dedication of your Committee members and the volunteer staff who assist them. They all deserve your thanks.

There is another first at this Conference. It may be a first and last or it could turn out to be a regular feature of these Conferences. Your Committee will have to evaluate the results of this Conference's experience. What I'm talking about is an exhibit area where space has been provided for literature and exhibits by anyone who thought he might have something of interest to the delegates attending this Conference. I suggest that it might be worthwhile to at least take a look to see what's there, but I caution you that your Committee does not have the vaguest notion what you will see or receive, and, therefore, be aware that though the Committee felt it might be helpful to you to provide space for this sort of material—do not think that the presence of any article or material constitutes any type of endorsement by your Committee.

Just one word on the proposed rate change. You will be briefed by our actuary this morning on just what assumptions are made in producing this rate which the Committee is recommending to you. I'm sure that some of you will feel that the change in the interest rates dating back to last October should have a profound effect on the gift annuity rate. You should listen carefully to what our speaker says in the session of our program which immediately follows on the Economic Review and Projection. The only point I wish to make at this time is that the interest assumption in the annuity rates must be concerned with the very long term. On the average, the annuity issued today will not cease making payments until about the year 2000.

We are planning to follow the practice of previous Conferences in that the Committee on Gift Annuities recommends that the drafting of resolutions to be considered by the Conference be placed in the hands of a Resolutions Committee. The following persons have been suggested to serve as members of the Resolutions Committee, all of whom have attended several previous Conferences:

Chairman: DR. WALTER C. KONRATH, Treasurer, American Baptist Foreign Mission Society

MR. JOHN DESCHERE, Comptroller, Bard College

MR. WAYNE W. KROWS, Vice President for Development, Millikin University

DR. ROLAND C. MATTHIES, Vice President Emeritus, Wittenberg University

DR. DAROLD H. MORGAN, President, Annuity Board, Southern Baptist Convention

MR. MICHAEL MUDRY, Actuary, Senior Vice President & Secretary, Huggins & Company, Inc.

MR. ARTHUR RITZ, Director, Deferred Giving Program, American Friends Service Committee

The Conference voted to accept the nominations as presented

My special thanks and yours as well should go to the Subcommittee on Program which is headed by Committee member Agnes Claire Reithebuch and to Vice Chairman Darold Morgan who headed the Sub-committee on Arrangements for this Conference. Now, I think we are ready to get on with the program.

As usual at these Conferences, most of the first morning's program has been devoted to examining the two main variables in our Gift Annuity rate structure—the interest assumption and the mortality experience. Changes in either of these major factors can have a profound effect on Gift Annuity rates. First on the agenda is a consideration of the Economic Outlook. Perhaps it might be well to remind ourselves again that the average gift annuity has a life span of between 20 & 25 years so we must concern ourselves with the rate of interest to be credited to investment reserve funds not only now or next year, but two decades away. A realization of this necessity for a long-range earnings forecast usually provides ample room for conservatism. However, an overdose of conservatism can retard annuity rates to the point where agreements are unattractive to potential donors. Just as detrimental would be allowing the events since last October as they relate to interest rates and bond yields to disproportionately effect our judgment. After all, the intent is also to have some residuum left for the institution involved. Just how far can we go in upping the interest assumption included in the rate table? This is an important question and one that is immediately facing you. We are fortunate in having some expert help in our attempt to predict the economic outlook in the person of Mr. Steven C. Leuthold, Vice President and Director of Funds, Incorporated of Houston, Texas. This is an investment organization managing over one billion dollars of corporate pension assets, state and municipal funds and labor union funds. In addition, the firm manages five Mutual Funds. Mr. Leuthold is a member of the firm's Investment Strategy and Policy Committee. Also its Equity Policy Committee. Mr. Leuthold has written so many books, articles and monographs that he is widely known so I'm sure most of you know already that we have here a man who should be of help to us. It might be of interest to you that Mr. Leuthold's latest book, *The Myths of Inflation and Investing* published by Crain Books, will be released in late summer.

Our program lists the next presentation as the REPORT OF ACTUARY AND DISCUSSION OF THE ACTUARIAL BASIS FOR GIFT AND DEFERRED ANNUITIES. This is the part of the program where we're all given a crash course on what an actuary does with a few numbers in order to produce a rate schedule that will accomplish the desires of both the annuitant and the organization issuing the gift annuity. As most of you are aware, gift annuitants seem to be notorious long livers and that the annuity funds universally have adverse mortality experience. I reported a little poem to an earlier Conference which was intended to make this gift annuity fact sound better. When gift annuity terminations do come along, instead of referring to favorable mortality experience you can use this little poem:

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

Seriously though, mortality experience is an important ingredient in the rate schedule. So I'd like to present to you a member of the Committee who has worked on these valuations for a good many years but is only now making his first major Conference presentation, the Conference actuary, Mr. Michael Mudry.

The final presentation of this morning's session will be a report on State Regulations. Probably there is no one at this Conference who has not come across the interest of assorted State bodies in the various agreements issued by organizations such as ours. In recent years this has become more prevalent and the lack of uniformity from State to State has made this a complicated subject and one upon which your Committee has spent considerable time. You are going to hear now from the Chairman of the Sub-committee on State Regulations and also a Vice Chairman of the Committee. It is my pleasure to present to you Committee member, Roland C. Matthies.

After lunch, Workshop Sessions will convene as noted. The next plenary session will be tomorrow morning at 8:30 a.m. when the Action on Gift Annuity Rates will be taken. Following that important decision, Workshop Sessions as assigned will take place and after luncheon the Conference will reconvene in the Imperial Ballroom at 1:30 p.m. for the significant presentation on the subject of Federal Tax Legislation by Conrad Teitell, member of Prerau & Teitell and noted lecturer and writer.

The report of the Resolutions Committee will follow, and the Conference will adjourn.

ECONOMIC REVIEW AND PROJECTION

Mr. Steven Leuthold
Officer & Director, Funds, Inc.
Special Consultant, Piper, Jaffray and Hopwood

We are truly in an age of disillusionment.

It was not that long ago when it was considered a universal truth that if one had a teaching certificate or a Ph.D. he or she would always have a good job, with security, with great fringes. How many mothers and fathers were telling their children this fable ten years ago?

Then it was not that long ago that all the wise men told us that stocks were a hedge against inflation. What happened to that one? Well in the last decade prices have more than doubled, the dollar has fallen by over 50% and the stock market is below where it was 15 years ago. Some hedge! My staff and I have examined that particular myth in great detail, looking at stocks, bonds, inflation and deflation through the ages. The book will be published late this summer . . . *The Myths of Inflation and Investing.*

Speaking of inflation and disillusionment. I'd like to say a word or two about college grade inflation . . . from an employer's standpoint. Over the last ten years, I have made it a practice to hire students working on advanced degrees in finance to work for me part-time. Initially, in interviewing candidates we used to look at their grades in graduate school and undergraduate school. I don't think we ever talked with one that did not have at least a 3.5 or 4 point grade scale. At first I was terrifically impressed, having been graded on a curve where 50% of the class got C's.

I had a rude awakening. I've had students working for me that can't divide, can't write and can't think. I had a 5th year architect student drawing charts for me a few weeks ago that could not even connect two dots.

It seems as though colleges today are comprised of never-neverland student bodies where everybody is above average and nobody ever fails, undergraduate or graduate schools. It seems the only F's on campus today are in the students' vocabularies.

In many schools the NC or W (no credit or withdraw) has replaced the F. If a student is headed for an F or a D he or she can take NC instead and not hurt his or her grade point. A study by the Carnegie Council on Policy Studies in Higher Education in 1976 found 89% of the grades given were C+ or better, 74% B– or better. Even in 1969, when teachers gave good grades to keep the kids out of the draft only 54% got B– or higher. And back on the old curve it might have been 30%.

I realize that recruiting students to fill up the facilities has become very competitive. The number of high school graduates will fall 20% from current levels by 1995. David Breneman of Brookings was recently quoted as saying, "College are going after almost anything warm and breathing." It's going to be tough and not all colleges will survive this shrinking market period. Eventually I suppose some school may guarantee straight A's to every entering freshman at least the way things seem to be going. In fairness though, I realize that some schools are gradually tightening their academic grading standards.

At any rate, grade inflation, no matter what the reason—economic pinch, student evaluations of teachers, or faculty laziness, is a shame. It often gives the students an unrealistic inflated appraisal of their own capabilities. There are still F's out there in the outside world . . . F standing for Fired. Everybody is not above average. At least some now entering college would better serve society and have a much happier life if they would learn a skill or trade instead of a B.A. As an employer I hope the day may come again when I can look at a college transcript and have it mean something.

Yes, it is an age of disillusionment. The areas of investments and finance are not exceptions.

Can you imagine one of the richest and biggest capitalists of all time having to mortgage the family oil fields to pay off what was lost in the silver market.

Can you imagine gold, the one greatest historic hedge against inflation plummeting from $850 per ounce earlier this year to $500 while inflation continues to rage? What is there to believe in anymore?

Personally, my faith in societies' institutions hit a new low a few weeks ago. It was in a men's room. On the wall I saw scrawled, "Lassie kills chickens!" Good heavens! What is left to believe in?

Well, I suppose there is always home and mother. But after seeing what has been happening lately, perhaps we should narrow that down to mother.

The great American single family dwelling, that one last sure hedge against inflation, that one investment that everybody knows you can't lose on, seems now to be depreciating instead of appreciating. The March average price of new homes was $76,000. Seven months ago it was $80,700. So, with inflation supposedly running at an annual rate of 14.5% over that period, home prices are falling at a 10% annual rate. Is nothing sacred?

But month-to-month numbers can be erratic, we would like to see one more month of declining home prices before calling a bear market in single-family dwelling units. So, wait until they tabulate the average price of all the *twelve new homes* sold in the U.S. in April before you really get concerned.

Actually we all have been conditioned by the last 20 years of experience. Real estate, especially homes, go only one way . . . up. Invest your money in a home . . . you will keep up with inflation and then some, everybody said. You can't lose . . . they said.

But history is not so kind. This, if indeed it is the start of a real decline in home prices, will be the seventh such instance in this century. Past declines ranged from 12% in 1907–1909 to 40% in 1926–1934. In fact, using average data, if you bought the average home in the U.S. in 1926, (three years before the 1929 crash) it took you until 1946 to get back to even . . . 20 years. And that does not include what you paid out in mortgage interest and taxes.

Now don't get the idea I don't believe in home ownership. I do. I also still believe in mother but I don't expect to make a financial killing off of her.

Ah yes, this is truly the age of disillusionment. Take government for example. Ten years ago the polls showed that 70% of this nation's citizens had respect for government . . . thought it was good. Now ten years later 70% look upon government as too big, too expensive and horribly inefficient. That is quite a turn around in ten years. Now, for the 30% of you that still have respect for the federal government, those of you who think you are getting your money's worth out of Washington, I will relate to you the saga of the Consumer Price Index . . . later on if there is time . . . serious problems that could be costing the taxpayers, you and I, 25 billion a year.

Up to this point, the theme of this talk has been disillusionment. Let me dwell on some things I believe in.

First, I am becoming increasingly convinced that inflation is coming down.

By the end of this year, even using the faulty measures, I expect the inflation rate will be 10% or slightly less.

By the mid-1980's I expect to see the rate down to 3% and also believe that in the next ten years we will see at least one year of deflation.

The chart I passed out (reproduced on page 13) was prepared for our book: *The Myths of Inflation & Investing.* For the entire rationale as to why we are headed into another plateau I'm afraid you will have to read the book or invite me to speak again.

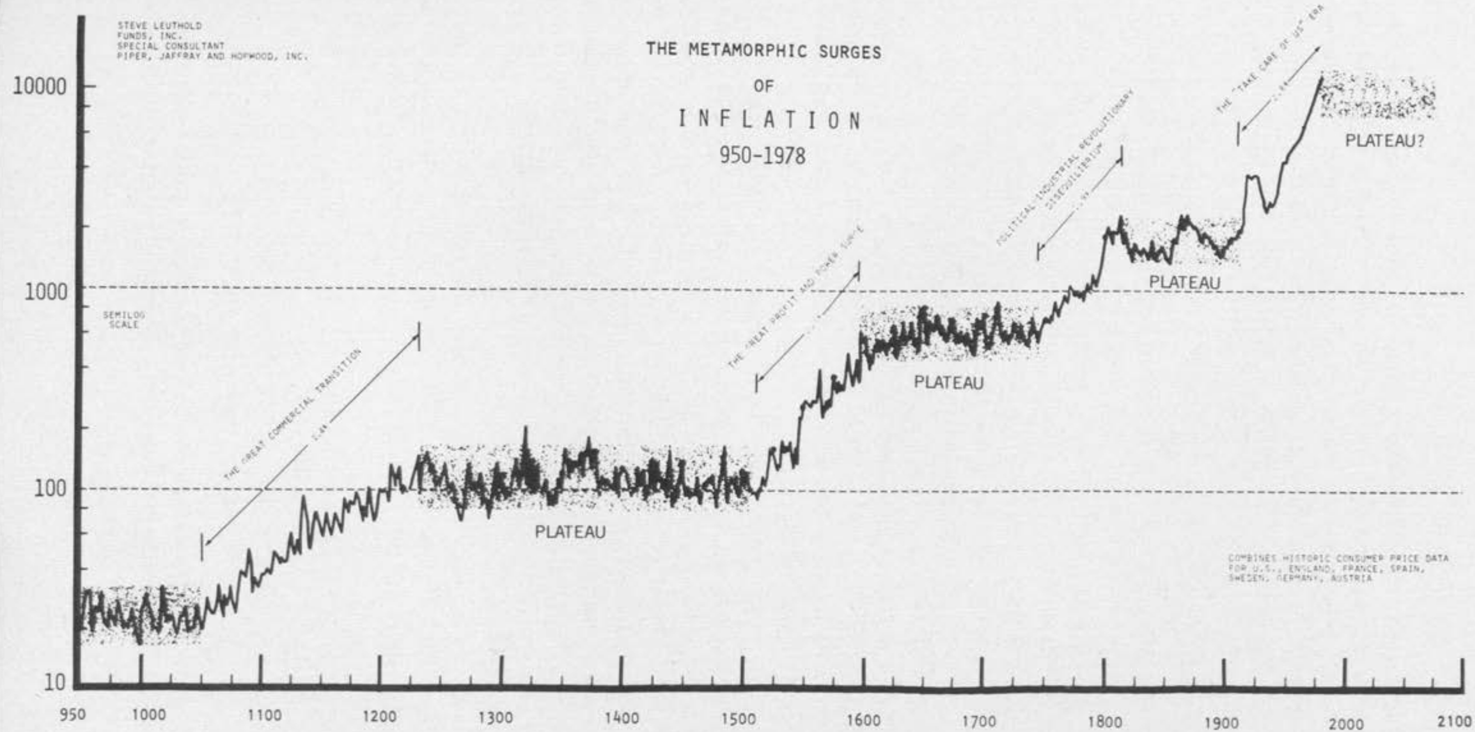
Second, we are on the way to solving the current energy dilemma. Oil is now so expensive that alternative energy sources are economically viable . . . they are being developed at a faster rate than we thought possible five years ago.

Third, the stock market is a screaming bargain, comparable to 1949. Selling under book . . . lowest P/E's . . . 15 years of treading water while earnings and dividends have been doubling and tripling for most stocks. This is a value opportunity of a lifetime . . . but be patient. The DJIA is now around 800. I believe it will be close to 2000 by the end of the 1980's. Mouth watering!! So even though stocks are not an inflation hedge, they act extremely well in periods in which inflation is decelerating . . . and this is what the next decade will bring.

Fourth, the bond market also has a great deal of potential. Six percent rates on long-term bonds will be seen by the end of this decade. Interest rates have peaked.

Fifth, we are in a recession, but this is good news for lower interest rates and strangely enough, good news for the stock market.

Then, in summary, I hope the colleges of this nation make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PLATEAU
THE "TAKE CARE OF US" ERA
PLATEAU?
COMBINES HISTORIC CONSUMER PRICE DATA FOR U.S., ENGLAND, FRANCE, SPAIN, SWEDEN, GERMANY, AUSTRIA
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some progress on the grade inflation front . . . and, don't buy a house for an investment, buy it to live in. And, finally don't put too much stock in the CPI . . . maybe you might even write your congressman about it. But also keep in mind that no one's life, liberty or personal property is safe while the legislature is in session.

INTRODUCTION:

- First comes a little inflation history lesson. I should warn you I am a history buff, but I promise I'll only cover 1,000 years and we will use some graphs to speed up the process.
- Then comes our conclusions about the future trends of inflation in the 1980's. I will warn you these do not agree with the current consensus views.
- I will also explain why I believe today's high inflation can and will come down.

Harry Truman once said (maybe it was James Whitmore): "The only thing new in the world is the history we don't know." The man from Missouri may have lifted this from Confucius who said: *"To study the past is to divine the future."*

But perhaps the best introductory quotation comes from Willie Nelson, my favorite philosopher. You may not be familiar with Nelson's work in that he is still quite obscure in academic circles and not yet included in most philosophy survey courses. However, unlike most philosophers, Willie has done quite well from a monetary standpoint, and, in the world of investments, this is a big credibility plus. *Time* and *Newsweek* both had feature articles on Mr. Nelson and his work. And even the President listens to him.

Anyway, back in 1974, Willie Nelson released an album called "Phases and Stages." The bridging theme of that album is a great introductory quotation to a history lesson. These are the words:

"Phases and stages,
Circles and cycles,
Scenes that we've all seen before
—let me tell you some more."

Now, history *may* or *may not* be the key to understanding the current inflationary cycles. It is remotely possible we have entered an age of discontinuity. But the more we have studied the inflationary past, the more it is believed. *There is much to be learned from it.* Human interaction, emotion and reaction are essentially unchanged.

U.S. Inflation History

Here are some of the observations and conclusions concerning U.S. inflation history:

One The recent high levels of U.S. inflation are *not* a new phenomena, having, on a moving average basis, been exceeded in the 1790's, the 1860's, and the 1910's. Several other periods also came very close to approximating recent experience. Numerous individual years *exceeded* 1974's peak level (11–12%).

Two Inflation runs in cycles, and, in the past, *has clearly not been a permanent fixture in the U.S. economy.*

Three Inflationary peaks have to this time, in all but one case, been followed by a significant correction period of deflation. And even in that exception (1949–1955), there were two years of actual deflation. The advent of the Korean War prevented the typical deflationary correction. Because ------.

Four *It's obvious that major wars and high inflation go hand in hand.* The Revolutionary War, the War of 1812, the Civil War, World War I, World War II, and the Vietnam War, also the Korean War, and, to a lesser degree, the Spanish/American War, (greedy-police action) were accompanied by some build-up of inflation.

Five As a superheated war economy cools off, inflation has historically subsided. However, with the exception of the Civil War, relatively high rates of inflation have prevailed for several years *after* each war's conclusion . . . probably a function of pent-up consumer demand. As this is satiated the deflationary correction begins developing (war on poverty).

Six *The shift from an inflationary environment to that of deflation* has often been sudden and dramatic. For instance, in 1863 and 1964 inflation was 18% and 35%, followed by no inflation in 1865, and 5% deflation in

1866. In 1919 and 1920 inflation was at 15% and 16%, but 1921 and 1922 brought deflation of 11% and 6%. *1947 and 1948 saw inflation running at 14% and 8%, but 1949 was a deflation year.* The Korean War quickly put the country back in an inflationary mode, 8% in 1951, *but by 1954 and 1955 there was minor deflation. Prices down!!*

Seven Currently the 5 year centered moving average of inflation has turned down from a peak. *In the past this has indicated that a correction of inflation excess is under way.* This supports the current thesis of some economists, such as Gary Shilling, who say that inflation peaked in 1974 and the U.S. is now in a secular inflationary decline. Considering past historical movements, and barring a new major war, it is certainly possible that inflation may be down to 2–3% by the mid 1980's, and actual deflation is *not* out of the question. Hard to believe? . . . more on that later.

Summary Statistics

In analyzing the inflation/deflation data from 1791 through 1979, it is clear that very long-term inflation experience in the U.S. is far lower than is *generally believed. The annual compound growth rate in consumer prices is 1.2% for 186 years.* The arithmetical average of annual data is 1.5% and the median is 1.7%.

Also, running counter to the belief that inflation has usually been a characteristic of the U.S. economy, the study found that inflation, *on an annual basis, exceeds 1% only 48% of the time,* while deflation of 1% or more was present 32% of the time, Price stability (less than 1% inflation or deflation), existed in 20% of the years.

In total, 56% of the years experienced some upward movement in consumer prices, while in 44% of the years consumer prices were unchanged or down.

This U.S. history may or may not be representative of future experience. *BUT,* interestingly, in our 1,000 year study, which comes next, we also found that prices rose about 60% of the time and fell 40% of the time. Incidentally the 1,000 year annual compound rate of growth for consumer prices worked out to less than 1% per year.

1,000 Years of Inflation

The chart passed out purports to cover over 1,000 years of inflation history. We have, using several different sources, gone back and reconstructed a cost of living index, back to 950. Now you might ask how this was done. Well, it started with Professor Phelps Brown's work at Oxford, where he reconstructed a cost of living index for England for the years 1264 through 1661. Now, all of this is not precise data, of course.

But in the last year or so, in preparation for a book that will be out this year, *Investing and Inflation, The Myths and Realities,* my staff and I have dug up additional ancient inflation data for France, Sweden, Germany, Spain, and it ties in amazingly well and we blended it into this chart, prior to 1264 Forbes study.

Look at this chart. There are four metamorphic surges of inflation over this 1,000 year period. We have labeled them, first, "the Commercial Transition" then around 1500 we have the "Profit and Power Surge," and then around 1750 to 1850 we have the period of "Political-Industrial Revolutionary Disequilibrium." Finally, currently, the "Take care of Us Era." I will explain in a minute what those terms mean, but I think a very interesting point here is the configuration that you see. We see a very rapid acceleration in inflationary trends, and then sometimes *centuries of price stability.*

Now, let's look at the four inflation explosions:

A. The first one, the Commercial Transition, occurred back around 1100. This was the period of Marco Polo, but is was also the period when coins replaced the barter system, allowing for expanded trade and commerce to take place. It was also a time of merchant development. For the first time retail trade was developed and craftsmen emerged. *The key was improved agricultural methods allowing the development of population centers.* "How you gonna keep 'em down on the farm?" A new kind of social and economic order emerged. With these dramatic changes came *inflation.* But once the economic system had digested and adjusted to this relatively rapid change, inflation cooled off . . . then stability . . . ups and downs, yes but negative stability.

B. Then, several hundred years later, around the time of Columbus in 1492, we entered into the Profit and Power Surge. In this period huge amounts of gold and silver flowed into western Europe from the new world. But, perhaps more importantly, the church, for the first time *endorsed getting rich—poverty was no longer a virtue.* This was the dawn of the capitalistic system. Government-centered power emerged with the great monarchies of France, Spain, and England. Taxes came on the scene. The social and economic changes were dramatic. 1500–1600 is known in the history books as the "Dynamic Century." The adjustment process the change brought was a surge of inflation, then relative price tranquility until the system could adjust to the new order of things.

C. Then we see a third burst . . . one which doesn't stick out quite as much on the chart. Prices actually only went up 150% in this period of time. This was the period of Industrial Revolution. This was the era of the steam engine . . . machines doing the work of men and animals. Canals, turnpikes, manufacturing. The first sophisticated use of credit, the very important government by the people came into being in France and England. Economic growth and productivity leaped ahead as bloody-clawed capitalism came into being. Government, as far as business, was hands off—little interference or retaliation. All in all, massive change adjusting through a century of tranquility.

D. Finally we get into the current inflationary surge. This is identified as the Take Care of Us Era. It is in this period of time where we find government becoming increasingly involved in the affairs of the citizens being governed.

Now before 1910 government responsibility and function was about limited to providing pomp and circumstance ceremonies, fighting wars, and maintaining some form of domestic law enforcement. *But* starting around 1910, government started expanding its role in England, *taking on the care and feeding of its citizens.* The *government,* not the church, began taking care of the starving children. The *government* began helping the folks out during plagues and famines. *Government in effect, got religion, a social conscience.* This new attitude represented a dramatic change in government's responsibilities and expense. It also resulted in a major change in the economic and social order, and as in the preceding social economic revolutions, along came inflation. This period began in England in 1910, later in the U.S., the early 1930's.

So on the chart we see four distinct bursts of inflation. During the same time a great social and economic leap forward was taking place. When the economic system adjusted to the change, inflation plateaued. But plateauing did *not* come until changes had slowed.

Now, look at those percentages on this chart. In the Commercial Transition we see that inflation compounded at a 1.4% per year basis. We see that in the Profit and Power Surge it was 2.3% annually over the 100 years. The Political-Industrial Revolution Disequilibrium rate was about 2%. Finally in the current surge it has been 2.8% per year compounded. *We did not slip a decimal point in these calculations!* These historically *extraordinarily* high rates are a far cry from what you hear economists talking about today. Some are now saying that 6%–7% inflation is the permanent order of things. They say we can live with 6% inflation. Again if these economists took a look at history they would see they are more than a little out of sync with what has been *reality* in surviving economic systems over the 1,000 years.

THAT CONCLUDES THE HISTORY LESSON. NOW LET'S LOOK AT INFLATION TODAY.

Many economists now project future long-term inflation as 6% or 7%. They ought to take a look at history and at a compound interest table.

Not long ago in *Business Week,* one of the nations' economists projected 7% inflation, built in indefinitely.

What would that do? A 25 year-old, retiring at 65, 40 years from now would be faced with the following:

Today's $10,000 compact car—$150,000
$75,000 house—$1,125,000
15¢ stamp—$2.25
$6.00 bottle of cheap whiskey—$90

Even 6% inflation, compounded over forty years, equals a ten-fold gain in *the cost of anything.* 7% is a 15-fold gain in the price of anything. Still economists say, "Yes . . . we can live with 6–7% inflation."

But 6–7% inflation over an extended period would, in my opinion, blow this economic system apart. *No time* in 1,000 years has an economic system survived 6% inflation for an extended period. Look at that 1,000 chart. True, some nations have had long-term 6%+ inflation experience *and their economic systems were destroyed.* It is indeed unfortunate that so many of today's practicing economists are not aware of, or choose to ignore, that "old stuff," the economic data more than a decade or two old.

But what will get us out of the inflation fire? Red Adair isn't going to put it out. Think back to our 1,000 year inflation history. Remember this is the Take Care of Us Era, that major socio-economic change we discussed. Well, the sun is setting on that change . . . perhaps it has already set. The growth of government spending, government services and government involvement in our lives is slowing down, stabilizing. This is true not only in the U.S., but also in most industrial nations.

Now I am not saying we are going to backtrack to the good old days of bloody-clawed capitalism, survival of the fittest and minimal government interference or regulation of our lives. History demonstrates that such backward moves are rare. The good old days won't return . . . nor were they always so good. However, it now appears as though government growth in the U.S. has slowed, maybe stopped. Thus the economic system can now catch up, learn to live with and adjust to the Take Care of Us Era of the past 50 years, just as happened in the Profit and Power Surge, the Political-Industrial Revolution, and the Commercial Transition. This adjustment could mean we are entering a long period, 100 years plus, of relative price stability, interrupted occasionally by bursts of war-induced inflation or special factor inflation like OPEC.

When all the smoke is blown away it appears the major immediate cause of today's abnormally high inflation levels in the U.S. is the U.S. government's continuing policy of spending more money than it takes in, covering the difference by degrading the currency. As government's role has expanded, the revenues could not keep pace with spending. Business and labor are not really at fault, raising prices and wages. They are only trying to keep up. It's big government getting bigger . . . big spending getting bigger. But, thank God, the winds of change are starting to blow. To assume that the government growth of the last 10 and 20 years is the die cast for the next ten, twenty or thirty years, is almost certainly myopic and naive and probably suicidal.

Listen to this: 1949 *total* federal spending $40 billion—in 1979 our deficit will equal that. 100% of 1949's total spending.

Listen to this: *Harper's Magazine,* March 1978: Last year Americans paid $16.7 billion *more* in taxes of all kinds than they spent on food! clothing! shelter! *combined*!!!!!

Listen to this:

Currently almost 70 million people in this country depend on government—national, state and city for their primary source of income. This includes public employees, such as the Internal Revenue people, teachers, politicians, law enforcement officers and the like. It also includes those currently on unemployment, welfare, and Social Security . . . people who get those transfer payments that were mentioned earlier. The total is 70 million people . . . people who depend on government in one form or another as their *primary* source of income.

Now . . . how many people do you think are employed by the private enterprise and non-government employers in this country . . . about 69 million.

In other words . . . each one of us working outside of government is, in effect, supporting *not only our families and ourselves, but each one of us is* providing the primary income for another person . . . I think the guy I am supporting must have 10 children, vacation in Hawaii and eat steak every night.

But the Good News is . . . The Winds of Change Are Blowing

The change, of course, is *not* coming from Washington. It is *not* coming from our old, out of touch representatives in the House or Senate. It is *not* coming from our Keynesian economic experts . . . *it is coming from the people.*

The people of this country are fed up with big government getting bigger. They are sick of inflation. They are sick of bureaucratic waste and federal deficits. This is not just a few nuts in California (I remember when Proposition 13 was what happened to me on my second night in San Francisco). I think it's a very major historic turning point. Tax limitation and spending limitation proposals are now found in almost every state. A proposal to require a balanced federal budget has worked its way through 30 state legislatures. We may not have a constitutional convention called *but* Congress will be forced to pass such a law before it takes place. *Either way,* it's a victory for the people against the Washington establishment.

Look at the last elections. Democrats and Republicans alike scurrying to get on the fiscal responsibility and limiting government bandwagon. For the most part the politicians who did not climb aboard *did not get back to Washington.*

This is *not* just a taxpayer's revolt. Sure people are sick of paying out more in taxes than they do for food or clothing and shelter *combined. But most* Americans don't want to do away with good schools, *most don't* want to let the really needy starve and freeze. *Most don't* want to see old people begging in the streets.

But most Americans are sick and tired of government inefficiencies, ridiculous costs, waste and interference in their lives. Eight years ago, polls showed 70% of Americans had a favorable attitude toward government. Today, 70% have a negative attitude. Why?

• Maybe it is because it now costs the taxpayers over 1 million dollars a year to pay the salaries, staff and fringes of *each* and *every* Congressman in Washington.

• Maybe it is because the Department of Health, Education and Welfare now has 1.1 million people in its work force ... more than the U.S. Army.

• Maybe it is because $3 billion is stolen annually from health programs—yet the federal government has fewer people investigating than it has manicuring the White House lawn.

• Maybe it is because today, 87 government agencies have been created to regulate some aspect of business.

• Maybe it is because Congress has created 25 separate bureaus in 14 different departments to handle water pollution alone.

The natives are restless, and even Washington is starting to respond. Again, Steve Gilkenson said in a recent issue of *Pensions & Investments:*

"There is too much regulation of the electorate (and business) by government now. Perhaps it's time for the electorate to regulate the government."

Amen to that . . . the time is here, the tide has turned.

My friend Peter Bernstein, in a beautifully written article entitled, "The Tide in the Affairs of Men" put it this way:

"A man standing on the beach when the tide turns will never know for certain precisely when that event occurs. For some time afterward, waves will continue to lap up to almost the same point as the last wave of high tide. Only after a period of time, when successive waves fail to reach the former levels, can he then say that the tide has turned.

"The turning point of great historical forces is just as difficult to identify and for just the same reasons. Forces in motion tend to stay in motion, and the stronger they are, the greater the inertial characteristics they acquire. The change in the tide in such cases is a complex, uneven, attenuated process, in which the old force still seems to be very much in control even while the new forces are only beginning to gather strength.

"The events of the past few months are giving fragmentary if dramatic evidence of a vast sea-change whose turning point is hidden in the violent turbulence of the past ten years: A mass decision to curtail the role of government in our lives. We stress that we do not believe this is the moment when the tide is turning; rather, this moment is a confirmation that the tide *has* turned."

What Peter is saying much more eloquently than I could is the Take Care of Us Era, the long period of expanding the role of government is over . . . and so, my friends, maybe is the long super cycle inflation build up that accompanied it. We will have a few waves and ripples of high inflation as the tide goes out as we learn to adjust, but the secular inflation peak was reached in 1974.

CONCLUSION

In summary, today I have shown you:

A. High inflation is not new.

B. Inflation has not been a permanent fixture in the U.S. or world economies.

C. Shifts from high inflation to minimal inflation or deflation can be swift.

D. Inflation in the U.S. may have peaked in 1974 and is moving jaggedly downward.

Economists and politicians projecting future long-term inflation as 6% or 7%, and saying we can live with that, ought to take a look at history and at a compound interest table.

Remember! Six percent inflation compounded over forty years, equals a *ten-fold gain in the cost of anything*. Seven percent is a *15-fold gain* in the price of anything. Still economists say, *"Yes, we can live with 6–7% inflation."*

Yes, and if things don't change, we will blow this system apart. *No time* in 1,000 years has an economic system survived 6% inflation for an extended period. Assuming that the inflation experience of the last eight or ten years is the die cast for the next ten, twenty or thirty years, is almost certainly myopic and naive.

We have identified the root causes of today's inflation—first the 50 years of metamorphic inflation accompanying the Public Revolution, that is government's role redefined as taking care of the people. Then in the last decade that was accentuated by *huge inefficient bureaucratic spending and chronic federal deficits.*

But, I have pointed out that times may be changing, led not by old establishment political leaders or economists, *but coming from the people.*

Then, I have tried to demonstrate why such a reversal is in the works. Now . . . this is difficult for most of us to actually accept because reversals of the tide are difficult to recognize, and because we are so conditioned by immediate past experience.

From a personal standpoint, five or even three years ago it would have been difficult for me to believe such a meaningful change could take place, that the pendulum could be swinging the other way. *But it is happening.* Attitudes toward government are changing. Not many years ago I thought hyper-inflation and the destruction of our economic system as we know it was really in the cards. I was close to agreeing with the James Dines and Harry Browns of the world who firmly believe it's always darkest before the lights go out completely. I no longer believe this. As Peter Bernstein says, the tide has turned.

We are not out of the inflation woods by any means. But the nation has finally come upon the right path.

I'd like to close with a quote, not from an economist or politician, but from Ernest Hemingway in his *Notes On the Next War.* Hemingway said, "The first panacea for a mismanaged nation is inflation of the currency. And the second is war. Both bring a temporary prosperity, and both bring permanent ruin."

ACTUARIAL REPORT ON GIFT ANNUITY RATES

Mr. Michael Mudry
Senior Vice President & Secretary
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Although your primary interest in my remarks will undoubtedly be the recommended gift annuity rates that will be presented toward the end of my discussion, I think it would aid your understanding of the rates if I explained some of the background entering into the development of these rates.

As a beginning point to the background, it would be helpful if you all took out Schedule A (page 37) from the packet of material which was distributed to you at the time you registered for the Conference. This schedule is headed "Historical Comparison of Annuity Rates Adopted by the Conference on Gift Annuities." The schedule will enable me to explain several factors relating to gift annuity rates. First of all, the schedule sets forth, at quinquennial ages from 30 through 90, the single-life gift annuity rates adopted by each of the Conferences from 1927 through the last Conference in 1977.

To avoid later confusion, let me first explain what the word "rate" will mean for our purposes. In the gift annuity field, the rate is the percentage payable annually to an annuitant on the principal given to the charitable organization. Thus, for example, if $10,000 is paid to the organization and the rate is shown in the rate table as 7.1%, the annuitant receives annually 7.1% of the $10,000, or $710. This meaning of the term "rate" is different from that employed in insurance circles, where "rate" means the premium rate that is charged for a given amount of benefit.

It can be seen from Schedule A that the rates established at the first Conference on Gift Annuities 53 years ago in 1927, just a few years before the big crash, have not been equalled since then, except in recent years at the older ages. Rates declined from 1927 to a low point in 1939. They then generally remained relatively low for most ages until a gradual increasing trend developed beginning with the rates adopted by the Conference in 1971.

Also shown in Schedule A are headings at the bottom half of the schedule which really serve as a summary of the various assumptions that must be taken into account in calculating the gift annuity rates. These assumptions are as follows:

(1) the mortality basis for the future,
(2) the rate of investment yield to be earned on the principal received (commonly referred to as the interest rate),
(3) the residuum available to the organization at the death of the last annuitant eligible to receive annuity payments, and
(4) the loading applied for administrative expenses.

The listings under the column headings set forth the details of each of the assumptions for each of the various sets of rates adopted by past Conferences. The use of ditto marks makes it easy to determine which assumptions have been changed in any year, without the necessity of making a comparison with the assumptions on which the preceding rates were based. For example, on the line for column H (which relates to the rates adopted in 1974), the assumptions used in computing rates were the same as those involved in calculating the preceding rates in column G that were adopted in 1971, except for a change from 4% to 4½% in the assumed interest rate.

A brief comment on the changes over the years in each of the four assumptions of mortality, interest rate, residuum and expense loading might be of interest.

The first three columns of the bottom half of Schedule A are set forth under the general heading of "Mortality Basis". The first of these three columns identifies the actual mortality table used. Since the table is a somewhat technical device used by actuaries, I won't go into detail about the various tables used over the years.

The second of the three columns of assumptions in Schedule A under the general heading of "Mortality Basis" indicates the sex assumption used for purposes of calculating gift annuity rates. Except for the annuity rates adopted at the first Conference on Gift Annuities in 1927, which are shown in column A, all rates have been based on mortality assumptions related to female lives. On the surface this might appear to be ultra conservative, since it is well known that women live longer on average than do men. However, the fact that a mortality assumption recognizes only mortality of females does not necessarily mean that the assumption is conservative. As an illustration, I can point out that, when the last study of mortality of gift annuitants was made and presented at the 1977 Conference, the number of assumed deaths was first studied using the mortality basis in effect during the 12-year period preceding that Conference. The actual deaths during the study period for all lives, both male and female, were 100% of those which would have occurred under the assumed mortality basis, which was based only on female lives.

I'd like to digress briefly to mention that, since I will be referring to mortality ratios several times during the course of my comments, I should explain that, when a ratio of actual to assumed mortality is in excess of 100%, it means that more lives have died than assumed, which is considered favorable experience from the point of view of an annuity operation because fewer annuity payments had been made than would have occurred if experience had been in accordance with assumptions. Ratios under 100% are considered unfavorable for an annuity fund since it indicates fewer deaths (and hence more payments) than assumed. Of course, what is unfavorable to an annuity fund is favorable to the annuitants themselves. It also would be favorable to an insurance company liable for payments of death benefits.

Now let us return to my comments about the mortality study reported to the 1977 Conference, under which the ratio of actual to assumed mortality was 100% overall. Although the ratio was 100%, this reflected the fact that actual mortality among male lives equalled 108% of those in accordance with the female table used as the mortality assumption, while actual mortality among female lives was only 97% of the number which would have occurred under the female mortality assumption. The 108% male mortality ratio and the 97% female mortality ratio were both developed by comparing actual mortality with that which would have taken place under the female assumptions used. When the results were combined, though, the overall ratio was 100%. It might seem that combining 108% with 97% would produce a higher ratio than 100%, but the end result reflects the fact that about 80% of gift annuities are issued to females and only 20% to males. Therefore, the 97% females mortality ratio is weighted more heavily than the 108% male result, so produces the combined 100% ratio. Now, please don't misinterpret my remarks and report that I said that females weigh more than males.

Actually, although those attending the Conference on Gift Annuities may not have been aware of it all these years, they can lay claim to having been way ahead of the rest of the country insofar as eliminating sex discrimination is concerned. You have all read about various court decisions handed down in recent years which prohibit the use of sex related mortality assumptions for the purpose of converting a given amount of money into an annuity. It's about time the rest of the country has caught up with the practice the Conference has had in force ever since its very first Conference.

If we again refer to Schedule A, we see that the third column under the heading "Mortality Basis" sets forth any age ratings included in the assumptions. An age rating is a device which enables an actuary to adjust the mortality rates in a mortality table so as to bring them more closely in line with mortality rates assumed for the future as the result of a study of current mortality experience. For example, if the age rating is minus 2 years, it means that a person of a given age will be assumed to die in accordance with the rates of mortality of a person two years younger. An age rating of minus two years is also frequently referred to by actuaries as a two-year set back in ages. Whether called an age rating or a set back in ages, it in effect makes provisions for a longer longevity than is inherent in the unadjusted mortality table. This type of adjustment is frequently made when the basic mortality table was prepared a few years in the past. For example, the present table being used is the 1971 Individual Annuity Mortality Table. Since we are now in 1980 and because mortality rates have decreased since 1971, it can be seen that it is reasonable to find a need to adjust the assumption.

When the assumptions in the first three columns of the lower half of Schedule A are combined, they represent the overall mortality basis assumed. I think you might find it of interest to compare the life expectancy for a single person age 65 under some of the mortality bases used for gift annuities over the years. These life expectancies under a selected sample of mortality bases are as follows:

Column	Year	Years of Life Expectancy
A	1927	11.76
D	1939	15.15
E	1955	17.55
F	1965	19.57
I	1977	20.92

Thus, the life expectancies under the assumptions used for calculating gift annuity rates at age 65 have increased from 11.76 years under the 1927 rates to 20.92 years under the 1977 rates, for an increase of more than 9 years of life expectancy for 65 year-olds over a span of 50 years. This represents an increase of 78% over the 11.76 years of life expectancy inherent in the calculation of the 1927 rates. While this increase may not exactly reflect the situation over the years, it serves to illustrate the degree of increasing longevity during that period of time. It is obvious that, apart from any other changes in assumptions, the increased life expectancies currently would produce substantially lower gift annuity rates than those of the past.

The fourth column of the bottom half of Schedule A shows the interest rate assumption. It can be seen that interest rates have been increasing since 1955, having risen from 3% to 5%. The assumed residuum is shown in the fifth column and was reduced from 70% to 50% of principal in 1939 and has remained there.

As shown in column six, there was no loading for expenses until 1955. At that time an expense loading of 5% of the total principal was introduced. It has remained at that level to this day.

One last item shown in the lower half of Schedule A is information in the last column as to the ages at which the rates that were developed based on the assumptions used were subsequently modified before being adopted by the Conference. For the rates in columns A and B that were adopted in 1927 and 1931, respectively, the gift annuity rates at the older ages were modified. Since then, adjustments have been made at both the younger and older ages.

Now let us leave history behind and turn to the development of the gift annuity rates that will be recommended to this Conference by the Committee on Gift Annuities. Of the four assumptions previously mentioned that are involved in the calculation of gift annuity rates, namely, mortality basis, interest rate, residuum and expense loading, there does not seem to be any need to change the last two assumptions of a 50% residuum and an expense loading of 5% of the principal.

The 5% interest assumption adopted at the 1977 Conference is obviously a low rate when compared with the high interest rates currently available on new investments. However, it must be remembered that an annuity represents a commitment for a lengthy term of years, during which it is possible for interest rates to decrease as well as increase. There seems to be additional justification for caution in establishing an interest assumption at a time when wild fluctuations in yield rates are occurring. Taking all factors into account, the Committee on Gift Annuities has recommended that the gift annuity rates to be presented to this Conference be based on an interest rate assumption of 5½% per annum, compounded annually. This compares with the 5% assumption used for the present gift annuity rates.

The last assumption to be discussed is that of mortality. At the 16th Conference held in 1977, results of a study of mortality experience for the six-year period from January 1, 1970 through December 31, 1975 were presented. As I had indicated earlier in this paper, the number of deaths which actually occurred during those six years was 100% of the number which would have occurred if mortality had been in accordance with the mortality basis then in force. Because that mortality basis was not considered to make sufficient provision for future decreases in mortality rates, the 1977 Conference adopted a revised mortality basis under which the ratio of actual to assumed mortality was 105% overall. Although, as previously mentioned, a mortality basis can be considered to be conservative for annuity purposes if, for the period studied, the ratio of the actual number of deaths to the number which would have occurred in accordance with the assumed mortality basis is over 100%, a ratio of

105% was only slightly conservative even when adopted in 1977. This is especially true when it is recognized that rates of mortality have continued to decline in recent years. Therefore, there would be some justification for updating the mortality study so as to be able to consider more current mortality data. However, because the last study was completed only three years ago, the Committee concluded that it was not worth the trouble and expense of making a full scale study at this time. It is possible, though, to estimate through actuarial procedures the effect of reasonable improvements in longevity during the intervening years, based on other studies available showing the annual rate of decrease in rates of mortality. Using such procedures, we have developed a theoretical mortality study for the six-year period from January 1, 1975 through December 31, 1980. This study indicates that, whereas there were 5,199 actual deaths among individuals included in the 1970-75 mortality study, if these same individuals had been living at the same ages during the period of the hypothetical 1975-80 mortality study, there would only have been 5,077 deaths because of decreased mortality rates during the interim. While the 5,199 deaths in 1970-75 represented 105% of assumed deaths under the present mortality assumption that was adopted in 1977, the hypothetical 5,077 deaths for 1975-80 would be only 103% of the number of deaths for which provision is being made under the present mortality assumption.

It is my opinion that a 103% mortality ratio does not make adequate provision for future increases in longevity and the Committee has concurred. Accordingly, the Commitee is recommending that a more conservative mortality basis be used for calculating rates for gift annuities to be issued hereafter. The new basis is the same as the old one, which was the 1971 Individual Annuity Mortality Table, female lives, but with ages rated as two years younger instead of only the one year rating reflected in the present annuity rates. The ratio of hypothetical actual deaths to those which would have occurred under this new mortality basis would have been 115%.

While a ratio of 115% is obviously more conservative than the 103% ratio, it must be remembered that this would have been the ratio for the period from January 1, 1975 through

December 31, 1980. The mid-point of this period is December 31, 1977, so it can be considered that the 115% ratio would have been applicable at that date. However, the deaths among annuitants to whom gift annuities will be issued based on the gift annuity rates which will be adopted by this Conference will probably not occur on average until the 1990's. Therefore, it is necessary to adopt a mortality basis at this time which contains adequate margins to compensate for the decreases in mortality rates that are likely to take place between now and the dates the annuity payments will be made. In our opinion, the proposed mortality basis should contain such margins, provided some monumental breakthrough does not occur in connection with circulatory diseases or cancer.

In summary, therefore, the assumptions recommended to this Conference by the Committee on Gift Annuities for the purpose of calculating gift annuity rates are as follows:

Mortality Basis: 1971 Individual Annuity Mortality Table, female lives, with ages rated as two years younger.
Interest Rate: 5½% per annum, compounded annually.
Residuum: 50% of the principal.
Expense Loading: 5% of the principal.

Once the basis of assumption is known, the next step is the purely mechanical one of calculating the various gift annuity rates for various ages or, in the case of two-life annuities, combinations of ages. It might be instructive if I illustrated on a step-by-step basis how such computations are made.

Here it would be helpful if you all took Schedule B (page 38) from your packet. The heading of this schedule is "Illustration of Calculation of a Gift Annuity Rate under the Proposed Rate Basis for a Female Aged 75". The illustration is based on the assumption that $1,000 of principal is donated. Actually, the end result is independent of the amount of principal, but it is helpful for illustrative purposes to stipulate the amount of principal. This $1,000 amount of principal is set forth on the first line of Schedule B. On line 2, the expense loading of 5% of the $1,000 principal, which amounts to $50, is deducted from the principal to cover all future expenses, leaving the $950 shown on line 3 as being available to finance the annuity payments and the residuum. The portion of the $950 that must be set aside to provide for a $500 residuum payable at the annuitant's death amounts to $249 and is entered on line 4. This amount can also be considered as the single premium necessary to provide a $500 death benefit payable to the charitable organization at the death of the annuitant. Since the $500 residuum is not payable until such death occurs, it obviously requires a premium of less than $500 because the premium will be able to earn interest until it must be paid out.

When the cost of the residuum shown on line 4 is subtracted from the $950 available on line 3, the remainder, which amounts to $701 and is shown on line 5, represents the balance available to provide the gift annuity. Line 6 shows the cost of providing an annuity for life of $1 per annum, payable in semi-annual installments beginning 6 months later, to a person 75 years old under the mortality and interest basis assumed. This cost is shown to be $8.88.

When line 5, which shows the portion of the original $1,000 principal that is available for financing the gift annuity, is divided by line 6, which shows the cost of $1 of annual annuity, the result represents the annual amount of annuity that can be provided. This result is entered on line 7 and equals $78.94. Since this amount of annuity is based on a $1,000 principal, it is next necessary to divide by $1,000 in order to develop the annuity rate expressed as a percentage, which is 7.9% in this case.

In summary, the 5% expense loading and the single premium cost of the residuum are subtracted from the principal. The remainder is then used to provide the gift annuity.

I would like to comment on one final aspect of the calculations before presenting the proposed gift annuity rates. I had just indicated that it has been assumed in calculating the rates that annuities would be paid semi-annually. It is my understanding, though, that some of the organizations that issue gift annuities make payments either more frequently, such as monthly or quarterly, or less frequently, such as annually. Theoretically, if such organizations desire the same 50% residuum as applicable when annuities are paid semi-annually, it would be necessary to modify the rates slightly. In practice, though, most organizations have apparently found it to be simpler to use the same rates regardless of the frequency of payment. However, it should be recognized that, when installments are paid more frequently than semi-annually, provision is being made for a residuum slightly under 50% under the assumptions used, while the reverse is true if installments are paid less frequently than semi-annually.

Actually, you undoubtedly all realize that it is extremely unlikely that the assumptions used will be experienced exactly by any organization issuing gift annuities. For example, some may realize higher interest earnings, but may have expenses that exceed 5% of the principal. If your organization is fortunate enough to have a more favorable net experience than assumed for mortality, interest and expenses, it simply means that it will receive a higher residuum than the 50% assumed. This might bring it more in line with calculations during the years when a 70% residuum was built into the rates. It is important to remember that the main purpose of gift annuities is the development of gift money for use by charitable organizations.

Now let us consider the rates proposed to this Conference by the Committee on Gift Annuities. The proposed single life rates are set forth on Schedule C (page 39) which is headed "Annual Gift Annuity Rates—Single Life" in your packet of material. Also shown in the schedule are the present rates and the degree of increase between the proposed and the present rates. The proposed rates run from 5.0% at ages 35 and under up to 14.0% at ages 90 and over. Except for age 77, all rates have increased by two-tenths of a percentage point or more. The largest increases are at the younger and older ages. The increases at the younger ages are produced because the impact of the higher interest assumption is greater at such ages and more than outweighs the additional cost introduced by the stricter mortality basis. As ages increase, the increase in annuity is generally not as high as at younger ages. This results from the fact that a higher interest assumption produces a decreasing degree of impact, since there are decreasing life expectancies over which to receive the additional interest.

As was the case with the present rates, the proposed rates were modified at the early and late ages. To be more specific, as indicated at the bottom of Schedule C, the ages at which modifications have been made in the proposed rates are those below age 49 and above age 86.

Also included in your registration packet is Schedule D (page 40) which contains sample gift annuity rates at quinquennial ages applicable on a joint-and-100%-to-survivor basis for two lives. As was true for single life rates, the proposed two-life rates are generally higher than the present rates, although in a few cases where both lives are very elderly, the present and proposed rates are identical.

The proposed joint and survivor rates have been modified only at younger ages, in contrast to prior practice of modifying the rates at both younger and older ages. The modification that has been adopted is that the rate for two lives will always be at least two-tenths of a percentage point less than the single life rate adopted for the younger of the two lives.

In summary, it is the recommendation of the Committee on Gift Annuities that the Conference adopt gift annuity rates based on the following assumptions:

Rate of mortality:	1971 Individual Annuity Mortality Table, female lives, with ages rated as two years younger.
Rate of interest:	5½% per annum, compounded annually.
Residuum:	50% of the principal.
Expense loading:	5% of the principal.
Annuity payments:	In semi-annual installments at the end of each 6 months.

The Committee recommends further that (1) the single life rates be modified so as to produce a minimum rate of 5.0% and a maximum rate of 14.0% and (2) a rate for two lives should be at least two-tenths of a percentage point less than the single life rate for the younger of the two lives.

HISTORICAL COMPARISON OF ANNUITY RATES ADOPTED BY THE CONFERENCE ON GIFT ANNUITIES

	A	B	C	D	E	F	G	H	I
	Date of Conference Action								
Age	*4/29/27*	*3/17/31*	*11/20/34*	*10/05/39*	*10/04/55*	*4/07/65*	*4/15/71*	*5/02/74*	*5/04/77*
30	5.0%	4.9%	3.0%	2.5%	3.0%	3.0%	4.0%	4.0%	4.5%
35	5.1	4.9	3.0	2.5	3.0	3.0	4.0	4.0	4.5
40	5.2	5.0	3.5	3.0	3.5	3.5	4.0	4.3	4.8
45	5.4	5.2	4.0	3.5	3.7	4.0	4.4	4.5	5.0
50	5.6	5.3	4.5	4.0	3.9	4.2	4.6	4.7	5.2
55	5.8	5.5	5.0	4.5	4.2	4.4	4.9	5.1	5.6
60	6.2	5.8	5.3	4.7	4.5	4.7	5.2	5.5	5.8
65	6.8	6.2	5.7	5.1	5.0	5.2	5.6	6.0	6.2
70	7.6	6.7	6.2	5.5	5.5	5.7	6.2	6.6	6.8
75	8.7	7.3	7.0	6.2	6.3	6.5	7.0	7.4	7.7
80	9.0	8.0	8.0	7.0	7.4	7.6	8.2	8.5	9.0
85	9.0	8.0	8.0	7.0	7.4	8.0	9.7	10.0	10.5
90	9.0	8.0	8.0	7.0	7.4	8.0	10.0	10.0	12.0

BASIS OF RATES

	Mortality Basis						
Column	Table*	Sex of Lives	Age Rating	Annual Interest Rate	Residuum as a Percent of Principal	Expense Loading on Total Principal	Ages at Which Tabular Rates are Modified
A	McC	Male	0	4½%	70%	0	Older
B	AA	Female	"	"	"	"	"
C	CA	"	"	4%	"	"	Younger & Older
D	"	"	-2	3%	50%	"	"
E	SA	"	-1	3½%	"	5%	"
F	1955 AA	"	0	"	"	"	"
G	"	"	"	4%	"	"	"
H	"	"	"	4½%	"	"	"
I	IAM	"	-1	5%	"	"	"

*McC = McClintock Table of Mortality
AA = American Annuitants Table
CA = Combined Annuity Table
SA = 1937 Standard Annuity Table
1955 AA = 1955 American Annuity Table
IAM = 1971 Individual Annuity Mortality Table

SCHEDULE A

ILLUSTRATION OF CALCULATION OF A GIFT ANNUITY RATE UNDER THE PROPOSED RATE BASIS FOR A FEMALE AGED 75

(1) Amount of principal donated	$ 1,000.00
(2) Expense loading to be deducted: 5% × (1)	50.00
(3) Balance for annuity payments and residuum: (1) − (2)	$ 950.00
(4) Cost of $500 residuum payable at death	249.00
(5) Balance for annuity payments: (3)–(4)	$ 701.00
(6) Cost of $1 per year of life annuity	$ 8.88
(7) Annuity provided by balance in (5): (5) ÷ (6)	$ 78.94
(8) Annuity rate: (7) ÷ (1)	7.9%

SCHEDULE B

ANNUAL GIFT ANNUITY RATES—SINGLE LIFE

Age	Present	Proposed	Increase	Age	Present	Proposed	Increase
35 and under	4.5%	5.0%	.5%	65	6.2%	6.6%	.4%
36	4.6	5.1	.5	66	6.3	6.6	.3
37	4.7	5.2	.5	67	6.4	6.7	.3
38	4.7	5.2	.5	68	6.5	6.8	.3
39	4.8	5.3	.5	69	6.6	7.0	.4
40	4.8	5.3	.5	70	6.8	7.1	.3
41	4.8	5.3	.5	71	6.9	7.2	.3
42	4.9	5.4	.5	72	7.1	7.4	.3
43	4.9	5.4	.5	73	7.3	7.5	.2
44	4.9	5.4	.5	74	7.5	7.7	.2
45	5.0	5.5	.5	75	7.7	7.9	.2
46	5.0	5.5	.5	76	7.9	8.1	.2
47	5.1	5.6	.5	77	8.2	8.3	.1
48	5.1	5.6	.5	78	8.4	8.6	.2
49	5.2	5.7	.5	79	8.7	8.9	.2
50	5.2	5.7	.5	80	9.0	9.2	.2
51	5.3	5.8	.5	81	9.3	9.5	.2
52	5.4	5.8	.4	82	9.6	9.9	.3
53	5.4	5.9	.5	83	9.9	10.3	.4
54	5.5	5.9	.4	84	10.2	10.7	.5
55	5.6	5.9	.3	85	10.5	11.2	.7
56	5.6	6.0	.4	86	10.8	11.7	.9
57	5.7	6.0	.3	87	11.1	12.2	1.1
58	5.7	6.1	.4	88	11.4	12.8	1.4
59	5.8	6.1	.3	89	11.7	13.4	1.7
60	5.8	6.2	.4	90 and over	12.0	14.0	2.0
61	5.9	6.3	.4				
62	6.0	6.3	.3				
63	6.1	6.4	.3				
64	6.1	6.5	.4				

ACTUARIAL ASSUMPTIONS

All rates provide for a residuum of 50% of principal, an expense loading of 5% of principal and annuity payments in semi-annual installments at the end of each six months.

The mortality and interest assumptions are as follows:

Present Rates: 1971 Individual Annuity Mortality Table, female lives with ages rated as one year younger; interest at the rate of 5%; tabular rates modified at ages under 54 and over 79.

Proposed Rates: 1971 Individual Annuity Mortality Table, female lives with ages rated as two years younger; interest at the rate of 5½%; tabular rates modified at ages under 49 and above 86.

SCHEDULE C

ILLUSTRATIONS OF GIFT ANNUITY RATES
—TWO LIVES—
JOINT and SURVIVOR

Age of Older Life	Present	Proposed	Increase	Present	Proposed	Increase	Present	Proposed	Increase
	Age of Younger Life								
	35 and under			*40*			*45*		
35	4.3%	4.8%	.5%						
40	4.3	4.8	.5	4.6%	5.1%	.5%			
45	4.3	4.8	.5	4.6	5.1	.5	4.8%	5.2%	.4%
50	4.3	4.8	.5	4.6	5.1	.5	4.8	5.2	.4
55	4.3	4.8	.5	4.6	5.1	.5	4.8	5.2	.4
60	4.3	4.8	.5	4.6	5.1	.5	4.8	5.2	.4
65	4.3	4.8	.5	4.6	5.1	.5	4.8	5.2	.4
70	4.3	4.8	.5	4.6	5.1	.5	4.8	5.2	.4
75	4.3	4.8	.5	4.6	5.1	.5	4.8	5.2	.4
80	4.3	4.8	.5	4.6	5.1	.5	4.8	5.2	.4
85	4.3	4.8	.5	4.6	5.1	.5	4.8	5.2	.4
90	4.3	4.8	.5	4.6	5.1	.5	4.8	5.2	.4
	50			55			60		
50	5.0%	5.5%	.5%						
55	5.0	5.5	.5	5.2%	5.6%	.4%			
60	5.0	5.5	.5	5.3	5.7	.4	5.4%	5.8%	.4%
65	5.0	5.5	.5	5.4	5.7	.3	5.5	5.9	.4
70	5.0	5.5	.5	5.4	5.7	.3	5.6	6.0	.4
75	5.0	5.5	.5	5.4	5.7	.3	5.6	6.0	.4
80	5.0	5.5	.5	5.4	5.7	.3	5.6	6.0	.4
85	5.0	5.5	.5	5.4	5.7	.3	5.6	6.0	.4
90	5.0	5.5	.5	5.4	5.7	.3	5.6	6.0	.4
	65			70			75		
65	5.7%	6.0%	.3%						
70	5.8	6.2	.4	6.1%	6.4%	.3%			
75	6.0	6.3	.3	6.4	6.6	.2	6.7%	6.9%	.2%
80	6.0	6.4	.4	6.5	6.8	.3	7.0	7.3	.3
85	6.0	6.4	.4	6.6	6.9	.3	7.3	7.5	.2
90	6.0	6.4	.4	6.6	6.9	.3	7.5	7.7	.2
	80			85			90 and over		
80	7.6%	7.8%	.2%						
85	8.1	8.3	.2	9.0%	9.1%	.1%			
90	8.5	8.6	.1	9.8	9.8	0	11.1%	11.1%	0%

ACTUARIAL ASSUMPTIONS

All rates provide for a residuum of 50% of principal, an expense loading of 5% of principal and annuity payments in semi-annual installments at the end of each six months.

The mortality and interest assumptions are as follows:

Present Rates: 1971 Individual Annuity Mortality Table; female lives with ages rated as one year younger; interest at the rate of 5%; tabular rates modified at younger and older ages.

Proposed Rates: 1971 Individual Annuity Mortality Table, female lives with ages rated as two years younger; interest at the rate of 5½%; tabular rates modified at younger ages.

SCHEDULE D

REPORT ON STATE REGULATIONS

Dr. Roland C. Matthies
Vice President and Treasurer Emeritus of Wittenberg University

In my 37 years of experience with Deferred Giving, both at Wittenberg University and as a Consultant-Teacher, I am finding a growing awareness of fiscal responsibility and integrity. With the hundreds of institutions offering deferred-giving arrangements, and with the tremendous turnover in personnel employed in deferred giving and general development, I would have expected to hear more about institutions offering unrealistic rates, doing a poor job of investments, or failing to meet contractual obligations. But such has not been the case, thank goodness! I am convinced that the vast majority of us is exercising good conscience and more than acceptable stewardship accountability. AND YET—we are seeing increasing efforts to regulate our work.

In the "Wise Public Giving Series, No. 55" covering the papers presented at the Sixteenth Conference, there are two excellent reports on the current status of state regulations with regard to charitable gift annuities and pooled income funds. I suggest that you review these papers presented by Dr. Chester A. Myrom and Attorney Julius P. Fouts. Since the presentation of those papers, the Committee on Gift Annuities decided to establish a permanent subcommittee on state regulations of charitable gift annuities and pooled income funds. I was asked to take on the responsibilities of chairing this subcommittee and am pleased, now, to present to you my fellow members: Mr. David Johnson, Vice President of St. Olaf College; Dr. Chester A. Myrom of the Lutheran Church in America Foundation; Mr. R. J. Radcliffe, Secretary of the Corporation, Loma Linda University; Mr. Tal Roberts, Vice President of the Baptist Foundation of Texas. We have taken on the task of maintaining an alert through a nationwide system of state monitors. Ours is not the task of promoting, interpreting, or lobbying. We see our task as that of being informed so that we may be of greater service to you. I am happy to report that each of the subcommittee members has taken on a region of the United States as his responsibility for maintaining a monitor in each state. As you seek further information about regulatory attempts in the states in which your institution is operating, please direct your inquiries to us for the following indicated regional areas:

Mr. David Johnson, Vice President, St. Olaf College, Northfield, Minnesota 55507, Telephone (507) 663-2222 covering Iowa, Kansas, Minnesota, Nebraska, North Dakota, South Dakota, and Wisconsin.

Dr. Chester A. Myrom, 211 Kilburn Road, Garden City, New York 11530, Telephone (516) 248-4199 covering Connecticut, Delaware, District of Columbia, Florida, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Vermont, and Virginia.

Dr. Roland C. Matthies, 1615 Winding Trail, Springfield, Ohio 45503, Telephone (513) 399-7235 covering Illinois, Indiana, Kentucky, Michigan, Ohio, Tennessee and West Virginia.

Mr. R. J. Radcliffe, Secretary of the Corporation, Loma Linda University, Loma Linda, California 92354, Telephone (714) 796-7311 covering Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, Oregon, Utah, Washington, and Wyoming.

Mr. Tal Roberts, Vice President and Trust Counsel, Baptist Foundation of Texas, P.O Box 1409, Dallas, Texas 75221, Telephone (214) 748-7761 covering Alabama, Arkansas, Georgia, Louisiana, Mississippi, Missouri, New Mexico, Oklahoma, and Texas.

PLEASE—be aware of the fact that we are all volunteers and that our time is limited. We cannot act as legal or tax advisors but we will do our best to keep you supplied with pertinent information.

Now as to a disclaimer or two:

First—we are not attempting to make a compilation of state laws regulating charitable *solicitations* and has nothing to do with larly attacked and most satisfactorily reported by American Association of Fund-Raising Counsel, 500 Fifth Avenue, New York, New York 10036. Telephone (212) 354-5799. In table form it lists the registration requirements, by state, for the *solicitation* of charitable gifts. I emphasize that this is a compilation of state laws regulating charitable *solictations* and has nothing to do with the reporting of state regulation of deferred giving contractual arrangements. The AAFRC report is available at a cost of 75 cents and the last issue, entitled Bulletin No. 10, was dated December, 1979. You should certainly have a copy available.

Be careful that you are not lulled into inactivity by meeting the requirements stated in that compilation since it is aimed at *only one area of regulation-solicitations.* In this particular area of government regulation, there is a bright light of encouragement in a recent decision of the United States Supreme Court finding unconstitutional an ordinance of the Village of Schaumburg, Illinois, requiring charitable organizations to limit to 25 percent the funds used for salaries and administrative expenses.

Second disclaimer: The Committee on Gift Annuities, and this subcommittee, made up of volunteers and without professional staff, is unable and unwilling to "police" our area of concern. I did attend an organizing meeting of the Evangelical Council for Financial Accountability held in Chicago on September 11, 1979 and I attended *as an observer.* ECFA is now organized, with an executive director in California, and is issuing a stamp on an annual basis to those organizations qualifying for membership. The address is 1444 Wentworth Avenue, P.O. Box 1750, Pasadena, California 91109.

So much for the disclaimers.

Much of the problem involved in attempted state regulation of deferred giving agreements, their solicitation and operation, revolves around the definition of what is considered to be a "security". Further, the terrific turnover of personnel within the offices seeking to regulate, accounts for a fair amount of "on again, off again" positions. Here are a few illustrations:

1. As a result of well-timed effort directed toward the legislature of the State of Indiana, there was a statuatory change in 1977. The definition of "security" contained in the Indiana Securities Law was amended so that IC 23-2-1-1 (k) now provides that:

"Security does not include . . . any contract or trust agreement under which money is paid pursuant to a charitable remainder annuity trust or a charitable remainder unitrust, or a pooled income fund or any annuity contract under which the purchaser receives a charitable contribution deduction under Section 170 of the Internal Revenue Code".

But the State of Ohio, under date of July 6, 1978, through its Department of Commerce, Division of Securities, has this position:

"Notwithstanding a dominant gift motive on the part of the donor, consistent Division policy recognizes a life estate or annuity to constitute a security and a claim against a trust fund or donee for the promised income return."

The State of Texas, by letter dated July 5, 1978, takes the position that the solicitation and promotion of gift annuities is insurance business.

The State of Michigan, by letter dated November 27, 1979, states, "As I outlined it for you in our recent phone conversation, a charitable organization *may not* issue an annuity to a donor without first acquiring authorization and certification as a life insurance company doing business in Michigan. . . . the foregoing language (of the statute) clearly prohibits any entity from issuing an annuity other than an authorized life insurance company."

Under date of October 4, 1978 the State of Arkansas had this to say: "Annuities are considered a type of insurance under Arkansas law. As a result, a company or an organization which sells annuities in this State must hold a Certificate of Authority from the Arkansas Insurance Commissioner.

The State of Iowa received a petition for a declaratory ruling, 1978–2, from which I excerpt these words: "Is a gift annuity as proposed to be issued by CRH a 'security' under Chapter 502 of the Iowa Code? If the gift annuity were offered by an authorized insurer it would not be a security as defined in Section 502.102 (12) of the Code. The definition of security in that citation specifically excludes 'any insurance or endowment policy or annuity contract under which an insurance company promises to pay money either in a lump sum or periodically for life or for some other specified period'. In the event the gift annuity were not offered by an authorized insurer, Chapter

507A, Code, (relating to unauthorized insurers) would apply. And even if the above insurance analysis were found invalid, Chapter 502, Code, the Uniform Securities Act would apply to the offering."

The lack of uniformity of interpretation is obvious. It remains with you and your counsel to determine what steps are to be taken to qualify your organization in the states selected by you. But for your comfort I quote from the paper presented by Dr. Myrom to the Sixteenth Conference: "The point of all this for practitioners in the gift annuity field, in my view at least, is two-fold: Don't get too uptight about state regulations and don't desist from gift annuity promotion and solicitation in the meanwhile. No instance has been reported to the Committee on Gift Annuities of a state authority having made things difficult for any reputable organization that has issued gift annuities in that state's jurisdiction without proper authority in advance."

Another peculiarity with regard to the issuance of charitable gift annuities is the position taken by some states that the charity must have been in business a minimum number of years and must have a minimum holding of annuities at, say, the $100,000 level before making application for any kind of registration.

To the best of our knowledge and based upon what we believe to be accurate information, the following states are making indications that charitable organizations issuing gift annuities must comply with regulations issued in that state: California, Florida, New Jersey, New York, Wisconsin, Michigan, Arkansas, Iowa, Ohio, Oregon, Minnesota, Arizona, Hawaii, Nevada, Washington. I emphasize that the above listing is with regard to *charitable gift annuities.*

With regard to *pooled income funds,* we have an entirely different concept of regulation since we are now concerned with trusts rather than annuities. For a thorough discussion, from a lawyer's viewpoint, I refer you to the report of our Sixteenth Conference where on page 50 Attorney Julius P. Fouts had this to state in his introductory remarks, "Tax exempt organizations have been reluctant to recognize the applicability of federal and state securities laws to certain of their fund-raising activities, including, notably, their pooled income funds. The uncertainty as to whether such funds are within the ambit of securities regulation and the concern of incurring the expense and administrative burden that might result from complying with such laws have combined to produce what some have called the 'Ostrich Syndrome'. It has been feared that if one or more major charities complied with such laws, other charities might be compelled to follow suit. It has also been hoped that a national legislative solution would render Blue Sky registration unnecessary. And, implicitly, it has been felt that pooled income funds organized and managed by nationally prestigious institutions simply should not have to be regulated in the same manner as profit-oriented public corporations."

"As most of you will know, the Blue Sky laws apply to a given transaction only if a 'security' is involved. An argument can be made that a transfer of cash or securities to a pooled income fund and the sharing by the transferors in the fund's income does not involve the purchase of a 'security' since the primary purpose of the transaction is not profit making, but the making of a gift. But the statuatory definitions of 'security' are broad in scope and do not refer to the purpose which may underlie any given transaction. The definitions of 'security' typically include a description such as a 'participation in a profit-sharing agreement'. A pooled income fund's declaration of trust and instruments of transfer, taken as a whole, may arguably be construed as constituting such a participation."

To the best of our knowledge and based upon what we believe to be accurate information, the following states are making indications that charitable organizations having Pooled Income Funds must comply with regulations issued in that state:

See the listing on pages 57, 58 and 59 of the Report of the 16th Conference for your guidance.

So what do you do?! Attorney Fouts concluded his presentation three years ago with this statement, ". . . and for the time being, charitable organizations will simply have to weigh the risks to determine whether they ought to undertake the burdens of compliance". I am aware that one of the largest charitable organizations issuing pooled income fund contracts takes the position that this is a trust arrangement and does not require compliance with state regulations. A large bank, operating as co-trustee of a pooled income fund, has taken the position that since this is a TRUST, the controlling entity is the Internal Revenue Service of the United States Government and therefore no state registration is required. It is my personal opinion, and this is not necessarily the opinion of other members of my committee, that participation by a donor in a pooled income fund does not involve the purchase and acquisition of a security but rather that the benefactor is purchasing participation in a trust which is of a charitable nature and over which the Securities and Exchange Commission of the United States Government has exercised jurisdiction having issued a "no-action" letter.

With specific regard to pooled income funds, our Committee offers these suggestions as to steps that you may wish to follow:

1. Be sure that your legal counsel has had experience in this field so that the Declaration of Trust and the Disclosure Statement are drafted in conformity with present laws.

2. Be certain that a Disclosure Statement is presented to each prospective donor before any contractual arrangement is executed.

3. Make sure that proper motions have been adopted and minutes recorded covering authorization for this portion of your deferred giving program.

4. Carefully instruct all members of your organization who deal with prospective donors.

5. Be sure that there is a written statement "in-house" as to registration procedures, if any, to be followed.

6. Keep records. Keep records. Keep records!

I repeat the caution which I gave three years ago, "DON'T MUDDY THE WATERS IN YOUR STATE BY INQUIRING OF STATE OFFICIALS AS TO WHAT REGULATIONS NEED TO BE MET".

FEDERAL TAX LEGISLATION

Conrad Teitell, Esq.
Member, Prerau & Teitell

BILL WOULD INCREASE G.N.P.— GROSS NATIONAL PHILANTHROPY

Update. "Above the line" deductibility for charitable gifts could pass this year. The Senate Moynihan-Packwood bill (S. 219) and the House Fisher-Conable bill (H.R. 1785), which would extend the charitable deduction to those taking the standard deduction (zero bracket amount), are gaining support. The number of co-sponsors in the House is 218 (a majority). There are 42 Senate co-sponsors. [*See* Appendix "A" for a list of House and Senate co-sponsors. The list was compiled by *Independent Sector,* the driving force behind this important legislation.]

Suggested action. Thank your legislators who are co-sponsors and supporters. Ask the others to become co-sponsors and tell them who the current co-sponsors are.

STEPPED-UP BASIS RETURNS

Remembrance of tax laws passed—and repealed. A 1976 law increased taxes incurred by an heir on the sale of appreciated property. The effective date of that law was postponed by the Congress in 1978. Recently, Congress repealed the law retroactively—just as if it had never been enacted. Here are the details.

A capital gains tax (often hefty) is incurred on the sale of appreciated property. Before 1977, capital gains tax could be avoided by retaining appreciated property for life and giving it to a family member on death. The heir who inherited the property did so with a stepped-up basis equal to the property's fair market value on his or her benefactor's death (or the value six months after death, at the estate's election). So, on a sale by the heir, all the appreciation which occurred during his or her benefactor's life escaped capital gains tax.

The '76 Tax Reform Act decreed that, for property inherited after 1976, an heir took over the decedent's basis—a so-called carryover basis, with complicated adjustments. One of the adjustments was the "fresh start" adjustment. For assets acquired by a decedent (the benefactor) before 1977 and inherited after 1976, an heir's basis was to be stepped-up to the fair market value on December 31, 1976.

When Balzac's rich uncle died, leaving him a handsome bequest, the French writer noted that both he and his uncle had gone on to a better life. Had Balzac lived in the United States after passage of the carryover basis law, he would have had less enjoyment from his inheritance. He would have incurred a capital gains tax on the sale of appreciated inherited property. He would also have found the rules were complicated, expensive to comply with and in many cases unworkable.

Oversimplified example: Oncle Jacques bought stock in 1975 for $100,000 and died in 1978 leaving the stock to his nephew, Balzac, when it had a $150,000 fair market value. Balzac's carryover basis under the new law was $110,000 (after allowed adjustments). Under prior law, Balzac would have had a stepped-up basis of $150,000. A sale of the stock by Balzac for $150,000 would have resulted in no capital gain under the old stepped-up basis rules. However, under the carryover basis rules he would have had a $40,000 capital gain.

A windfall for heirs. Congress, in late 1978, postponed the effective date of the carryover basis rules to January 1, 1980. A rider to the recently enacted Windfall Profits Act repealed the carryover basis rules and placed the final nail in the carryover basis coffin. Thus, heirs who inherit appreciated property do so with a basis stepped-up to the fair market value at death (or six months after death, at the estate's election)—just as if the carryover basis rules were never enacted.

Suggestion. Your donors should be urged to review their estate plans. Many plans drawn after 1976 were based on the carryover basis rules and they may no longer be appropriate.

Pointer. Although an heir gets a stepped-up basis for property received on his or her benefactor's death, the heir still has a carryover basis for lifetime gifts. Thus, an heir will have to pay a capital gain on the sale of appreciated property he or she received during the benefactor's life. A charitable institution, however, pays no capital gains tax when it sells appreciated property it has received as a charitable gift. When making gifts to family members and charitable institutions, donors should consider giving the most highly appreciated assets to the charities and the property with the least or no appreciation to family members.

BILL WOULD ELIMINATE CHARITABLE GIFTS AS A TAX PREFERENCE SUBJECT TO THE ALTERNATIVE MINIMUM TAX

Almost everybody knows that the Moynihan-Packwood bill (S. 219) would extend the charitable deduction to those who take the standard deduction. Not so well known is that S. 219 would do two other good deeds for charity: (1) eliminate charitable contributions as a tax preference potentially subject to the alternative minimum tax, and (2) eliminate charitable contributions as a tax preference which reduces the amount of personal service income eligible for the 50% maximum tax.

Background—the Alternative Minimum Tax in brief. An alternative minimum tax is payable if it exceeds regular income taxes plus the 15% add on minimum tax. The amount potentially subject to the alternative minimum tax is determined by adding an individual's taxable income (if any) to 60% of long-term capital gains and the individual's "adjusted itemized deductions." To determine adjusted itemized deductions: total the deductions for (1) state and local taxes, (2) medical expenses, (3) casualty losses, and (4) estate taxes on income in respect of a decedent. To the extent that the total of all the taxpayer's itemized deductions reduced by these four deductions exceeds 60% of adjusted gross income, also reduced by these four deductions, you have adjusted itemized deductions potentially subject to the alternative minimum tax.

Deciphering the Code. Basically the two main deductions potentially subject to the alternative minimum tax are the charitable deduction and the interest deduction. The alternative minimum tax is payable, however, only if it is greater than the total of regular taxes and the 15% add on minimum tax.

Background—the maximum tax in brief. The highest tax rate applicable to income is 70%. However, income from personal services and pensions related to personal services is taxed at a top rate of 50%. But the amount of personal service income eligible for the 50% maximum tax rate is reduced dollar for dollar by the amount of an individual's tax preferences for the year—including the charitable contribution "tax preference." That reduction must be made even though the charitable contribution tax preference and other tax preferences do not result in imposition of the alternative minimum tax.

The tax rates of the alternative minimum tax. The first $20,000 is not subject to tax; the next $40,000 ($20,000 to $60,000) is taxed at 10%; the next $40,000 ($60,000 to $100,000) at 20%; alternative minimum taxable income exceeding $100,000 is taxed at 25%. Remember, only the excess of the tax so computed over the combined regular income tax and 15% add on minimum tax is payable.

Now for what S. 219 would do regarding charitable contributions. Charitable contributions would not be taken into account in determining the amount of an individual's tax preference items. Thus, the amount of an individual's charitable deductions would not be included in his income for determining the alternative minimum tax, nor would it reduce personal service income eligible for the 50% maximum tax.

MORE TIME TO FILE FOURTH QUARTER GIFT TAX RETURN

Background. A federal gift tax return is required on a quarterly basis only when the sum of (1) the taxable gifts made during the calendar quarter, and (2) all of the taxable gifts made during the calendar year (and for which a return has not yet been required) exceeds $25,000. Under a special rule, if a gift tax return is required for a charitable gift, the gift is reported on the return for the fourth quarter, but if a return for a noncharitable gift is required for an earlier quarter, then report all charitable gifts made to date during the year on the return required for the non-charitable gift (instead of waiting for the return for the fourth quarter).

A gift tax return, Form 709, is required for gifts to any charitable organization for the year totaling over $3,000. If the gift to the charity is of a future interest (e.g., a remainder interest in a unitrust, annuity trust, pooled income fund trust) a federal gift tax return must be filed regardless of the size of the gift.

The latest tax law change does not change the gifts for which a return is required, but merely when the return is due. A gift tax return due for any quarter was due within one and a half months following the quarter for which it was required. The new law leaves unchanged the time for filing gift tax returns (if due) for the first three quarters of the year. However, the law extends the date for filing the fourth quarter's return until April 15.

To sum up the deadlines for filing (if a return is required): First quarter—May 15; Second quarter—August 15; Third quarter—November 15; and, under the new rule, Fourth quarter—April 15. NOTE: if the taxpayer has received an extension of time to file his *income tax* return, the extended date for filing the income tax return also applies to the fourth quarter *gift tax* return.

POOLED INCOME FUNDS—S.E.C. IMPLICATIONS

The staff of the Securities and Exchange Commission, by a 1972 letter from the chief counsel of its Division of Investment Company Regulation, issued a "no action" letter to the American Council on Education regarding pooled income funds. The letter said that the Commission staff "will not recommend that the Commission take any action if eligible colleges (or other eligible charities) establish and maintain pooled income fund trusts which qualify as recipients of tax-deductible contributions under Section 642(c) (5) of the Internal Revenue Code without registration (1) under the Investment Company Act of 1940 of such pooled trust, or of the college which maintains such trust, or of any trustee of such pooled trust, including any bank, (2) under the Securities Act of 1933 of any interests in such pooled trust, (3) under the Securities Exchange Act of 1934 of any persons soliciting gifts by means of such pooled trust. [The staff's] position is conditioned on each prospective donor receiving written disclosures which fully and fairly describe the operation of the particular pooled trust."

Although the no action letter was written to the American Council on Education regarding "eligible colleges," the S.E.C. said it would also apply to "other eligible charities." Nevertheless, many charitable organizations wrote to the S.E.C. seeking their own no action letters.

The S.E.C. recently announced that it is unnecessary for most pooled income funds to seek their own no action letters. The purpose of the S.E.C. announcement "is to offer guidance to the public and thereby obviate the need for no action requests which present no novel facts or interpretive problems about pooled income funds." The S.E.C. says that pooled income funds meeting specified standards should not seek "no action" assurance. The staff will not respond to requests for no action or interpretive letters relating to pooled income funds unless they present novel facts or interpretive problems such as departures from the specific circumstances stated in the announcement.

TESTAMENTARY GIFT ANNUITY—ASSURING ESTATE TAX DEDUCTION

Background. Most deferred gifts are created during a donor's lifetime, providing either income to the donor or income to the donor and a survivor. Sometimes, a donor creates a deferred gift during lifetime which pays income to another, and retains no income for himself.

Deferred gifts can also be created by a donor's will. Obviously, a donor who creates a testamentary deferred gift cannot provide income for himself—but only for others. A donor who creates a deferred gift during his lifetime receives a double tax benefit—an income tax deduction and an estate tax deduction. When a deferred gift is created by will, there are estate tax savings, but no income tax savings.

The Internal Revenue Code and Treasury regulations specifically deal with the estate tax charitable deduction for charitable remainder unitrusts, annuity trusts and pooled income fund trusts. However, for charitable gift annuities there are no specific Internal Revenue Code or Treasury regulation provisions.

I have learned that a few estate tax examiners have questioned some estate tax charitable deductions for charitable gift annuities created by will. However, a close examination of the facts in those cases shows that the IRS agents may be right. The wills questioned by IRS provided that on each donor's death, in exchange for a specific dollar amount transferred to charity, the charity was to pay each donor's spouse an annuity for life. However, no specific annuity or way to calculate the annuity was specified. Because each annuity was not fixed "either as to amount or manner of calculation," IRS disallowed the estate tax charitable deductions. The annuities were unascertainable, said IRS.

Here is "authority" that an estate tax charitable deduction is allowable for a charitable gift annuity when a will properly fixes the manner of calculation of the annuity. Rev. Rul. 72-438, 1972-2 CB 38 gives the rules for computing the *income* tax charitable deduction for a gift annuity. It refers to Rev. Rul. 67-39, 1967-1 CB 18 which holds that the rates set forth in Rev. Rul. 62-216, 1962-2 CB 30, are to be used for *estate* and *gift* tax purposes in valuing annuity contracts and that Rev. Rul. 72-438 updates Rev. Rul. 62-216. IRS would not specify tables to be used for *estate* and *gift* tax purposes unless *estate* and *gift* tax charitable deductions are to be allowed.

Furthermore, Treas. Reg. Sec. 1.170 A-1(d) specifically states: "In the case of an annuity or portion thereof purchased from an organization described in section 170(c) [a qualified charitable organization], there shall be allowed as a deduction the excess of the amount paid over the value at the time of purchase of the annuity or portion purchased." Although this is an *income* tax regulation, its rationale should extend to the *estate* and *gift* taxes.

To assure the estate tax charitable deduction. The testamentary provision for a gift annuity for a survivor should provide a method for determining the amount of the annuity. It should also provide for the contingency that the charitable organization may not have a gift annuity program.

Drafting suggestion. [The actual provision should take state law implications and the unique facts of each case into account]: "I give to ABC COLLEGE, located at Newtown, New York (hereinafter called the 'College'), FIFTY THOUSAND DOLLARS ($50,000) for its general purposes, provided that the College shall pay an annuity to my wife, MARY DOE, during her lifetime at the then rate being paid by the College to annuitants of my wife's age and sex at my death. The annuity shall be nonassignable. The payments are to be made quarterly and shall end with the quarterly payment preceding my wife's death. I intend to make a charitable gift to the College and to provide an annuity for my wife. If the College has no annuity program or for any other reason is unable to obligate itself to make annuity payments to my wife, I give TEN THOUSAND DOLLARS ($10,000) to the College for its general purposes and direct my executor to purchase for FORTY THOUSAND DOLLARS ($40,000) from a life insurance or annuity company of good standing in the United States a nonassignable annuity contract providing for the payment of an annuity, quarterly, to my wife during her lifetime at the then rate being paid by such company to annuitants who are my wife's age and sex at the time of the purchase of the annuity. If my wife does not survive me, I give FIFTY THOUSAND DOLLARS ($50,000) to the College for its general purposes."

CHARITABLE REMAINDER TRUSTS—ALTERNATIVE REMAINDERMAN PROVISION

IRS has ruled that, because a donor retained the power to change the publicly-supported charity [described in IRC §170 (b) (1) (A)] named in the trust instrument as the remainderman to a private foundation [described in IRC §170 (c), but not also described in IRC §170 (b) (1) (A)], it is not certain that the ultimate recipient of the remainder interest will be a publicly-supported charity. Thus, the income tax charitable deduction is subject to the 20% of adjusted gross income ceiling [rather than the 50% ceiling or 30% ceiling (depending on the type of gift)], with no five year carryover for any "excess." Rev. Rul. 79-368, IRB 1979-46, 7. However, IRS will not so limit the income tax charitable deduction when a publicly-supported charity [one described in both IRC §170(c) and IRC §170(b) (1) (A)] is named as the remainderman and the trust instrument provides that if, at the time the remainder interest is to be distributed, the charity named in the trust instrument is not exempt under IRC §170(c), the trustee shall select an alternative charitable remainderman exempt under IRC §170 (c) [with no requirement that it also be exempt under IRC §170(b) (1) (A)]. Rev. Rul. 80-38, IRB 1980-7,7.

The two rulings are distinguishable. In Rev. Rul. 79-368, the donor retained the unbridled right to change a publicly-supported remainderman to a private foundation remainderman. In Rev. Rul. 80-38, however, the publicly-supported remainderman could be changed only by the trustee and only if at the time the named charity was to get the remainder it was not described in IRC §170(c). IRS found the possibility of the named publicly-supported charity not being described in IRC §170(c) so remote as to be negligible.

If the alternative remainderman must be described in IRC §170(c) but there is no requirement that it also be described in IRC §2522(a) and IRC §2055(a), the gift and estate tax deductions could be jeopardized because the trustee could name an organization described in IRC §170(c) (5) [a tax-exempt cemetery organization, gifts to which while qualifying for the income tax charitable deduction, is not the type of organization which qualifies a donor's gift for the gift and estate tax charitable deductions]. In 1976, IRS removed this problem for most trusts by ruling that if the organization named in the trust as remainderman was one described in IRC §170(c), IRC §2055(a) and IRC §2522(a), a gift tax charitable deduction would be allowable even though the trustee is only required to select as an alternative remainderman an organization described in IRC §170(c). The possibility that the named charitable remainderman would not be an organization described in IRC §2522(a) when the trust terminates is so remote as to be negligible, ruled IRS. IRS declined to rule on the estate tax deduction because it will not rule on the estate tax implications of a transaction of a living individual. The rule should be the same, however, for estate tax purposes.

Most existing charitable remainder trusts which require that any alternative remainderman be an organization described in IRC §170(c) [but do not require that the alternative remainderman also be described in IRC §170(b) (1) (A), IRC §2055(a) and IRC §2522(a)] will get the maximum charitable deduction allowable for income tax purposes and will be allowed gift and estate tax charitable deductions under the holdings of Rev. Rul. 76-307 and Rev. Rul. 80-38. For newly drawn charitable remainder trusts, however, avoid being concerned about the "so remote as to be negligible" determination by providing in the trust instrument:

> "Upon the Beneficiary's death, the Trustee shall distribute all of the then principal and income of the Trust, other than any amount due the Beneficiary, to XYZ PUBLICLY SUPPORTED CHARITY for its general purposes. If XYZ PUBLICLY SUPPORTED CHARITY is not an organization described in each of section 170(b) (1) (A), section 170(c), section 2055(a) and section 2522(a) of the Internal Revenue Code of 1954 at the time when any principal or income of the Trust is to be distributed to it, the Trustee shall distribute such principal or income to one or more organizations then so described as the Trustee shall select in its sole discretion and in such shares as it shall determine."

VAT = SALT
Value Added Tax = Strategic Alms Limitation Tax

House Ways and Means Committee Chairman Al Ullman (D-Ore) has introduced the Tax Restructuring Bill which would (1) provide $42 billion of individual income tax rate reductions beginning in 1981, and (2) impose a 10 percent value added tax (VAT) on sales of property and services at each stage of production and distribution (a national sales tax in disguise).

The Bill would adversely affect charitable organizations:

1. The tradeoff for the imposition of VAT would be a sharp reduction in income tax rates. The bottom rate of 14 percent would be reduced to 10 percent. The top rate of 70 percent would be reduced to 50 percent. The top capital gains tax rate would be reduced from 28% to 20%. Since the higher the in-

come tax rate and the higher the capital gains rate, the greater the tax incentive to charitable gifts, a rate reduction would, as explained later, significantly reduce tax incentives to charitable giving.

2. The bill would increase the standard deduction (zero bracket amount) from $2,300 to $2,600 for single taxpayers and from $3,400 to $4,000 for married taxpayers filing joint returns. The bill would increase the number of taxpayers who claim the standard deduction and decrease the number who itemize their deductions. Thus, fewer taxpayers would have tax incentives to make charitable gifts. Enactment of the Tax Restructuring Bill would make passage of a bill allowing the charitable deduction to those who take the standard deduction more important than ever.

3. Charitable organizations would have to pay VAT on their purchases; but would then apply to the United States for a refund—either monthly or quarterly. Bookkeeping and paperwork expenses would be sizable.

4. Charitable organizations would not have to collect VAT on their sales unless the sales involved unrelated business taxable income.

Who wants VAT? Both Ways and Means Committee Chairman, Al Ullman, and Senate Finance Committee Chairman, Russell Long, favor VAT as a way of (1) reducing other taxes, and (2) spurring capital formation and foreign trade. Messrs. Ullman and Long say that VAT will not be an additional tax, but rather a replacement tax that would enable Congress to roll back social security and income taxes. Some VAT supporters say it would enable Congress to end double taxation of dividends and give income tax incentives for savings.

Ranking Republican Ways and Means Committee member, Barber B. Conable (R-NY), opposes VAT calling it a "Very Annoying Tax". He says that "a political institution like the Congress is not going to put in place a broadly based consumer tax, generally perceived as regressive, and use the proceeds to give business everything it wants."

What is VAT? Basically, it is a tax applied to the value added to goods at each stage of processing or manufacturing. Eventually, the consumer pays the tax. VAT is widely used in Western

Europe and some South American countries. VAT is basically a national sales tax paid by the ultimate consumer of goods and services, but collected at each sale from manufacture to eventual purchase.

Unlike the regular sales tax which is collected only at the final retail sale, VAT is collected each step along the way.

Example: A manufacturer pays VAT on raw materials he purchases. He then collects VAT when he sells the manufactured goods at wholesale, subtracting the VAT paid from the VAT he collected. He then remits the balance to the government. This process is continued at all intermediate sales until the final consumer pays VAT on the entire selling price. The reasons given for the step-by-step collection of VAT are to reduce tax evasion and speed up the flow of funds to the government.

How the income tax rate reduction which is part of the VAT package would decrease tax incentives to charitable gifts. If the top income tax rate is reduced from 70% to 50%, as proposed, tax incentives would be decreased. An individual now in the top 70% bracket who contributes $100,000, has a $30,000 out-of-pocket cost after taking into account the tax savings generated by his gift. If his top tax bracket becomes 50%, his out-of-pocket cost on the same gift will be $50,000.

Many individuals view tax incentives as a way to give more than initially planned. So an individual now in the 70% bracket who is willing to decrease his net worth by $100,000 will give $333,333—because after taking the tax savings into account his out of pocket cost is $100,000. If his top tax bracket becomes 50% (instead of 70%), following the same logic he will give $200,000—because after the tax savings he will be out of pocket $100,000.

It may well be inappropriate for charitable organizations to oppose tax reductions on the ground that tax incentives for charitable gifts will decrease. Congress should, however, be made aware of the ramifications to charity and if the rates are to be reduced, other tax incentives—to maintain the current level of private support—should be enacted.

Take the Value Added Tax proposals seriously. The tax is favored by the chairmen of both Congressional tax committees. Enactment of VAT would be the most drastic change in the tax laws since introduction of the income tax. Sweeping tax law changes are not always enacted overnight—but are after the proposals have been around a while. A recent example is enactment of the Tax Reform Act of 1976 which made sweeping changes in the gift and estate tax laws. Many of the provisions enacted were said to have no chance of passage when they first were proposed in the late 1960's.

DON'T LET THE SUN SET ON THE CHARITABLE DEDUCTION

The Federal government spends money *directly* by dollar appropriations for various purposes. Some theorists say that the government also spends money *indirectly* by allowing tax deductions and credits—so-called *tax expenditures.* Income which is not taxed in full at the regular graduated rates is a tax expenditure, according to these theorists.

Example. A government appropriation which gives every homeowner $1,000 is a direct expenditure of money. Allowing homeowners to deduct mortgage interest and property taxes is an indirect expenditure of money by the government—a tax expenditure.

The Senate Budget Committee classifies the charitable deduction as a tax expenditure, along with the investment tax credit, exclusions from taxable income for contributions to pension plans, preferential tax rates on capital gains, and deductions for mortgage interest and real estate property taxes.

The charitable deduction differs from other so-called tax expenditures in that an individual who makes a charitable gift and gets a charitable deduction does not increase his or her wealth. Rather, the deduction reduces the diminution of wealth resulting from the charitable gift. With most deductions, it is the individual who makes the payment who benefits. With the charitable deduction, it is the charitable institution and the public it serves who benefit.

Sunset bills before Congress. Under the sunset principle, some government appropriations for *direct* spending are not renewed automatically each year, but rather require an affirmative vote by Congress periodically. An extension of the sunset principle to *indirect* spending—*tax expenditures*—would require that deductions, credits, etc. be specifically renewed periodically by an affirmative vote of Congress. If Congress were to apply the sunset rule to charitable gifts, the charitable deduction would automatically expire unless specifically restored by a future Congress. Under the sunset principle, a donor who makes a large gift this year which exceeds his adjusted gross income ceiling for the year and which he ordinarily could carry over for the five following years, might find that his carryover deduction disappears. That would happen if a future Congress does not restore the charitable deduction.

The charitable deduction has been and continues to be reviewed frequently by the House Ways and Means and Senate Finance Committees. Applying the sunset principle to the charitable deduction would mean that the deduction would also be scrutinized by the House and Senate Budget Committees.

What you should do. Tell your Congressmen and Senators that the charitable deduction differs from other so-called tax expenditures and should not be included in any sunset legislation. Also, make your views known to members of the House Ways and Means Committee, House Rules Committee and House Government Operations Committee. Also, express your concern to the Senate Finance Committee, Senate Rules and Administration Committee and Senate Governmental Affairs Committee.

Appendix "A"
CHARITABLE CONTRIBUTIONS LEGISLATION
Co-Sponsors As of June 3, 1980

In the Senate (Moynihan-Packwood—S.219)

Democrats (21)

*Max Baucus (MT)
*David L. Boren (OK)
*Bill Bradley (NJ)
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Alan Cranston (CA)
Dennis DeConcini (AZ)
John Durkin (NH)
Wendell H. Ford (KY)
*Mike Gravel (AK)
Howell Heflin (AL)
Ernest F. Hollings (SC)
Henry M. Jackson (WA)
Patrick Leahy (VT)
Warren Magnuson (WA)
John Melcher (MT)
Howard Metzenbaum (OH)
*Daniel P. Moynihan (NY)
Jennings Randolph (WV)
Donald Stewart (AL)
Richard Stone (FL)
*Herman Talmadge (GA)

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Thad Cochran (MS)
*David Durenberger (MN)
Orrin Hatch (UT)
S. I. Hayakawa (CA)
*John H. Heinz, III (PA)
Jesse Helms (NC)
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Jacob Javits (NY)
Roger Jepsen (IA)
Richard Lugar (IN)
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*Robert Packwood (OR)
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George McGovern (D-SD)
Spark Matsunaga (D-HI)
Charles Percy (R-IL)
Larry Pressler (R-SD)

**Member of the Senate Finance Committee*

In the House of Representative (Fisher-Conable—H.R. 1785)

Democrats (122)

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Ike Andrews (NC)
Eugene Atkinson (PA)
Don Bailey (PA)
Alvin Baldus (WI)
Michael D. Barnes (MD)
Edward Beard (RI)
Berkley Bedell (IA)
Tom Bevill (AL)
Lindy Boggs (LA)
William Boner (TN)
David Bonior (MI)
Marilyn Lloyd Bouquard (TN)
David Bowen (MS)
John B. Breaux (LA)
Jack Brinkley (GA)
John Burton (CA)
Beverly Byron (MD)
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Shirley Chisholm (NY)
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Allen Ertel (PA)
David Evans (IN)
Melvin H. Evans (VI)
John Fary (IL)
Dante Fascell (FL)
Vic Fazio (CA)
Geraldine Ferraro (NY)
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Don Fuqua (FL)
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Gus Yatron (PA)
Clement Zablocki (WI)

*Member of the House Ways and Means Committee

Appendix "A" (Cont.)

Republicans (105)

James Abdnor (SD)
Mark Andrews (ND)
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*L. A. (Skip) Bafalis (FL)
Robin L. Beard (TN)
Clarence Brown (OH)
James Broyhill (NC)
John Buchanan (AL)
Clair W. Burgener (CA)
Caldwell Butler (VA)
Carroll Campbell (SC)
William Carney (NY)
Tim Lee Carter (KY)
Richard Cheney (WY)
James C. Cleveland (NH)
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*Barber Conable (NY)
Silvio O. Conte (MA)
Tom Corcoran (IL)
Lawrence Coughlin (PA)
James A. Courter (NJ)
William Dannemeyer (CA)
Robert W. Davis (MI)
H. Joel Deckard (IN)
Robert Dornan (CA)
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Jack Edwards (AL)
Mickey Edwards (OK)
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Arlen Erdahl (MN)
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Millicent Fenwick (NJ)
Hamilton Fish, Jr. (NY)
Edwin Forsythe (NJ)
*Bill Frenzel
Newt Gingrich (GA)
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Charles Grassley (IA)
S. William Green (NY)
Wayne Grisham (CA)
Tennyson Guyer (OH)
Tom Hagerdorn (MN)
William Harsha (OH)
Margaret Heckler (MA)
Elwood Hillis (IN)
Jon Hinson (MS)
Harold Hollenbeck (NJ)
Frank Horton (NY)
Henry J. Hyde (IL)
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Norman Shumway (CA)
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**Member of the House Ways and Means Committee*

WORKSHOP SESSIONS

Due to the inherent format of a workshop session where much of the value is in its spontaneous form, many of the sessions held at the Seventeenth Conference on Gift Annuities cannot be recorded here. However, the Committee has been able to obtain data for some of the workshops on which the presenters based their leading remarks. We trust what follows will be of some help to you as a reference source.

WORKSHOP SESSION—ADVANCED GIFT ANNUITY AND DEFERRED ANNUITY

Mr. John M. Deschere
Comptroller, Bard College
Mr. William E. Jarvis
Treasurer and Business Manager, American Baptist Foreign Mission Society

This is the advanced section of Regular and Deferred Annuities. We expect that you already know:

What a gift annuity is
How it differs from a pooled life income fund
What are its advantages and disadvantages for a charitable organization
How to use the tables in the Committee's "Green Book"

ANNUITIES AND INFLATION

Before we begin, a few general comments about annuities in an inflationary economy. Both regular and deferred annuities guarantee a return in specified dollar amounts. The Conferences on Gift Annuities in recent years have responded to inflationary pressures with guaranteed maximum annuity rate increases from 8% to 10% and then to 12% at the oldest ages. It looks as though relatively high interest rates and inflation will continue despite the drop in the prime and Treasury Bills this week, making life more difficult for sellers of fixed income investments.

Are you familiar with the Rule of 72? It means that at 6% interest compounded, an investment will double in value in about 12 years. At 9% it will double in about 8 years. At 12% it will double in about 6 years. In dealing with inflation, the rule applies in reverse: At 6% annual inflation, the dollar loses about half its value in 12 years. At 12%, it loses half its value in 6 years.

Realistically, it appears that the appeal of annuities will be primarily to senior citizens at the upper end who can benefit from the higher rates to help them keep up with inflation in addition to very considerable income and estate tax benefits.

SHORT-CUT METHOD FOR STOCK VALUATIONS

Most of you receive gifts of stock from time to time. I have prepared a sheet (Schedule A page 73), to help you speed up calculations for valuing gifts of stock. This is not uniquely for annuities. You can use it for a stock gift for any purpose. Please note the three examples. Example I will apply in more than 90% of gifts of securities you may receive.

TWO LIFE GIFT ANNUITIES

Under present tax laws, annuities may not be written for more than two lives without jeopardizing tax benefits. Two lives are complicated enough. Look at the example on page 13 of the "Green Book." It takes three single-space pages of instructions to complete the calculations. Do not try to take any short-cuts. Bear in mind that this example is for a *cash* gift. Considering gifts of securities for annuities brings us to the special rules concerning bargain sales.

BARGAIN SALES

The following is a summary of the rules applying to transfers of appreciated property for gift annuities:

1. Transfer of appreciated property for an annuity is deemed to be a bargain sale.
2. In computing the amount of the gain, the cost-basis of the transferred property must be allocated between the gift portion and the investment in the contract.
3. The amount of capital gain is the difference between the investment in the contract and the allocated basis.
4. This gain is taxed to the donor over his life expectancy, if the annuity is nonassignable.
5. If donor provides annuity for another, the capital gain is reportable in the year of the transfer.
6. In a two-life annuity funded with donor's separate property, the capital gain is reportable ratably over the donor's life expectancy. Donor must be one of the annuitants under the contract.
7. On a single life annuity, if the donor annuitant dies before all capital gain has been reported for income tax purposes, the balance is forgiven.

8. On a two-life agreement, if the donor dies prematurely, the survivor annuitant must report the balance of reportable capital gain on the same basis as the donor.

CLAY BROWN RULE

Some of you may not know what the Clay Brown Rule on Annuities is. The charitable contribution must be at least 10% of the value of property donated for there to be any tax benefit. Annuity rates cannot be so high or annuitants so young that the remainder interest is less than 10%. In addition, the annuity must be nonassignable and may not have any reference to guarantees of minimum or maximum payments in the event of premature death of the annuitant.

DEFERRED GIFT ANNUITIES

For deferred gift annuities, the "Yellow Book," supplemented by the "Green Book," is absolutely essential. Allow yourself plenty of time to make the necessary calculations, particularly on the two-life contracts. All relevant information must be assembled and instructions followed step by step.

I draw your particular attention to pages 28 and 29 of the "Yellow Book" for basic information, definition and philosophy and capital gain bargain sale computation on a gift of securities.

It has been suggested that we compare a deferred gift annuity with a pooled life income fund on which the income is automatically reinvested. Although the objectives of both arrangements may be quite similar, there are two significant differences:

1. There is no income payment on which tax must be paid on the deferred annuity until annuity payments actually begin. On the pooled income fund, income reinvested is subject to income tax at ordinary income rates (it is reported as constructively received), and the amount reinvested may be claimed annually as additional pooled life income gifts.
2. The deferred annuity has a fixed date when annuity payments commence. The pooled income fund may be requested to stop accumulating and start paying at any payment date.

Most of the rules and computations applying to the regular gift annuities apply to deferred annuities. The principal difference is the need for compounding the investment during the period of incubation and gestation and adjusting life expectancy for the Deferred Period Factors (Dx and lx ratios). The capital gains implications on gifts of securities and gift and estate tax consequences are the same.

Some of you reading the examples in the "Yellow Book" may have been mystified by the use of a date six months before the date of the first payment for determining the interest factor. This, as I understand it, is the arbitrary date when the annuity stops being a deferred annuity and becomes a regular annuity. It has been accumulating income up to that point. From then on it will be earning income on which annuity payments will be made, as with a regular gift annuity.

Income tax payable on a deferred annuity will depend on Government tables in effect when payments to annuitant begin.

REINSURING THE CHARITABLE GIFT ANNUITY

As you probably know, reinsuring is a common practice in the insurance industry. The objective is to spread the risk among two or more companies.

There may be times, particularly in smaller organizations, when it would be wise to reinsure an annuity contract. Admittedly the risk is small because of conservative actuarial factors in the rates recommended by the Committee on Gift Annuities. However, if you are committing your organization's assets at the rate of several thousand dollars per year to *one* person or to a *two* life agreement, reinsurance may be in order.

TYPES OF CONTRACTS

I know of no regulation that prescribes a particular form for a charitable gift annuity. I'm sure there are many variations among the organizations here, however, approved wording for the contract can be found in the "Green Book."

The point I wish to make is that the charitable gift annuity *is a contract* and, as you know, it's best to have a contract in writing. This can be in the form of a letter on your organization's letterhead or a more "official" looking form. We happen to prefer the latter.

One important step, we believe, is that whatever format is used the document should be signed by an officer who has been given such authority by the board of directors, and should be reviewed by your own counsel prior to use.

ROLE OF ATTORNEYS AND TAX ADVISORS

In most non-profit organizations that I am familiar with, there is a tendency to try to hold down costs. For some people, this is approached with a passion.

There is an old saying that you can be "Penny wise and pound foolish." This can often be the case in the non-use of professionals who charge for their services. For instance, if lawyers would write wills *free* many more people would have one. Some folks think procrastination is free but sometimes it is very expensive.

The tax laws of our nation, as you all know, are extremely complex. Even many of the people who complete their own 1040 do it wrong! A large majority of us have never had to deal with estate and gift tax ramifications so maybe this is the point where you ask for professional help.

The level of knowledge and competency will run a large scale, of course; but if you are going to err, do it on the safe side. My own experience is that law is not always logical. If I don't know or can't find a clear, understandable answer to a question, I'll call a lawyer or accountant.

There are many lawyers, accountants and other advisors who are brilliant in their chosen specialties but are less informed than we are in this particular arena. So, select your counsel with care.

There are, of course, different arrangements to be made with these professionals:

1. If you have an active, sophisticated program you may want a retainer agreement.
2. If you deal mostly in small contracts or place relatively few per year, then you may pay on a time basis.
3. Most important is that you know where to turn when the need arises. Don't let that big one get away

because you aren't sure of the legal or tax implications.

HANDLING GIFTS OF REAL ESTATE

There is real potential in this but also some pitfalls.

FIRST THE GOOD NEWS!

A great many people have valuable, highly appreciated property that can and does form the basis for substantial gifts to our charities.

What is the charitable contribution when a gift of real estate is made?

1. *LONG TERM*—Fair market value less the actuarial value of the contract. (Five year carry-over applies)
2. *SHORT TERM*—(Property held less than one year) Fair market value of property minus actuarial value of the contract *and* minus amount of short-term gain allocable to the gift element. (Five year carry-over applies)

HOW DO YOU PROCESS GIFTS OF REAL ESTATE?

1. Determine the "fair market value" by obtaining at least two professional appraisals.
2. Use conservative judgment re: saleability of subject property in current market conditions, especially important for non-income producing property.
3. Be sure you can receive a "good" deed. Early title search.
4. Use professionals—realtors and lawyers to process all documents.
5. Obtain authority from your Board to accept and sell real estate. Most jurisdictions will require a Resolution.

NOW THE BAD NEWS

This may be most appropriate at a time like this when real estate is hard to sell. Some "FRIENDS" will try to CON YOU.

EXAMPLES: White elephants in the Orange Groves.
A&P store in Illinois with a negative, net lease.

All are worth working on because any piece of real estate today will run into at least five figures. Often elderly people are leaving home for lifecare institutions. Their home can be turned into *income.*

REVOCABLE TRUSTS

Some development officers and institutions are afraid of these trusts, but there are occasions when it is prudent to use them.

Our own procedure is not to promote revocable trusts but to consider each opportunity on its own merits.

I feel there must be a *sincere desire* to make a gift which, of course, doesn't occur with a revocable trust. However, the sincere person receives satisfaction from his/her action *AND* the value of the property involved *is removed from the estate.*

SCHEDULE A

SHORT-CUT METHOD FOR FINDING MARKET VALUE OF GIFTS OF STOCK

I. *GIFT MADE ON A WEEKDAY*

Facts: Gift of 60 shares A Company traded on effective date of gift at a high of 54⅝ and a low 53¾.

A. *Conventional method*

1. Determine average unit value:

54.625	high
53.750	low
.875	difference
.4375	half of difference
53.750	add to low valuation
54.1875	average unit value

2. Multiply average unit value by number of shares:

54.1875 times 60 equals $3,251.25 gift value

B. *Short-cut method*

Add high and low values and multiply by one-half number of shares:

54.625 high
53.750 low
108.375 times 30 equals $3,251.25 gift value

II. *GIFT MADE ON A WEEKEND*

Facts: Gift of 60 shares B Company, effective date of gift, Saturday. Traded Friday at high of 73¼, low of 72⅜; on Monday at high of 72⅞, low of 72½.

Short-cut method

Add the four valuations and multiply by one-fourth number of shares:

73.250
72.375
72.875
<u>72.500</u>
<u>291.000</u> times 15 equals $4,365.00 gift value

III. *GIFT OF STOCK NOT TRADED EVERY DAY*

Facts: Gift of 60 shares C Company, effective date of gift, Wednesday. Stock not traded Wednesday or Thursday. Traded Tuesday at high of 86⅛, low of 85½; on Friday at high of 86⅜, low of 85¾.

Short-cut method

Double-weight closer date's valuations and multiply by one-sixth number of shares:

86.125
86.125
85.500
85.500
86.375
<u>85.750</u>
<u>515.375</u> times 10 equals $5,153.75 gift value

WORKSHOP SESSION—ADVANCED POOLED INCOME FUND—CHARITABLE REMAINDER TRUST

Clinton A. Schroeder, Esq.
Partner; Gray, Plant, Mooty, Mooty & Bennett
J. Patrick Whaley, Esq.
Partner; Musick, Peeler & Garrett

BACKGROUND

The Tax Reform Act of 1969 amended the Internal Revenue Code of 1954 by providing in §170(f) (2) (A) that a charitable contribution deduction will be allowed for a charitable gift of a remainder interest in trust only where the trust is an annuity trust, a unitrust or a pooled income fund trust. The charitable deduction rules of the estate and gift taxes contain similar restrictions. I.R.C. §2055 and 2522. The first two of these three types of trusts are referred to as "charitable remainder trusts" and are described in §664. A pooled income fund is defined in §642(c) (5). By virtue of §4947(a) (2), all three of these types of trusts are treated as "private foundations" for certain purposes and thus must be concerned with the penalty taxes relating to acts of "self-dealing" (as defined in §4941) and the making of "taxable expenditures" (as defined in §4945).

I. *POOLED INCOME FUNDS*

Tranquility College intends to establish a pooled income fund (the "Fund"). It has never ventured into the field of deferred giving and was prompted to do so because Mr. Jones, a substantial contributor, Trustee and member of the Finance Committee of the College, read an article in the Wall Street Journal discussing this subject. Thus, the College, having no extensive prior knowledge of the subject, has asked you to explain the operations of a pooled income fund and the laws relating thereto with specific reference to the following questions:

A. Must the Fund be a trust under state law?

Comment: The Fund need not be a trust "under local law." Reg. §1.642(c)-5(a) (2). However, it will be treated as a trust and taxed under federal tax law.

B. If a donor makes a transfer to the Fund, what type of income interest can he reserve (i.e., for whom and for how long)?

Comment: Life income interest may be provided for one or more lives in being at time of transfer. The *governing instrument* must specify at the time of transfer the particular beneficiaries or beneficiary to whom the income is payable and the share of income distributable to each. (There are a number of requirements as to provisions the governing instrument of a pooled income fund must contain.) However, it is sufficient to name members of a class so long as they are alive and ascertainable at time of transfer. Such beneficiaries may enjoy their shares of income concurrently, consecutively, or both concurrently and consecutively. Reg. §1.642(c)-5(b) (2).

C. Must the assets of the Fund be commingled? May they be jointly invested with other assets of the College? Assuming that there is no legal prohibition against such a joint investment, would it be wise to follow such a course?

Comment: The property transferred by each donor must be commingled with property transferred by other donors who have made or will make similar transfers to the fund. Thus, it is unwise to create a fund until there are at least two persons who are willing to make transfers to it. Such commingling must be provided for in the *governing instrument.* While no other properties may be included in the fund, the properties of the fund may be invested jointly with other properties (such as the endowment of a charity) so long as there is sufficient accounting to identify the assets of the fund and the income allocable thereto. Reg. §1.642(c)-5(b) (3).

A bank which serves as a trustee of more than one pooled income fund may maintain a common trust for the collective investment and reinvestment of the assets of several such funds. Reg. §1.642(c)-5(b) (3). See also Rev. Rul. 74-247, 1974-2, C.B.152.

Consideration should also be given as to whether a commingling with the College's endowment would be wise. The two funds may have different objectives. For example, perhaps the endowment would be invested for growth whereas the Fund's assets should be invested to generate enough income to please the income beneficiaries and potential donors.

D. Are there any types of investments in which the Fund may not invest? What types of investments should it consider?

Comment: The Fund cannot hold tax-exempt securities, and the *governing instrument* must so provide. Reg. §1.642(c)-5(b) (4). In selecting investments, consideration should be given to investments that are: (1) income producing on regular basis, (2) easily valued, and (3) relatively liquid.

E. What responsibilities does the College have with respect to maintenance of the Fund?

Comment: The Fund must be maintained by the donee organization. This requirement will be satisfied where the donee exercises control directly or indirectly over the Fund. For example, it will be met where the public charity has the power to remove the trustee of the Fund and designate a new trustee. Reg. §1.642(c)-5(b) (5).

In Rev. Rul. 74-132, 1974-1 C.B. 152, an exempt hospital established a foundation for purposes of raising funds and employing them for the sole benefit of the hospital. The foundation qualified as a supporting organization within the meaning of §509(a) (3) of the Code. It created a pooled income fund of which it was the Trustee. That ruling held that, under such circumstances, the fund would be treated as "maintained" by the hospital because of its ability to appoint and remove the directors of the foundation.

On the other hand, in Rev. Rul. 75-116, 1975-1 C.B. 182, it was held that this requirement was not met where the bank-trustee controlled the Fund's investment policy and the charity was not authorized to remove the trustee and appoint a new one.

F. Could Mr. Jones' position as a Trustee and member of the Finance Committee of the College affect the Fund?

Comment: No donor or individual income beneficiary may be a trustee of the Fund, and the *governing instrument* must so provide. This prohibition applies not only to those situations where a person is formally made a trustee but also to those where he "directly or indirectly has general responsibilities with respect to the Fund which are ordinarily exercised by a trustee." §1.642-5(b) (6), Treas. Regs.

However, the fact that a donor of property to the Fund or a beneficiary of the Fund is a trustee, officer, director or other official of the public charity to or for the use of which the remainder interest is contributed "ordinarily" will not, according to those same Regulations, prevent the Fund from meeting this requirement.

Therefore, if the Finance Committee manages the Fund, either Mr. Jones should resign therefrom or abstain from acting on any matter pertaining to the Fund.

G. What method or methods may be used to determine an income beneficiary's participating interest in the Fund? In assigning units of participation in the Fund to its income beneficiaries, how often must the assets of the Fund be valued? If a transfer may be made to the Fund between valuation dates, how may the units created as a result of such a transfer be determined? Can the College receive property from Mr. Jones, sell it, and then put the proceeds into the Fund without adverse tax consequences to Mr. Jones?

Comment: Every income beneficiary in the Fund must receive a proportionate share of the annual income earned by the Fund based on the fair market value of the property used to create such beneficiary's interest. Therefore, upon a transfer of property to the Fund, units of participation in the Fund will be assigned to the income interest created thereby by dividing the fair market value of the transferred property by the value of a unit in the Fund at the time of the transfer. For this purpose, the value of a unit in the Fund will be determined by dividing the fair market value of all property in the Fund by the number of units then in the Fund. Thus, the value of each unit of participation will fluctuate with each new transfer of property to the Fund in relation to the appreciation or depreciation of the assets of the Fund, but all units will always have equal value. Reg. §1.642(c)-5(c) (2).

The property in the Fund must be valued on the first day of the taxable year of the Fund and on at least three other days within the Fund's taxable year. The period between determination dates cannot be greater than three calendar months.

Where there can only be transfers to the Fund on valuation dates, no problem arises as to the proper determination of the valuation of a unit. However, where transfers are made between valuation dates problems could arise. For example, assume A transfers securities worth $100 to the Fund on January 31, 1980, a determination date, and receives ten units as a result of such transfer. On February 15, 1980, B transfers securities having a value of $90 to the Fund when the Assets previously contributed by A have a value of $150. It is obvious in this case that B would be unfairly sharing in the appreciation in A's units if the $10 unit value were applied to determine the number of units to be allocated to B. Therefore, the Regulations require that there be an "appropriate adjustment" where there is a transfer between determination dates. Reg. §1.642(c)-5(c) (2) (iii). One specific method of adjustment which is sanctioned by the Regulations is to use a unit value which is the average of the unit values on the determination dates immediately preceding and succeeding the date of transfer. Perhaps another allowable method would be to use a weighted average of such preceding and succeeding unit values with the weight being determined in relation to the number of days preceding the transfer over the number of days in the period times the difference between such units.

The College should only receive property for inclusion in the Fund. It should not take property, sell it and put the proceeds in the Fund, because in such case the sale may be attributed to Mr. Jones for tax purposes.

H. How often and by when must the Fund's income be distributed to its income beneficiaries? For this purpose, how is a Fund's "income" defined? What provision, if any, must be made with respect to any accrued but unpaid income due to a deceased income beneficiary?

Comment: Each beneficiary of an income interest must receive distributions from the Fund for each of its taxable years determined by the rate of return earned by the Fund for that year. The *governing instrument* must direct the trustee to distribute income currently or within the first sixty-five days following the close of that year in which the income is earned. Any such payment made after the close of the year shall be treated as paid on the last day of the year. For these purposes, income is determined under local law; thus capital gains realized by the Fund would not be income. The *governing instrument* must provide that the income interest of any designated beneficiary is either terminated with the last regular payment which was made before the death of the beneficiary or be prorated to the date of his death. Reg. §1.642(c)-5(b) (7).

I. When must the remainder interest arising as a result of the death of an income beneficiary be distributed from the Fund to the College?

Comment: Upon a termination of an income interest, the Trustee must either pay to the charity or retain for its use the remainder attributable to such interest. The value of the remainder interest may be either (a) its value as of its next succeeding termination date or (b) its value as of the date on which the last regular payment was made before the death of the income beneficiary if the income interest was terminated on such payment date. Reg. §1.642(c)-5(b) (8), Treas. Regs. See Rev. Rul. 76-196, 1976-1 C.B. 178 for a restrictive view of termination provisions.

J. Must the trust instrument creating the Fund contain any of the prohibitions listed in §508(e) of the Code?

Comment: The combination of §4947(a) (2) and §508(e) of the Code require a pooled income fund to include in its governing instrument prohibitions against self-dealing (as defined in §4941) and the making of taxable expenditures (as defined in §4945). This will be accomplished if applicable state law prohibits such acts. See Rev. Rul. 72-103, 1972-1 C.B. 152.

K. Aside from those provisions which the Regulations state must be included in the trust instrument creating the Fund, what other provisions would you recommend be included therein?

Comment: Other provisions to be considered:

(1) Power to amend to conform with §642(c)-5, regulations and rulings

(2) Normal powers and references to principal and income act

(3) Spendthrift provision

(4) Incompetency provision

(5) Statement that the trust is irrevocable and not subject to amendment except as statd in (1).

L. What application, if any, do federal and state securities laws have to the Fund?

Comment: With respect to *federal* securities law, The Securities and Exchange Commission issued a Release on January 10, 1980 which confirmed a 1972 "no action" letter issued to the American Council on Education to the effect that registration of pooled income funds would not be required if three conditions were met:

(1) The Fund qualifies under §642(c)-5 of the Internal Revenue Code;

(2) Written disclosures describing the operation of the Fund are provided to each prospective donor; and

(3) Persons soliciting gifts for the Fund are either volunteers or persons employed in the overall fund raising activities of the charity who are not compensated on a commission basis.

Securities Act of 1933 Release No. 6175 dated January 10, 1980. See also March, 1980 issue of *Taxwise Giving*. You should contact charity's counsel re state blue sky laws.

M. What factors should be considered in picking the taxable year of the Fund?

Comment: An income beneficiary of a Fund must report his share of the Fund's income for his taxable year in which or with which the Fund's taxable year ends. For example, an individual would report on his 1980 tax return his share of the Fund's income for the Fund's taxable year ending January 31, 1980, or at the end of any other month within 1980, including December 31. Because it is not equitable to tailor the taxable year of the Fund to suit one particular income beneficiary, it is generally advisable to adopt either a calendar year or a year ending on the last day of October or November. Selecting one of the latter two year-end dates permits Fund distributions for that year to be made within the same calendar year when the income beneficiaries will report their share of the Fund's income. (Recall that the income for a particular year can be distributed as late as the 65th day after the end of the Fund's tax year.)

N. What reporting requirements does the Fund have under federal tax laws?

Comment: Pooled income funds are required to file Forms 1041 and 1041-A. The 1041 is the regular fiduciary income tax return. The 1041-A is an informational return of a trust accumulating charitable amounts. The Fund also must complete Form 5227 and if the Fund should become liable for one of the Chapter 42 excise taxes, it must also file a Form 4720. Such returns must be filed by the 15th day of the 4th month following the close of the taxable year of the Fund. In addition, each of the income beneficiaries must be informed of the amount of taxable income received each year from the Fund. Schedule K-1 is often used for this purpose.

O. Because of its late start in the year, the Fund only realized the following income and gains: (1) $1,000 of dividends which were distributed to the income beneficiaries; (2) a $2,000 capital gain which it realized on a sale of stock acquired five months before by the donor who transferred such stock to the Fund and which stock was sold by the Fund within six months following receipt; and (3) $3,000 capital gain which it realized upon a sale of real property. (At the time of the sale of the last item, its basis was $4,000 and its fair market value was $7,000. The donor had acquired the property four years earlier when it was subject to a pre-existing mortgage of $2,000. On the date on which such real property was sold the unpaid balance of that mortgage was $1,600.)

What, if any, is the federal income tax liability of the Fund for the taxable year 1980?

Comment: The $1,000 of dividends will pass through to the income beneficiaries and thus be excluded from the Fund's taxable income by virtue of the deduction allowable under §661(a) of the Code.

A pooled income fund is taxable on its short-term capital gains even though they are set aside for the benefit of a charity; thus the $2,000 short-term capital gain will be included in the Fund's taxable income. §642(c) (3), IRC. (Note that it will be advisable to determine the donor's basis and holding period which will carryover to the Fund as provided in §§1015(b) and 1223(2) of the Code.)

By virtue of §642(c) (3) there would normally be a deduction allowable in the amount of the $3,000 set aside as a charitable remainder interest. However, to the extent that a nonexempt trust has income which would have been unrelated business income were it an exempt trust, the set aside deduction must be reduced. §681(a), IRC. On the basis of the facts set forth in the example, and assuming that the real property were sold immediately by the Fund, there would be an acquisition indebtedness of $1,600; thus there would be unrelated business income in the amount of $200 ($1,600/$4,000 x $3,000 minus the $1,000 deduction provided for in §512(b) (12)) and the set aside deduction would be reduced by such amount. Because the unrelated business income of $200 would be long-term capital gain, only 40% thereof would be included in income.

The Fund would be entitled to the $300 deduction under §642(b) of the Code.

On the basis of the foregoing facts, the Fund's taxable income would be $1,780 (i.e., $2,000 + $80 – $300), and its tax liability would be $273.

II. *CHARITABLE REMAINDER TRUSTS*

A charitable remainder trust may be either an inter vivos or a testamentary trust. Also a testator may provide in his Will that a portion of his estate be distributed to a charitable unitrust which has previously been established. You should be in a position to explain those characteristics of such trusts so that a donor can understand them in order to act intelligently. Moreover, once the donor has decided upon the course to be followed, you should be able to deliver an appropriate trust instrument.

Not being a business transaction, the creation of a charitable remainder trust should be structured so as to avoid tax risks to the donor. Therefore, every effort should be made to follow the guidelines and requirements of the Regulations promulgated under §664 in drafting a charitable remainder trust. For these reasons, the questions set forth below should be answered with particular reference to the Regulations promulgated under §664.

A. *Choice of Trusts—Annuity Trust or Unitrust?* How would you explain the basic differences between an annuity trust and a unitrust? Are there any variations of either type of trust? As a practical matter, what are the advantages and disadvantages of each type of trust?

Comment: An annuity trust is one where the governing instrument provides that a fixed dollar amount be paid annually to the income beneficiary. A unitrust is one where the governing instrument provides for an annual distribution to the income beneficiary equal to a fixed percentage of the annual valuation of all the trust's assets. (There are a number of requirements as to provisions the governing instrument of a charitable remainder trust must contain. For language approved by the Internal Revenue Service, see Rev. Rul. 72-395 1972-2 C.B. 340.) In the case of the annuity trust, the specified dollar amount must not be less than 5% of the value of the property transferred to the trust at the time of the transfer. In the case of the unitrust, the specified percentage must be at least 5%.

A variation of the unitrust is to provide that the amount to be paid to the income beneficiary shall not exceed the income (determined under §643(b) of the Code) of the trust. It should be noted that if this income alternative is employed, the value of the remainder interest will still be computed on the basis of the specified percentage. Where the income for a particular year is less than the specified percentage, such difference may be made up in later years where the income is greater than the specified percentage. Reg. §1.664-3(a) (1) (i) (b) takes the position that such a make up is elective rather than mandatory.

The advantage of the annuity trust is that it insures that a sum certain will be paid for the term of the life interest, assuming that the trust assets are sufficient to pay the annuity amount. The disadvantage is that there is no hedge against inflation. The advantage of the unitrust is that the payments will increase as the fair market value of the assets increase, but the disadvantage is that payments will decrease as such value of the trust assets decrease. The income alternative would be used where unproductive property, such as unimproved real estate, is to be transferred to the trust and may not be immediately saleable.

B. *Problems Common to Both Annuity Trusts and Unitrusts.*

1. When is an inter vivos charitable remainder trust created for purposes of §664? Can the grantor of such a trust retain any powers with respect to the disposition of either an income or remainder interest? If so, should he do so?

Comment: An inter vivos charitable remainder trust is created when no person is treated as an owner of the trust under the grantor trust rules (§§ 671–678, IRC).

The grantor of a trust would not be treated as an owner of the trust under such rules if he were to retain a power to revoke an interest in the trust by Will, and only by Will. §674 (b) (3), IRC. Such a power should be retained where it is necessary to avoid a gift tax. For example, Mr. Jones could create a charitable remainder trust with the income to be paid to him and his wife for their joint lives and to the survivor. In this case, to avoid the gift tax, he would retain a power to revoke his wife's survivorship interest by Will and only by Will. This assumes that Mr. Jones' separate property were used to fund the trust. If community property were used, there should be cross powers of revocation in order to avoid gift taxes. See Rev. Rul. 76–8, 1976-1 C.B. 179, re retention by donor of power to change remainder beneficiaries.

2. In the case of a charitable remainder interest created by Will there normally will be a time lag between the date of the death of the decedent and the date upon which the estate makes its final distribution to the trust. How can the trust instrument be drafted to avoid any con-

tention that the trust was not created at the date of the death of the decedent?

Comment: In the case of a testamentary charitable remainder trust, the trust will be deemed created at the date of death of the decedent if the obligation to pay the annuity or unitrust amount begins on the date of death even though either local law or the governing instrument provides for the deferral of such payment to the income beneficiary until the end of the taxable year of the trust in which occurs the earlier of (a) the end of a reasonable period of administration or (b) the complete funding of the trust. In such event, there must be a retroactive payment of the amount which should have been paid to the beneficiary with interest at 6% See Reg. §1.664-1 (a) (5).

3. Are there any provisions as to the investments of a charitable remainder trust which may not be included in the trust instrument?

Comment: A trust instrument may not contain any provision which would restrict the trustee from investing the trust assets in a manner which could result in the annual realization of a reasonable amount of income or gain from the sale or disposition of trust assets. The old "Pomona Plan" ruling (Rev. Rul. 60–370) may still be in effect; thus either a provision in the trust instrument or an oral understanding that the contributed property be sold and the proceeds from the sale be invested in tax-exempt securities may present problems.

Obviously, as to both an annuity trust and a unitrust (except where the income alternative is employed) the trust should invest in assets which will generate a rate of return which will allow full payment to the income beneficiaries without invading corpus. In considering any investment you should determine at what time payments are made thereon. For example, if you create a 6% calendar year unitrust in June of 1980, you would not wish to purchase a bond which pays interest annually in April.

4. To whom and for how long may the trust provide that the unitrust or annuity trust amount will be paid?

Where a unitrust or annuity trust amount is payable to more than one life beneficiary, can a portion of the assets of the trust be distributed to the charity holding the remainder interest upon the death of one of the life beneficiaries? If so, under what circumstances?

Comment: An income interest may be for a term of years (not in excess of 20 years) or for the life or lives of named individuals living at the time of creation of the trust. Only an individual or a public charity may receive an amount for the life of an individual. Term and life interests can be intermixed if handled carefully.

Upon the expiration of an income interest and where there is a succeeding income interest, the annuity or unitrust amount may be reduced where a portion of the trust assets are distributed to the charity.

5. How often and by when must the annuity trust or unitrust amount be distributed to the income beneficiary?

Comment: Payments must be made not less often than annually, and the governing instrument must so provide. The payment for a particular year must be made within a reasonable time after the close of such year. For this purpose, the regulations provide that a reasonable time "will not ordinarily extend beyond the date by which the trustee is required to file Form 1041-B (including extensions)." Reg. §§1.664-2 (a) (1) (i) and 1.664-3 (a) (1) (i).

6. When must the remainder interest be distributed to the charity? Could any adverse tax consequences result if there were an unreasonable delay in making such a distribution?

Comment: As pointed out above, there are cases where a portion of the trust corpus may be distributed to a charity prior to termination of the trust. However, upon the termination of the trust the charity must receive its remainder interest within a reasonable period of time. Reg. §§1.664-2 (a) (6) (ii) and 1.664-3 (a) (6) (ii).

7. Must any adjustments be made to either a unitrust or annuity trust amount with respect to a taxable year

of the trust which contains less than 12 months? If so, what is the nature of such adjustments?

Comment: If a taxable year of the trust (other than its last year) is less than 12 months, then the annuity trust or unitrust amount must be reduced in proportion to the ratio of the number of days in that year to 365 (366 if February 29 is included in the actual short year). If the last taxable year of the trust is less than twelve months, the fraction is the number of days from the beginning of the year to the death of the life beneficiary over 365 (366). However, in the event that the last year of the trust is a short year, no such prorationing need be made if payment of the annuity or unitrust amount terminated with the last regular payment preceding termination. Reg. §§1.664-2 (a) (5) (i) and 1.664-3 (a) (5) (i).

8. Must the trust instrument specify an alternative charity to take the remainder interest at the termination of the last life estate?

Comment: The governing instrument of a trust must provide that, in the event that the specified charity which is to take the remainder is not described in §§170 (c), 170 (b) (1) (A), 2055 (a) and 2522 (a) of the Code at the time of the distribution, distribution must be made to an alternative organization which is so described.

9. What factors should be taken into consideration in adopting the trust's taxable year?

Comment: As in the case of a pooled income fund, an income beneficiary must report his share of the trust's income for his taxable year in which or with which the trust's taxable year ends. Thus, by adopting a fiscal year, there could be a deferral of the first year's income but a bunching could result upon the termination of a life estate. See Reg. §1.664-1 (d) (4).

Also, where there is a desire to invest the trust assets in particular stocks or other securities, it may be advisable to tailor the fiscal year to conform with the payment dates of such investments.

10. Aside from those provisions which the Regulations state must be included in the trust instrument, what other provisions would you recommend be included therein?

Comment: Suggested provisions are:

(a) Power to amend to conform with §664, regulations and rulings.

(b) Normal powers and reference to Principal and Income Act.

(c) Statement that the trust is irrevocable and not subject to amendment except as stated in (a).

(d) Spendthrift provision.

(e) Incompetency provision.

C. *Problems Peculiar to Annuity Trusts.*

1. May any additional contributions be made to an annuity trust? Does this rule apply to a series of distributions from an estate to an annuity trust created under the decedent's Will?

Comment: According to §1.664-2 (b) of the Regulations, no additional contributions may be made to an annuity trust except in the case of a series of distributions by reason of death.

2. In the case of an annuity trust to be established by Will and funded with the residue of the estate, it will not be possible to determine now the fair market value of the assets which will be distributed to the trust. Therefore, a problem arises as to how to make certain that the annuity amount will be equal to at least 5% of the fair market value of such assets at the time of transfer. How would you resolve this problem?

Comment: Where the amount to be used to fund an annuity trust from an estate cannot be presently determined, such as a gift of the residue or a share thereof, the amount can be expressed as a fraction or percentage of the fair market value of the property to be transferred to the trust. Such fraction or percentage cannot be less than 5%.

If the stated dollar amount is expressed as a fraction or percentage and the fair market value of the property is incorrectly determined there will be no difficulty in claiming the exemption if the governing instrument provides that there will be a refund by the beneficiary of any overpayment or a deficiency payment by the trust of any underpayment. Reg. §1.664-2 (a) (1) (iii).

3. Assume that a grantor of an inter vivos annuity

trust underestimates in good faith the fair market value of the property which he places in that trust and thus specifies an annuity amount which is less than 5% of the correct value. Can any action be taken which would insure that the trust will be treated as a charitable remainder annuity trust?

Comment: Yes. §1.664-2 (a) (2) (iii) of the Regulations provides that the trust will be treated as an annuity trust if the grantor or his representative consents, by appropriate agreement with the Internal Revenue Service, to accept an amount equal to 20 times the annuity amount as the fair market value of the property for purposes of determining his charitable deduction.

4. Is there any problem if a high payout rate is provided for an annuity trust?

Comment: Yes, the I.R.S. has taken the position, in Rev. Rul. 77–374, 1977-2 C.B. 329, that in addition to the tests provided by the Internal Revenue Code, an annuity trust must also meet a 5% probability test in order to qualify for the charitable deduction. This test provides that if the probability that one of the income beneficiaries may survive long enough to exhaust the trust corpus is not so remote as to be negligible (i.e., greater than 5%), then no charitable deduction is allowable. This probability test will be met in most cases except where the income beneficiaries are relatively young and where the annuity amount is high. This test has been criticized (see E.G. *Taxwise Giving,* June '77, pg. 1 and November '77, pg. 1) and thus far it has not been reviewed by any court. Nevertheless, the I.R.S. is on record that it plans to apply the test and therefore it may be wise to use a unitrust in cases where an annuity trust would not pass the test.

D. *Problems Peculiar to Unitrusts*

1. May additional contributions be made to a unitrust? If so, under that conditions?

Comment: Additional contributions may be made to a unitrust. However, the governing instrument must provide that (a) if no valuation date occurs in the year of contribution subsequent to such transfer, the property will be valued at the time of contribution and (b) the payment with respect to such property (and any appreciation thereon at the valuation date) will be determined by applying the specified percentage adjusted in proportion to the number of days during which the trust has held such property over the number of days in the taxable year.

2. Obviously, the problems of an annuity trust in satisfying the requirement that the fixed dollar amount be at least 5% of the fair market value of the assets contributed to such a trust at the time of its creation do not apply to a unitrust. However, a unitrust has a similar problem in that the unitrust amount must be a percentage of the fair market value of the assets of the trust determined annually and must be at least 5% of such value. Moreover, even assuming that the 5% test is met, the income beneficiary should not receive more nor less than the amount to which he is entitled under the terms of the trust. Thus, an incorrect valuation of the trust assets in any year could create problems. What provision would you include in the trust instrument to resolve such problems?

Comment: The governing instrument must provide that where the value of the trust assets is incorrectly determined, any deficiency will be paid to the income beneficiary and any overpayment will be repaid to the trustee.

III. *TAX CONSEQUENCES TO DONOR AS A RESULT OF TRANSFERS TO POOLED INCOME FUND AND CHARITABLE REMAINDER TRUST*

After having considered your advice, Tranquility College establishes a deferred giving program. Mr. Jones has generously offered to transfer $50,000 in cash or property to a pooled income fund or charitable remainder trust, reserving a life interest for himself and thereafter to his wife should she survive him. Mr. Jones is considering making his transfer in the form of one of the following items (all of which are his separate property): (1) $50,000 in cash; (2) stock listed on the New York Stock Exchange with a basis of $20,000 and a fair market value of $50,000; (3) a parcel of real property with a fair market value of $50,000 and a basis of $20,000 which is subject to a $10,000 mortgage placed on the property by Mr. Jones when he acquired trust underestimates in good faith the fair market value of the property which he places in that trust and thus specifies an annuity amount which is less than 5% of the correct value. Can any action be taken which would insure that the trust will be treated as a charitable remainder annuity trust?

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A. Would Mr. Jones have adverse income tax consequences as a result of making a transfer of any of those items?

Comment: With respect to the cash and the stock, there would be no problem, assuming that the stock has been held for more than twelve months and would therefore constitute long-term capital gain property.

The parcel of real estate subject to a mortgage could result in application of the bargain sale rule under §1011 (b). In addition, because the mortgage was placed on the property less than ten years previously, there may be a concern that it could be classified as "self-dealing" under §4941 of the Code. However, Reg. §53.4941 (d) -1 (a) states that if transferor becomes a substantial contributor only by reason of the transfer, there will be no deemed self-dealing—this is known as the "first bite" exception. See also Private Letter Ruling 7807041.

Receipt of the stock in the closely held company would require that an independent appraisal must be secured to determine the market value. In addition, redemption of such stock must not be mandatory. Compare the IRS position in Rev. Rul. 78-197, 1978-1 C.B. 83.

The working interest in oil and gas properties may pose problems because income from such an interest would appear to constitute "unrelated business income." §681 (a) provides that the charitable set aside deduction is not allowed with respect to unrelated business income. In addition, under §664 (c) a charitable remainder trust is not exempt from income taxes in any year when it has unrelated business income.

With respect to the tax exempt securities, such securities cannot be transferred to the pooled fund but could be placed into the charitable remainder trust.

B. Would Mr. Jones incur any gift tax as a result of such a transfer? If so, how could this result be avoided?

Comment: Mr. Jones could incur gift tax by reason of the irrevocable contingent income interest provided for his wife. This result could be avoided if the trust instrument provides that he retain the right by Will to revoke such income interest.

C. Generally, how would the value of the remainder interest which Mr. Jones is giving to the College be determined? (The determination of a dollar amount is not expected, for not enough facts have been given.) Will such value necessarily be the amount of Mr. Jones' charitable deduction for the year of the gift?

Comment: The value of the remainder interest is determined under tables provided by the Internal Revenue Service. For a two life income interest the tables provided in I.R.S. Publication 723A are utilized for an annuity trust and the tables provided in I.R.S. Publication 723B are used for a pooled income fund gift, or a unitrust. Such charitable gift value will be eligible for a contribution deduction up to the applicable percentage limits. Any unused contribution amount can be carried over for up to five years until used up.

D. What information, if any, must Mr. Jones report to the Internal Revenue Service with respect to his transfer of cash or other property to the Fund on his federal income tax return for the year of the gift or elsewhere?

Comment: The donor must file certain information in the year in which the gift was made. If he exchanged capital gain property subject to mortgage indebtedness so that the bargain sale rules apply, he must report the bargain sale and show the computation of the taxable gain as an addendum to his Schedule D form filed with his income tax for such year. In addition, if he contributed property having a value of more than $200 he is required, under Reg. §1.170-1 (a) (3) to provide certain information regarding the gifted property to support his charitable deduction. Until recently, if a donor gave income producing property worth more than $50,000 to a charity, he was required to file a Form 4629 within 90 days after the gift was made; however, the requirement for filing this form was eliminated by amendments made to the Internal Revenue Code in 1980.

E. What will be the federal estate tax consequences of such a transfer?

Comment: On the donor's death, the value of the trust property in which he retained an income interest would be included in his gross estate for tax purposes. However, an offsetting charitable deduction would be allowed for the then value of the charitable remainder interest. If the second income beneficiary was still alive, such value would be based upon her age at the donor's death. If the donor survived, then the entire trust value would qualify for a charitable deduction in his estate.

WORKSHOP SESSION—ADMINISTRATION OF DEFERRED GIVING PROGRAMS—SMALL INSTITUTIONS

Miss Jane Stuber
Director, Deferred Gifts and Bequests
Smith College

MANAGING VOLUNTEER GROUPS

Robert Frost succinctly summed it up when he observed "The world is full of willing people; some willing to work, the rest willing to let them."

The importance of volunteer assistance depends in part on the unique structure of each organization, but whatever part it plays in the overall design, volunteers must be firmly (albeit gently) led, and staff prepared to do most of the work. Those of us who work with volunteer groups become acutely aware of the need for competence of a high caliber, for maintaining enthusiasm for the task at hand, of the importance of organizational prowess, good-natured flexibility, and effective communication skills as prerequisites for success. To this already awesome list, I suggest the addition of yet another ingredient: humor.

Crucial to the successful management of volunteer groups is the ability to work tactfully, conscientiously, thoughtfully—even courageously when necessary—with top volunteer chairmen. Good rapport must be established with these key members of a volunteer group. Pay attention to what Sy Seymour, in his book, *Designs for Fund-Raising,* termed "those tremendous trifles." "Find out," he counsels, "all you can that is pertinent about the people you will be working with: date and place of birth, the old hometown if it is elsewhere, school and college classes and activities, honors, hobbies, board memberships, religion, family data, political affiliations, fraternal orders, and *particularly* any odd preferences or phobias." Close attention to these "tremendous trifles" will spare many headaches.

Volunteers lend prestige and help build confidence in an organization; assist in finding prospective donors; provide entree to those donors, and otherwise use their very real influence in ways which will be helpful to your program. Having successfully recruited them, however, you must train them, work them, and endeavor to keep them.

Those entrusted with the management of volunteer groups need not radiate incandescent brilliance at every moment, yet it is important to maintain high visibility without permitting the working day to be entirely eroded by demands they make upon your time. It is imperative also that sensitivity to potential problem areas be kept highly attuned. When this balance is maintained, it is you the volunteers will call upon in moments of confusion and insecurity concerning commitments they have undertaken. If, for reasons either temporary or permanent, an individual vounteer cannot meet these responsibilities, you must be in a position to take corrective action immediately to fill the gap.

Those who view frequent telephone calls and drop-in visits from volunteers as annoying disruptions of time should reflect a moment and consider the alternative. Unless you keep yourself readily accessible to enthusiastic volunteer groups, your desk will cease to be the central clearing agency. IF YOU DO NOT LEAD YOUR VOLUNTEERS, THEY WILL SOON LEAD YOU—down the garden path to chaos—and you will be amazed at the accelerating speed with which the most carefully coordinated program disintegrates.

To successfully mold and hold a volunteer network together, you must keep the faculty of effort alive and strive continually to improve communication skills. Ability to read, comprehend, and interpret to others; to write syntactically correct sentences (which say at least almost what we intend them to say); and a working knowledge of elementary arithmetic are essential, but not impossible qualifications to set for ourselves.

Therefore, on the assumption we understand the needs of our institutions as set forth by our various governing boards; that goals have been defined and master plans worked out; that we have recruited and fitted volunteers to positions appropriate to their individual abilities, we must now apply to that structure—with the tenacity of a terrier—the human qualities incorporated in the Principal of the Four P's: *patience, perception, perseverance,* and *politeness.*

The exercise of patience is especially important when volunteers are committed to long-range programs and are asked to contribute services for a period of time covering five years or longer. Long-term volunteers must feel they have some voice in policy making. If they are to feel well cared for and useful over the long haul, if interest is not to lag, opportunities must exist for them to take part in discussions, to offer suggestions, and to voice criticisms. It is the responsibility of the volunteer manager to see that public recognition is given whenever possible and to assure that volunteer groups are treated as friends of the institution, having access to information prior to its distribution to the general constituency. *Be patient.* Rome was not built in a day; a volunteer network will not jell overnight.

There is no substitute for perception on the part of the volunteer manager. The great ones stand ready at all times to assist with real and imaginary problems far outside the periphery of any job description—coping with such mundane matters as giving advice on transportation arrangements, locating overnight accommodations which will open their doors to FiFi and her doggie paraphernalia, and supplying directions for finding better restaurants. Remember, too, that volunteers who arrive on campus in advance of the apointed hour (not to say day) are best not left alone to brood over present life-styles in the dorms. See that they are taken to dinner; provide them with tickets to a student performance; make them feel welcome.

Use your perceptive powers constantly to anticipate the needs of volunteers. In the long run, nothing will enhance the value of your ideas more quickly or firmly than group support. Win it—volunteer by volunteer—even at some inconvenience to yourself. Get to know your teammates on a personal basis; be ready and willing to bolster a faltering ego in an anxious moment; guide them round possible pitfalls; and let them know that you (yes, competent you) look to them for help and support.

Hold meetings when you need them but never just for the purpose of having one. Plan the agenda with care; forward it in advance of the meeting; adhere to it, and watch your timing. See that meetings begin promptly and end at the appointed hour. Good volunteer managers assume responsibility for providing regular and meaningful reports and see that minutes are sent immediately after the event has taken place. Evaluate your own performance as well as the performance of volunteers. Plan a more productive meeting next time; improve your staff work; continue to impress on your volunteer network the importance of cooperation and scheduling; remind yourself that if your volunteers have fallen down, the responsibility rests with you. In short, *persevere.*

Keep in touch with your volunteer constituency on an informal basis. Seize every opportunity to grant small courtesies which are unexpected. When possible, include a few handwritten, personally directed lines when memoranda and reports are forwarded. Play fair; give credit—and when something goes wrong, stand up like a true professional and accept blame for the blunder. *Be polite under fire.* Good managers treat volunteers neither as inferiors nor superiors, but as dedicated team members who (like themselves) find satisfaction in concentrating creative efforts on the welfare of their institution.

To revitalize volunteer interest which in a long-range program might otherwise wane, it is important to work with volunteers on an individual basis, and to bring them together as a group. A campus visit—or other group gathering—not only renews interest and allows individuals to identify with the larger body but also provides opportunities to strengthen old friendships and form new acquaintances with others who share a similar interest.

Never promise a volunteer group anything you cannot deliver on time. By consistently meeting your own deadlines you will find volunteers loathe to let you down. Few volunteers deliberately set out to be weak cogs in wheels and no one wants to be a failure. A large part of your job is to make volunteers look and feel successful. Never, under any circumstance, allude to the fact you are overworked or "too busy." Volunteers are busy people, too. *They* have taken time from family commitments and professional schedules to do something *extra.* You are merely doing your job!

On days when nothing goes right, glean what small comfort you can from the fact you are not alone. Retain your sense of humor and remember the words of John R. Mott: "BLESSED ARE THE MONEY-RAISERS," said he, "FOR IN HEAVEN THEY SHALL STAND NEXT TO THE MARTYRS."

DEFERRED GIVING PROGRAM
Smith College

I. VOLUNTEER ORGANIZATION

A. COMMITTEE ON DEFERRED GIFTS AND BEQUESTS

The Committee on Deferred Gifts and Bequests was formed in 1971. As presently structured, the Committee is composed of a tax specialist, an insurance executive, a retired businessman, two attorneys, and two nonprofessional volunteers. Serving on the Committee in an ex officio capacity are the Chairman of the Coordinating Committee for Development, President of the Alumnae Association, Executive Director of the Alumnae Association, Treasurer of the College, Associate Treasurer, Director of Development, Director for Deferred Gifts and Bequests, and Assistant Director for Deferred Gifts. The Chairman of the Coordinating Committee for Development and President of the Alumnae Association are Trustees.

The Committee is charged with overseeing the Deferred Giving Program. Recommendations passed by the Committee are forwarded through the Coordinating Committee for Development to the Board of Trustees for consideration. The Committee is responsible for conducting a two-day annual Conference for Class Bequest Chairmen and for making information about Bequests, Charitable Gift Annuities, Charitable Remainder Unitrusts and Annuity Trusts, and the Pooled Income Fund available to alumnae, parents, and friends of the institution.

B. CLASS BEQUEST CHAIRMEN

Class Bequest Chairmen serve a five-year term (from reunion to reunion). Original appointments were made in 1971, covering the class of 1910–1946. Succeeding classes are included in the program immediately following the 25th reunion.

Alumnae in the classes prior to 1910 do not have class representation in the Deferred Giving Program. Instead, the Co-Chairmen of the Committee on Deferred Gifts and Bequests serve as representatives for the entire group which numbers approximately 500 alumnae.

DUTIES OF THE CLASS BEQUEST CHAIRMEN

1. To serve as liaison between classmates and the College.

2. To assist in identifying prospects and to share information with the office.
3. To assist with the cultivation of prospects and donors.
4. To correspond with classmates as necessary.
5. To stimulate general interest in the Deferred Giving Program.
6. To provide reports at class meetings.
7. To send one mailing (prepared by the office) to classmates annually.
8. To attend a two-day conference held on campus.
9. To keep accurate records of contacts made with prospects.
10. To share suggestions with the Committee on Deferred Gifts and Bequests and to react to publications, proposed plans, et cetera.

II. STAFF

A. RESPONSIBILITIES

Handle technical aspects of program; provide support for volunteer network; prepare promotional material; work with donors and/or advisors.

B. GENERAL DUTIES

Review, evaluate, recommend, plan, coordinate, update, implement, and direct.

OFFICE TIMETABLE: FISCAL YEAR BASIS JULY 1–JUNE 30

JULY	AUGUST	SEPTEMBER
(vacation)	Final work on brochure for fall mailing; follow-up on conference speakers; prepare reports for volunteers; compile statistics; prepare/mail conference agenda, travel arrangements, etc., to volunteers; updating of backup promotional material to be used during year.	Committee on Deferred Gifts meets; Conference for Bequest Chairmen (follow-up on rooms—logistics — menu — flowers, etc.); prepare sample letter for Bequest Chairmen to use with mailing of brochure; inquiries increase. Schedule performance review with CBT.

CBT—Bank currently serving as Trustee for Pooled Income Fund, Unitrusts and Annuity Trusts.

OCTOBER Instructions and sample letter to Bequest Chairmen; approve returned individual letters; prepare/mail conference report to those who attended; prepare/mail report suitable for those who did not attend; prepare separate mailing for Classes 1900–1909. Committee meeting minutes and Conference report to Committee members.	**NOVEMBER** Continuation of October activity with volunteers; year-end giving begins; close work with CBT and counsel; *work with alumnae intensifies;* heavy correspondence period; mail Pooled Income Fund annual report to donors with cover letter. Schedule performance review with CBT.	**DECEMBER** Work with donors and advisors; year-end rush; coordinate preparation and delivery of documents; coordinate delivery of assets used in funding; Performance review with CBT.
JANUARY Complete gifts carried over to new tax year; prepare tax information *for all deferred gifts* from preceding January; prepare semi-annual report for Bequest Chairmen and Committee.	**FEBRUARY** Continuation of January activities; arrange reappointment of Bequest Chairmen whose terms expire in May. (generally, few gifts completed in February—requests for information taper off) Schedule performance review with CBT.	**MARCH** *PLAN ACTIVITIES FOR NEXT FISCAL YEAR.* (use time to visit professionals; evaluate program; "tidy-up" loose ends) Work out tentative plans for September Conference for Bequest Chairmen—speakers, entertainment, etc.
APRIL Continuation of March activities, except *there is an upsurge in donor interest and new gifts.* Schedule performance review with CBT.	**MAY** Special reports prepared for reunion classes. *WRITE BROCHURE* and compute necessary examples, if any. Complete gifts inspired by reunion activities.	**JUNE** Send draft of brochure to Committee; follow-up on Bequest Chairmen appointments — (welcome new—thank outgoing); send annual questionnaire to participating institutions requesting deferred giving statistics.

Peak periods for completion of new gifts:

September, October, November, December, January; end of April–end of June.

WORKSHOP SESSION—INVESTMENT OF DEFERRED GIVING PROGRAMS

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When we invest for the institution we represent, each one of us is interested in getting the greatest possible return on our investments.

It is a sad commentary on our day that most people actually want to remain poor. We are looking at this from an individual standpoint. Note, for example, the number of people who rent apartments instead of buying houses. The landlord gets the profit. The renter pays his share of the landlord's interest and taxes, but gets no deduction and the landlord gets the profits now and in the final sale.

There are others who really sacrificed to get rid of that 4% GI mortgage and now the banks are charging 18%. Few of us are ever going to see a 4% lending rate again.

The same principle goes on in many institutions. Take, for example, a foundation that does not view the investment process as a primary responsibility of its own. When securities have been received to fund an agreement in such an organization, they are frequently held without consideration of selling or reinvesting, and, therefore not materially changing the payout. The difference in this type of situation versus that of the individual family is that in the foundation setting, such an action could constitute mismanagement. This, then, could call into question your trusteeship before the courts.

I am reminded of such a situation, where 5,000 shares of XYZ stock were used to fund a Unitrust agreement at 7¼% payout. Immediately following this transaction, the stock took a downward turn due to a serious scandal involving the top management of the firm and charges by the SEC. The institution receiving the stock had continued to hold onto it and the 7¼% payout was not achieved. The donor, then, sought redress for mismanagement of the Unitrust. A compromise was finally reached two years later, but it cost the foundation thousands of dollars. Fortunately this was not the LCA Foundation.

The program objective is to provide an overview of investments for a charitable organization as these investments relate to annuity and trust agreements.

It is my hope that you will be able to gain new insights into investment management so that you will be in a better position to fulfill your fiduciary responsibility.

I. PURPOSE OF INVESTMENT

A. *Unitrust, Annuity Trust, Indenture Trust*

Insure that payout is equal to that agreed upon between your organization and the donor at the time of establishment of the agreement.

B. *Pooled Income Fund Trust*

A good blend of income and growth giving a return favorable to the times as well as providing potential for an adequate charitable contribution deduction.

C. *Gift Annuity and Deferred Payment Gift Annuity*

The Legal Reserve. Guarantees. Percent of ultimate payout rate objective.

D. *Endowment Fund*

That which will meet goals of your institution and still promote a continuous increase in permanent investments.

II. PLANNING YOUR INVESTMENT

When you plan your investment program, do not try to play the market. *Only one out of twenty investors* has a systematic, sensible, long-range plan for investing assets. This is not only tragic, but costly. Investments should never be considered apart from total financial planning. Savings are essential; they are needed if an individual is to reach his or her goal of economic security and retirement. But it is not enough to set aside money on a regular basis, it must be invested to provide the maximum return. All too frequently investment means placing the money in a savings account at a bank, and if you have more than a few hundred dollars these days, this does not provide a sufficient return.

This same process of planning your investment must be done from the standpoint of the charity as well. Each organization must have a very firm fiduciary responsibility.

III. STRATEGY OF INVESTMENT

A. *Five Rules*

1. *Set Your Goal*

Decide what you want your savings to do. Before you plunge into your savings and investment program, list the objectives on paper, such as: various funds, type of return you desire, for endowment funds do you want growth or a fixed return on an immediate basis; are you looking to the short- or long-term.

The first responsibility is to preserve the capital.

2. *Buy the Best-Known Companies*

Sticking with what is tried and true is a good policy. There is far too much risk in trying to unearth tomorrow's new Xerox product or another pipeline in the frozen tundra of the north. There are plenty of firmly established companies around that offer attractive investment possibilities that would meet your needs and any investment advisory committee that you may have for your organization would advise you to adhere to this policy. Although the best and most well known are not necessarily blue chip, some in fact, have a clearly speculative bent, but because they have demonstrated an ability to survive, they should not be overlooked.

3. *Invest for the Long Term*

Patience with the stock market is a virtue. Really, it is more than a virtue, it is an absolute. Things rarely work out overnight on Wall Street. As an example, we have in one of our trust agreements 128,000 shares of a particular stock that we are not at liberty to move. The stock recently took a tumble of 15 points in a matter of thirty days. What the fifteen points meant was a loss of over 2 million dollars; however, this is expected to go back up again. *You have to go for the long haul!* Those who wait are the ones who prosper. Those who want instant reward are the ones that normally lose out. Just as in your deferred giving programs you are looking down the pike before your gift will come to your organization, so in your investment you have to look down the pike beyond the end of your nose.

Possibly a comparison to your own home would be of interest. You don't check with your real estate broker on a regular basis to determine if the price in your block is going up or down. Think long-term with your stocks just as you would do with your home.

4. *Avoid Fads*

Stay clear of the crowds even when it looks right. This is one of the most important rules of successful investing and is the one most frequently violated. I recall back in 1972, when a single lady in Omaha, Nebraska, gave me six hundred shares of a speculative oil stock. She thought it was the best stock in the world, and one that would really give income for life and would grow for the church, so she thought! Well, at that particular moment that stock in question was selling at $85 a share; it was overrated and was more closely allied to something around $35 a share. It dropped, it dropped all the way down to $18 a share and then gradually built its way up again and today is selling at $31. It is a good thing that I did not stay in the speculative market as I would have lost my shirt and would have been violating the fiduciary responsibility I had with the individual who placed a trust agreement with the organization I represented.

Who could foretell, for example, in 1950 that a photocopying device being toyed with by a little firm known as *Haloid* out of Rochester would change the lives of nearly all of us and, in the process firmly affix the name "Xerox" to our lexicon. The spectacular success of Xerography made fortunes for its supporters. But again, how many of us would have been there?

Consider those who perceived a great new day for digital timepieces. We can think of many similar examples, many that are legendary in their growth, but these are the exceptions to the rule unless we are among those who are imbued with a seventh sense and can make a mint overnight doing something like this. I have yet to meet that particular person.

5. *Diversity*

Spread your risks in order to keep from placing all your "eggs in one basket." Besides diversifying as to companies and funds, you should prefer to spread your investments over a number of different industries as well. In a Common Investing fund do not place everything with oils, petroleums and the like, but rather spread them out and take the advice of the wise counsel that is available to us.

IV. YOUR INVESTMENT PROCESS

A. *Personal Qualifications of Your Board Members*

It is always good to have on your Board someone who is exceptionally well qualified in the area of investments. I can look back on several of the foundations with which I have been associated and in one case, as an example, I found I had the following:

an *investment counsel* of a major insurance corporation,

an *investment counsel* of one of the largest cereal firms in the United States, and

an *investment counsel* from a major manufacturing company.

All three people were willing to donate their time very generously and they reviewed, on an independent basis, the portfolio that was maintained by our foundation. We did not have to go to a bank, although we did use several brokerage houses for accomplishing our transactions. We were able to save a considerable amount of money because of the qualifications of our board members and their willingness to participate in the investment process for and on behalf of the organization.

This, however, did not leave me free and clear to forget about my task, it was something I had to do on a regular basis, so that everyone kept himself abreast with what was going on.

B. *Time Available to Participate Actively in the Investment Process*

Even though you may be understaffed, you must take time in order to participate actively in the investment process and become familiar with it.

C. *Alternatives to "Doing It Yourself"*

1. *Banking Facility*

There are various alternatives to that of doing it yourself. One is finding a banking facility that would assume the administrative responsibility for your investments as well as taking on the partial fiduciary responsibility of making these investments and making recommendations to you. Last year, I found that it was extremely wise to keep my ear to the ground in the case of all investments. In one case, the banking facility we were using had not been keeping up with what was going on concerning a particular stock. My knowledge of what transpired and the emphasis that I gave to it resulted in the bank reimbursing the Foundation for their less than adequate approach to their fiduciary responsibility on our behalf.

2. *Investment Company*

Investment companies that take on the responsibility are very good and these can be used to a considerable advantage, especially if you are going to diversify and get into the options field, growth stock and fixed investments. All of these things would dictate some professional investment counsel.

3. *Brokerage House*

You always have to use a brokerage house in one way or another in order to liquidate the stock that you have, or you can pay the piper to do it in a different fashion.

4. *Pros and Cons of Outside Counsel*

(a) *Advantages*

i. Better Initial Selection of Investment.

ii. Broader Divisification Than You Can Usually Obtain Yourself.

iii. Closer and More Frequent Supervision.

iv. Professional Management is Buying a Skill, Knowledge and Experience.

(b) *Disadvantages*

i. Higher Costs.

ii. Advice and Service cost money and fees vary, generally are about 3/4 to 1% of the portfolio value. That is a good rule of thumb. Here also, you should note that there may be minimum charges of, say, $500.00. Lower fees start with holdings of $1 million.

iii. Less Flexibility. When your investments are not under your complete control, the money manager may be somewhat less responsive to changes in your personal financial situation or desires. Professions operate under well-defined standards and procedures and for the most part concentrate on investment in large corporations where the purchase or sale of thousands of shares is not likely to cut the price more than a half point or so.

iv. Be especially wary of the individual who only talks of successes and never of any failures.

5. *Things That You May Wish to Look For in Looking at an Investment Counsel*

i. How great were the gains?

ii. How long did it take to achieve the gains?

iii. When were the stocks sold?

iv. Were they sold near the highs?

v. Did the price of stock continue up or did it drop?

You should have the foregoing answers on every stock in which you are interested.

V. INVESTMENT RISK

Many years ago, when I was in the armed forces following World War Two, there were poker games going on in the barracks all of the time. One old gentleman told me "Young Fellow, don't get into a poker game if you are going to worry about losing some money. Only play if it won't bother you to lose." I believe that is a good policy in connection with investments as well and why you should not put all your eggs in one basket.

A. *Inflation Risk*

The biggest risk we have facing us at the present time is inflation. When we see how the Dow-Jones Average goes plummeting down almost thirty points in one particular day, we find that inflation is *the enemy* we have to watch. We found this at the end of the Viet Nam war era as well, and we can find periods over the past half-century that bring this in tow all the way around.

Example: If inflation would be kept at an annual rate of five percent, and it continued for a forty-five year period, we could see the following:

	START	45 Years
Bread	$ .25	$ 2.25
Butter	1.25	11.23
House	34,980.00	314,296.00

We cannot even begin to compute what is happening with gasoline because we have an approximate 200% increase at the present time.

B. *Interest Rate Risk*

Though inflation is the major risk, there are other, smaller ones. A few years ago a certain Common Investing Fund bought some long-term bonds for approximately $60,000 at 5% in one portfolio and a couple hundred thousand in another. Looking at these long-term risks, we have lost money over the past years with this particulr interest-rate risk because we have been locked in on the bond price.

A bond is simply a certificate which represents a loan you have made to a company.

The inflation protection in bonds is small. You lend 100 cents and get back, maybe, 80 or 90 cents when the bond matures, depending upon the degree inflation has eaten away at the dollar. A portion of this loss, to be sure, is offset by the coupon, because the interest rate offered on a bond reflects, in part, the general level of inflation.

C. *Market Risk*

Everyone knows that the risk in the common market can be enormous. We think of the crash of '29, and we believe we have enough safeguards built in now so that such an economic tragedy does not happen again. Maybe this is because good stocks, such as General Motors, General Electric, Eastman Kodak and the like may go down in a bad market, but the stock will not go out. The big risk in stock in the rising and falling market can easily be offset by long-term holding. Don't worry when the market goes down; it will most probably come back and your good stock will come with it. A second risk in stocks depends upon the soundness of the companies they represent.

D. *How Much Risk for You and Your Organization?*

One does not buy insurance any more to educate one's children. This was something that had been done in the 1940's but it certainly is not possible any more.

Another way to look at it is to remember the maxim I learned in the barracks. You can say it another way: invest in stocks only with that money you do not expect to need in the foreseeable future. Start with stock in the best companies, picking those that represent the fastest growing areas of the economy, rather than the clearly more mature industries.

VI. FIDUCIARY RESPONSIBILITY

You have the primary task, when looking at your fiduciary responsibility, of looking after the funds of other people and being a trustee. You have to use the same amount of care and protection in the handling of other people's money as you, as a prudent individual, would do in handling your own. This also applies to your charitable organization. There is a certain amount of money, funds which you must keep in a reserve, such as for your gift annuities, because they are backed by all of the assets of your organization. Know your state requirements.

VII. THE WORLD OF FIXED INVESTMENTS

Long before stock was considered a viable investment mechanism, bonds were a part of the human exchange. One can trace bonds back to the ancient times, but they really came into their own in the Middle Ages as royalty found need to finance their ventures with a promise to pay at a later date. Although they were not considered too reliable at that time, our royal borrowers soon realized that default would choke off future credit. Thus, a new era was established with some stability for investment.

A. *What Constitutes Fixed Income Investments*

Here we have the common items that are normally included in "fixed income investments:"

Bonds
Debentures
Preferreds
Convertibles
Equipment Trust Certificates
Treasury Bills
Treasury Notes
Tax-Exempt Bonds
Tax-Exempt Notes
Corporate Notes
Banker's Acceptances
Certificate of Deposit
Commercial Paper
US Government Agency Bonds
Debentures and Notes of Many Different Agencies
Funds of Tax-Exempt Bonds
Corporate Bonds
US Government Securities
Flower Bonds
Fixed-Income—Tax Sheltered Annuities

B. *Factors Which Should Determine Fixed Income Securities*

1. *Determine Liquidity Requirements*

   Prior to making any investment, it is essential to determine the liquidity requirements of cash reserves and investment funds. Basically, everyone has the requirement to have liquid funds in checking and savings accounts. However, good planning can avoid tying up inordinate amounts in these vehicles which would deny greater earnings in the form of missed opportunities. It is just as important to make investments that can be liquidated, if liquidity requirements are a necessity. Otherwise, there would be the problem of early redemption.

2. *Determine Your Requirements*

   Decide what portion of funds will be available for risk investment in the hopes of receiving a greater rate of return. Always keep in mind that no matter what the investment—with the possible exception of US Government Securities—a risk is involved. Even in fixed-income investments you will note that as the rating goes down the potential return is increased. A *general policy that I have always used* is never to invest in anything that is less than "A" rating by Standard and Poor's or Moody.

3. *Length of Maturity*

   The longer the maturity, the greater the yield. It used to be that long-term bonds would run for ten years. Now, however, these have been reduced from five to seven years and in my view you should not go beyond this particular time factor. For example, think back on the investments that you had five years ago, who would have thought that prime would go as high as it is at the present time. It's astounding and it staggers the imagination when you think about it.

4. *Diversify*

   Diversification affords the best way to reduce the risk. For no one fixed-income security possesses the ultimate in maturity, instrument or yield. The best protection stems from investing in securities of different issue with different maturities. Of course this flexibility will be based upon funds available for investment purposes.

D. *Factors That Determine Level of Interest Rate*

1. *Economic Growth Fluctuations*

As economic activity perks up so does the demand for credit accompanied by an increase in interest rates. In theory, as economic activity slows, interest rates decline.

2. *Supply of Money*

The rate at which the supply of money and credit expands is based upon the monetary policy of the Federal Reserve. An acceleration of the rate of growth of the money supply generally produces lower interest rates. A higher rate of inflation will also result and this, in turn, creates the domino effect upward of higher interest rates.

3. *Price Increase and Inflation*

Inflation increases business, and consumers increase their borrowing to buy at current lower prices. To endeavor to hold down this trend, interest rates rise to compensate for the inflation.

E. *Fixed Income Securities*

It should be kept in mind right from the very start that this is not synonymous with the *bond market* and all bonds are not bonds, even though the title may be there, such as in the corporate area where bonds are really *mortgage bonds.* This means they have a right to the *real property* of the issuer.

1. *Who Offers Bonds?*

Utility companies, US Government, local government. Manufacturing corporations usually offer debentures.

2. *Debentures*

A bond that is backed by the full faith and credit of the issuing company. The investor relies upon the ability and integrity of the company to repay the debt. There is no claim to any of the company's property if the company fails to meet its obligations.

3. *Convertible Bonds*

These are considered a bonus or incentive offered by the issuer to investors. It means that it can be converted into a common stock of the company, normally within a specified time frame. What the investor has to watch is the profit potential in the stock market; this has a direct effect upon the convertible bonds.

4. *Preferred Stock*

Generally, the market fluctuation of a preferred stock will follow that of the bond market. *Preferreds* are more attractive to corporate investors than to individuals by virtue of the tax breaks which are *allowed for corporations but not for individuals!* Corporations holding preferred stock of another corporation pay federal income tax of only fifteen cents of every dollar in preferred stock income.

F. *Mechanics of Fixed Income Securities*

Of prime concern to investors are the terms *interest, maturity* and *yield.* All three are related, but interest and yield are the basic ingredients with yield as the determining factor. Interest can be high with a low yield. This comes about as a result of the price one pays for a bond.

1. *Current Yield*

Initially, one must understand that current return has nothing to do with interest earned or the need for the investor to know what is actually being earned. For example, if you purchased a 7% bond at 102, you divide the 7% by 102, the price as follows:

102 ÷ 7.000 = 6.86%

To review the method used to arrive at what is earned, let us assume that a bond with a 6.5% coupon, due in ten years, is purchased at 105. What is the yield to maturity?

105 ÷ 6.50 = 6.19%

There was a five percent premium that was paid. Now considering ten years, this reduces the yield by .50% per year, which, accordingly, reduces the 6.19% to 5.69%.

Assume for a moment that the bond was purchased at a discount of 6.5% for twenty years at 90. Then the yield to maturity as well as the capital gain has to be found. We can go on and on and on with examples but this gets more complicated than I want it to at this juncture.

G. *Bearer and Registration Bonds*

A Bearer Bond has no identification as to the owner. It is presumed to be owned by the person who holds it and is in a "bearer form." A Registered Bond is a bond whose ownership is registered with the issuer or its agent. Bearer bonds have coupons attached for claiming interest payments when due and collection of the payment is the sole responsibility of the owner of the bond. On the other hand, holders of the registered bonds receive their semi-annual interest payments via mail.

H. *Redemption*

This is the process whereby the bonds are redeemed prior to maturity. Normally it is specified in the bond itself. Another name for redemption is *calls;* this normally does not take place until after the first five-year period and ten years in the case of most tax-exempt securities. In tax-exempt issues, the "call" provision can extend from the first call date, usually in ten years, until just before the final maturity.

I. *Sinking Fund*

This is a fund that is reserved and accumulates over a period of time for the retirement of a debt. The bond issuer sets aside a fixed amount of money each year which can be used to retire the bond.

J. *Rating of Bonds*

The trustee bank and rating firms such as Moody, Standard and Poor's, and Fitch Investors Service are important "third parties" that have a great impact upon an issue.

The trustee bank acts as a trustee for a particular bond issue. All receipts and disbursements flow through the trustee. The trustee is, in effect, a protector of the rights of the bond holder.

One of the first things to know about a particular bond is the ability of the issuer to meet its obligations. Moody and Standard and Poor's issue quality ratings on bond issues of both corporations and municipalities.

Fitch Investors Service does rate some municipal issues. It generally rates corporate and bank securities. Obligations rated by Moody as "Aaa", "Aa", "A", or "Baa", or Standard and Poor's and Fitch as being "AAA", "AA", "A", and "BBB", are considered to be of investment grade by the rating agencies. To merit the very top rating the speculative element must be considered nearly non-existent. Ratings below this grouping normally fall into a highly speculative category.

VIII. FIXED INCOME SECURITIES

A. *US Government Obligations*

Treasury obligations and Federal Agency obligations are guaranteed by the U.S. Government.

1. *Treasury Bonds*

These have a fixed maturity of over ten years and are an extension of treasury notes. Yields on treasury bonds are generally higher than those of the longer maturity.

2. *Treasury Notes*

The fixed maturity on treasury notes is from one to ten years and as with bonds, interest is payable semi-annually at a fixed rate. Notes are usually available in $1,000 denominations. The Federal Reserve auctions notes periodically on a competitive basis. Because of the excellent marketability and credit rating of government securities, treasury notes generally return a yield lower than corporate and even some tax-exempt securities.

3. *Treasury Bills*

   Bills are normally issued in maturities of 90-day, 182-day, and even one-year periods. The minimum amount of purchase is $10,000 and they are obtained from any of the twelve Federal Reserve Banks, commercial banks, or brokers. They are issued weekly on a discount basis by competitive bidding.

4. *Flower Bonds*

   This is the nickname for a certain type of treasury bond. They can provide a tax break to the investor because they can be cashed in at par no matter what the market price *in payment of the owner's estate tax.* Flower bonds derive their nickname from the frequent use in the settlement of estate taxes.

IX. CORPORATE BONDS

There are two types of corporate bonds. Normally unsecured bonds and income bonds. Those that are unsecured are backed by the ability of the company to earn sufficient revenue to pay the principal and interest. Income bonds, on the other hand, are rarely seen. The interest on this type of bond is paid only when earned.

A. *Secured Bonds—Mortgage Bonds*

   Normally the issuer pledges plant, equipment and land in the event of default.

B. *Collateral Trust Bonds*

   They are backed by specific assets.

C. *Corporate Notes*

   Normally a maturity of ten years or less. They are sold by a company in anticipation of issuing long-term bonds at lower interest rates at some time in the future. They can be secured or unsecured and may have a sinking fund to retire a portion of the issue prior to maturity.

D. *Certificates of Deposit*

   These are issued by commercial banks and savings and loan associations, normally ranging from 90 days to four years or more. They are purchased in $1,000 to $5,000 amounts, with interest paid from date of deposit to maturity at the stated rate. Deposits can be made at any time.

E. *Commercial Paper*

This is a vehicle used by corporations to finance short-term working capital for periods of one to 270 days. It is generally issued in amounts of $25,000 for thirty days or longer on a discount or interest-bearing basis. Historically the return on commercial paper is about five percent below the bank prime lending rate.

X. TAX EXEMPT MUNICIPAL BONDS

Investors in these bonds can receive a return that is often higher than after tax returns on other securities providing for less safety, such as common stock. Interest on municipal bonds is exempt from Federal income tax and generally from taxes of the state in which they are issued, offering advantages to investors who are concerned about taxes.

XI. REINSURANCE OF GIFT ANNUITIES

Many charitable organizations are in need of a cash outflow on a more immediate basis than a Charitable Gift Annuity would provide. Because of the current need of funds, the choice frequently comes down to a question of "reinsuring gift annuities" or opting out of the quest for deferred gifts. On the plus side, a reinsurance program will provide immediate funds for the charity that may be required to sustain existing programs, especially when there is a budgetary crunch. This is especially true in those parts of the United States where the unemployment rate is high and receipts by the charity are at a low ebb for operating purposes. The gift annuity will provide some funds (approximately one-third to one-half of the face value of the annuity) and may frequently be the difference between survival or termination. The question may be asked why an organization would opt for the Gift Annuity approach if the economy is tight? The simplest answer is that this particular approach opens the door to the senior citizen who still needs a guaranteed income but who would also like to fulfill a desire to make a gift to his or her favorite charity and yet not sacrifice current income.

There are some negative connotations to reinsurance. Most notably is the high cost that accompanies a gift of this type. Less than 50% return on the dollar is quite difficult to swallow on the part of the charity. My experience in the LCA Foundation is that we are experiencing in excess of an 80% average remainder value on our gift annuities at the time of termination. Here you can see the difference as we do not "reinsure". Rather, the Lutheran Church in America backs each Gift Annuity with all the assets of the church body. If you can afford it, this is the best approach.

Each agency and organization has to determine its own priorities and needs.

XII. MONEY MARKET READY ASSET FUNDS

There are many no-load, open-end diversified investment companies whose objective is to seek as high a level of current income as is consistent with preservation of capital and liquidity. Let there be no mistake, there is no assurance that this objective will be achieved; however, most funds of this type concentrate their investments exclusively in marketable obligations issued or guaranteed as to principal and interest by the U.S. Government or its agencies, U.S. Banks and Savings and Loan Associations which are members of the Federal Deposit Insurance Corporation (FDIC) or the Federal Savings and Loan Insurance Corporation (FSLIC). There are other minor investments fully secured or collateralized.

The Money Market Ready Asset Funds are designed specifically for corporations, fiduciaries and other institutions and individuals for temporary direct investments. These funds offer diversification and are designed to put idle cash to work and bring a competitive return. Fund shares may be purchased and redeemed at their Net Asset Value (NAV), normally $1.00, next determined after an order is entered on any day when the New York Stock Exchange is open for business.

Securities issued by investment companies are not necessarily endorsed or approved by the Securities and Exchange Commission (SEC) nor does the SEC advise on the accuracy of Money Market prospectus.

For a charitable organization I affirm the use of Money Market Ready Assets for the purpose stated above. In the case of a Pooled Income Fund Trust, for example, this type of investment may be used in order to put new monies received to work on an immediate basis until a long-term investment plan, consistent with the objectives of the fund, can be established. It is essential to plan for the long term in the case of investments for Gift Annuities and Charitable Remainder Trusts and the very nature of the Money Market Funds limits their use.

One caution must be considered in connection with the particular fund you select. Some of the funds invest heavily in EURAL dollars or are heavily invested in countries where the human rights of a particular group of people are violated as a matter of official policy in that country. In such cases, it would be advisable to check with your institution or organization and see if there are any limitations on investments with banking facilities doing business with countries where problems of this nature prevail.

This, then, is a brief look at investments in capsule form. I hope that something I have said will spark an interest in your investment process. Many areas of investment and banking have been passed over because of the time factor, and for this I apologize. It is my hope that now we can break into small groups for discussion and any questions you may have. We will then re-assemble for a few moments to conclude our session.

CANADIAN TAXATION

REV. ROBERT M. BARTLETT
Director of Annuities, The United Church of Canada

RECENT CANADIAN TAX CHANGES AFFECTING CHARITIES

Charities have traditionally enjoyed two major advantages under Canadian Income Tax Laws, namely, a tax-exempt status and the right to issue tax deductible receipts for donations. Prior to 1977 registration of a 'charity' with Revenue Canada was necessary only if the charity wished to be able to issue tax-deductible receipts. Whether an organization was itself exempt from tax depended solely upon whether it fell within the definition of "charitable organization", "non-profit corporation" or "charitable trust" contained in the Income Tax Act. In effect there were no rules with which a charity had to comply to maintain its tax-exempt status other than those inherent in the definition.

Amendments to the Income Tax Act enacted in 1976 made a number of significant changes. First, they established a new classification of charities for tax purposes, distinguishing on functional lines between "charitable organizations" which expend the money they receive predominantly on their own charitable activities, on the one hand, and "foundations" which use their income principally in making grants to other charities, on the other. Foundations are further classified into "public" and "private" foundations. "Public Foundations" are defined as foundations which satisfy the dual requirements of having directors or trustees, 50 percent of whom deal with each other at arm's length, and capital, not more than 75 percent of which has been contributed by one person or group of people not dealing with each other at arm's length. By definition any foundation which is not a "public foundation" is a "private foundation".

The second significant change brought about by the recent amendments is the creation of what amounts to a 'code of conduct' for charities, covering matters ranging from the amounts which they are required to expend on charitable activities or gifts to other charities, to restrictions on the actual activities undertaken by charities.

Expenditure Tests

The 'income-expenditure test' which by definition applied to "non-profit corporations" and "charitable trusts" prior to the recent amendments, continues under the new rules to be applicable to both public and private foundations. Both classes of foundations are required to expend in each year at least 90 percent of their "net income" on their own charitable activities or by way of gifts to other charities. "Net income" does not include capital gains or gifts subject to a direction to retain the capital and only expend the income, for at least a ten-year period.

Public Foundations are now subject to a second expenditure test which has been described as the 'receipted donations expenditure test'. This is the only test applicable to charitable organizations. It requires that, after a transitional three-year period which ended in 1978, each charitable organization and each public foundation expend in each taxation year on its own charitable activities or by way of gifts to qualified donees at least 80 percent of the amounts for which it issued receipts in the immediately *preceding* taxation year.

An important difference between public foundations and charitable organizations in regard to the application of this test is that in the case of public foundations donations subject to a directive to retain the capital for at least 10 years are not included when making the necessary calculation.

Private foundations have been singled out for special treatment in regard to expenditure requirements. They are not subject to the 'receipted-donations test', but are subject to the 'income-expenditure test' with a significant twist. The new rules require that private foundations expend in any year at least 90 percent of the net income earned on qualified investments plus the greater of 90 percent of the income earned on non-qualified investments (such as land and shares in private corporations) and 5 percent of the fair market value of these non-qualified investments. The effect is that each private foundation is required to make an annual valuation of non-qualified investments, and, if the yield on such investments is not greater than 5 percent per annum the foundation may have to dispose of some assets in order to meet the 'income-expenditure test'.

Cushions

The application of the new expenditure tests has been ameliorated somewhat by some provisions in the new amendments. With respect to the receipted-donations test, failure to comply will be forgiven once for each charitable organization or public foundation. Secondly, the Minister of Revenue may authorize the accumulation of capital for a special project. The 'expenditure excess' that will result in the year that the accumulated funds are spent may be carried forward up to three years and applied to make up any deficiency in expenditures in those years.

With regard to the 'income-expenditure test' the new rules provide that a foundation may deduct all or part of its previous year's income in calculating income for a given year, provided that the amount deducted is added back the following year.

Implications for Deferred Giving

Since donations subject to a directive to retain the capital for ten years are excluded in determining compliance with the expenditure tests applicable to a public foundation there may be significant advantages to a charitable organization, which solicits estate bequests or which on occasion receives unusually large donations, if it sets up a foundation to which such bequests or donations could be directed. The charitable organization will thus be able to avoid the necessity of major adjustments in expenditures when it receives a particularly large bequest or donation.

Revocation of Registration

Under the new rules registration and deregistration are given new significance. Registration is now required not only to entitle a charity to issue tax receipts, but also for the income of the charity itself to be tax exempt. And revocation of registration is the ultimate penalty for a breach of any of the numerous rules to which each class of charities is subject. The consequences of such revocation are severe. In such event a charity has one year within which to pay its bona fide debts and reasonable expenses, and then to give away the balance of its assets to other registered charities. At the expiry of the year the assets not so disposed of are subject to a punitive 100% tax. This penalty gives real teeth to the new requirements. Revocation following any particular violation of the new rules is at the discretion of the Minister. Such action is subject to an appeal only if made within thirty days of the Minister's decision.

Donations "in kind"

Prior to 1971 a donation of tangible capital property to a charity did not entitle the donor to a tax reduction. Since 1973 through an amendment a taxpayer who gives tangible capital property suitable for use by the charity is entitled to a deduction from taxable income of an amount not greater than the fair market value of the property and not less than its adjusted cost base. Within that range the amount of the deduction is determined by the election of the taxpayer, and this election also determines the capital gain on the disposition. The taxpayer is treated as having disposed of the tangible capital property and to have received the elected amount in return.

Repeal of Succession Duty Laws

Another significant change in the last few years has been the abolition of estate taxes and succession duties in all provinces other than Quebec. Since donations to charities were generally exempt from succession duties, these were often made with only marginal effect on the amount of the bequests to be received by the ultimate beneficiaries. The former attractiveness of the charitable gift has diminished now in certain situations.

FORMULA FOR CALCULATING TAXABLE INCOME WITH RESPECT TO ANNUITY GIFT AGREEMENTS

1. Determine the life expectancy of the annuitant(s) as from age at date of gift in accordance with the tables set forth on pages 382, 386 and 387 (or comparable tables in subsequent editions) of Mercer's Canadian Handbook of Pension and Welfare Plans (1959);
2. Multiply the life expectancy by the rate of annuity payable in order to arrive at the capital return over the span of life expectancy;
3. Divide the rate of annuity by the amount of the capital return to arrive at the non-taxable amount;

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

TAXABLE INCOME—MALES

Age at date of Gift	*Life Expectancy*	*Rate of Annuity*	*Taxable portion per $100 of Gift*	*Tax-free Portion*
55	22.5	7.4%	$2.96	60.0%
56	21.8	7.6	3.01	60.4
57	21.0	7.7	2.94	61.8
58	20.3	7.7	2.77	64.0
59	19.6	7.8	2.70	65.4
60	18.9	7.8	2.51	67.8
61	18.2	7.9	2.41	69.5
62	17.6	8.0	2.32	71.0
63	16.9	8.1	2.18	73.1
64	16.2	8.2	2.03	75.2
65	15.6	8.3	1.89	77.2
66	15.0	8.5	1.83	78.4
67	14.4	8.7	1.76	79.8
68	13.8	8.8	1.55	82.4
69	13.2	8.9	1.32	85.2
70	12.7	9.0	1.13	87.4
71	12.1	9.2	.94	89.8
72	11.6	9.3	.68	92.7
73	11.1	9.5	.49	94.8
74	10.6	9.7	.27	97.2
75	10.1	9.9	.00	100.0
76	9.6	10.0	.00	100.0

TAXABLE INCOME—FEMALES

Age at date of Gift	*Life Expectancy*	*Rate of Annuity*	*Taxable portion per $100 of Gift*	*Tax-free Portion*
55	26.4	7.4%	$3.62	51.1%
56	25.6	7.6	3.69	51.4
57	24.8	7.7	3.67	52.3
58	24.0	7.7	3.53	54.2
59	23.2	7.8	3.49	55.3
60	22.5	7.8	3.36	56.9
61	21.8	7.9	3.31	58.1
62	21.0	8.0	3.24	59.5
63	20.3	8.1	3.17	60.9
64	19.6	8.2	3.10	62.2
65	18.9	8.3	3.01	63.7
66	18.2	8.5	3.01	64.6
67	17.6	8.7	3.02	65.3
68	16.9	8.8	2.88	67.3

Continued

TAXABLE INCOME—FEMALES (Cont'd.)

Age at date of Gift	*Life Expectancy*	*Rate of Annuity*	*Taxable portion per $100 of Gift*	*Tax-free Portion*
69	16.2	8.9%	$2.73	69.3%
70	15.6	9.0	2.59	71.2
71	15.0	9.2	2.53	72.5
72	14.4	9.3	2.36	74.6
73	13.8	9.5	2.25	76.3
74	13.2	9.7	2.12	78.2
75	12.7	9.9	2.04	79.4
76	12.1	10.0	1.74	82.6
77	11.6	10.0	1.38	86.2
78	11.1	10.0	.99	90.1
79	10.6	10.0	.57	94.3
80	10.1	10.0	.10	99.0

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

October, 1979

INTERPRETATION BULLETIN

Subject: Income Tax Act Annuities Purchased from Charitable Organizations.

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

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

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

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

3. Because of this charitable interest in the organization the individual sometimes pays more for the annuity than the total amount expected to be received as annuity payments. In such

cases the Department is prepared to take the view that the excess of the purchase price over the amount so expected to be returned is a gift and the individual is entitled to deduct the amount of the gift to the extent allowed by paragraph 110(1)(a) provided an official receipt is produced in accordance with Part XXXV of the Income Tax Regulations. No portion of each annuity payment is taxable in the hands of the individual in these circumstances.

4. Below is a table by which the total amount expected to be received as annuity payments under immediate life annuities can be calculated for these purposes. The annual payments are multiplied by the number of yearly installments expected at the age of the annuitant at the time of making the arrangement and this provides the total amount expected to be received. The annuitant's age is determined by subtracting the calendar year of his birth from the calendar year in which the arrangement is made. However, where the annual payments on the annuity commence after 1971, subparagraph 300(2)(a)(iii) of the Income Tax Regulations require his age, as so determined, to be reduced by two years.

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

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

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

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ORDINARY LIFE ANNUITIES

Ages Male	Female	*Number of yearly Installments expected*	*Ages* Male	Female	*Number of Yearly Installments expected*
5	10	65.1	56	61	20.3
6	11	64.2	57	62	19.6
7	12	63.2	58	63	18.9
8	13	62.3	59	64	18.2

Continued

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ORDINARY LIFE ANNUITIES (Cont'd.)

Ages Male	Ages Female	Number of yearly Installments expected	Ages Male	Ages Female	Number of Yearly Installments expected
9	14	61.4	60	65	17.6
10	15	60.5	61	66	16.9
11	16	59.6	62	67	16.2
12	17	58.6	63	68	15.6
13	18	57.7	64	69	15.0
14	19	56.8	65	70	14.4
15	20	55.8	66	71	13.8
16	21	54.9	67	72	13.2
17	22	54.0	68	73	12.7
18	23	53.0	69	74	12.1
19	24	52.1	70	75	11.6
20	25	51.2	71	76	11.1
21	26	50.2	72	77	10.6
22	27	49.3	73	78	10.1
23	28	48.4	74	79	9.6
24	29	47.5	75	80	9.2
25	30	46.5	76	81	8.7
26	31	45.6	77	82	8.3
27	32	44.7	78	83	7.9
28	33	43.8	79	84	7.5
29	34	42.8	80	85	7.1
30	35	41.9	81	86	6.7
31	36	41.0	82	87	6.4
32	37	40.1	83	88	6.0
33	38	39.2	84	89	5.7
34	39	38.3	85	90	5.4
35	40	37.4	86	91	5.1
36	41	36.5	87	92	4.8
37	42	35.6	88	93	4.5
38	43	34.7	89	94	4.3
39	44	33.9	90	95	4.0
40	45	33.0	91	96	3.8
41	46	32.1	92	97	3.6
42	47	31.3	93	98	3.3
43	48	30.4	94	99	3.1
44	49	29.6	95	100	2.9
45	50	28.8	96	101	2.7
46	51	28.0	97	102	2.5
47	52	27.2	98	103	2.3
48	53	26.4	99	104	2.1
49	54	25.6	100	105	1.9
50	55	24.8	101	106	1.7
51	56	24.0	102	107	1.6
52	57	23.2	103	108	1.4
53	58	22.5	104	109	1.2
54	59	21.8	105	110	1.0
55	60	21.0	106	111	.9

DEFERRED GIVING — SUMMARY OF RESPONSIBILITY AND COMPARISON OF PLANS

Dr. Darold H. Morgan
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(Material prepared in collaboration with
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Nomenclature, Etc.

All sorts of names are used along with numerous marketing techniques. This is fine as long as it is clear to the donor that what he thinks he is getting is precisely what he is getting.

We have no right to be in the market place, otherwise. Ours is a service commitment.

Make sure the distinction is made that each asset is composed of two parts: the property itself and the use of that property.

Deferred giving has an element of charitable giving and an element of actuarially calculated return on an investment concept very strongly resembling insurance procedure.

It should be clear when the gift is to take place: during the donor's lifetime or at death as a provision of a Will.

Except where a revocable trust or income trust is used, charity is the ultimate "remainderman." No part of the corpus or principal is assignable or returnable by or to the donor.

Comparison of Plans and Features

GIFT ANNUITY — Stable income, income tax benefits, simple, reduces estate, guaranteed income, reduced management.

ANNUITY TRUST — Stable income, protection of principal, more predictable results, can use bonds.

UNITRUST — Tied to economy, can be added to, flexibility, reduced costs, professional management, no capital gain tax.

POOLED INCOME FUND — Diversification of corpus, can be added to, professional management, more income, flexibility of size of contribution.

INCOME (CHARITABLE LEAD) TRUST — Control of assets, annuity or unitrust feature required, income pay out, for any period of time, can use municipals, flexibility, foreign charities, generally testamentary provision preferable.

SHORT-TERM TRUST — Control of assets, immediate benefit to charity, no guaranteed minimum income pay out required, retention of asset residual, enables a way around percentage limitations on giving.

REVOCABLE TRUST — Control of assets, hedge against emergencies, eliminates probate, can be amended easily, flexible size.

LIFE INSURANCE — Limited demand on cash flow, can eliminate tax on premiums on group insurance 79(b) (2) (B) Reg. 1.79-2(c) (3), larger gifts possible.

REMAINDER INTEREST IN A PERSONAL RESIDENCE OR FARM — Supervision and maintenance of assets, no probate, reduced costs, can have revocable features.

Who Do They Appeal To?

GIFT ANNUITY — Older person, no liquidity problems.

ANNUITY TRUST — A person with appreciated fixed income properties, middle aged or older.

UNITRUST — A person with appreciated growth assets, middle aged or older.

POOLED INCOME FUND — Person with low yield appreciated investment assets, usually middle aged or older.

INCOME (CHARITABLE LEAD) TRUST — Someone supporting foreign charities, high level of income projected, future beneficiary of a younger generation, retain control of business within family.

SHORT-TERM TRUST — Someone needing to exceed limitations on giving, not an older person, income which has accelerated sharply.

REVOCABLE TRUST — Potential liquidity problems, older person in poor health.

LIFE INSURANCE — Younger person with limited means.

REMAINDER INTEREST IN A PERSONAL RESIDENCE OR FARM — Older person with limited means and no need or desire to provide for beneficiaries.

Practical Applications or Examples

GIFT ANNUITY:

Mrs. Springfield who is 88 years old, has no liquidity problems, has adequate medical insurance, is in good health, is of modest means and has no real family needs was sold a $17,000 gift annuity for stock which had appreciated in value. Her cash flow was increased by 50%. She had no need for income tax or estate tax relief.

DEFERRED GIFT ANNUITY:

Dr. Anson who is 46 years old, is making huge sums of money, is incorporated, has reached the maximum pension and profit sharing limitation, has not reached the giving limitations and is very liquid was sold a $100,000 deferred gift annuity agreement which will pay him in excess of 12% when he retires at age 65.

ANNUITY TRUST:

Wilson Tanner is 57. He owned bonds which had increased in value. He was sold an annuity trust arrangement.

UNITRUST:

Bill Howard bought IBM stock 20 years ago. At age 60 he was sold a unitrust arrangement.

POOLED INCOME FUND:

Pastor Jones began a program of giving $500 per year through a pooled income arrangement when his last child graduated from college. By the time he retired at age 68, the $7,500 he had contributed is paying him 10% based on his pro rata share of the income of the entire fund.

INCOME (CHARITABLE LEAD) TRUST:

Attorney Atwell has eliminated the income from the investments inherited from his father by this method. He is in the peak years of his career and his children are quite young. The investments are secure and expendable and should produce more than enough to educate his children and help them get started in whatever career they may want to pursue. His church is in a building program and the income will be more than enough to make the payments on the loan over the 15 years over which it is being financed.

SHORT-TERM TRUST:

Steve has been made president of his company. The salary is very large. Some bonds are available for funding his trust which he feels is necessary because he has reached the limit of the contributions allowable. At age 49 he has an established program of giving and carry-overs that could easily expire. The assets will be needed in 10 years. This eliminated that much income from being taxed during the 10 years and provides predictable income for his alumni association.

REVOCABLE TRUST:

Preacher Green and his wife are both over 85. They have Medicare. Their income is not very much. The taxes on the lake lot they purchased many years ago are more of a nuisance than they can afford. They want other old preachers to be helped. A revocable trust they created took title to the lot, sold it and is paying them the income each year. They have the assurance they can get extra money if needed. When they die, no probate is necessary.

LIFE INSURANCE:

Before his company made arrangements for a group life policy, B. J. was covered by a key man insurance policy with whole life features.

The company allowed him to have the policy as added compensation when the group plan was installed. A portion of it he kept for his family. The rest was used to start an endowment plan maturing at age 65 and providing $45,000 for his alma mater if he dies before 65. All incidents of ownership were assigned to the university. B. J. deducts the premiums he pays each year.

Through good investments and a splendid retirement program, B. J. decided his family had enough immediate protection with the $50,000 maximum fringe benefit. Therefore, he assigned the excess over $50,000 protection to his favorite charity. He knows he can revoke this at any time. In the meantime, the cost of the excess is no longer taxable to him each year.

REMAINDER INTEREST:

Andrew and Mildred want to continue to live in their house as long as they can. They want no hassle when they die. Their house by contract will go to the Baptist Home for the aged. In the meantime they are assured of a place to live.

Amount and Type of Reserves

Because there are so many different uses to which the beneficiary reserves are committed, no elaboration will be made within each different vehicle discussed below. Suffice it to say that we are permitted to use the reserves for such purposes as best meets needs or desires of the donor. Wherever possible, these should be reduced to explicit contractual writing, especially when not actually required by law or procedure.

GIFT ANNUITY:

Some states regulate the issuance of gift annuities and specified reserves would therefore vary accordingly. Generally speaking, the reserves required are those needed to protect the beneficiaries and are actuarially determined. Some organizations use the gift reserves immediately and others maintain them separately until the last noncharitable beneficiary dies.

ANNUITY TRUST:

Such funds as might remain are usually required to be held in reserve until the death of the last noncharitable beneficiary.

UNITRUST:

The same as Annuity Trust.

POOLED INCOME FUND:

The same as Annuity Trust.

INCOME (CHARITABLE LEAD) TRUST:

Monetary reserves equal to the principal or corpus to go to the ultimate beneficiary. Such income reserves as have not been distributed to charity.

SHORT-TERM TRUST:

Same as Income (Charitable Lead) Trust.

LIFE INSURANCE:

None actually required by the trustee except those that might be needed to control ownership.

REMAINDER INTEREST IN A PERSONAL RESIDENCE OR FARM:

Same as Life Insurance.

Deferred Giving Defined

As opposed to an outright gift of cash, other property or rights to either; deferred giving takes place when the ultimate passage of clear title is delayed until the death of a person (the donor or whomever he designates) or the expiration of a specified period of time. This is usually accompanied by, for the duration of the delay, the continued use of assets transferred, income from the assets transferred, or both on behalf of the donor.

Any asset is really made up of the property itself and the use to which the property can be put; i.e., income producing assets and the earnings therefrom, a residence and the occupancy thereof, a farm and the income therefrom and/or the occupancy thereof, etc.

True deferred giving normally involves irrevocable assignment of these two segments.

Needless to say, very few, if any, exceptions are permitted to the prescribed rules and regulations governing this type of giving. To be safe, a ruling should be requested from Internal Revenue Service, particularly where large amounts are involved or when some departure from the normal rules and regulations is anticipated. This always helps to eliminate embarrassment and misunderstanding.

Income Tax Considerations

Certainly, the immediate charitable contribution deduction is very important because it reduces the effective cost of the gift. The amount of this deduction is determined by several factors, including:

1. The contributions base of the donor which is normally adjusted gross income.
2. The type of organization to which the contribution is given.
3. The use to which the property is put by the charitable organization.
4. The type of property given.
5. The gift value of the property given.
6. The method of giving employed.
7. The age of the donor.
8. The desires and needs of the donor.

There are basically two types of organizations to which deductible contributions are given by individuals:

1. The "50% type"; such as, churches, schools, hospitals,

governmental units, organizations substantially supported by governmental units or the general public, and certain private foundations known as "operating," "conduit," "distributing," "community," or "pooled fund" foundations.

2. The "20% type" which includes any other entities to which contribution are deductible.

A listing can be obtained from Internal Revenue Service which codifies organizations as to which contributions are deductible designating the 50% or 20% limitation applicable.

Cash or its equivalent requires no adjustment. Property is usually deductible at its fair market value. However, any property given, the sale of which would result in ordinary income, must be reduced to donor's cost for deduction purposes. In order to avail oneself of the 50% limitation, any property which is capital gain property must be reduced by 40% of the gain. If the donor does not wish to reduce the contribution by such 40% of the gain, then the limitation is 30% instead of 50%.

A taxpayer should be very careful when contemplating contributions to both 50% and 20% type organizations in the same year. Unfortunately, he may not realize he has done this because such contributions which are "for the use of" 50% organizations must be treated as being subject to the 20% limitation.

The deduction for 20% types is limited to:

1. 20% of the contributions base, or
2. The amount by which 50% of the contributions base exceeds the allowable deductions to 50% type organizations.

Property which is not used by the charitable organization in keeping with the purpose or function of the organization must be reduced to donor's cost or donor's cost plus 60% of the gain in cases of property eligible for capital gain treatment.

Contributions to 20% organizations in excess of the limitation cannot be carried forward. All others may be carried forward 5 years. Current year limitations must be observed before utilization of any carry forward contributions.

Detailed discussions of limitations applicable to entities other than individuals are not included herein.

The contributions base for individuals is the adjusted gross income without regard to net operating loss carryback to the year involved. For corporations it is the taxable income without regard to the contribution's deduction.

The age of the donor, as well as his desires and needs, are probably the most crucial factors in a successful deferred giving program from the standpoint of either the individual donor's planning or that of the potential charitable beneficiary.

There are no set rules for maximizing all benefits. However, in our eagerness to marshall all of the assets into a semblance of an inventory and some protection of liabilities and commitments, we *must not* fail to take into account age, as well as a written summary of the needs *and* desires of the donor.

Effective programs may not always capture the last dollar of tax savings for the donor or put the maximum dollars into the coffers of the charitable beneficiary. They will, however, produce the results expected by the donor, always. Oftentimes they spawn repeat business and referrals.

Flexibility is the watchword for effectiveness.

Gift Tax, Estate Tax and
Inheritance Tax Considerations

Just remember the transfer of either the asset or the use to which it can be put may become a tax incident of important consequence to the effectiveness of estate planning.

Any time either of the two above components is transferred to another person, a tax related event has normally occurred.

Any time a charitable beneficiary is named to receive either of these elements, a tax saving benefit normally results.

There are exceptions, refinements, sophistications and exotic plans none of which vary these rules very much.

State law can be another crucial factor. Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas and Washington are "community property" states. Among these eight states there are some differences in treatment.

All other states are separate property states. Even in the community property states, property received by inheritance or gift is usually separate property if it is not commingled with community property so as to not be distinguishable.

The Unified Federal Transfer Tax System is now in effect.

Gift and estate taxes for a donor/decedent are applicable on a cumulative basis. The lifetime exemption no longer applies, but a credit against tax graduating upward to $47,000 in 1981 gives the effect of an eventual $175,625 exemption. The entire amount of the unified credit may be used against gifts. The $3,000 annual exclusion per donor for each noncharitable donee continues to apply.

The "contemplation of death" test is no longer applicable. *Any* transfer within three years of the date of death will automatically be put back into the estate with the exception of annual exclusion gifts. Such transfers to charity as may have been made during that time or at death will be allowable as a charitable deduction.

The "KISS" plan is probably the best. "Keep It Simple Stupid."

The more complications involved in transfers, retained powers, continued interests, conditional remainders, contigent beneficiaries or other special clauses—the more likely you will experience difficulty obtaining the most effective results for estate planning.

Some form of state inheritance or estate tax applies, with as many variations, in every state in the Union except Nevada. Gift taxes apply in the states of California, Colorado, Delaware, Louisiana, Minnesota, New York, North Carolina, Oklahoma, Oregon, Rhode Island, South Carolina, Tennessee, Vermont, Virginia, Washington, and Wisconsin.

Most of these are patterned after, related to, or based upon, to some degree, the Federal law applicable. However, nothing is just that simple, particularly where state inheritance or estate taxes are concerned.

For instance, different classes of beneficiaries are taxed differently. In a recent case in South Dakota, the Federal estate tax was less than $3,500. Because the beneficiary was a niece of the decedent, the state inheritance tax was over $21,000.

Some things cannot be completely avoided. However, with simplicity, imagination and flexibility, estate planning can considerably reduce death and gift taxes. You may want to use two trusts instead of one, no trusts at all, revocable as opposed to irrevocable, cash not other assets, vice versa, or any combination.

Some Things To Watch Out For

Some items have been discussed under the related topical section. In addition, proceed with caution where:

1. Someone other than the donor is involved.
2. There is not a readily available recognized method of valuation.
3. The properties to be transferred are subject to debt.
4. The asset has a value other than the donor's tax basis.
5. Tax exempt securities are involved.
6. The likelihood exists that no funds will remain after the conditions are met for a charitable beneficiary to receive something.
7. The donor wants to be trustee.
8. Conditional transfers are contemplated.
9. The donor wants to retain any substitutionary powers.
10. Future interests in tangible personal property are discussed.
11. State laws are constrictive.
12. Filing requirements are not clear.
13. Partial interests are involved.
14. Income is the subject of assignment.
15. Foreign charities are being considered.
16. The donor of a large amount of property might not want you to obtain a ruling.

Some Methods of Deferred Giving

Four acceptable methods of deferred giving are as follows:

1. A charitable gift annuity contract.
2. A charitable remainder annuity trust.
3. A charitable remainder unitrust.
4. A pooled income fund.

Most successful fund raisers employ all of the above or a variation or combination of them as a major segment of their programs.

With a gift annuity contract, the charitable organization pledges its assets to provide a stipulated income to the donor and/or whomever he designates for a period of time based on either the life of the beneficiary (or beneficiaries) or a fixed number of years in exchange for a gift of property. Sometimes the payment of income is delayed for a period of years. Always the income is measured as a percentage of the value of the property at the time of the gift. Normally, the charitable organization will not immediately make use of the property until the obligation stipulated by the donor has either been satisfied or otherwise provided for.

The gift annuity contract is usually the least complicated method of implementing deferred giving. A one page simple, though carefully worded, document is most commonly used. Uniform rates of payment are set by the Gift Annuities Conference which meets every three years.

Additions are permitted only by exercising a separate new agreement.

The annuity trust is a somewhat more complicated version of the gift annuity approach. A trust agreement of some length involving considerable "Legal Ease" is an absolute must. A fixed amount of income is payable at least annually for a fixed period of time (not more than 20 years) or the life of the beneficiary or beneficiaries. That amount must be at least 5% of the market value of the assets at the time of creation of the trust. At least one noncharitable beneficiary, living at the time the trust is created, must be provided for. No other amounts can be paid to or for the use of any person other than the qualified charitable remainder organization.

When the last noncharitable beneficiary dies, the remaining trust property must be transferred to the charitable organization or must be held in trust for that entity.

Additions to the trust are not permitted. But the donor can create additional annuity trusts.

The unitrust differs from the annuity trust primarily in its flexibility in payments to beneficiaries and the ability to add to the funds without additional documents or costs. The assets are valued at the end of each year and the percentage of income (which is fixed at the time of the original agreement) is paid to the beneficiary. Here the 5% minimum return is applicable each year of the life of the trust.

There are many permissible variations of this type of arrangement, so it lends itself to creativity on the part of the solicitor or counsellor.

The pooled income fund consists of various types of property received from any number of donors and commingled by a charitable organization. Normally, the contributor has reserved some sort of income interest for the life of one or more beneficiaries. Only those organizations which quality for the 50% charitable deduction are eligible remainder entities. Tax exempt securities are not acceptable assets.

The trustees of the trust must be selected from persons other than donors or income beneficiaries of the trust. A separate trust agreement is necessary for pooled income fund contributions. No other type of giving can be combined in the same trust agreement.

Each year, income distributions are required to be determined on the unit basis and are set by the rate of return earned by the trust for that year.

There are numerous permissible variations of each of the four types of deferred giving cited in this discussion. However, their implementation is normally more complicated and their use is always to meet some unusually unique need or desire of the donor.

Other methods include:

1. Transferring income for a period of time to charity with the asset going to a noncharitable beneficiary.
2. A short term (10 year) trust.
3. A revocable trust.
4. Gift of life insurance.
5. Remainder interest in a personal residence or farm.

I hope that I not only have answered some questions, but have also started you to thinking. Remember—simplicity, imagination and flexibility.

I wish to acknowledge a large measure of help from "Tax Economics of Charitable Giving" copyrighted by Arthur Andersen & Co.

MINUTES

Seventeenth Conference on Gift Annuities
Radisson Muehlebach Hotel, Kansas City, Missouri

Wednesday, May 7, 1980

First Plenary Session

The Conference was called to order at 9:05 a.m. by Chairman, Charles W. Baas. The place of meeting was the Imperial Ballroom of the Radisson Muehlebach Hotel.

Invocation was delivered by The Reverend Dr. Alva R. Appel, Executive Secretary, Columbia Union Conference, Seventh-day Adventists.

Welcoming remarks were made by Dr. Baas. The full text is set forth in this booklet beginning on page 4. Conference registration and number of sponsoring organizations both attained record highs.

Chairman Baas proposed the following persons to constitute the Resolutions Committee:

Chairman: DR. WALTER C. KONRATH, Associate Treasurer, American Baptist Foreign Mission Society

MR. JOHN DESCHERE, Comptroller, Bard College

MR. WAYNE W. KROWS, Vice President for Development, Millikin University

DR. ROLAND C. MATTHIES, Vice President Emeritus, Wittenberg University

DR. DAROLD H. MORGAN, President, Annuity Board, The Southern Baptist Convention

MR. MICHAEL MUDRY, Actuary, Senior Vice President & Secretary, Huggins & Company, Inc.

MR. ARTHUR RITZ, Director, Deferred Giving Program, American Friends Service Committee

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

MOTION CARRIED

Mr. Steven Leuthold, Officer and Director, Funds, Inc. was then introduced to discuss the topic "Economic Review and Projections." The text of his remarks is set forth in this booklet beginning at page 9.

Mr. Leuthold cautioned against assuming that inflation would continue at present high levels indefinitely. He described historical context of inflation in the Western world over the past millenium. He predicted a much lower level of inflation by the end of the 1980's. A lively period of questions and discussions was occasioned by his remarks.

A coffee break recess took place from 10:15 to 10:30 a.m.

When the conference reconvened, Mr. Michael Mudry, Actuary, Senior Vice President and Secretary of Huggins & Company, Inc. was called upon to present the "Report of Actuary and Discussion of Actuarial Basis for Gift and Deferred Annuities." His paper and supporting schedules are set forth in this booklet beginning at page 26. A new rate schedule was proposed. His presentation was clear, precise and cogent. A brief period of questions followed his remarks.

A report by Dr. Roland C. Matthies on State Regulations followed immediately. Dr. Matthies referred to reports on State Regulations presented to the Sixteenth Conference by Dr. Chester A. Myrom and Julius P. Fouts, Esq. published in the booklet reporting presentations made at that Conference. Dr. Matthies reported establishment of a permanent subcommittee on State Regulations with primary responsibility for states as listed:

Mr. David Johnson, Vice President, St. Olaf College, Northfield, Minnesota 55507, Telephone (507) 663-2222 covering Iowa, Kansas, Minnesota, Nebraska, North Dakota, South Dakota, and Wisconsin.

Dr. Chester A. Myrom, 211 Kilburn Road, Garden City, New York 11530, Telephone (516) 248-4199 covering Connecticut, Delaware, District of Columbia, Florida, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, North Carolina, Pennsylvania, Rhode Island, South Carolina, Vermont, and Virginia.

Dr. Roland C. Matthies, 1615 Winding Trail, Springfield, Ohio 45503, Telephone (513) 399-7235 covering Illinois, Indiana, Kentucky, Michigan, Ohio, Tennessee, and West Virginia.

Mr. R. J. Radcliffe, Secretary of the Corporation, Loma Linda University, Loma Linda, California 92354, Telephone (714) 796-7311 covering Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, Oregon, Utah, Washington, and Wyoming.

Mr. Tal Roberts, Vice President and Trust Counsel, Baptist Foundation of Texas, P.O. Box 1409, Dallas, Texas 75221, Telephone (214) 748-7761 covering Alabama, Arkansas, Georgia, Louisiana, Mississippi, Missouri, New Mexico, Oklahoma, and Texas.

The full text of Dr. Matthies' remarks are reproduced beginning at page 41.

The first plenary session was declared in recess at 11:45 to resume at 12:00 noon in Royal Hall for luncheon.

Luncheon Session

Grace was offered by The Reverend Miss K. Joan Cole, Assistant General Secretary, General Council on Finance and Administration, The United Methodist Church.

The Chairman announced that no conference business would be conducted at the luncheon session.

The Conference recessed from luncheon to designated locations to participate in Workshop Sessions.

Workshop Sessions

The following workshops convened at 1:30 p.m.:

1) *Gift Annuity and Deferred Annuity—BASIC*

DR. CHESTER A. MYROM—Former Director of the Lutheran Church in America Foundation

MR. LINDSAY EVANS—Assistant Director, Planned Giving, Foundation for Christian Living

2) *Gift Annuity and Deferred Annuity—ADVANCED*

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

MR. JOHN DESCHERE—Comptroller, Bard College

3) *Pooled Income Fund—Charitable Remainder Trust—BASIC*

MR. JAMES B. POTTER—Assistant Director, United Presbyterian Foundation

THE REVEREND LEONARD CLOUGH—Director of Bequests and Life Income Gifts Program, United Church of Christ

4) *Pooled Income Fund—Charitable Remainder Trust—ADVANCED*

CLINTON SCHROEDER, Esq.—Partner, Gray, Plant, Mooty, Mooty & Bennett

J. PATRICK WHALEY, Esq.—Partner, Musick, Peeler & Garrett

5) *Administration of Deferred Giving Programs—SMALL INSTITUTIONS*

MISS JANE STUBER—Director, Deferred Gifts and Bequests, Smith College

6) *Administration of Deferred Giving Programs—LARGE INSTITUTIONS*

MR. TAL ROBERTS—Vice President and Trust Counsel, Baptist Foundation of Texas

7) *Investment of Deferred Giving Programs*

THE REVEREND VICTOR O. MENNICKE—Director, Lutheran Church in America Foundation

DR. DAROLD MORGAN—President, Annuity Board, The Southern Baptist Convention

The first workshops (Session "A") concluded about 3:00 p.m. for a coffee break of approximately fifteen minutes. The second workshops (Session "B") followed, lasting until about 5:00 p.m. At their conclusion, the Conference recessed for dinner.

Optional Evening Sessions

The following optional sessions convened at 8:00 p.m.:

Canadian Taxation—The Reverend R. M. Bartlett, Director of Annuities, The United Church of Canada, leader. About 25 persons were reported to have been in attendance.

Practical Applications—Dr. Darold H. Morgan, President, Annuity Board of The Southern Baptist Convention, leader. About 175 persons were reported to have been in attendance.

Thursday, May 8, 1980

The Conference was reconvened at 8:30 a.m. in the Imperial Ballroom by Vice Chairman Darold H. Morgan.

The Chairman of the Resolutions Committee, Dr. Walter C. Konrath, submitted the following Resolution:

> BE IT RESOLVED that the gift annuity rates based on the 1971 Individual Annuity Mortality Table, female lives with ages rated as two years younger; interest assumption of 5½%; 50% residuum; expense loading of 5%; with tabular rates modified at younger ages and older ages extending to age 90 and above at 14%, be adopted by the Seventeenth Conference on Gift Annuities as the maximum uniform rates.

Dr. Konrath moved its adoption. It was promptly seconded. After a single question had been asked by a participant and answered by Mr. Mudry, the question was called for.

In a voice vote, the Resolution was ADOPTED. There were no dissenting votes.

The Conference recessed to previously designated locations to resume participation in Workshop Sessions "C" and "D".

Following these sessions at 12:15 a buffet luncheon was served in Royal Hall.

Luncheon Session

Grace was offered by The Reverend Henry J. Butler, S.J., Director, Jesuit Seminary and Mission Bureau.

Vice Chairman Matthies announced that the Conference would reconvene at 1:15 p.m., fifteen minutes earlier than scheduled to assist participants having early departure schedules.

Second Plenary Session

The Conference reconvened at 1:15 p.m. in the Imperial Ballroom. The Chairman of the Resolutions Committee, Dr. Konrath, presented the report of that committee. The full text of the Resolutions Committee Report is printed beginning at page 147. Dr. Konrath read the entire report and moved its adoption. It was seconded and ADOPTED unanimously.

Dr. Roland C. Matthies then introduced the speaker for the final session of the Conference, Conrad Teitell, Esq., Partner, Prerau and Teitell; Editor, *Taxwise Giving*. His topic was "Federal Tax Legislation". Mr. Teitell reported that bills have been introduced in both houses of the Congress (S. 219; H.R. 1785) with broad sponsorship that would approve deductions for charitable contributions even when taxpayers elect to use standard deduction. He urged conference participants to lobby for passage of these bills. Mr. Teitell informed and entertained the audience with his unique style of presentation and received a sustained ovation. At the conclusion of his remarks, he answered several questions from the audience.

The conference adjourned at 2:30 p.m. with benediction by The Reverend Donn Jann, Associate Director, United Presbyterian Foundation.

Respectfully submitted,
John Deschere, *Secretary*

REPORT OF THE RESOLUTIONS COMMITTEE

"BE IT RESOLVED that the gift annuity rates based on the 1971 Individual Annuity Mortality Table, female lives with ages rated as two years younger; interest assumption of 5½%; 50% residuum; expense loading of 5%; with tabular rates modified at younger ages and older ages extending to age 90 and above at 14%, be adopted by the Seventeenth Conference on Gift Annuities as the maximum uniform rates."

I. BE IT RESOLVED that the Seventeenth Conference note with special interest the information set forth in Chairman Baas' opening statement regarding the record number of sponsors that have been developed for this conference, now 1104 and give recognition to the fact that this growth could not have come about without the active personal promotion and support of individuals attending this and prior conferences.

II. BE IT RESOLVED that the Seventeenth Conference on Gift Annuities express its sincere appreciation to Mr. Steven Leuthold, Officer & Director, Funds, Inc. of Houston, Texas, and special consultant to Piper, Jaffray and Hopwood of Minneapolis, Minnesota, for his timely and authoritative address: "Economic Review and Projection."

III. BE IT RESOLVED that the Seventeenth Conference on Gift Annuities express appreciation to Mr. Michael Mudry, Actuary, Senior Vice President and Secretary of Huggins & Company, Inc., for his study on the rate structure for both standard and Deferred Gift Annuities.

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

Dr. Roland Matthies, Vice President and
Treasurer Emeritus, Wittenberg University
"Report on State Regulations"

Conrad Teitell, Esq., Partner, Prerau and Teitell;
Editor, *Taxwise Giving*
"Federal Tax Legislation"

V. BE IT RESOLVED that the Seventeenth Conference on Gift Annuities express gratitude to the leaders of the various workshop sessions who graciously shared their knowledge and expertise during this Conference; namely the following:

The Reverend Leonard Clough, Director of Bequests and Life Income Gifts Program, United Church of Christ

Mr. John Deschere, Comptroller, Bard College

Mr. Lindsay Evans, Assistant Director, Planned Giving, Foundation for Christian Living

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

The Reverend Victor O. Mennicke, Director, Lutheran Church in America Foundation

Dr. Darold H. Morgan, President, Annuity Board, The Southern Baptist Convention

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

Mr. James B. Potter, Assistant Director, United Presbyterian Foundation

Mr. Tal Roberts, Vice President and Trust Counsel, Baptist Foundation of Texas

Clinton Schroeder, Esq., Partner, Gray, Plant, Mooty, Mooty & Bennett

Miss Jane Stuber, Director, Deferred Gifts and Bequests, Smith College

J. Patrick Whaley, Esq., Partner, Musick, Peeler & Garrett

VI. BE IT RESOLVED that the Seventeenth Conference on Gift Annuities express special gratitude to those persons conducting optional sessions, namely the following:

The Reverend R. M. Bartlett, Director of Annuities, The United Church of Canada

Dr. Robert B. Gronlund, Consultant to Brenau College

Mr. David E. Johnson, Vice President, St. Olaf College

Dr. Darold H. Morgan, President, Annuity Board of The Southern Baptist Convention

VII. BE IT RESOLVED that the Seventeenth Conference on Gift Annuities recommend to the various societies, agencies, boards, institutions, colleges, homes and hospitals, 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 Seventeenth 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 Seventeenth Conference on Gift Annuities recommend that religious, educational, health, 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 and/or State authorities dealing with Gift Annuities and/or Pooled Life Income agreements.

X. BE IT RESOLVED that the Seventeenth Conference on Gift Annuities strongly 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 Seventeenth Conference on Gift Annuities send greetings to Dr. Gilbert Darlington, Honorary Chairman; to Mr. Forrest Smith, Honorary Treasurer; and to Dr. J. Homer Magee and Dr. R. Alton Reed, Honorary Members, remembering their many contributions to the work of this Committee.

XII. BE IT RESOLVED that the Seventeenth Conference on Gift Annuities express its appreciation for the special helpfulness extended to this group in connection with the arrangements for it, most notably by Miss Donna K. Herrington, Coordinator of Public Relations for the Annuity Board of The Southern Baptist Convention; Miss Mary Lou Ruegg, Aide to the Treasurer of the American Bible Society; Miss Edith M. Soffel, Assistant to the Treasurer, American Bible Society; Mrs. Petra Greenfield, Legacy Supervisor of the American Bible Society and also Mrs. Louise Hackett, Mrs. Betty Oatman, Mrs. Gwenythe Weis of the Kansas City Convention & Visitors Bureau; and by the staff and management of the Radisson Muehlebach Hotel.

XIII. BE IT RESOLVED that the Seventeenth Conference on Gift Annuities express its warm thanks and hearty commendation to Dr. Darold Morgan and Miss Agnes Claire Reithebuch for their leadership as convenors, respectively, of the Arrangements Committee and Program Committee for this Conference.

XIV. BE IT RESOLVED that the Seventeenth Conference on Gift Annuities express to Dr. Charles W. Baas, Chairman; Dr. Roland C. Matthies, Dr. Darold H. Morgan, Vice Chairmen; Mr. John Deschere, Secretary; Mr. William E. Jarvis, Treasurer; and to the other members of the Committee on Gift Annuities, its appreciation for this outstanding conference and for their many services since the last conference.

Walter C. Konrath, Chairman
John Deschere
Wayne W. Krows
Roland C. Matthies
Darold H. Morgan
Michael Mudry
Arthur Ritz

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Earlham College
East Tennessee State University
Eastern Baptist Theological Seminary/Eastern College
Eastern European Mission
Eastern Mennonite College & Seminary
Ebenezer Society
Eden Theological Seminary
Eger Foundtion
Eliada Homes, Inc.
Elizabethtown College
Elmhurst College
Elon College
Emmanuel School of Religion
N. T. Enloe Memorial Hospital
Episcopal Church in the USA
Erskine College
Eureka College
Evangel Temple Assembly of God
Evangelical Congregational Church
Evangelical Free Church of America
Evangelical Friends Church
Evangelical Ministries, Inc.
Evangelical Stewardship Ministries
Evergreen Manor, Inc.

Faegre & Benson
William D. Fairfield
Fairview Community Hospitals
Faith Baptist Bible College
Family Life Broadcasting System, Inc.
Far East Broadcasting Company
Far Eastern Gospel Crusade
Father Flanagan's Boys Town
Fathers of St. Edmund
Fellowship of Reconciliation
Findlay College

First Christian Church Foundation, Inc.
First Community Church
Florida Atlantic University Foundation, Inc.
Florida Sheriffs Youth Fund, Inc.
Foley & Lardner
Fordham University
Henry Ford Hospital
Fort Sanders Presbyterian Hospital
Fort Wayne Association of Christian Schools
Fort Wayne Bible College
Foundation for Christian Living
George Fox College
Franklin and Marshall College
Franklin United Methodist Home
Free Will Baptist Home Missions
Freed—Hardeman College
Freeman Junior College
Freemont Christian School
Fresno Pacific College
Friars of the Atonement
Friends Bible College
Friends Homes, Inc.
Friends School of Baltimore, Inc.
Friends University
Friendship Manor
Fuller Theological Seminary
Furman University

GSB Design Consultants
Galesburg Cottage Hospital
Garden Grove Community Church
Gardner—Webb College
Garrett—Evangelical Theological Seminary
General Conference, Mennonite Church
Geneva College
George School
Georgetown College
Georgia Baptist Children's Home, Inc.
Georgia Baptist Foundation
Georgia Sheriff's Youth Homes, Inc.
Georgetown University
Gethsemane Lutheran Church
Gettysburg College
Glenmary Home Missioners
Glenwood School for Boys
Golden Valley Lutheran College
Gonser, Gerber, Tinker & Stuhr
Gonzaga University
Good Samaritan Hospital Association
Good Shepherd Home
Goodwill Industries Rehabilitation Center
Goodwill Industries-Suncoast, Inc.
Gordon College
Gordon-Conwell Theological Seminary
Gospel Films, Inc.
Gospel for the Blind, Inc.
Gospel Missionary Union
Gospel Volunteers, Inc.
Grace Bible College
Grace Brethren Missions Stewardship Service
Grace Christian Education Association
Grace College of the Bible
Graceland College
Grace Schools, Inc.
Billy Graham Evangelistic Association
Grand Rapids Baptist College and Seminary
Gray, Plant, Mooty, Mooty & Bennett
Great Commission Foundation
Great Lakes Bible College
Greater Atlanta Christian Schools
Greater Europe Mission
Greater Minneapolis Association of Evangelicals
Greene Memorial Hospital
Greenville College
Grinnell College
Gronlund Associates, Inc.
Guilford College

Haggai Institute
Kenneth E. Hagin, Inc.
Hamline University
Hampden-Sydney College
A. S. Hansen, Inc.
Hardin-Simmons University
Harvard Management Company
Hastings College
Hawthorne Gospel Church
Health Central Institute

Heidelberg College
Heritage Village
Herrick & Smith
High Adventure Ministries, Inc.
High Point College
Hillcrest Family Services
Hillcrest Medical Center
Hinsdale Sanitarium & Hospital
Historic Landmarks Foundation of Indiana
Hoag Memorial Hospital Presbyterian
Holland Home
Holy Land Christian Mission
Hope College
Hope Haven
Houghton College
Huggins & Company, Inc.
Rex Humbard Foundation
Huntington College

ICD Rehabilitation & Research Center
Idaho Youth Ranch, Inc.
Illinois Benedictine College
Illinois Institute of Technology
Illinois Wesleyan University
Independent Faith Mission, Inc.
Indiana Central University
Indianapolis Baptist Temple
Institute of Logopedics
Intermountain Bible College
Inter-Mountain Deaconess Home
Inter-Varsity Christian Fellowship
Iowa Methodist Medical Center
Iowa State University
Iowa Wesleyan College
Israel Histadrut Foundation, Inc.
Iversen-Norman Associates

Jackson Community College
Jamestown College
Thomas Jefferson University
Jesuit Deferred Giving Program
Jesuit Mission Bureau
Jesuit Seminary & Mission Bureau
  Baltimore, Maryland
  New York, New York
  Portland, Oregon
William Jewell College
Jewish National Fund
Johnson Bible College
Judson College
Juniata College

Kansas Wesleyan University
KCET
Kennedy Sinclaire, Inc.
Kenosha Memorial Hospital
Kentucky Baptist Board of Child Care
Kentucky Baptist Foundation
Kenyon College
Kettering Medical Center
Kirksville College of Osteopathic Medicine

Lafayette College
Lake Avenue Congregational Church
Lake Bluff/Chicago Homes for Children
Lake Erie College
Lakeside Association
Lambrides & Samson
Lambuth College
Lancaster Bible College
Lancaster Theological Seminary
Lander College
Latin America Mission, Inc.
Laubach Literacy International
Lawrence University
Douglas M. Lawson Associates
Lebanon Valley Brethren Home
Lebanon Valley College
Lee College
Michael W. Lee
Lexington Theological Seminary
Lincoln Christian College & Seminary
Linfield College
Living Bibles International
Alica Lloyd College
Loma Linda University
Long Beach Community Hospital Foundation
Los Angeles College of Chiropractic
Louisiana Baptist Foundation
Louisville Presbyterian Theological Seminary
Loyola Marymount University
Loyola University
Lubbock Christian College
Lundstrom Ministries
Luther College
Lutheran Bible Institute

Lutheran Church in America
Lutheran Church in America Foundation
Lutheran High School Association of Greater Chicago
Lutheran Laymen's League
Lutheran Social Service of Minnesota
Lutheran Social Services of Michigan
Lutheran Church in America
Minnesota Synod
Nebraska Synod
Southern District Lutheran Church
Lutheran Social Services, South Region
Luther-Northwestern Seminaries
Lycoming College
Lynchburg College

McCormick Theological Seminary
McDowell Health Care Center
McMurry College
McQuaid Jesuit High School
McPherson College
Macalester College
Macmurray College
James Madison University Foundation, Inc.
Madonna Foundation
Malone College
Manhattan Christian College
Mare and Company
Marietta College
Marion College
Marquette University
Marshfield Medical Foundation
Martin Luther Home
Mary College
Marycrest College
Maryville College
Masonic Charity Foundation of New Jersey
Masonic Homes of California
Meals for Millions/Freedom from Hunger Foundation
Medical Assistance Programs, Inc.
Medical Center Hospitals
Medical College of Georgia Foundation
Memorial and Children's Medical Center Foundation
Memorial Sloan-Kettering Cancer Center
Mennonite Board of Missions
Mennonite Brethren Conference
Mennonite Hospital Association
Mercy Medical Center
Meredith College
Messiah College
Methodist Hospital Foundation, Inc.
Methodist Hospital of Indiana
Methodist Hospitals of Dallas
Methodist Theological School
Metro Cultural Center
Miami Christian College
Michigan Cancer Foundation
Michigan State University Foundation
Mid-America Nazarene College
Mid-South Bible College
Midland Lutheran College
Midway College
Millikin University
Millsaps College
Minnesota Bible College
Minnesota Medical Foundation
Minnesota United Methodist Foundation
Mission to the Cumberlands
Missionaries of the Sacred Heart
Missionary Church, Inc.
Missouri Baptist Foundation
Missouri Western State College Foundation
William Mitchell College of Law
Montana State University
Montreat-Anderson College
Moody Bible Institute
Moral Re-Armament Inc.
Moravian Church, Northern Province
Morton F. Plant Hospital
Mount Holyoke College
Mount Olive College, Inc.
Mt. Paran Church of God
Mount Sinai Medical Center
Mount Vernon Bible College
Muhlenberg College
Mulberry Lutheran Home
Murray State University Foundation
Musick, Peeler & Garrett
Muskingham College

Nashotah House

National Association, Congregational Churches
National Association of Evangelicals
National Audubon Society
National Benevolent Association
National Board of YMCAs
National Church Residences
National College of Education
National Council of Churches of Christ in the USA
National Gerimedical Hospital and Gerontology Center
National Health & Welfare Mutual Life Insurance Association, Inc.
National Jewish Hospital and Research Center
National University
National Wildlife Federation
Nebraska Boys Ranch
Nebraska Children's Home Society
Nebraska Christian College
Nebraska Christian Schools, Inc.
Nebraska Wesleyan University
R & R Newkirk
New Mexico Baptist Foundation
New Mexico Boys Ranch
New Tribes Mission
New Views Foundation
New York International Bible Society
New York University
North American Baptists
North Carolina Baptist Foundation Inc.
North Carolina State University
North Central College
North Park College & Theological Seminary
Northeastern Illinois University
Northeastern University
Northern Baptist Theological Seminary
Northfield Mount Hermon School
Northwest Bible College
Northwest Community Hospital Foundation
Northwestern College
Orange City, Iowa
Northwestern College
Roseville, Minnesota
Northwestern University
Northwest Nazarene College
Northwood Institute
Norton-Children's Hospitals, Inc.

OMS International, Inc.
Oak Hills Fellowship, Inc.
Oberlin College
Oblate Fathers
Occidental College
Oglethorpe University
Ohio Northern University
Ohio Presbyterian Homes
Ohio Valley Medical Center
Ohio Wesleyan University
Oklahoma Baptist University
Old-Time Gospel Hour
Open Bible Center
Open Bible Standard Churches, Inc.
Oregon State University Foundation
Orthopaedic Hospital
Osborn Foundation
OSU Development Foundation
Ottawa University
Otterbein College
Otterbein Home
Ouachita Baptist University
Our Lady of Victory Homes of Charity
Ozanam Home for Boys
Ozark Bible College

Pacific & Southwest United Methodist Foundation
Pacific Garden Mission
Pacific University
Robert Packer Hospital
Park Street Church
Howard Payne University
Peninsula United Methodist Homes & Hospital Inc.
Pension Fund of the Christian Church
Pensacola Christian College
Pepperdine University
Peralta Hospital
Philadelphia College of Pharmacy & Science
Philadelphia College of the Bible
Philadelphia Museum of Art
Philhaven Hospital
Phillips University
Phoebe-Devitt Home
Piedmont College
William M. Pierson

Pilgrim Congregational Church
Pilgrim Place
Pillsbury Baptist Bible College
Pinecrest Manor, Home for the Aging
Pine Rest Christian Hospital
Pioneer Girls, Inc.
Pittsburgh Symphony
Planned Giving Institute, Inc.
Planned Giving Specialists, Inc.
Planned Parenthood Federation of America
Plymouth Congregational Church
Plymouth Place, Inc.
Poferl, Preeshl, Helstad & Shoup
Point Loma College
Polytechnic Institute of New York
Pomona College
Pontifical College Josephinum
Powell House, Inc.
Prairie Public Broadcasting
Prairie View Mental Health Center
Presbyterian Church in the US
Presbyterian Home for Children
Presbyterian Hospital Center Foundation
Presbyterian Journal
Presbyterian Medical Center
Presbyterian-University of Pennsylvania Medical Center
Princeton Theological Seminary
Project Hope/The People-to-People Health Foundation, Inc.
Punahou School

Quakerdale Childrens Home

Radio Bible Class Trust
Randolph-Macon College
Redemptorist Foundation
Reformed Bible College
Reformed Presbyterian Foundation
Reformed Theological Seminary
Regions Beyond Missionary Union
Rehabilitation Service of North Central Ohio
Reid Memorial Hospital Foundation, Inc.
Reorganized Church of Jesus Christ of Latter Day Saints
Republic National Bank of Dallas
Retired Teachers Housing Authority
Reynolds, Richards, La Venture, Hadley & Davis
Rideout Hospital Foundation, Inc.
Ridgecrest Retirement Village
Rio Grande Bible Institute, Inc.
Ripon College
Roanoke College
Oral Roberts Association
Roberts Wesleyan College
Rochester Institute of Technology
Rockford College
Rockhurst College
Rockmont College
Rocky Mountain College
Rocky Mountain Methodist Homes, Inc.
John E. Rogers Company
Rollins College
Rosecrance Memorial Homes for Children
Rose—Hulman Institute of Technology
Rutgers University Foundation

Richard E. Sackett
Sacred Heart League
Sacred Heart Program
Sacred Heart School of Theology
St. Ambrose College
Saint Benedict's Hospital
Saint Clare's Hospital
St. Columbans Foreign Mission Society
St. Edward's University
St. Francis Boys' Homes
St. Francis Medical Center
Cape Girardeau, Missouri
Trenton, New Jersey
St. Francis Seminary
St. John's College
St. John's Hospital and Health Center
Saint John's University
Saint Joseph Hospital
St. Joseph's Hospital
St. Joseph's Hospital and Medical Center
Saint Lawrence Seminary
St. Louis College of Pharmacy
Saint Louis University
St. Luke's Hospital
St. Luke's Hospital Medical Center
Saint Luke's Hospital of Kansas City

St. Luke's Medical Center
St. Mark's on-the-Mesa Episcopal Church
Saint Martin's College
Saint Mary College
Saint Mary-of-the-Woods College
Saint Mary's College
St. Mary's Hospital
St. Mary's Junior College
St. Meinrad Archabbey & Seminary
Saint Michael's College
Saint Olaf College
St. Paul Bible College
St. Paul School of Theology
St. Vincent's Hall, Inc.
Salem Academy and College
Salem Children's Home
Salem Hospital
Salesian Missions
Samaritan Medical Foundation
Samford University
Sammis, Smith & Brush, Inc.
San Diego State University Foundation
Sansum Medical Research Foundation
Santa Monica Hospital Medical Center Foundation
Save the Children Federation
Scarritt College
Scripps Clinic and Research Foundation
Scripture Union
Seattle Pacific University
Seton Hall University
Seventh-day Adventists
  Allegheny West Conference
  Atlantic Union Conference
  Central Union Conference
  Colorado Association
  Columbia Union Conference
  General Conference
  Kansas Association
  Lake Union Conference
  Michigan Conference Association
  Missouri Conference
  Nebraska Conference Association
  North Pacific Union Conference
  Ontario Conference
  Pacific Union Conference
  Southern Union Conference Association
  Southwestern Union Conference
  Wyoming Conference
Seventh-day Adventist Radio, TV and Film Center
Seventh Day Baptist General Conference
Sewall Rehabilitation Center
Robert F. Sharpe & Co., Inc.
Shea & Gould
Shearin, Collins & Marshall
Shenandoah College and Conservatory of Music
Shriners Hospital for Crippled Children
Simmons College
Simpson College
Sinkler, Gibbs & Simons
Sioux Falls College
Smith College
Smith, Stratton, Wise and Heher
Society of the Catholic Apostolate
Society of the Missionaries of the Sacred Heart
South Dakota United Methodist Foundation
Southeastern Baptist Theological Seminary
Southeastern Bible College
Southern Baptist College
Southern Baptist Convention Annuity Board
Southern Baptist Foundation
Southern California College of Optometry
Southern Connecticut State College Foundation, Inc.
Southern Methodist University
Southern Seminary Foundation
South Iowa Methodist Homes, Inc.
South Miami Hospital
Southwest Baptist College
Southwestern at Memphis
Southwestern College
  Phoenix, Arizona
Southwestern College
  Winfield, Kansas
Southwest Estate Services, Inc.
Spring Arbor College
Spring Hill College
Stanford University
Starr Commonwealth for Boys
Edwin J. Steinberg Associates

Stephens College
Sterling College
John B. Stetson University
Stewards Foundation
Sudan Interior Mission
Sugar Creek Bible Camp (ALC)
Sunnyside Presbyterian Home
Suomi College
Jimmy Swaggart Evangelistic Association
Swarthmore College
Swedish Medical Center Foundation
Sweet Briar College
Swiss Village, Inc.
Sword of the Lord Foundation

Tabitha Home
Tabor College
Tarkio College
Taylor University
Temple University
Texas Baptist Children's Home
Texas Christian University
The Abbey
The Allegheny Lutheran Home
The American Lutheran Church Foundation
The American University
The Augustinians
The Baby Fold
The Back to God Hour
The Baptist Foundation of Alabama
The Baptist Foundation of Oklahoma
The Bible Research Foundation, Inc.
The Brethren Home at Cross Keys
The Catholic University of America
The Cedars Home for Children Foundation, Inc.
The Chapel in University Park
The Children's Hospital
The Children's Hospital of Philadelphia
The Children's Orthopedic Hospital and Medical Center
The Christ Hospital
The Christian and Missionary Alliance
The Christian Broadcasting Network, Inc.
The Christian Church of Greater Kansas City
The Church Pension Fund
The Clarke School for the Deaf
The College of Idaho
The College of St. Catherine
The College of Wooster
The Colorado College
The Conservative Baptist Foreign Mission Society
The Counselor Association, Inc.
The Crew of the Good Ship Grace, Inc.
The Crosier Fathers
The Defiance College
The Evangelical Alliance Mission
The Evangelical Covenant Church of America
The First Brethren Church
The First Church of Christ, Scientist
The Florida Methodist Foundation, Inc.
The Foote System
The Free Methodist Church of North America
The Friends of Israel
The Galilean Baptist Mission, Inc.
The General Council of the Assemblies of God
The George Washington University
The Gerry Homes
The "Go Ye" Mission, Inc.
The Health Haven Corporation
The Iliff School of Theology
The Institutes of Medical Sciences
The International Linguistic Center, Inc.
The Kentucky Baptist Foundation, Inc.
The King's College
The Latin School of Chicago
The Lawrenceville School
The March of Dimes Birth Defects Foundation
The Menninger Foundation
The Mennonite Foundation, Inc.
The Methodist Hospital of Brooklyn
The Milwaukee Boy Scout Fund
The Minneapolis Society of Fine Arts
The Moody Church
The Navigators
The Nebraska Methodist Hospital Foundation

The New Mexico Conference Methodist Foundation
The New York Public Library
The Oklahoma United Methodist Foundation
The Omaha Home for Boys
The Pension Boards
  United Church of Christ
The Pocket Testament League, Inc.
The Prairie School
The Presbyterian Foundation, Inc.
The Purnell School
The Reformed Church
The Reformed Presbyterian Foundation
The Rockefeller University
The Roxbury Latin School
The Sacred Heart Program, Inc.
The Salvation Army
  Rancho Palos Verdes, California
  Atlanta, Georgia
  Chicago, Illinois
  Detroit, Michigan
  New York, New York
  Portland, Oregon
The Seeing Eye, Inc.
The School of the Ozarks
The Swedish Covenant Hospital
The Texas Presbyterian Foundation
The United Church of Canada
The United Methodist Children's Home
The United Methodist Church
  Board of Higher Education and Ministry
  Central Pennsylvania Conference
  Council on Finance and Administration
  Detroit Annual Conference Endowment Fund, Inc.
  National Methodist Foundation
  Northern New York Conference
  The Preachers' Aid Society of the Illinois Conference
  The Preachers' Aid Society of the Southern New England Conference
The United Methodist Foundation of Louisiana
The United Methodist Foundation, Northern Illinois Conference
The United Methodist Homes for the Aged
The United Methodist Homes of New Jersey
The Univesity of Chicago
The University of Georgia
The University of North Carolina
The University of Scranton
The University of South Dakota Foundation
The University of Wyoming Foundation
The Voice of Prophecy
The Wesleyan Church
The World Radio Missionary Fellowship, Inc.
The Worldwide Evangelization Crusade
Three Crosses Ranch, Inc.
Toccoa Falls College
Transylvania University
Tressler—Lutheran Services Associates, Inc.
Trevecca Nazarene College
Trinity Christian College
Trinity College
Trinity Lutheran Seminary
Trinity University
Trustees of Methodist Health and Welfare Services
Trust & Estates Magazine
Tufts University
Tulane University
Twelveacres, Incorporated

UAB Medical and Educational Foundation
Unevangelized Fields Mission
Unitarian Universalist Association
United Church Board for Homeland Ministries
United Church Board for World Ministries
United Church of Christ
  Benevolent Corporation of the Wisconsin Conference
  Illinois South Conference
United Church Homes, Inc.
United Hospitals, Inc.
United Methodist Church Foundation, Inc.

United Methodist Foundation
United Methodist South Indiana
Ministers Pension Fund, Inc.
United Presbyterian Foundation
United Theological Seminary
United Theological Seminary of the
Twin Cities
United Way of America
United Way of Delaware
Unity School of Christianity
University of Alabama in
Birmingham
Medical and Education Foundation
University of California
Berkeley Foundation
University of Cincinnati Foundation
University of Dayton
University of Florida Foundation,
Inc.
University of Hartford
University of Houston Foundation
University of Miami
University of Minnesota Foundation
University of Oregon Development
Fund
University of Puget Sound
University of Redlands
University of Rhode Island
University of Richmond
University of San Diego
University of Santa Clara
University of Tampa
University of the Pacific
University of Vermont
University of Virginia
University of Wisconsin—La Crosse
Foundation, Inc.
Up With People
Uta Halee Girls Village

Valle Verde Baptist Homes
Valparaiso University
Jack Van Impe Crusades
Vassar College
Vennard College
Villanova University
Virginia Baptist Homes, Inc.
Visiting Nurse Service of New York
Voice of China and Asia Missionary
Society, Inc.

Wabash College
Wagner College
Warm Beach Manor
Warner Press, Inc.
Warren Wilson College
Wartburg College
Wartburg Seminary
Washington and Lee University
Washington Bible College
Washington State University—YMCA
Washington University
Wayland Academy
Wayland Baptist College
WEF Ministries
Wellesley College
Wentworth Institute of Technology
Wesleyan University
Wesley College
Wesley Medical Endowment
Foundation
Wesley Theological Seminary
Leo E. Wesner Associates
West Nebraska General Hospital
Foundation
West Virginia Baptist Foundation,
Inc.
Westbrook College
Western Bible College
Western Maryland College
Westmar College
Westminster Theological Seminary
Westmont College
Wheaton College
Wheaton, Illinois
Wheaton College
Norton, Massachusetts
Wheelock College
White Plains Hospital Medical Center
Whitman College
Whitworth College
Wichita State University
Endowment Association
Widener College
Willamette University
Williams College
Wills Eye Hospital
Wilmington College
Winebrenner Theological Seminary
Wisconsin Evangelical Lutheran
Synod
Wittenberg University

Philip G. Wojtalewicz
Woodward and Slater, Inc.
World Evangelism, Inc.
World Gospel Mission
World Home Bible League
World Literature Crusade
World Messianic Fellowships, Inc.
World Mission Prayer League
World Missionary Press, Inc.
World Neighbors
World Presbyterian Missions, Inc.
World Vision, Inc.
Eugene Wuesthoff Memorial Hospital

Wycliffe Bible Translators, Inc.

Yale University
Yankton College
Yellowstone Boys Ranch
York College
York College of Pennsylvania
YMCA Metropolitan Minneapolis
YMCA Greater St. Louis
YWCA Minneapolis Area
YWCA New York, New York
Youth for Christ

CONSTITUTION
of the
COMMITTEE ON GIFT ANNUITIES

ARTICLE I

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

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

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

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

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

ARTICLE II

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

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

ARTICLE III

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

ARTICLE IV

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

ARTICLE V

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

BY-LAWS
COMMITTEE ON GIFT ANNUITIES

I. The Officers shall be a Chairman, one or more Vice Chairmen, Treasurer, Secretary, Assistant Treasurer, and Assistant Secretary, who shall be elected at the Committee meeting next following the Charitable Gift Annuity Conference. Officers may be elected to one or more successive terms and a majority vote of Members present will elect.

II. Vacancies in the offices of the Committee shall be filled by the Committee at any meeting. A vote of a majority of those present will elect.

III. The Chairman, Vice Chairmen, Treasurer, Secretary, Assistant Treasurer, and Assistant Secretary of the Committee shall fulfill the usual duties of those offices during their term of office. The Treasurer shall keep the accounts, and the Secretary shall keep the Minutes of the meetings of the Committee and each shall perform such other duties as may be assigned them by the Chairman or the Committee.

IV. The Chairman, or in his absence a Vice Chairman, shall call the meetings of the Committee at such time and place as seems desirable either to the Committee if it is in session, or to the Chairman if the Committee is not in session. At least two weeks' notice of the forthcoming meeting should ordinarily be given.

V. Conferences on Gift Annuities shall be called periodically as required by the Constitution of the Committee on Gift Annuities. A majority vote of Committee Members shall be required to call a Conference.

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

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

VIII. These By-laws may be amended at any regularly called meeting of the Committee, provided the proposed changes are approved by a two-thirds vote of the Members present and voting.

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COMMITTEE ON GIFT ANNUITIES

Chairman
CHARLES W. BAAS
Treasurer, American Bible Society

Vice Chairmen:
ROLAND C. MATTHIES
Vice President and Treasurer
Emeritus Wittenberg University
DAROLD H. MORGAN
President of the Annuity Board
of the Southern Baptist Convention

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

Secretary
JOHN M. DESCHERE
Comptroller, Bard College

Actuary
Huggins & Company, Inc.

Other Members
R. M. BARTLETT
Director of Annuities
The United Church of Canada
CHARLES L. BURRALL, JR.
Consultant
Huggins & Company, Inc.
K. JOAN COLE
Assistant General Secretary
General Council on Finance and
Administration, The United
Methodist Church
KENNETH H. EMMERSON
Treasurer, General Conference of
Seventh-day Adventists
ROBERT GREINER
Treasurer, General Board
Church of the Brethren
ROBERT B. GRONLUND
Consultant, Brenau College
EARL R. HENRY
Associate Director
Lutheran Church in America
Foundation
FLOYD HOOPER
National Treasurer and Business
Administrator, The Salvation Army
DAVID E. JOHNSON
Vice President, St. Olaf College
MICHAEL MUDRY
Senior Vice President & Secretary
Huggins & Company, Inc.
CHESTER A. MYROM (Ret.)
Former Director, Lutheran Church
in America Foundation
JOHN D. ORDWAY
Executive Vice President, The Pension
Boards—United Church of Christ
JAMES B. POTTER
Assistant Director, United
Presbyterian Foundation
R. J. RADCLIFFE
Secretary of the Corporation
Loma Linda University
AGNES CLAIRE REITHEBUCH
Accounting Manager, The Society
for the Propagation of the Faith
TAL ROBERTS
Vice President and Trust Counsel
Baptist Foundation of Texas
CLINTON A. SCHROEDER
Partner, Gray, Plant, Mooty,
Mooty & Bennett
JANE STUBER
Director, Deferred Gifts &Bequests
Smith College
EUGENE L. WILSON
Controller, American Leprosy
Missions, Inc.

Honorary Treasurer
FORREST SMITH (Ret.)
American Baptist Foreign
Missions Society

Honorary Members
J. HOMER MAGEE (Ret.)
The United Methodist Church
R. ALTON REED (Ret.)
Southern Baptist Convention