TWENTY-FIRST CONFERENCE ON GIFT ANNUITIES

COMMITTEE ON GIFT ANNUITIES
65 YEARS OF SERVICE
1927-1992

WISE PUBLIC GIVING SERIES, NO. 60
1992

TWENTY-FIRST CONFERENCE ON GIFT ANNUITIES

PAPERS PRESENTED AT THE
TWENTY-FIRST CONFERENCE ON GIFT ANNUITIES
HELD IN DALLAS, TEXAS
APRIL 28-30, 1992
UNDER THE AUSPICES OF
COMMITTEE ON GIFT ANNUITIES

COMMITTEE ON GIFT ANNUITIES
65 Years of Service
1927 - 1992
WISE PUBLIC GIVING SERIES, NO. 60
2401 Cedar Springs Dallas, Texas 75201-1427

Contents

STATE OF THE CONFERENCE ADDRESS 21ST CONFERENCE ON GIFT ANNUITIES

Tal Roberts
Chairman, Committee on Gift Annuities

Welcome to the 21st Conference on Gift Annuities. This is an historic occasion. It is our 65th Anniversary. In fact, it was exactly sixty-five years ago today, April 29, 1927, that the first Conference on Gift Annuities was held in New York City with forty-seven people in attendance, most of whom were from New York and surrounding areas. Today, we have almost twenty times that number of people in attendance, from every part of the country, representing charities of every description.

And by the way, in case you haven't heard or haven't noticed, you are a part of far and away the largest Conference on Gift Annuities ever held.

In fact, this is the third conference in a row that has set a new attendance record. At the 19th Conference in New Orleans in 1986, we went over the 600 mark for the first time ever. Then in Toronto at the 20th Conference in 1989, we registered over 740. And now, attendance at the 21st Conference will probably exceed 850. That may prove to be something of a mixed blessing, but be patient and know that the Committee and the hotel will do everything possible to make your stay here productive and enjoyable.

We are here to learn—we're here to act on annuity rates—we're here to have a good time—we're here to see old friends and make new ones—we're here to share experiences—we're here to do a little networking, perhaps, and in keeping with all those reasons that have brought you here, we have tried to plan a program for you these next couple of days that we hope will not just make it worth your while to be here, but will enrich your life and work and return you to your place of service with a renewed sense of purpose and mission.

This Conference on Gift Annuities, held every three years, is the primary responsibility and focus of the Committee on Gift Annuities. Since I know there is confusion from time to time as to the Committee vs. the Conference let me tell you that the Committee (with a maximum membership of twenty-five) is a group of people just like you—from charities around the country—who give of their time and effort voluntarily (1) to plan and execute this Conference; (2) to monitor, with the aid of the Committee's actuary, trends in mortality and interest rates; (3) to stay abreast of Federal and State regulation of gift annuities and other planned giving vehicles; (4) to publish and otherwise make available handbooks, workbooks, software and other items to assist you in carrying out a successful gift annuity program; and (5) to do a myriad of other things, all designed to further charitable giving in general and gift annuities in particular. A complete list of Committee members is found on the back of your printed program. Please allow me to introduce them to you.

First, I'm pleased to be joined by two very able vice-chairmen, both of whom know that the only reason I'm standing here today as chairman is that they were both offered the position first and turned it down: Clint Schroeder and Jane Stuber. The other officers are Charley Baas, Secretary and John Ordway, Treasurer. But the real people of the hour are the members of the Program Committee and the Arrangements Committee. The work of the Program Committee has been ably guided by Jim Marshall, Chairman. Serving with him are Kathryn Baerwald and Elizabeth Brothers. They have assembled a program and faculty second to none.

The Arrangements Committee, under the strong and capable leadership of Gerry Gunnin has done everything possible to make this conference run smoothly and effectively. Serving with Gerry are Elizabeth Brown and Richard James.

Later in the morning you will hear from Mike Mudry, the Committee's Actuary, and from Jim Potter, Chairman of the Subcommittee on State Regulation.

At this time, I would like to ask all these I have named, as well as all the other members of the Committee on Gift Annuities, to stand and receive the recognition of this Conference.

So much for the Committee. As for the Conference, well, that's You. You come together every three years, in what surely must be one of the longest-running traditions in charitable giving in this country, and adopt a set of suggested rates for issuing gift annuities, which, by and large, are subscribed to by charities all over the country.

You respond in other ways also, like when we need to make our voice heard on legislative matters in Washington; or when it's time to sound a positive note to counteract articles in the national press that ascribe to all of us the misdeeds of a few.

You responded by subscribing to the "Model Standards of Practice for the Charitable Gift Planner," a process and a product that Frank Minton will address later in the morning.

The need for a statement like the "Model Standards" reminds us that times are changing in the charitable community.

Those of us in the charitable community are being called to new levels of accountability...and so we should be. Our good names—the good names of all of us—have been besmirched by the unscrupulous few.

Those of us in the charitable community are being called to a new level of stewardship...and so we should be. We occupy positions of the highest and most sacred trust.

Those of us in the charitable community will either have to do a better job of regulating ourselves or surely someone else will do it for us. But voluntary self-regulation is not new to us. In fact, it is the very concept on which the Committee on Gift Annuities and this Conference were founded sixty-five years ago.

In that regard, one of the most important things we will do this week as a body is take action on annuity rates. In connection with that action and the other business of the Conference, it is customary for the Chair to appoint a Resolutions Committee, which will meet and report back to us later in the Conference. Those asked to serve on this Committee are:

(1) Roger Parolini, Aurora University, Chairman

(2) Charles Baas, Secretary, Committee on Gift Annuities

(3) Elizabeth Brown, Committee on Gift Annuities

(4) David Himes, Salvation Army

(5) Richard James, Committee on Gift Annuities

(6) Charles Laing, Texas Methodist Foundation

(7) Mike Mudry, Actuary, Committee on Gift Annuities

(8) and your Chairman, Ex Officio

My predecessor Charley Baas, always included in his "State of the Conference" address, an interesting and helpful statistical analysis of those in attendance at the Conference and the organizations they represent. I must admit that due to the overwhelming and unprecedented response to this Conference, we've not had the time to compile those statistics as of yet, but I assure you, that when you receive your copy of the Conference proceedings later this summer, that information will be included.

Again, welcome to Dallas and the 21st Conference on Gift Annuities.

ACTUARIAL DEVELOPMENT OF RECOMMENDED MAXIMUM IMMEDIATE AND DEFERRED GIFT ANNUITY RATES

Michael Mudry
Actuary, Committee on Gift Annuities

Undoubtedly your primary interest in my remarks concerns the recommendations of the Committee on Gift Annuities to this Conference pertaining to maximum immediate gift annuity rates and maximum interest factors during the deferred period in connection with deferred gift annuities. Before presenting these recommendations, though, I will provide some background information that I hope will be helpful.

When cost calculations are made involving possible future payments about which there is any degree of uncertainty as to whether a payment is to be made or when or for what length of period payments will be made, it is necessary to make assumptions in order that such calculations can be made. Examples of situations where such uncertainties exist are payments which would be made by an insurance company if, while insurance coverage is in force, a cargo ship sinks, a house is damaged by fire or an insured person dies. Assumptions are needed in all these cases to compute the premiums to be charged by the insurance company. Similarly, in connection with gift annuity rates, assumptions must be used in several areas because of the uncertainty as to how long payments will be made to the annuitant or annuitants, since it is not known in advance when they will die.

A gift annuity rate represents the percentage payout that will be made annually from the amount paid to the charitable organization for the gift annuity. For example, under current gift annuity rates, the annual payout for life to a 70-year old annuitant under an immediate gift annuity is 7.8% of the amount paid to the charitable organization for the gift annuity. This 7.8% is the gift annuity rate at that age. If such donor pays $10,000 for a gift annuity for himself or herself, the amount of annual annuity payout for the rest of his or her life will equal the gift annuity rate of 7.8% times the $10,000 amount paid for the gift annuity, or $780.

In computing gift annuity rates, assumptions are made relating to the following five areas:

1. the loading for expenses related to the gift annuity,
2. the residuum available to the charitable organization at the death of the last annuitant,
3. the frequency and timing of gift annuity payouts to the annuitant or annuitants,
4. mortality rates in future years, and

5. the investment yield rate or, as more commonly called, the interest rate to be earned during the life of the gift annuity agreement on the amount paid to the charitable organization under the gift annuity.

The assumptions used for these five areas to calculate the present immediate gift annuity rates, which were first adopted at the 1983 Conference on Gift Annuities and continued by the 1986 and 1989 Conferences, are as follows:

Expenses: 5% is considered as being deducted immediately from the amount paid for the gift annuity and held in an invested reserve from which initial and future expenses will be paid from such 5% and from the interest thereon.

Residuum: The residuum available to the charitable organization at the death of the last annuitant will be 50% of the amount paid for the gift annuity.

Frequency and Timing of Annuity Payout: Payouts to annuitants will be made in installments at the end of each six months.

Mortality: Mortality will occur in accordance with the mortality rates of 1983 Table a for female lives with ages set back one year.

Interest: Interest will be earned at the rate of 6.5% per year, compounded annually.

Once it has been decided what the assumptions will be, the process of calculating the immediate gift annuity rates is a mechanical one using the following four steps:

(1) From each $100 paid by the donor for the gift annuity, $5 is deducted to cover all initial and future expenses related to the annuity agreement, leaving $95 remaining.

(2) From the remaining $95 in step (1) there is subtracted the single premium needed to provide a residuum to the charitable organization at the death of the last annuitant of 50% of the amount paid for the gift annuity. This single premium is comparable to that which an insurance company would charge for death benefit coverage in the amount of the 50% residuum.

(3) The amount remaining from step (2) is divided by the single premium needed to provide an annuity for life of $1 per annum payable in installments of $.50 each at the end of each six months. The result after this division equals the annual dollars and cents amount of gift annuity which can be supported for each $100 paid for the gift annuity.

(4) The dollars and cents amount of gift annuity from step (3) is rounded to the nearest ten cents and is expressed as a percentage

of the \$100 paid for the gift annuity. This percentage becomes the gift annuity rate.

The single premiums in step (2) for the 50% residuum and in step (3) for the annual annuity of \$1 are based on the mortality and interest assumptions used.

I will illustrate the calculation process by repeating the example used during my remarks at the 1989 Conference. For an individual age 70, the gift annuity rate for an immediate single-life gift annuity is derived by first subtracting the 5% expense loading, or \$5, from each \$100 paid for the gift annuity, which leaves a remainder of \$95. From this \$95 amount there is then subtracted a single premium of \$17.15 which, when invested and increased by interest from the date of the gift annuity agreement to the date of death of the last annuitant, will provide a \$50 residuum to the charitable organization as of such date of death. When the remaining \$77.85 is divided by a single premium of \$10.02 that is needed to provide an annual annuity of \$1, payable in semi-annual installments of \$.50 each, the result is \$7.77. This is rounded to the nearest ten cents, or \$7.80, which is 7.8% of the \$100 paid for the annuity. Thus, the gift annuity rate at age 70 is 7.8%.

It should be mentioned that the actual gift annuity rate recommended by the Committee and adopted by the Conference is reduced below the calculated gift annuity rate at young and old ages. The reduction at young ages takes into account the fact that annuities issued at such ages are likely to be payable for many years into the future during which substantial changes in interest rates may occur. Thus, conservatism is deemed advisable. Similarly, there tends to be a concern among many charitable organizations about the possibility of extended life for annuitants whose annuities begin at old ages, which could quickly use up the amount paid for the gift annuity if the gift annuity rates are high. It is in recognition of this concern that the gift annuity rates are reduced at older ages, even though actuarially the calculated rates can be justified.

After having provided this background, I shall discuss each assumption and provide my opinion as to whether such assumption is still appropriate for purposes of calculating gift annuity rates to be recommended by the Committee on Gift Annuities for adoption by this Conference. I shall start with the 5% expense load.

The 5% expense loading has been in effect since the 1955 Conference. No expense loading was made before then. The 5% amount was developed based on insurance company practice. However, it should be recognized that it is assumed that the 5%, plus interest thereon, will cover all initial and future expenses such as promotional costs, issuing the agreement, sending future checks, accounting, insurance department reporting and investment expenses. To the extent the 5% would be insufficient to do so, it would be necessary that any deficiency would be covered by favorable experience on other assumptions (such as, for example, investment yield rates higher than assumed) in order for the 50% residuum to be available, Otherwise, the actual residuum would fall below 50%.

Of all the assumptions made, the expense assumption has probably been studied the least to determine whether it is appropriate for use in connection with gift annuities. In the absence of compelling evidence to the contrary, the success of gift annuities in raising funds for charitable organizations would seem to suggest that it would be reasonable to continue the use of the present expense assumption.

The assumption that the residuum to the charitable organization at the death of the last annuitant will be 50% of the amount paid for the gift annuity has been used since the 1939 Conference. Prior to that time provision was made for a 70% residuum. Provision for a residuum is important, since without one there would be no real purpose for a charitable organization to issue gift annuities. The presently assumed 50% residuum seems to strike a reasonable balance between the residuum interest of a charitable organization and the annuity benefit needs of the annuitant. Therefore, a continuation of the 50% assumption appears appropriate.

Incidentally, I find in talking to planned giving officers of charitable organizations that there is occasionally some degree of confusion concerning this assumption about the 50% residuum, since some of them seem to think this 50% becomes available at the issue date of the gift annuity agreement rather than when the last annuitant dies. This confusion probably arose during past periods when it was possible to lock in interest rates significantly higher than the 6.5% assumed. In such circumstances, it was conceivable that 50% of the amount paid for the gift annuity could be available at the issue date of the gift annuity agreement, which would normally produce more than a 50% actual residuum if not withdrawn until the death of the last annuitant. However, that would occur because the actual interest rates were higher than the interest rate assumed in calculating the gift annuity rates and not because provision had been made that a 50% residuum would be available up front rather than when the last annuitant died. In general, although it is assumed that a 50% residuum will be provided, the actual residuum will usually be different than 50% and will depend on the extent to which actual experience differs from the assumptions under each of the other four areas where assumptions are made. In the unlikely event that each of the other four assumptions were to be actually experienced, the 50% residuum would emerge as assumed.

The assumption that the annuity payout to the annuitant will be made in semi-annual installments at the end of each six months has been in effect since the first Conference in 1927. It represents a compromise position to the actual varying payout practices followed by the organizations that issue gift annuities, under which payouts can be made monthly, quarterly, semi-annually or annually. Moreover, although most charitable organizations make a pro-rata payout when the first payout period is shorter than the period applicable thereafter, some organizations pay a full installment for the shorter period. If recognition were made of all these variations, it would be necessary to develop separate rates for each variation, which could be unwieldy. Accordingly, a continuation of this assumption seems justified, especially since taking into account each possible payout practice normally would make relatively little difference in the resulting calculated gift annuity rates.

Now let us turn to the remaining two assumptions, which relate to mortality and interest rates and which are probably the most important assumptions involved in the calculation of gift annuity rates. The present mortality assumption has been in effect since the 1983 Conference. As most people are aware, mortality rates have been declining for a number of years, which means that people are living longer than previously. Experience shows that mortality rates have declined for many years by about 1% to 1.75% each year on a compound basis at most ages at which gift annuity agreements are issued. On this basis, because nine years have elapsed since the present assumptions were adopted in 1983, it would be appropriate to strengthen the assumption by adding an additional year of age setback to the one year age setback currently applicable, which would increase the age setback to two years. Each one year setback in ages represents treating an individual as being one year younger than the true age. Thus, a two year setback in ages means that an annuitant would be considered to have mortality rates of a person who was two years younger at the time the annuity table was prepared than the annuitant's present age. In other words, a 65-year old annuitant would be treated as being age 63 under the unmodified mortality table.

Let us now consider the interest assumption. In connection with the present immediate gift annuity rates which, as previously mentioned, became effective in 1983, the assumed investment yield rate was increased to 6.5% per annum on an annual compound basis. This is the highest interest rate ever assumed in connection with gift annuities. A supplemental assumption for the deferred period of a deferred gift annuity is also made, but I will ignore that area for the time being, since it will be covered later in my remarks.

Everyone is aware that interest rates have declined fairly steeply in recent years. In order to put this decrease in interest rates in proper perspective, let us compare current interest rates with those as of the prior three Conferences for new issues of long-term Aa utility bonds and for U.S. Treasury issues with maturities of ten or more years, as follows:

	Interest Rate on Long-Term Bonds	
Date	Aa Utility	U.S. Treasury
1983 Conference	12.25%	10.62%
1986 Conference	8.88	7.45
1989 Conference	10.30	9.43
1992 Conference	8.80	7.93

This comparison shows among other things that interest rates still generally exceed the 6.5% rate presently assumed for immediate gift annuity purposes. Also, as compared with the lowest prior interest rates mentioned, which relate to the 1986 Conference, current long-term interest rates are slightly lower for Aa utility bonds, but almost a half point higher for U.S. Treasury bonds. Moreover, the U.S. Treasury interest rates quoted represent the average of interest rates of issues with maturities of ten or more years. Even higher yield rates apply for Treasury issues with the longest maturities. Higher interest rates are also available on corporate bonds. In addition, long-term yields on equity investments generally have exceeded those on bonds. While it is possible that interest rates will decline further, the reverse may also occur. Based on this information, the Committee considers it reasonable to continue the present 6.5% interest rate assumption.

In summary, then, the only one of the five present assumptions that seems inappropriate for use during the next three years is that relating to mortality, which should be strengthened by adding an additional year of setback in ages as previously mentioned. However, when calculations of immediate gift annuity rates were made using mortality rates which reflect an additional year of setback in ages, together with the other four unrevised assumptions, the net impact at many of the ages at which such annuities are issued was that the rate of payout would either remain the same or be reduced by only one-tenth of a percentage point. It was considered by the Committee on Gift Annuities that changes of this small a magnitude would not be justified, especially since available interest rates still reflect a significant margin over the 6.5% assumed rate. Accordingly, the Committee recommends to the Conference that, for most ages of issue, the present immediate gift annuity rates be continued. However, the Committee also is recommending that immediate gift annuity rates at younger and older ages be reduced below present rates.

Insofar as young ages are concerned, there was previously little concern about paying the same annuity rate at ages below 35 as the rate at age 35 because there were so few gift annuities issued at such young ages and because the gift annuity rate at age 35 had already been reduced below the calculated rate for purposes of conservatism. However, an increase in the number of gift annuities issued at ages below 35 has changed the picture, since it increases the length of the lifetime payout because the life expectancy is longer than at age 35. Accordingly, the Committee is recommending to the Conference that the age at which the single-life immediate gift annuity rate becomes fixed be extended down to age 20 from the presently used age 35. A reduction of one-tenth of a percentage point below the present single-life immediate gift annuity rate is recommended down to age 20 for each three years by which the issue age falls below 35. On this basis, the single-life immediate gift annuity rate would become 5.5% for ages 20 and under.

As for the older ages, present single-life immediate gift annuity rates increase until they become 14.0% at ages 90 and older. Many organizations feel uncomfortable in issuing immediate gift annuities at these older ages at what they consider to be high annuity rates. Moreover, it is at these high ages that the introduction of an additional year of age setback in the mortality rates starts to have significant impact. Therefore, the Committee is recommending to the Conference that the single-life immediate gift annuity rates be capped at 12.0% for issue ages 90 and over and be smoothed into the 12% rate at a few of the ages just below age 90.

In summary, the Committee recommends to the Conference that the present single-life immediate gift annuity rates for ages 33 through 81 be continued, with reductions below present rates applicable below age 33 and at ages above 81, and with a 12.0% lid on rates at ages 90 and over. Similarly, present two-life immediate gift annuity rates would remain unchanged for most ages, but with reductions below present rates applying where the younger life is less than age 33 and in certain cases where the younger life is age 89 or over.

Probably many of you had expected the Committee to recommend reduced immediate gift annuity rates because of recent reductions in interest rates. It is likely that the reduction in interest rates available for investment purposes will serve to decrease the actual amount of residuum generated for charitable organizations. However, the resulting residuum should be closer to the 50% historic levels for which provision is made in the assumptions as being reasonable, rather than the abnormally high residuum levels that have frequently arisen over the past decade or so. Also, it should be stressed that the rates adopted are maximum rates. An organization can always adopt lower rates if it is uncomfortable with the rates adopted by the Conference. Some charitable organizations do that.

Next let us consider deferred gift annuities. As most of you are aware, a deferred gift annuity rate is calculated by multiplying (a) an interest factor based on the length of the deferred period before the annuity starting date by (b) the immediate gift annuity rate applicable at the age of the annuitant on the annuity starting date. The annuity starting date is assumed for this purpose to be six months prior to the date of the first payout under the annuity.

The interest factor presently being used reflects the assumption that the amount paid to the charitable organization for the deferred annuity will increase between the issue date of the annuity and the annuity starting date at an annual compound interest rate of 5% for each of the first ten years of deferral, 4.5% for each of the second ten years, 4% for each of the third ten years and 3.5% for each year thereafter. Even though the recommended assumed interest rate is not being changed for purposes of immediate gift annuities, the Committee considers for various reasons that the assumed interest rates are somewhat conservative in connection with interest factors for deferred periods for deferred gift annuities, so is recommending that each of the annual interest rates just mentioned for the deferred period be increased by one percentage point. Thus, the annual interest rates would become 6% for each of the first ten years of deferral, 5.5% for the second ten years, 5% for the third ten years and 4.5% thereafter. The impact of this recommendation differs depending upon the length of the deferred period. For example, if a deferred gift annuity were to be issued to an individual whose age at the deferred annuity starting date is such that the immediate gift annuity rate at that age is the same as presently, the resulting deferred gift annuity rate would increase under the recommended interest factors by about 10% for a 10-year deferral, 21% for a 20-year deferral and 33% for a 30-year deferral. If, however, the age of the annuitant at the annuity starting date is one where immediate gift annuity rates have been reduced, whether or not the deferred gift annuity rate would increase would depend on the combination of the length of the deferred period and the age on the annuity starting date.

While it is being recommended that the interest rates on which the interest factors are based be increased, the recommended interest rates are still lower than the 6.5% interest rate used for computing immediate gift annuity rates. The combination of the interest rate assumptions during the deferred period and the payout period produces the same result as if a level interest rate of just below 6.5% had been assumed for the entire deferral period and the payout period if the deferral period is short. As the deferral period lengthens, the net effect is equivalent to using a gradually reducing level interest rate.

I will make three closing comments. First, the Committee wishes to emphasize that the recommended annuity rates and interest factors are maximums which should not be exceeded. Otherwise, there is a risk that payout rates would increase to the point that the main purpose of gift annuities, which is to obtain residuums for the use of the charitable organization, could be jeopardized.

Second, although in the past it has been considered that the rates adopted by the Conference would become effective immediately, the Committee recommends that the gift annuity rates and interest factors adopted by this Conference become effective on July 1, 1992. This would provide time for charitable organizations and software vendors to revise their programs and to prepare updated promotional material.

Third and last, action on annuity rates will be taken by the Conference tomorrow. In order that you can give more detailed consideration to the Committee's recommendations, copies of the recommended immediate gift annuity rates and the interest factors for deferred gift annuities are available. Incidentally, because of the increase in the number of rates resulting from the rate changes at younger ages, you will find that a new presentation format has been used in connection with two-life immediate gift annuity rates. The Committee welcomes any comments you might have concerning this new format.

REPORT ON STATE REGULATIONS

James B. Potter
Consultant
Planned Giving Resources

If you are attending your first Conference on Gift Annuities, you may appreciate some background on the Subcommittee on State Regulations of the Committee on Gift Annuities. It came into being in 1977, some 15 years ago, when it became obvious that activity at the state level regarding the regulation of gift annuities, and to a lesser extent, pooled income funds, was a growing phenomenon.

The Role Of The Subcommittee On State Regulations

There was at that time, and still is, a concern on the part of the members of the Committee on Gift Annuities, that the purpose and the scope of the sub-committee's work would be misunderstood or misinterpreted. Simply stated, the work of the Subcommittee on State Regulations is to gather information as we can, and disseminate it to you, the members of the Conference on Gift Annuities.

We are not in the business of giving legal advice, promoting, interpreting or lobbying. We are a group of volunteers, who, without professional staff, but with your help, are trying to monitor the regulatory activities at the state level.

We see our task as that of gathering data from you, the members of the Conference (the sponsors of the Committee on Gift Annuities), and disseminating it to all members of the Conference. In large measure, that makes each of you a member of the State Regulations Subcommittee, for you are the source of the information we share with you today.

By the way, let me put your mind at ease on one very important point. If you share information or copies of correspondence with us about any regulatory efforts with your organization, while we might share the issues with the sponsors, we would never disclose the name of your organization to the sponsors as a whole, or any other regulators in the process of disclosing the facts about the regulatory effort.

Members Of The Subcommittee

There are three other members of the Subcommittee in addition to myself. Each has assumed responsibility for a section of the country, and we have established a network of cooperative monitors, many in this room today, who act as our eyes and ears. If you are willing to serve in that capacity for your state (we can use more than one monitor per state), we would like to know of your willingness to help us as a state monitor. Through these volunteer efforts, we trust that we are thus able to be aware of new efforts at regulation.

State regulation is a dynamic, constantly changing endeavor. As you seek information concerning regulatory attempts in the states in which your program is operating, or if you become aware of efforts at regulation with any charitable organization, you are encouraged to keep our Subcommittee informed.

I would like publicly to thank two members of our State Regulations Subcommittee who have served the South and Midwest areas of our country for several years and who are retiring from this volunteer responsibility at the close of this Conference. Dr. Robert Gronlund of West Palm Beach Florida and Mr. James G. Marshall, Jr. of Madison Wisconsin, have served us well by monitoring the regulatory efforts within their areas, and building a cadre of state monitors who act as your eyes and ears in this area of our work.

Working with them has been Attorney Richard James, Legal Counsel for Loma Linda University, Loma Linda, California, who continues to serve as the Subcommittee member for the Western states. In large measure, the data we share with you today was gathered by these capable volunteers. I round out the Subcommittee by overseeing activities for the Eastern states. The present list of the members of this Subcommittee following this Conference, their addresses, phone numbers and the states that each has agreed to oversee are found in Exhibit "A".

State Regulation Of Gift Annuities

Let's get into our subject of the state regulation of gift annuities. A charitable gift annuity is a contract, entered into between the organization you represent and your annuitant(s), acknowledging an irrevocable gift and agreeing to a lifetime fixed and guaranteed payment to one, or at most two beneficiaries, who are alive at the time of the gift. All of the assets of the charitable institution back up that agreement.

Because it is a legal contract and not a trust, and because it has characteristics similar to those of certain financial services products, available in the commercial marketplace, some states have attempted to regulate the promotion, issuance and investment of gift annuities, under the jurisdiction of either the state's Department of Insurance or the state's Securities or Commerce Commissions. At the present time, based on information available to the Subcommittee, the eleven states that regulate charitable gift annuities specifically by statute are as follows: California, Florida, Maryland, Maine, Minnesota, New Jersey, New York, North Dakota (effective 7-1-92), Oregon, Washington, and Wisconsin.

Of these eleven states, nine of them (all except Maine and North Dakota) require the charity to obtain a Special Permit or a Certificate of Exemption or Authority and file an annual report to the State Insurance Dept.

To those of you who live and work in these states, this is probably not new information. Hopefully, you have adapted your gift annuity programs to meet the appropriate statutory and/or regulatory requirements. To those of us outside these nine states, we are on notice that in order to operate a gift annuity program within these states, we must be prepared to comply with the requirements of registration, fees, annual reporting and the like.

To help you get a handle on these nine states, an outline of the requirements involved and a contact for each state's Insurance Dept. is provided in Exhibits "B" and "C". This is the first time the Subcommittee has provided as much detailed information about our understanding of specific regulations of those nine states in our Conference Report. If any participant of this Conference is or becomes aware of any edits or changes to these lists, please notify the Subcommittee, so we can make the changes known to our sponsors.

Contacting State Regulators

One word of caution will be helpful here. If you feel that contact or inquiry with the state insurance commissioner's offices listed in Exhibit "C" is appropriate, we urge you to have your outside legal counsel make that contact, referring to your organization only as a client, not by your organization's name. Depending on your organization's status in the regulatory effort by the state, or your existing gift annuity fund size or status as well, you may be instructed to cease writing annuity gifts in that state until you have obtained a permit or certificate. Since that effort may take from 3 to 9 months or longer, my personal advice would be to have your outside counsel make all contacts with the regulators until you are actually ready to file for a permit.

Summary Of State Regulations

This year, again for the first time, we are pleased to provide you with a summary of the data we have collected over time concerning all 50 states and the District of Columbia. This data is found in Exhibits "D" and "E". Each exhibit is the same data, but listed in a different way. Exhibit "D" lists the data in alphabetical order by state name. Exhibit "E" lists the same data, but by our understanding of the type of regulatory effort or lack of same.

The numbered codes "1", "2", "3" and "4" show that gift annuities may be issued by those states. There appear to be 33 such states. The 18 states where it appears that problems exist are noted with letter codes, "A", "B" and "C".

Despite the fact that we have provided more detailed information than in any previous State Regulations Report, we must clearly make four careful points.

1. The Committee on Gift Annuities **cannot guarantee** the accuracy of any of the data provided,
2. Each institution must check with its own counsel about whether or not to file with any state regulatory department or agency,
3. Read carefully the caveat at the bottom of Exhibits "D" and "E", and
4. Do not set your attorney or legal counsel loose to contact one or all of the state regulators. Use counsel that is experienced in this area. The worst thing we can do, individually or collectively, is to have counsel for a few or many charities inquire of state regulators about the need to file with them. The more the regulators hear from charities or counsel for charities, the more they are likely to conclude that they should be involved in the regulation of gift annuities and other gift instruments.

Please read again, and take seriously the caveat at the bottom of Exhibits "D" and "E". Remember, if you ask a question of a regulator, and identify your organization in the process, you must comply with the answer you receive. Be aware that other charities who have not asked or identified themselves will not be complying with the answer you received.

Note carefully the "problem" states coded with an "A", "B" or "C" on Exhibits "D" and "E". In all 18 states coded with those letters, where problems may exist, the insurance law in every one is silent on charitable gift annuities.

It should be no secret that regulators are bound and determined to regulate. If you inquire of a regulator, they interpret the absence of legal authority to regulate to mean that they can interpret the law so that they can regulate you, and you will likely get an answer you won't like, but with which you and your organization must comply or suffer serious legal and financial consequences. Do not place your organization and do not let your counsel place your organization in such jeopardy.

Examples Of Attempted Regulation

Let me give you two practical examples. When I tell you that this regulatory business is a fluid and dynamic one, understand that it tends to change constantly. After all, we are dealing with 50 different states, their regulatory bodies and staffs. One of the reasons that we struggle with on again, off again efforts at regulation by individual states is the turnover of staff within these state regulatory bodies.

Let me provide one example from the Commonwealth of Pennsylvania. Whether or not a charity may write gift annuities in that state, depends on who is sitting in the Insurance Commissioner's chair at the time you ask. I have been aware over many years of efforts by one charity to get clarification on this issue of state regulation of gift annuities in Pennsylvania.

One time you ask, the answer comes back that since there is no law in Pennsylvania about gift annuities, until they are regulated by statute, you may write charitable gift annuities.

The next time you ask the same question, the answer is given that since there is no law at the moment, until charitable gift annuities are specifically exempted from regulation by statute, the Insurance Commissioner takes the position that charities **may NOT write** gift annuities in that state. So again, if you don't want an answer you don't like, but with which you will have to comply, my personal advice is ... don't ask!

Another example is any of the nine states that regulate by statute, that require a Permit or Certificate as shown in Exhibits "B" and "C". Be sure you are working with experienced counsel or a consultant in this area. If you file for a permit or certificate, and your application is incomplete, you will get a letter from the Insurance Department (perhaps 2-4 months after you file) asking for more or corrected information. In that letter will be the statement that you are precluded from "writing any new agreements" in that state until that regulatory body gives you their permit or approval to proceed to accept annuity gifts. Since an audit of your fund is a periodic affair after you get your permit, they will know by the date of your gift annuity agreements, whether or not you have complied with their edict.

Such a letter could close down your entire gift annuity program or certainly your program within that state, depending on how you interpret the words "don't write new agreements" for from two to six months or longer, while you struggle to comply with the list of changes or further information requested and while the regulatory agency takes its time to process your paperwork and respond to your request for a permit or certificate or approval to proceed. In other words, get "all your ducks in order" before you initially apply for the permit. This includes how you invest or plan to invest your gift annuity fund within the state insurance law in question.

Also, there are no (or certainly very few) "not applicable" answers on the Application Form for a permit or certificate. Such an answer will almost always bring a request for further data. Obtain the application forms copies of the applicable section of the state insurance law and other information needed through your counsel or other third parties.

Work with counsel and/or a consultant that understands fully what is involved. Your own corporate counsel may not be familiar with the state insurance law in question, so for this area, use only knowledgeable and experienced counsel. Network with other charities to locate such counsel.

To File Or Not To File

The question is sometimes asked, "What if a don't plan to do business on a regular basis in a regulated state? What if I just have one or two annuitants living there? Do I have to register or be licensed? Is an occasional mailing to a select list of prospects, or an ad in my national or regional periodical, or an agreement signed in my home office, or regular visits by staff to interested prospects, or having a nonpaid volunteer call on prospects enough to require registration in those states?"

I do not have the absolute answer to those questions. The term "doing business" in another state is subject to wide interpretation. We are aware that many institutions take the position that if the money is received by mail and the annuity contract is written in the state where their institution is incorporated, then the laws of the home state would prevail, and there would be no need for registering in the state where the annuitant resides. You should know that this is NOT the position of the Committee on Gift Annuities, and we would strongly urge you to obtain the advice of your own legal counsel before pursuing such a course of action.

If your state is one of the 18 that may be attempting to regulate gift annuities, despite the fact that their state insurance law is silent on the subject, and your Board President or Chairman wants "proof" that you are not subject to regulation, should you go to the insurance commissioner or the securities commissioner of that state and ask them?

Probably not! As the Committee on Gift Annuities Chairman, Tal Roberts, who gave this report at the 20th Conference in 1989, put it, "Most of them do not know what a gift annuity is, but when presented with the question, "Do you regulate gift annuities?" or "Do gift annuities come under your jurisdiction?" they are duty-bound by the "bureaucrat's code" to answer in the affirmative."

Obtaining Answers By Networking

My advice to you is to contact other planned giving officers in your state or the state in question. Call your attorney or call us at the Committee. We are simply talking about networking. Have a network of colleagues with whom you can share ideas and ask questions. Don't rely on the answers given by just one charity with whom you are networking. Ask several.

Join one of the more than 45 planned giving luncheon groups around the country and discuss the subject with your colleagues. Call the planned giving director of the larger charities in your state who are involved in writing gift annuities and network with them.

So if you really want to know who is the Subcommittee on State Regulations, look around you, to your left and your right. You are the Subcommittee. Simply put, we are all here to help each other.

What should you do if your organization is targeted by one of the 17 states coded with an "A", "B" or "C" in Exhibits "D" or "E". It might help to be aware that thanks to all of you and the efforts of the Committee on

Gift Annuities some 4 or 5 years ago, the Internal Revenue Code was amended in Code Section 501(m) to specifically state that gift annuities are not commercial insurance if they produce an income or estate tax charitable deduction and they meet the tests of Code Section 514(c)(f).

While the resolution of this issue at the federal level obviously would have no legal force or effect at the state level, it does provide a strong basis for arguing against regulation, as insurance at least, in those states not now regulated by statute. In fact, the nine states coded with the number "3" in Exhibits "D" and "E", have specifically exempted charitable gift annuities from regulation. I, for one, would encourage you to argue the point, calling attention to these nine states as examples of specific exemption from regulation by state statute.

Reinsurance In New York State

A few words about state regulation in New York as it applies to the reinsurance of gift annuity agreements may be helpful here. I will cover this in more detail in the workshop this evening on Gift Annuity Fund Administration, but suffice it to say that reinsurance of gift annuities in New York is now non-existent.

I call your attention to the details of the report on this subject that I gave in 1989, which appears on pages 25-27 of the printed proceedings of the 20th Conference on Gift Annuities. At that time, we were aware of only one insurance company licensed to do business in New York that offered to issue a "treaty agreement" to charities for the reinsurance of gift annuities. Today there are none. A "treaty agreement" is a negotiated contract between two insurance companies used to transfer the annuity obligation from one company to another. Only a "treaty agreement" between the charity and an insurance company licensed to do business in New York qualifies as appropriate "reinsurance" of the annuity obligation. New York is the only one of the nine regulated states that interprets the word "reinsurance" in this way.

This means that New York state does not recognize the standard commercial annuity agreement offered by insurance companies to people as an appropriate reinsurance vehicle for your charity's annuity obligation. Nor do they recognize such an annuity policy as an acceptable asset to be held in your gift annuity fund. You must still hold sufficient "acceptable assets" outside of those reinsurance annuity policies to cover your gift annuity agreements.

Since the single premiums for those policies generally cost from 65-75% of the gift, and you still must have other required legal reserves to cover the annuity obligation, simple arithmetic says you have a problem when, say, 65% plus 65% totals more than the gift you received. The bottom line is that there is no longer any reinsurance of gift annuity agreements in the state of New York. And any standard annuity policies held by charities do not qualify as an acceptable asset to cover the required legal reserve for all such "reinsured" gift annuity agreements.

While you may reinsure your annuity obligations in New York using a "treaty agreement", you may do so only for the gift annuity agreements that are above the initial $100,000 Required Legal Reserve requirement of your fund.

This opens up the whole question of what you do about reinsurance elsewhere when you do or plan to file for a Special Permit in New York because you have annuitants living in that state or your organization is domiciled in that state. New York's position on this question opens up the whole issue of whether or not reinsurance is appropriate in any state, if your annuity fund has New York annuitants in it. We will cover more of that in our workshop on Gift Annuity Fund Administration later in this Conference.

Regulation Of Pooled Income Funds

While our Subcommittee does not spend much time on Pooled Income Funds, a few words on them may be helpful here. I will quote directly from our State Regulations Reports of 1989 and 1977 on this subject. First Tal Roberts had this to say at our 1989 Conference.

"In Volume 1 of his publication, "Deferred Giving," Conrad Teitell, after reminding us to check state law for any applicable requirements, advises that many states have recently adopted some version of the Uniform Securities Act, which exempts pooled fund units from registration and advertising review procedure requirements when the units are issued by a "not for private profit" entity, as defined by the Act. Some states' versions of the Act also exempt the issuer from "agent registration requirement," says Mr. Teitell.

"At the federal level, the SEC several years ago issued its well publicized "no action letter" with the net effect being that as long as the SEC believes we're acting in good faith and making the proper disclosure to our prospects, there will not be a federal registration required of pooled income funds.

"Apparently the only significant development in the area of pooled income funds in recent years has been the issuance of model agreements by the Internal Revenue Service. These agreements have received widespread exposure and have been subject to some criticism in the charitable community. They constitute a safe harbor for planners and draftsmen, in that documents which faithfully follow the IRS forms will qualify for the desired tax treatment.

"However, the existence of this "safe harbor" means that IRS will no long issue private letter rulings approving pooled income fund documents in those situations that are the same as or similar to those contemplated by the model documents. It is not known what variations from the model documents would be so substantive, in the opinion of the IRS, as to warrant a letter ruling."

But, what about our fifty states? We refer you to a thorough presentation to the Sixteenth Conference (1977) by Attorney Julius P. Fouts, from which the following exerpt is a direct quote:

"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...

"Registration provisions of Blue Sky laws are elaborate and often compliance is costly. Two forms of registration exist: registration of securities and registration of the organization as well as the individuals involved in effecting securities transactions...

"In view of the controls to which Pooled Income Funds are already subjected under tax and securities laws, few state authorities believe that any genuine public interest is served by regulating such funds. As each state has its own particular scheme or regulation, the burden on charities to conform to state Blue Sky laws, particularly as to disclosure, creates administrative costs that may outweigh the benefits expected to be obtained from this form of fund raising for all but the most well-established national charities..."

"On the other hand, a large bank, acting as trustee over a Pooled Income Fund, takes the position that since a Trust is involved, control is in the SEC and no state regulation is required."

As Roland Mathies stated in our 1980 State Regulations Report, and to which I concur... he said the following:

"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, and the model agreement wording published by the Treasury Dept.
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!"

Caveats For Gift Annuities

Let me close with a few caveats that will help your organization make it less likely that the regulators will find fault with your efforts at promoting gift annuities. Again, because it was succinctly put, let me quote from this Subcommittee's Report of 1989, when Tal Roberts said...

"1. In the promotion of gift annuities, avoid the use of sales-oriented language. Remember, we don't "sell" gift annuities, we <u>issue</u> them; and gift annuities are not "investments," they are <u>gifts</u>.
2. Follow the gift annuity rates set by the Conference. (Remember, they are suggested maximum rates. You may always offer rates that are lower than the Committee's Uniform Rates.) Our watchword should be, "cooperate, don't deviate." Don't bid up the rates; it's a no-win situation. In the short-run, you and your organization lose - sooner or later, we all lose.
3. Getting back to nomenclature, remember that the payments we make to our annuitants are <u>annuity payments</u>, not "interest" payments (or "income"). When in doubt on the use of any terminology, consult your Green Book or call the Committee.
4. Have access to competent counsel; and finally,
5. Think twice before inquiring of state officials as to what regulations need to be met.

By way of added emphasis, let me say that while some of these tips regarding nomenclature may seem obvious, or trivial or unnecessary, let me assure you they represent very real concerns. And they became more real than ever to those of us who worked closely on the 50l(m) matter (about five years ago). The terminology we use, if it not accurate, can come back to haunt us. I assure you that the people at Treasury and at the congressional staff level look very closely for any evidence that we are not what we claim to be, and they will use our own words against us. So please take care."

Now I would like to close our 1992 Report on State Regulations with the caution that every chairperson of this Subcommittee has used in every Report since 1977 (with my edits added in parentheses)...

"DON'T MUDDY THE WATERS IN YOUR STATE (OR FOR THAT MATTER, IN ANY STATE) BY INQUIRING OF STATE OFFICIALS AS TO WHAT REGULATIONS NEED TO BE MET."

EXHIBIT A

Committee on Gift Annuities
2401 Cedar Springs
Dallas, Texas 75201
Phone: (214) 720-4774

STATE REGULATIONS COMMITTEE

EAST

James B. Potter (Chairman)
Planned Giving Consultant
Planned Giving Resources
P.O. Box 342
Montvale, NJ 07645-0342
Phone: (201) 391-1681
FAX: (201) 391-1681

(4) Connecticut

(3) Deleware

(A) * District/Colum.

(1) Maine (g)

(1) Maryland

(3) Massachusetts

(2) New Hampshire

(1) New Jersey

(1) New York

(B) * Ohio

(A) * Pennsylvania

(C) * Rhode Island

(C) * Vermont

SOUTH

Col. Joseph B. Matthews
The Salvation Army
P.O. Box 269
Alexandria VA 22313
Phone: (703) 684-5500

FAX: (703) 684-3478

(A) * Alabama

(A) * Arkansas

(1) Florida (e)

(4) Georgia

(3) Kentucky (f)

(3) Louisiana

(A) * Mississippi

(A) * Oklahoma

(4) North Carolina

(3) South Carolina (h)

(A) * Tennessee

(A) * Texas

(A) * Virginia

(3) West Virginia

MIDWEST

Elizabeth A. S. Brown, Esq.
V. P. and Treasurer
Moody Bible Institute
820 North LaSalle Drive
Chicago, IL 60610
Phone (312) 329-4000
FAX: (312) 329-4328

(A) * Illinois

(4) Indiana

(A) * Iowa

(4) Kansas

(3) Michigan

(B) * Minnesota

(2) Missouri

(2) Nebraska

(1) North Dakota

(2) South Dakota

(1) Wisconsin

WEST

Richard A. James, Esq.
Legal Counsel
Loma Linda University
Loma Linda, CA 92354
Phone (714) 824-4522

(4) Alaska

(2) Arizona

(1) California

(A) * Colorado

(3) Hawaii

(A) * Idaho

(2) Montana

(C) * Nevada

(4) New Mexico

(1) Oregon

(3) Utah

(1) Washington

(4) Wyoming

Notes:

CGAs OK:

(1) Gift Annuities are OK, but Regulated, Permit required.

(2) State law silent. State Insurance Dept. does NOT regulate CGAs.

(3) Exempt from regulation by state statute. Gift Annuities OK.

(4) State law silent. CGAs do not appear to be regulated.

Possible Problems:

(A) State law silent. Insurance Dept. requires charity to qualify and register as a commercial insurance company.

(B) State law silent. Insurance Dept. assumes CGAs are "securities" requiring filing with Commerce Dept.

(C) Situation unclear. Regulators may attempt to prohibit or regulate CGAs.

More Data...

(e) New Florida law takes effect 10-1-92. Must be in operation 5 years.

(f) Enabling law exempting CGAs from regulation effective 7-1-92.

(g) Law authorizes Univ. of Maine to write CGAs. Intent of law reference other charities unclear, so Insurance Dept. allows CGAs by all.

(h) No restrictions in SC if charity in operation for five years.

* See Caveat on contacting State Regulators found on Exhibits B and C.

Effective: 7-30-1992

EXHIBIT B

Summary Data for States that Regulate Charitable Gift Annuities

Column	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
States:	CA	FL	MD	NJ	NY	ND	OR	WA	WI
No. of Years of Operations	10	5	10	10	10		20	3	10
Section of Insurance Code	11520-11524	67.481	487	17B:17-13.1	1110	26.1-34.1	731.724	731.704-48.38	615.03-615.15
Must be Exempt Under 501(c)3	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Segregated Fund	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Annuity Issuing Organizations Restricted to			Education, Religious, Some Hospitals				Private Schools, Grad Schools, Colleges		
Gifts Prohibited					Real Estate				

EXHIBIT B continued

States:	CA	FL	MD	NJ	NY	ND	OR	WA	WI
Minimum Reserve Required/Fund	$100,000	$100,000	$100,000	$100,000	$100,000		$100,000	$100,000	$100,000
Special Wording Must be written into Agreement (Note Key below)	(1),(2), (3)	(1)	(1)	(1)	(1)	(1)	(1),(2), (3)	(1),(2), (3),(4), (5)	(1)
Charity Must File— Rates:	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Form of Agmts:	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
File Annual Rpt	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Permit Needed	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
State Issues "Certificate of"	"Authority"	Special Permit	Special Permit	Special Permit	Special Permit	"Exemption"	"Authority"	"Exemption"	"Auth-ority"
Initial File Fee	$2,833	None	None	None	None	$100	$250	$25	$200
Annual Fee	$58	None	None	None	None		$50	$25	$50
New Agmt Fee	$15 or less							$5	

EXHIBIT B continued

States:	CA	FL	MD	NJ	NY	ND	OR	WA	WI
Mortality		Rev. Ruling	'83"a"	'83"a"	'83"a"				
Table/Reserves	'83"a"	72-438+25%	Same as NY	Same as NY	% changes		'37 SAT	'71 IAM	'71 IAM
Interest Rates	6% (6)	(7)	(or) 6%	(or) 6%	annually		2.5%	6.0%	7.5%
Reserves Reduced by Reinsurance		Yes	Yes		Over $100M by "Treaty Agmt"				Yes
Effective Date:						7-01-91			

Notes:
- * States that permit charitable gift annuities with annual reporting to State Insurance Commissioner.
- (1) Value of property transferred; Amount of periodic payments; Manner & intervals of payment.
- (2) Age of Annuitant(s) shown.
- (3) Reasonably Commensurate Value of Annuity must be shown.
- (4) Agreements must be numbered.
- (5) Corrective action required if age or sex is wrong.
- (6) Effective with gifts made 1-1-92. (1950-1991 gifts use 1937 SAT @ 2.5%.)
- (7) New law effective 10-01-92. Minimum years changed from 10 to 5. Still uses R.R. 72-438.

 Please send updates to: James B. Potter, Planned Giving Resources, Box 342, Montvale, NJ 07645-0342
Data Available as of 8-31-92

EXHIBIT C

Contact Names for Permit Information for Non-Profits to Issue Gift Annuities

(a) **CALIFORNIA** ** (A) (B) (C)
Victoria S. Sidbury, Chief
Corporate Affairs Bureau
State of California
Department of Insurance
45 Freemont Street, 24th Floor
San Francisco, CA 94105
(415) 557-1126
(415) 557-3076 (FAX)

(b) **FLORIDA**
Ms. Lorraine Farley
Florida Dept. of Insurance
Applications Coordination Section
Room 633, Larson Building
200 East Gaines Street
Tallahassee, FL 32399-0300
(904) 922-3144 (Ext. 2448)

(c) **MARYLAND**
John A. Donaho, Commissioner
Maryland Dept. of Insurance
Life and Health Division
501 St. Paul Place, 7th Floor
Baltimore, MD 21202-2272
(410) 333-6190 (Howard Max, Actuary)
(410) 333-6650 (FAX)

(d) **NEW JERSEY** ** (A) (C)
Raymond Tarnecki, Admissions Secretary
Life and Health Division, 11th Floor
New Jersey Department of Insurance
20 West State Street, CN 325
Trenton, NJ 08625
(609) 292-1478
(609) 633-0527 (FAX)

(e) **NEW YORK**
Robert Ginnelly, Esq.
Office of General Counsel
New York State Dept. of Insurance
Agency Building 1, Empire State Plaza
Albany, NY 12257
(518) 474-4553
(518) 473-4600 (FAX)

(f) **NORTH DAKOTA**
Vance Magnuson, CLU, FLMI
Life and Health Forms
North Dakota Dept. of Insurance
State Capital, Fifth Floor
Bismarck, ND 58505-0158
(701) 224-2440
(701) 224-4880 (FAX)

(g) **OREGON**
Gary Weeks, Insurance Commissioner
Oregon Department of Insurance
440 Labor and Industries Building
351 W. Summer Street, NE
Salem, OR 97310
(503) 378-4281
(503) 378-4351 (FAX)

(h) **WASHINGTON**
Eldora A. Davis, FLMI, HIA
Contract and Rate Analyst
Washington Dept. of Insurance
Insurance Building, AQ-21
Olympia, WA 98504-0321
(206) 586-2226
(206) 586-3535 (FAX)

(i) **WISCONSIN**
Robert Walker
Insurance Examiner - Advanced
State of Wisconsin
Department of Insurance
P.O. Box 7873
Madison, WI 53707
(608) 267-2239
(608) 266-9935 (FAX)

** Notes:

(A) All requests for Applications for Special Permits or Certificates of Authority must be in writing.

(B) Charities are called "Grants and Annuities Societies".

(C) Call first, so they can tell you what written request must say.

Information Effective as of 4-28-1992

Note: Please send updates to: James B. Potter, P.O. Box 342, Montvale, NJ 07645-0432

EXHIBIT D

Summary of State Regulation of Charitable Gift Annuities (CGAs)

Incomplete: Data and [Regulators' Interpretations (A)(B)] available as of 4-28-92.[Notes (A-C) are NOT legal opinions or legally binding interpretions.]

This is NOT a definitive study. [Data (4) & (C) submitted by 3rd parties

(Regulators Own Interpretations [A, B, C] May be Subject to Change)

#	State	Regulation Notes	#	State	Regulation Notes
1	AL	(A) (**)	20	ME	(1) (g)
2	AK	(4)	21	MD	(1)
3	AZ	(2)	22	MA	(3)
4	AR	(A) (**)	23	MI	(3)
5	CA	(1)	24	MN	(B) (**)
6	CO	(A) (**)	25	MS	(A) (**)
7	CT	(4)	26	MO	(2)
8	DE	(3)	27	MT	(2)
9	DC	(A) (**)	28	NE	(2)
10	FL	(1) (e)	29	NV	(C) (**)
11	GA	(4)	30	NH	(2)
12	HI	(3)	31	NJ	(1)
13	ID	(A) (**)	32	NM	(4)
14	IL	(A) (**)	33	NY	(1)
15	IN	(4)	34	NC	(4)
16	IA	(A)	35	ND	(1)
17	KS	(4)	36	OH	(B) (**)
18	KY	(3) (f)	37	OK	(A) (**)
19	LA	(3)	38	OR	(1) (i)

EXHIBIT D continued

#	State	Regulation Notes	#	State	Regulation Notes
39	PA	(A) (**)	46	VT	(C) (**)
40	RI	(C) (**)	47	VA	(A) (**)
41	SC	(3) (h)	48	WA	(1)
42	SD	(2)	49	WV	(3)
43	TN	(A) (**)	50	WI	(1)
44	TX	(A) (**)	51	WY	(4)
45	UT	(3)			

CGAs OK:

(1) CGAs ARE regulated. Permit issued/regulated by Insurance Dept.

(2) State law silent. State Insurance Dept. does NOT regulate CGAs.

(3 State Insurance Law EXEMPTS charities from regulation of CGAs.

(4) State law silent. CGAs do NOT APPEAR to be regulated.

Possible Problems: [See Caveat Below]

(A) State law silent on CGAs. Insurance Dept. presently may attempt to regulate by interpreting CGAs as "insurance", and expect charity to qualify and register as a commercial insurance company.

(B) State law silent on CGAs. Insurance Dept. presently assumes CGAs are "securities", requiring filing with MN State Commerce Department.

(C) Situation unclear. Regulators may attempt to prohibit or regulate CGAs.

More Data...

(e) Present FL law sunsets 10-1-92. New Insurance Law due by that date. New law to update Required Legal Reserve computations for CGAs.

(f) Enabling law exempting CGAs from regulation effective 7-1-92, (Senate Bill No. 66). Prior to that date, CGAs prohibited in KY.

(g) Law authorizes Univ. of Maine System to write CGAs. Permit & annual report is required. Since intent of law re other charities is unclear, Insurance Dept. doesn't prohibit others from writing CGAs.

(h) No restrictions in SC if charity has been in operation for 5 years.

(i) Some Oregon charities acceptable. Most out of state charities are not.

Caveat

(**) Network with other charities to resolve questions. Do NOT ask state regulators directly. Inquire through third parties, NOT identifying your organization. You must comply with direct answers from regulators. Above represents only the current interpretations of the state regulators, given to 3rd parties and are binding on an organization if it asks directly.

 Please send changes to Planned Giving Resources, Box 342, Montvale, NJ 07645

Summary of State Regulation of Charitable Gift Annuities (CGAs) Listed Alphabetically By State Within Type of Regulation

Incomplete: Data and [Regulators' Interpretations (A)(B)] available as of 4-28-92 [Notes (A-C) are NOT legal opinions or legally binding interpretations.] This is NOT a definitive study. Data (4) & (C) submitted by 3rd parties (Regulators Own Interpretations [A,B,C] May Be Subject to Change)

GIFT ANNUITIES MAY BE ISSUED

	No. of States
(1) CGAs ARE Regulated. Permit issued/regulated by Insurance Dept.	
CA, FL, ME*, MD, NJ, NY, ND, OR, WA, WI	10
(* See Note below)	
(2) State Insurance Dept. states it does NOT regulate CGAs. State law silent.	
AZ, MO, MT, NE, NH, SD	6
(3) State Insurance Law specifically exempts CGAs from regulation.	
DE, HI, KY**, LA, MA, MI, SC, UT, WV	9
(** Effective 7-1-92)	
(4) State law silent. Do not believe Insurance Dept. attempts to regulate.	
AK, CT, GA, IN, KS, NM, NC, WY	8
Total:	33

POSSIBLE PROBLEMS WITH ISSUED GIFT ANNUITIES

(Note: Regulators' interpretations may be subject to change)

	No. of States
(A) State law silent on CGAs. Insurance Dept. presently may attempt to regulate by interpreting CGAs as "insurance", and expect charity to qualify and register as a commercial insurance company. ***	
AL, AR, CO, DC, ID, IL, IA, MS, OK, PA, TN, TX, VA	13
(B) State law silent on CGAs, but Insurance Dept. presently interprets CGAs as "securities" (not insurance), assumes charity must file with State's Department of Commerce. ***	
MN, OH	2
(C) Situation unclear. Regulators MAY attempt to prohibit or regulate CGAs. ***	
NV, RI, VT	3
Total:	18

*Note: CGAs regulated by Insurance Dept. Law specifically permits University of Maine System to issue CGAs. Permit and annual reporting required. Other charities not mentioned. Because intention of legislature is unclear, Insurance Dept. presently does not attempt to stop other charities from issuing CGA agreements.

***** Caveat**

Network with other charities to resolve questions. Do NOT ask state regulators directly. Inquire through third parties, NOT identifying your organization. You must comply with direct answers from regulators. Above represents only the current interpretations of the state regulators, given to 3rd parties and are binding on an organization if it asks directly.

 Please send changes to Planned Giving Resources, Box 342, Montvale, NJ 07645

REPORT ON MODEL STANDARDS OF PRACTICE

Frank Minton, Ph.D.
President
Planned Giving Services

On May 2 last year the Committee on Gift Annuities adopted the Model Standards of Practice for the Gift Planner. This statement has now been endorsed by some 451 sponsoring institutions and by hundreds of individual gift planners. We believe it is one of the most important actions we have taken and will have far-reaching consequences for our profession.

Because of its importance I would like to comment on how it came to be developed, its central themes, the impact it has had to date, and how all of us can extend its influence.

The Committee on Gift Annuities and its sister organization, the National Committee on Planned Giving (NCPG), recognized the need for an ethics statement dealing with issues faced by those in planned giving. However, the stimulus came from the Canaras Group, one of the councils belonging to NCPG, which in 1989 adopted a code called the Canaras Convention. It received widespread publicity, attracted a number of signers, got favorable comments from an IRS Commissioner, but also criticism from those who felt it was too polemical.

The Committee on Gift Annuities looked with favor on the Canaras Convention and went so far as to propose a modified version called the Institutional Canaras Convention suitable for endorsement by charities, since institutions rather than councils or individuals are the sponsoring members of the Committee on Gift Annuities.

Discussion continued without formal action, and one year later in 1990 the Canaras Group issued the Canaras Code, which was actually a revision of the Convention. In October of 1990 we polled those attending the NCPG national conference and asked if they favored the national organization's adopting a statement of ethics. The answer was overwhelmingly "Yes," and many felt it should be patterned after the Canaras Code. As president of NCPG I formed an Ethics Committee and appointed Tal Roberts as chairman. As head of the Committee on Gift Annuities, Tal had a seat on the NCPG Board. My objective was an ethics statement that would be embraced by the two national organizations devoted exclusively to planned giving.

That was realized. Tal provided superb leadership, moving his committee to the production of a draft in time for the NCPG Annual Assembly meeting in Seattle on April 29, 1991. The Assembly recommended that the draft statement be adopted subject to certain amendments. The next day the NCPG Board, following their recommendations, unanimously adopted the Model Standards. Two days later the Committee on Gift Annuities, meeting in Dallas, also adopted them unanimously.

We were eager to move expeditiously because, frankly, we feared that the charitable gift instruments could be threatened by abusive practices. In November of 1990 Forbes published an article calling unitrusts "the loophole Congress forgot to close" and focusing on those who sell charitable gifts. Abuses by some could lead to Draconian legislation and rulings affecting all of us. Therefore, we wanted to show that the practices in the article do not represent the standards followed by the vast majority of gift planners, and that we were willing to take responsibility for our own ranks.

For the most part I believe the Model Standards speak for themselves, but I would briefly call attention to four underlying themes.

First is the importance of presenting charitable remainder trusts and other instruments as a means of making a gift, not as investments and tax shelters. Certainly the financial benefits should be described, even stressed, but always in relationship to the gift. In other words, philanthropy should be center stage with tax savings the supporting cast. When a charitable remainder trust is written with 37 beneficiaries and a remainder interest of .0008 percent, I don't think philanthropy is even in the wings.

A second theme of the Model Standards of Practice is full disclosure. The donor has a right to have all relevant information about the transaction in order to make an informed decision. We believe the donor should also understand the roles of the various players and whom they represent.

A third theme is the importance of competence and teamwork. The planned giving officer must recognize his or her limitations and involve other professionals who have competencies s/he doesn't. Likewise, the independent gift planner should consult the charity about its needs and priorities. Even if the donor wants anonymity, the gift planner can still check with the charity to make sure that restrictions on the gift would be compatible with the charity's missions.

Fourth and finally, the Model Standards stress reasonable compensation. Article IV has been the lightning rod of this statement, and the language went through many revisions before we reached consensus.

This article does not deny independent gift planners a livelihood.

> If an insurance agent is involved in an arrangement that includes wealth-replacement life insurance, it is appropriate to receive commissions on sale of the policy.
>
> If a real estate broker or stock broker refers a gift, and the property is then sold through that person, it is appropriate to receive a sales commission.
>
> If an investment advisor is retained by the trustee to make invest-

ments, it is appropriate to receive a management fee.

If an independent gift planner is retained by the charity or donor to help arrange a gift, it is appropriate to bill the donor or charity for time at a reasonable hourly rate.

What is inappropriate is a commission on the gift itself, a finder's fee as a condition for delivering the gift, or compensation based on a percentage of the gift.

These are inappropriate because they may lead to compensation out of proportion to services rendered and they run a risk of having charitable remainder trusts regulated as securities. Per Robert Sharpe, Jonathan Tidd and others who have looked into the matter, the SEC has taken a "no action" position on condition that the primary purpose of the donor is to make a gift to charity, full disclosure is made, and no commission is paid to persons who solicit gifts. To market charitable remainder trusts as investments and receive a commission on them could transform them into securities.

Does our statement on fees and commissions restrict free trade? We don't think so. We are stating a standard of practice to which gift planners should aspire. We are not establishing an enforcement mechanism and sanctioning those who do not comply.

The remote possibility that the FTC might question our statement is outweighed by the possibility of corrective action by the IRS, regulation by the SEC, and adverse publicity resulting from abuses.

We are pleased at the response to the ethics statement. For example, Michael Josephson, who heads the nationally known Ethics Institute, said in an interview printed in Planned Giving Today, "Most of these codes are platitudes, and the only way they get approval is to avoid taking positions on controversial issues. But here you've taken a direct position on finder's fees and commissions and on following both the letter and spirit of the law."

We are also encouraged that other organizations are taking similar positions on fees and commissions. For example, the American Association of Fund-Raising Counsel now bars its members from accepting payment based on how much money they raise for client charities. I understand that NSFRE will also oppose commission-based fundraising in its new Code of Ethics. Actions by such related associations, endorsements by NCPG Councils and sponsoring institutions of the Committee on Gift Annuities, and individual signatories will certainly have an impact. If you have not yet personally subscribed to the Model Standards, we invite you to do so by signing the card included with the list of subscribers, and leave it at the registration desk.

One person wrote a letter to me saying that he thought that a statement of ethics was meaningless without an enforcement mechanism. I do not agree. If leaders in the field buy into it, take public positions, and counsel those participating in questionable practices, there will be a tremendous social pressure to follow these standards.

Last year, for example, a publishing company announced a new, non-profit tax letter which, among other things, purported to show you how to get a deduction without a receipt, escape the unrelated business income tax, and establish high fair market values for property gifts. Several of our members wrote pointed letters to the editor, and he wrote to Tal promising to explain the tax incentives in the spirit of the Model Standards.

Some of you may have seen an article by Joe Schreiber in the last issue of the NCPG newsletter calling attention to an organization that markets "a little-known strategy to make a fortune for yourself." That little known strategy is the charitable remainder trust, and the donor must designate a portion of the remainder for a certain cooperative charity which, in turn, pays a nice finder's fee to the organization. Joe is the NCPG Ethics Advisor, and his task is to monitor cases like these, mobilize action, and help practitioners think through ethical dilemmas.

No one group has a monopoly on questionable practices. They can he found in the halls of ivy as well as the offices of entrepreneurs. Yet I think some of these ethical issues have surfaced because more and more charitable remainder trusts are being initiated by independent gift planners in the brokerage, insurance, and financial planning fields. They are no longer the private domain of planned giving officers and the attorneys and trust officers who recommend them to clients.

This fact holds promise because these independents can generate millions of dollars for worthwhile causes - dollars that otherwise would not be raised. On the other hand, the growth of independents concerns many in the development field. It's not just the occasional egregious abuses that worry them, but also the way gifts are marketed. They fear that those not socialized in the philanthropic tradition overemphasize the financial returns and neglect the charitable gift, undercutting the very reason for the tax incentive.

Somehow we must bring everyone into the tent. It is not enough for charities and development officers alone to sign the ethics statement. We must reach out to allied professionals, understanding their perspectives, and forge a common commitment to high ethical standards. We had that in mind when we chose the title, "Model Standards of Practice for the Charitable Gift Planner."

It is addressed not just to charities and their representatives but to all who are engaged in the gift planning process. That is why the inclusive term "gift planner" is used throughout.

To those charities, councils and individuals who have so far endorsed the Model Standards, we say thanks. To those who have not, we invite you to do so now. To all of you we would say, set an example, sound a tone, extend a wave of influence.

We have a magnificent tradition of philanthropy, encouraged by our laws. Let's preserve that tradition for years to come.

Model Standards of Practice for the Charitable Gift Planner

Preamble

The purpose of this statement is to encourage responsible charitable gift planning by urging the adoption of the following Standards of Practice by all who work in the charitable gift planning process, including charitable institutions and their gift planning officers, independent fund-raising consultants, attorneys, accountants, financial planners and life insurance agents, collectively referred to hereafter as "Gift Planners."

This statement recognizes that the solicitation, planning and administration of a charitable gift is a complex process involving philanthropic, personal, financial and tax considerations, and as such often involves professionals from various disciplines whose goals should include working together to structure a gift that achieves a fair and proper balance between the interests of the donor and the purposes of the charitable institution.

I. Primacy of Philanthropic Motivation

The principal basis for making a charitable gift should be a desire on the part of the donor to support the work of charitable institutions.

II. Explanation of Tax Implications

Congress has provided tax incentives for charitable giving, and the emphasis in this statement on philanthropic motivation in no way minimizes the necessity and appropriateness of a full and accurate explanation by the Gift Planner of those incentives and their implications.

III. Full Disclosure

It is essential to the gift planning process that the role and relationship of all parties involved, including how and by whom each is compensated, be fully disclosed to the donor. A Gift Planner shall not act or purport to act as a representative of any charity without the express knowledge and approval of the charity, and shall not, while employed by the charity, act or purport to act as a representative of the donor, without the express consent of both the charity and the donor.

IV. Compensation

Compensation paid to Gift Planners shall be reasonable and proportionate to the services provided. Payments of finder's fees, commissions or other fees by a donee organization to an independent Gift Planner as a condition for the delivery of a gift are never appropriate. Such payments lead to abusive practices and may violate certain federal and state regulations. Likewise, commission-based compensation for Gift Planners who are employed by a charitable institution is never appropriate.

V. Competence and Professionalism

The Gift Planner should strive to achieve and maintain a high degree of competence in his or her chosen area, and shall advise donors only in areas in which he or she is professionally qualified. It is a hallmark of professionalism for Gift Planners that they realize when they have reached the limits of their knowledge and expertise and, as a result, should include other professionals in the process. Such relationships should be characterized by courtesy, tact and mutual respect.

VI. Consultation with Independent Advisers

A Gift Planner acting on behalf of a charity shall in all cases strongly encourage the donor to discuss the proposed gift with competent independent legal and tax advisers of the donor's choice.

VII. Consultation with Charities

Although Gift Planners frequently and properly counsel donors concerning specific charitable gifts without the prior knowledge or approval of the donee organization, the Gift Planner, in order to ensure that the gift will accomplish the donor's objectives, should encourage the donor, early in the gift planning process, to discuss the proposed gift with the charity to whom the gift is to be made. In cases where the donor desires anonymity, the Gift Planner shall endeavor, on behalf of the undisclosed donor, to obtain the charity's input in the gift planning process.

VIII. Explanation of Gift

The Gift Planner shall make every effort, insofar as possible, to ensure that the donor receives a full and accurate explanation of all aspects of the proposed charitable gift.

IX. Full Compliance

A Gift Planner shall fully comply with and shall encourage other parties in the gift planning process to fully comply with both the letter and spirit of all applicable federal and state laws and regulations.

X. Public Trust

Gift Planners shall, in all dealings with donors, institutions, and other professionals, act with fairness, honesty, integrity, and openness. Except for compensation received for services, the terms of which have been disclosed to the donor, they shall have no vested interest that could result in personal gain.

Adopted and subscribed to by the NATIONAL COMMITTEE ON PLANNED GIVING, representing fifty planned giving councils comprised of 4,000 individuals involved in planned giving throughout the country, and the COMMITTEE ON GIFT ANNUITIES, representing over 1,200 public charities across America.

NATIONAL COMMITTEE ON PLANNED GIVING
Board of Directors
April 30, 1991

COMMITTEE ON GIFT ANNUITIES
May 2, 1991

Charles W. Baas
American Bible Society, retired

Kathryn E. Baerwald
United Way of America

M. Elizabeth Brothers
Rollins College

Elizabeth A. S. Brown
Moody Bible Institute

G. Tom Carter
General Conference of Seventh-Day Adventists

Robert B. Gronlund
Gronlund, Sayther & Associates

Gerry C. Gunnin
Children's Medical Foundation of Texas

John B. Jacobs
American Baptist Foundation, ABC

Richard A. James
Loma Linda University

James G. Marshall, Jr.
Designs in Planned Giving

Joseph B. Matthews
The Salvation Army

Frank D. Minton
Pentera, Inc.

Michael Mudry
Hay/Huggins Company, Inc.

John D. Ordway
The Pension Boards, United Church of Christ

James B. Potter
Planned Giving Resources

Harold D. Richardson
Annuity Board, SBC

Tal Roberts
Baptist Foundation of Texas

Daniel K. Scarberry
American Bible Society

Clinton A. Schroeder
Gray, Plant, Mooty, Mooty & Bennett

Jane Stuber
Smith College

Robert B. Turner
Princeton University

Eugene L. Wilson
American Leprosy Missions, Inc.

INCREASING GDP: GROSS DOMESTIC PHILANTHROPY

Conrad Teitell
Partner, Prerau & Teitell
Of Counsel, Perkins Coie

Significant tax legislation is highly unlikely in this election year. But major changes could come in 1993.

Charities should gear up **now** to-

- Protect the current tax benefits for charitable giving,
- Repeal recent tax law disincentives to donors
- Push for legislation that gives additional inducements for generosity.

Suggested Agenda for Congress

1. Restore the charitable deduction for individuals who take the standard deduction.
2. Rescue the charitable deduction from the "3% reduction" of itemized deductions for those with Adjusted Gross Income over $105,250.
3. Remove all types of appreciated property donations — securities, real estate and tangible personal property — from the alternative minimum tax. The President himself backed this proposal, although the vetoed '92 tax bill would have granted only temporary relief for 1992 and 1993.
4. Allow S corporation stock to be donated directly to charity (or transferred to charitable remainder trusts) without losing the S election.
5. Let donors roll over IRAs, Keoghs and other retirement plans into charitable life-income gifts without incurring tax.

While we're at it, let's ask Congress to enact these additional incentives:

- Allow gifts made by April 15 to be deducted (at a donor's election) on the prior year's tax return. A taxpayer can make a contribution to an IRA for a prior year by the following April 15; allow parallel treatment for contributions that benefit the public at large, not just the individual.
- Create a charitable "check-off." Donors should be able to designate up to $1,000 of a federal tax refund and have IRS send it directly to a qualified charity. The tax incentive would be a 31% **credit** for the amount donated; that would make the tax benefits equal for all donors regardless of their tax bracket. (A **credit** directly reduces the amount of tax, whereas the benefit of a **deduction** depend on the taxpayer's effective tax rate [deduction x effective tax rate = reduction in tax].)

- Authorize a new type of life-income gift: the Charitable Remainder Variable Annuity Trust (CRVAT). This marriage of the charitable remainder unitrust and the charitable remainder annuity trust would work this way: Each year the beneficiary would receive the greater of a fixed dollar amount (set at the outset) or a percentage (set at the outset) of the net fair market value of the trust assets, as revalued each year.

  Example. Donor transfers $100,000 to a CRVAT. Each year she'll receive $7,000 or 7% of the net fair market value of the trust as revalued each year, whichever is greater.

  Year One. The trust is worth $100,000 and she receives $7,000.

  Year Two. On the next year's valuation date the trust is worth $110,000; the donor receives $7,700 (because that is greater than the $7,000 fixed dollar amount).

  Year Three. The following year the trust is worth $90,000 and the donor receives $7,000 (because that amount is greater than 7% x $90,000).

  The charitable deduction for this CRVAT could be determined by averaging the charitable deduction for a 7% annuity trust and a 7% unitrust. Otherwise, all the other current tax rules for charitable remainder trusts would apply.

Suggested Agenda for IRS and Treasury

The United States Supreme Court in *Helvering v. Bliss*, 293 U.S. 144 (1935), said that the intent of tax laws is to encourage charitable organizations and therefore should be broadly construed. In recent years, well-meaning people at IRS and the Treasury have been doing just the opposite. Charities should join together and ask for:

1. A revenue ruling stating that mortgaged property will not disqualify charitable remainder trusts. See *Letter Ruling 9015049*.
2. A revenue ruling clarifying that charitable remainder trusts can be funded with undivided interests in property. See, e.g., *Letter Ruling 9114025*, in which IRS approved a limited partnership as a way around its self-dealing concerns.
3. A revenue ruling or treasury regulation permitting loosely affiliated charities to have a "master" pooled income fund.

   In fact, legislation should be sought authorizing an omnibus national pooled income fund - with any charity being a permissible remainder organization. Every qualified organization - no matter how small - could receive remainder gifts.

4. A revenue ruling allowing a "net income with makeup" unitrust to be converted to a straight unitrust once the initially transferred property is sold. See, e.g., *Letter Ruling 8732026*.
5. A fairer way to compute the charitable deduction for "young" pooled income funds. Currently, funds with less than three years experience must use an assumed interest rate (for purposes of computing the charitable deduction) that's higher than the rate of income generally earned by the funds. By ruling or regulation, a lower assumed interest rate should be authorized for computing the charitable deduction.
6. Flexible starting dates for deferred payment gift annuities. *Letter Ruling 9017071* allowed a charity to accelerate the starting date for annuity payments on the early death of a spouse. The size of the payments would be reduced to reflect the earlier start, but the value of the charitable gift would remain the same. The letter ruling should be published so its benefits are available to all. And it should be expanded to allow the earlier start of payments for any reason - as long as the investment in the contract (and thus the value of the charitable gift) remains the same.

WORKSHOP SESSIONS REPORTS

The following pages contain presentations
from the 10 workshop sessions.

NEW CONCEPTS IN PLANNED GIVING - ADAPTING TO A CHANGING WORLD

Robert F. Sharpe, Jr.
President
Robert F. Sharpe & Company, Inc.

I. Introduction.

A. New concepts in planned giving are required to cope with unprecedented opportunities - and pitfalls - for "planned giving" as we know it today.
   1. Demographic and social changes.
   2. Uncertain economic conditions.
   3. Increased competition.
   4. Less tax incentives for some of the most desirable planned gifts.

B. Adaptation will be required.
   1. New twists on old plans.
   2. A return to basic motivations.

II. Demographic and Social Changes.

A. The aging of America.
   1. 55-65 year-old age segment.
   2. Unprecedented growth in 65 and older age group.

B. Wealth is increasingly concentrated in the hands of older population.

C. Middle-aged are caught in squeeze between older and younger generations.

D. Baby boomers still "in the wings."

III. Current Economic Environment Presents Challenges.

A. Decade of 1980s brought low inflation, low taxes (with the exception of capital gains) and high rates of investment return.

B. Gift planners adapted to a generally favorable environment.
   1. Buildup retirement unitrusts.
   2. Life insurance "endowment" programs.
   3. Deferred gift annuities.
   4. Wealth replacement plans.

C. Many popular plans in the 1980s revolved around the expectation of readily achievable high rates of return and generally optimistic feelings about ability to continue to prosper.

D. The 1990s appear to present a different scenario. Prospect for continued high interest rates, low inflation, low taxes, and the ability to create new wealth are all in doubt for many donors.

E. Attitudes are being affected by extended economic downturn.

1. "Recovery" heralded in environment of 2% growth in personal income with 4% inflation.
2. U.S. economy grew at average rate of 2% during the 1930s.

F. Historical perspective.
   1. Charitable giving continues during difficult economic periods.
      a. After initially falling somewhat, charitable giving grew each year during the Depression.
      b. The mix between current and deferred gifts changed.
   2. Those who had laid groundwork benefitted.

G. Current trends.
   1. Health.
   2. Social welfare.
   3. Religion.
   4. Education.

H. Result has been a tremendous surge in interest in planned giving.

IV. Unprecedented Competition for Planned Gifts.

A. Competition from traditional planned giving programs.
   1. Success of some is envied by other organizations which have not traditionally been active in planned gift development efforts.
   2. Unprecedented numbers of new programs being launched.
   3. Shortcuts are attractive when playing "catch up."
      a. Life insurance programs which promise "instant endowment."
      b. Other plans which attract primarily younger donors where quick results can be shown.
      c. Some are now even resorting to marketing planned gifts as <u>investments</u> for older persons.

B. Competition from non-traditional planned giving programs.
   1. Capital campaigns.
      a. Pressure to meet goals.
      b. Demographic and economic impacts.
      c. Deferred gifts being counted in campaigns.
         1) Bequests.
         2) Insurance.
         3) Other deferred gifts.
      d. Annexation of planned giving programs in some cases.
         1) In some cases both campaigns and planned giving programs suffer.
         2) In others, successful symbiotic relationship.
         SYMBIOSIS - 1. the living together in more or less intimate association or close union of two dissimilar organisms. 2. the intimate living together of two dissimi-

lar organisms in mutually beneficial relationships. - Webster's

2. Major gift programs.
   a. Recognition societies.
   b. Annexation of planned giving programs.
   c. Directors of Major and Planned Gifts.

C. Competition from "allied" financial services providers.
1. Product oriented "gift planners," some of whom are also overall "financial planners."
   a. Insurance salespersons.
   b. Investment salespersons.
   c. Investment advisers (advice salespersons).
   d. Trust services salespersons.
   e. Real estate salespersons.
   f. Attorneys (law salespersons).
   g. Accountants (accounting salespersons).
2. Buildup unitrust (typically 8-10%) coupled with "wealth replacement" life insurance policies (typically projecting 8-10%) marketed to persons typically age 50-60 became vehicle of choice in the 1980s.
   a. Plan was generally most attractive to younger persons.
   b. Charitable intent was often secondary.
   c. Low interest rates and lack of confidence in longterm 8% yields in investment markets are now beginning to squelch interest in this plan by persons with little donative intent.
   d. Also now less attractive to charities since less prospect of buildup.
      1) Less incentive to manage and bear expenses if principal not expected to grow as rapidly in value.
      2) Present value of $500,000 from 55 year-old at 8% discount for 29 years is $53,544.
3. Reaction of planners.
   a. Some advisors have now discovered annuity trusts.
   b. Many are learning to skirt the 5% probability test.
   c. Charities must beware. If a $500,000 charitable remainder annuity trust earns 8% and pays 8%, and 1% expenses per year, remainder will be only $60,000 in an annuity trust. Present value of that amount is $6,000. If it earns 7.75%, the trust is exhausted at the 28th year. Donor can, however, "make money" on such a transaction depending on assumptions one makes.

V. Tax Incentive Environment - Post 1986.

A. Impact of many older middle income donors being subject to 28% marginal tax rates combined with low interest rates now being felt. Standard deductions in $7,500 range for couples over 65 limit practical ability to utilize deductions.

B. Alternative minimum tax has eroded benefits for the wealthy.

C. Thus, avoidance of capital gains tax has become the primary objective.

D. The reaction of some advisors presenting gift ideas to their clients has been greater emphasis by some on income generation potential of gifts to create perceived value in excess of contribution amount. The "sale" is made by showing that the income stream and tax benefits from the gift is worth more than the amount used to fund it. Works best for younger people.

E. Capital campaign counting is now focusing more attention on true value of such gifts.

   1. Encouraging such gifts internally could be a career disaster.
   2. Discouraging them from outside "allied professionals" who have been taught "gift planning" can be difficult, once benefits are understood by huge contingent of marketers.

VI. Gift Planning Ideas Which Achieve Balance in Current Environment.

A. An alternative way to utilize the charitable remainder unitrust. Example:

   Mrs. Martin, age 74 is a widow who has been a donor to your organization for a number of years. Her only son died shortly after her husband. Since the death of her husband and son, Mrs. Martin has continued to make her living raising champion collies on the Martin farm. She has been netting about $50,000 per year from her business. She is now concerned that she is no longer physically able to manage the operation.

   Mrs. Martin is worried about who will manage her property as she gets older. She has had a very minor stroke with no real damage, but she is beginning to have trouble remembering things sometimes and is a little nervous about this. She remembers the terrible time she had in the late 1970s and early 1980s when inflation was high and the price of champion collies didn't keep up. She wasn't able to earn the 15% money market rates her friends enjoyed. She thinks that inflation may pick up again as the only way to get rid of the debts of the 1980s.

   It seems that a new leg of the interstate is slated to cross her property and she has been told her farm is worth about $1,000,000. She and her husband bought it in 1950 for $25,000. She planned to sell the farm and reinvest the proceeds until her accountant told her about the combined effect of high capital gains taxes and lower interest rates.

Six years ago she could have sold the property and paid $195,000 in capital gains taxes and reinvested the proceeds at 10%. This would have yielded her about $80,500 and more than replaced all her income from her discontinued business. Today, however, with a 28% capital gains tax rate and investments with which she is comfortable yielding 5%, it appears that she will be fortunate to net $36,350 per year on a sale and reinvestment. This really bothers her and she is upset because she believes this is so unfair. While she has additional income from social security and other sources, she sees the sale of the farm as the nest egg which was to give her a very comfortable retirement.

Mrs. Martin has been a long-term donor to your organization. As such, she receives a newsletter from your organization which mentions the possibility of making a gift, while retaining income and avoiding capital gains taxes. She has invited you out to see the dogs and discuss how she might benefit from such a gift with the remainder to fund a memorial to her family. What do you suggest she do?

1. Consider 5% unitrust assuming earnings of 7% which should result in a "buildup" of the trust corpus and increased income over the years. The tax deduction for 5% unitrust is $616,000. Can she use this assuming an $80,000 annual income (trust income plus other sources)? Does the buildup help her much over her 13 year life expectancy? Her income will increase by only 2% per year if the trust earns 7%.
2. Consider instead the possibility of a 20% net income unitrust. Deduction is $215,000. Can she use this deduction? What happens if interest rates spike to 12%? Will there be a buildup for the charity? Does it matter? Present value of remainder interest of $1,000,000 is $415,000 at 7% discount rate. What if yields fall to 3%? She would be better off with a 5% straight unitrust.
3. What is the lesson here?
   a. Who bears the risk?
   b. If trust earns 5%, then her income of $50,000 represents an increase of 38% over what she would have available with a sale and reinvestment in today's environment.

c. Ability for Mrs. Martin to benefit from higher interest rates built in to the plan.

d. But no possibility of buildup of eventual gift.

   1) Age of donor is critical.

   2) Plan works best for older donors.

e. What has she accomplished?

   1) Avoidance of capital gains taxes.

   2) Enhanced income.

   3) Management of assets.

   4) Acceptable balance of risks.

   5) Emotional gratification from making her "gift of a lifetime."

B. The charitable gift annuity.

1. Case for discussion.

On the same day, you are asked to accept two different gift annuities. Both are from women. One is aged 60 and the other is age 84. The payment rate in the first case is 7% and in the second it is 10.9%. Your comptroller believes that you can safely earn 7.5% on your investments over the next twenty years. Some members of your staff are nervous about accepting the gift from the 84 year-old. Assume 5% of gift will be required for administration. Which is the better gift?

Age of Donor	Life Expectancy	Balance At Death	Present Value 7%	Present Value 4%
60	24 years	$10,279	$2,026	$4,010
84	7 years	$ 6,183	$3,850	$4,699

2. Clearly the gift annuity is more attractive under current economic conditions than in the 1980s.

   a. But avoid overemphasis on returns.

      1) Don't encourage comparisons you can not win.

      2) Comparable commercial annuities pay much higher rates (e.g. 15-16% for 84 year-old as of 4/92)

   b. This phenomenon makes reinsurance possible.

      1) Hypothetical example:

      If gift annuity pays 10.9% to an 84 year-old, then how much does it cost to reinsure the obligation with a commercial annuity?

      <u>$1,090 annual annuity</u>

      15.7% Commercial rate = $6,942 Commercial Annuity

      Plus approximately 3% commission

      $6,942 + $215 = $7157

      A $10,000 annuity for an 84 year-old may thus be reinsured under these assumptions for approximately \$7,157, or 71% of the gift annuity, resulting in a "gift" of \$2,843.

2) Reinsurance can be profitable if administrative expenses are high on a new gift annuity program or if one anticipates a high rate of inflation in the future.
3) Inviting comparison to certificates of deposit and other debt instruments where principal is retained can be problematic.
4) Avoid referring to return of principal as tax-free income or worse, "tax-free interest." Especially true since income must be reported following expiration of time equal to life expectancy.
5) Securities regulation issues are real for gift annuities and other planned gift vehicles. Anti-fraud provisions apply. See UNIVERSITY OF MINNESOTA FOUNDATION, S.E.C. Rep. 76,792 (1981). See also S.E.C. RELEASE 33-6175, (1980). For more information see "Is There 'Security' in Planned Giving?" Trusts & Estates, 8/91.

c. Marketing emphasis must always be on a gift which features relatively high payments for life.

Expect life insurance professionals to become attuned to donors' interest in charitable gift annuities and begin more aggressive marketing of straight commercial annuities with much higher rates.

Respond by carefully inviting comparison to commercial annuities and show that it is more preferable for charity to receive balance, or compare to gifts where no life income is retained, rather than investments where 100% of principal is preserved.

Open comparison to certificates of deposits and other debt instruments may not only risk violation of anti-fraud provisions, it may simply help life insurance companies sell commercial annuities.

d. Who bears the risk?

C. Using the term of years annuity trust to meet donors needs.

Amy Brown, aged 18, has just entered College. Her father, Henry Brown, age 51, is looking for a tax-advantageous way of providing her with about \$15,000 a year for this and the next three years. The expenses are non-deductible, which means that he has to pay income tax "on top of" the expenses.

Mr. Brown would also like to make some significant charitable gifts, but he can't see how he can do so, given these upcoming educational expenses.

Mr. Brown has not considered at all the possibility that his desire to benefit charitable causes and his desire to provide educational funds to Amy on a tax-favored basis might be taken care of with a single plan.

Nor has Mr. Brown thought about how one of his assets, some appreciated XYZ stock worth $100,000 might be used to meet his objectives. Mr. Brown has thought, however, of the unpleasantness he faces if he sells this stock, which pays only a 2 percent dividend. He bought the stock in 1982 for $35,000,which means that if he sells the stock he faces a $65,000 capital gain, on which his tax will run about $18,200. Mr. Brown is very unhappy about the facets of his financial situation just described. He feels tax reform has hurt him both in terms of providing funds to Amy and in terms of the capital gain tax he now has to pay when he sells appreciated stock. A solution to Mr. Brown's problems might be a short-term (4-year) charitable remainder annuity trust.

1. No capital gain on giving the appreciated stock to the trust. Mr. Brown avoids a potential capital gain tax of about $18,200.
2. The trust can sell the stock, and reinvest, without paying capital gain tax.

   This means the $100,000 of principal contributed in the form of the appreciated XYZ stock is preserved intact as cash.
3. The trust will provide Amy with $60,000 over 4 years.
4. If the trust earns 8 percent, it will distribute about $68,000 to charity at the end of 4 years. Charity bears the risk of lower returns.
5. Mr. Brown will obtain a current income tax charitable deduction of about $50,000 for creating the trust. This will save him roughly $17,000 in federal income taxes (perhaps spread over several years, depending on his income level).
6. The trust payments to Amy will be taxed to her (not to Mr. Brown) in her own low tax bracket.
7. He might consider using the tax savings to purchase a life insurance policy to "replace" the money he might otherwise have left to Amy which was instead used to make his charitable gift.
8. Depending on the assumptions one makes, this plan costs Mr. Brown very little as compared with selling the asset, paying the

capital gains taxes and attempting to pay for Amy's education from the proceeds.

9. Who bears the risk?

D. The charitable lead trust - a different viewpoint.

1. Example:

Mrs. Wealth, age 72, owns stock in a company founded by her late husband. She inherited the stock at his death fifteen years ago. It is now worth $3,000,000 but is expected to appreciate at a rate of only about 3% per year for the foreseeable future. Her basis in the stock is $300,000.

The annual dividends from the stock have been averaging only about one-half of one-percent of its current value.

Ms. Wealth's life expectancy is about 15 years at this point. She has no children and plans to leave most of her assets to her nieces and nephews. She is most definitely in a 55% estate tax bracket and her advisors are concerned that rate may increase over the coming decade. They are also concerned that she has not used her unified credit as they believe it may be reduced or eliminated, or phased out at lower levels in coming years as a way to deal with the need for more federal revenue.

She sits on several boards and is interested in making a gift in the $2,000,000 to $3,000,000 range to one of her interests.

Given current economic conditions, a charitable lead trust is suggested as a solution to her dilemma. Why might she consider this course of action and how do lower interest rates serve to make this more attractive today?

RESULT IF PROPERTY HELD UNTIL DEATH

Value of property at death	$4,780,524
Estate shrinkage	2,629,288
Net to heirs	2,151,236

RESULT IF PROPERTY SOLD, CAPITAL GAINS TAX PAID, AND NET PROCEEDS PLACED IN CHARITABLE LEAD ANNUITY TRUST AT 7.5 PERCENT PAYOUT FOR 15 YEARS

Property placed in trust net of sale	$2,244,000
Annual payment to charity for fifteen years	168,300
Payments to charity	$2,524,500
Remainder to heirs (Less encroachment, if any)	$2,244,000

Gift Tax due assuming use of $600,000 unified credit and 37% gift tax rate:

Federal Discount rate	Amount of Taxable Gift	Gift Tax Payable
11.0%	$900,651	$114,254
10.0%	835,890	88,977
9.0%	765,293	61,464
8.0%	688,189	32,630
7.0%	603,837	1,420
6.0%	511,362	-0-

Note that lower short-term interest rates combined with higher long-term rates currently favor charitable lead trust. In an environment of little growth, and a high spread between capital gains taxes and estate tax rates, such a plan may be attractive. Depending on the assumptions one makes, the outcome will vary. Other property such as highly appreciated real estate which has a negative current return and little hope for future appreciation might be a better choice. The key is to compare the capital gains tax against a much higher tax and pay the levy at 28% rather than 55%.

2. Who bears the risk in this situation?

VII. Learning to Balance Charitable and Non-charitable Motivations to Maximize Gift Income.

A. Assume planned giving donors will primarily be donors.
   1. In this environment, donative intent is essential.
   2. It is still possible for donors to profit from some types of planned gifts, but in such cases the time value factor is often weighted in favor of the donor and against the interests of the charitable recipient.

B. Why do we sometimes overemphasize other factors.
   1. Desire to benefit donors.
   2. Ignorance in some cases.
   3. Job security.
   4. Influence of internal and external peers.

C. Planned giving is the key to the future.
   1. Bequests will continue to be major source of funds until at least the early twenty-first century.
   2. Gift annuities and other life income gifts will continue to be attractive to older donors for a variety of reasons.
   3. Term of years trusts may be attractive to baby boomers as they enter middle age with conflicting economic priorities.

4. Charitable lead trusts attractive to wealthy persons who are primarily driven by donative intent.

D. Vital to understand non-tax incentives for making irrevocable gifts.
   1. Dying too soon.
   2. Living too long.
   3. Medical or other emergency.
   4. Mental and/or physical disability.

E. Example.

Miss Hamilton, age 74, notifies a not-for-profit entity that she has planned a bequest in the amount of $10,000. She pencils a note asking "what could be done with more?" She and her advisors share the following information:

The facts.

1. Persons.
   a. Miss Hamilton, age 74.
   b. Five middle-aged nieces and nephews.
   c. Six non-profit entities.
2. Property.
   a. $300,000 in appreciated securities. Earning 2%.
   b. $200,000 in bonds. Earning 8%.
   c. $200,000 in money markets. Earning 5%.
   d. $200,000 in property investments. Earning 10%.
   e. $100,000 in personal property.
   f. Income of $25,000 from pension and $52,000 from investments for a total of $77,000.
3. Plans.
   a. To continue to provide for herself and retain economic freedom.
   b Provide for management of property.
   c. Leave something to nieces and nephews.
   d. Leave bulk of her estate to charity, $10,000 to this particular one, but she is considering increasing the charitable distributions from her estate.
4. Planners.
   a. Stockbroker of 20 years.
   b. No attorney.
   c. No regular accountant.

F. The proposed plan.
   1. Charitable remainder unitrust of $400,000 with 7% annual payout.
      a. Tax deduction of $207,200.
      b. Unable to use most of it because of 30% limitation.

2. Bequest of 75% of residue of estate following $10,000 bequests to five nieces and nephews.

G. She suddenly decides not to complete the gift.

1. She becomes uncomfortable with continuing with the unitrust.
2. No effect on plans for bequests.

H. The reaction.

1. Flexibility and accommodation are vital.
2. Trust is converted to a "revocable revocable" trust until she felt comfortable with irrevocability.

I. The final outcome.

1. Trust became irrevocable a few months later.
2. Donor and her advisors have tremendous regard for the organization involved and the donor is very pleased with the planned gifts which were the outcome of the gift planning process.

VIII. Conclusion.

A. Irrevocable charitable gift plans hold the key to solving a multitude of problems for older donors. The tax benefits are important but are just the icing on the cake. Rarely are they the cake itself.

B. Remember to encourage gifts from plans which are already in place for primarily non-charitable reasons.

1. Bequests through wills.
2. Remainders from revocable living trusts.
3. Proceeds from life insurance.
4. Proceeds from retirement plans.

C. Avoid too great an emphasis on closing irrevocable gifts.

1. Leave sales of products and traditional sales methodology to those who have products which return more than given up. Be careful in helping others create, market and manage such "products."
2. Help "open" gifts which may not otherwise be possible.

D. Remember three tests.

1. Stomach.
2. Relative.
3. Sixty minutes.

A PRIMER ON UNITRUST AND ANNUITY TRUST

Ellen G. Estes, Esq.
Planned Giving Consultant

Douglas White
Director of Development
Holderness School

I. Background

A. What is a Charitable Remainder Trust?

According to Black's Law Dictionary, a Trust is "Any arrangement whereby property is transferred with the intention that it be administered by a Trustee for the benefit of another." *A Charitable Remainder Trust* is an arrangement where a donor irrevocably transfers assets to a Trustee who will pay income to the donor (or someone else chosen by the donor) at least annually. The trust can run for the lifetime of the income beneficiary(ies), or for a specified number of years (up to 20). Then the assets go to the charity named by the donor.

B. How do Charitable Remainder Trusts Work?

The donor transfers assets to a trustee (which can be the charitable organization, a bank or other professional manager, or, in some cases, the donor.) The Trustee will manage and invest the trust assets and make the required payments to the income beneficiary. The payout to the income beneficiary can be either a fixed dollar amount (Annuity Trust) or a fixed percentage (Unitrust), depending upon the wishes and circumstances of the donor. Since the trust is a tax-exempt entity, the trustee can manage, invest and reinvest the trust assets without incurring capital gains taxes on behalf of the trust.

C. Key benefits of Charitable Remainder Trusts (both Unitrusts and Annuity Trusts) include:

1. The donor can provide income to him or herself (or others) for life - or for a specified number of years.
2. The donor may be able to increase his or her income through the trust, making this an attractive retirement planning option.
3. The donor may be able to "unlock" income from assets (such as real estate) which now produce little or no income.
4. The annual trust payout may be taxed favorably to the income beneficiary who receives it.
5. The donor can put an appreciated assets (such as stock or real estate) into the trust and will usually avoid the capital gains tax on the appreciation.
6. The trust will provide professional management of assets - so that the donor need not worry about investments.

7. The donor is entitled to a Federal income tax deduction for the value of the trust assets that will go to charity when the trust ends. The deduction is determined with reference to the age of the income beneficiary(ies), the trust's payout rate (chosen by the donor at the outset), and a Federal interest rate that changes monthly.
8. The donor may also save estate taxes and probate costs later because of the trust.
9. The donor may be able to improve his or her financial situation, save taxes, and make a major gift to charity - all by creating a Charitable Remainder Trust.
10. By promoting Charitable Remainder Trusts to your constituents your organization will be investing in its own future - a way to help your donors make larger gifts than they ever thought possible, and provide for the viability and financial stability of your organization into the 21st Century and beyond.

II. The Charitable Remainder Unitrust

A. The Unitrust will provide income to the donor (or another person) for life - or for a specified number of years (up to 20 years).

B. The income payout is a <u>fixed percentage</u> annually - which does not change. The payout percentage must be at least 5%. There are three payout options:

<u>Type I</u> - The Trustee pays the income beneficiary an amount each year based on a <u>fixed percentage</u> of the value of the Trust assets, revalued each year. For example, if the donor creates a 6% Unitrust with an initial value of $100,000, the payout that year will be $6000 (6% x 100,000). If the Trust assets grow to $110,000, the payout that year will be $6600 (6% x 110,000). If the Trust assets depreciate to $90,000, the payout that year will be $5400 (6% x 90,000), and so on. This feature will be attractive to donors who hope that their income will grow over time as the Trust principal grows - a hedge against inflation.

Here, the payout will be made each year regardless of the actual income earned by the Trust. (The Trustee may invade principal to make the required payout, if necessary.)

<u>Type II</u> - The Trustee pays the beneficiary <u>only the actual income earned</u> by the Trust - even if it falls below the stated fixed percentage. Deficiencies are made up in later years - when the Trust income exceeds the specified payout rate. Here the Trust principal is never invaded to make payments to the income beneficiary.

The Type II Unitrust has become popular as a retirement planning device. Here the assets are invested for growth, and the donor receives little income in the early years of the Trust. Later, usually when the donor retires, the Trust assets are invested to produce high income - and at that point the donor will receive the required percentage payout, plus income to make up for earlier deficiencies. The Type II Unitrust may also be used when the donor has real estate or other assets that are producing no income. The property can be transferred to the Trust - and the Trustee will make payments to the income beneficiary after the property is sold and the proceeds are invested in income-producing assets. This option can be attractive to donors who have unproductive or underproductive assets that they would like to use in making a gift.

Type III - The Trustee pays the beneficiary only the actual Trust income - even if it falls below the stated fixed percentage. Deficiencies, if any, are never made up. Since this option is not generally attractive to donors, it is seldom used.

C. The donor may use cash or marketable securities to fund the Unitrust. In addition, under certain circumstances the donor may transfer real estate or closely held stock to the Unitrust - thereby making excellent use of a particular asset the donor owns.

D. The donor (or anyone else) may add to the Unitrust at any time.

E. When the Trust ends, the remaining assets in the Trust go to the charity(ies) named by the donor. This is often a major charitable gift.

III. The Charitable Remainder Annuity Trust

A. The Annuity Trust will provide income to the donor (or another person) for life - or for a specified number of years (up to 20 years).

B. The income payout is a fixed dollar amount annually - which does not change. This feature will be attractive to donors who want to provide a specified fixed annual income for themselves or others.

C. The annual annuity amount must equal at least 5% of the initial value of the trust.

D. The donor may use cash or marketable securities to fund the Annuity Trust. Under certain circumstances the donor may transfer closely held stock or income-producing real estate to the Annuity Trust - thereby making excellent use of a particular asset the donor owns.

E. No additional contributions may be made to the Annuity Trust after the initial gift.

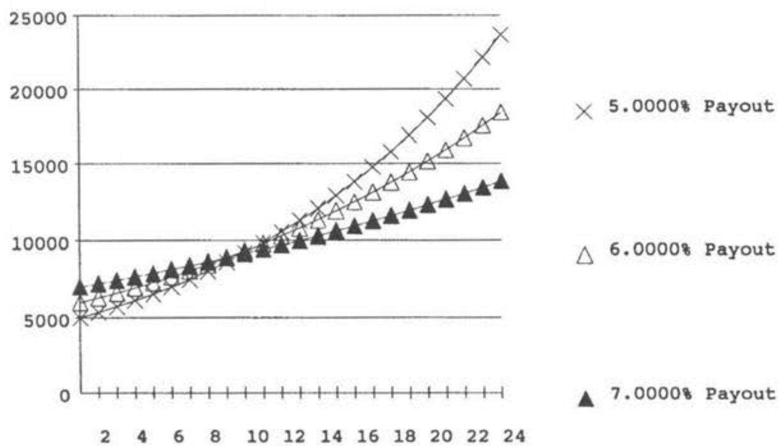
F. When the Annuity Trust ends, the remaining assets in the Trust go to the charity(ies) named by the donor. This is often a major charitable gift.

IV. Choosing the Rate of Return of a Charitable Remainder Unitrust

Donors who set up Unitrusts often want to receive as much income as they can while still helping a favorite charity. As a result, some will choose as high a payout rate as possible, even though this will result in a lower charitable deduction for the gift. This choice may not be in the best interest of either the donor or the charity.

If the donor chooses a high payout rate the Trustee may have difficulty in investing to achieve that return, and may have to invade principal or sacrifice growth of principal to meet the required payout. Because a higher payout leaves less room for growth of principal, choosing a lower rate of return will often result in more annual income paid to the income beneficiary(ies). This is especially true when the income beneficiary(ies) are under age 65. Further, a lower payout rate will allow for growth of principal - which will ultimately provide more for the charity as well.

The following graph shows a typical cash flow projection over a 24-year period - comparing Unitrusts with payout requirements of 5%, 6% and 7%. Note that because the principal of the 5% Unitrust grows substantially over time, it provides more actual income to the income beneficiary and more principal for the charity later on.



V. Asset Replacement - How to Establish a Charitable Remainder Trust and Protect Family Members at the Same Time

A donor may be reluctant to make a significant gift to your organization through a Charitable Remainder Trust because he or she is also concerned about protecting the financial security of children and other family members.

To solve this problem, the donor, if he or she is insurable, may take out a life insurance policy on his or her own life with a face value equal to the assets placed in the Trust. The premiums can often be paid out of the tax savings (from the charitable gift) and from the increased income received from the Trust. At the donor's death, the insurance proceeds are paid to his or her heirs. If the arrangement is structured properly, the family will receive the life insurance proceeds completely free of Federal gift or estate taxes, and the financial security of the heirs will be protected - even with the generous gift to charity.

VI. How your donors can use Charitable Remainder Trusts to benefit themselves, their families, and your organization.

Note that Charitable Remainder Trusts can be used in a variety of ways - to achieve the donor's personal, family and financial objectives - as well as make a substantial gift to charity.

A. Situation: Mr. and Mrs. Black want to make a gift to charity. They also want to help their nephew pay education expenses. They own highly appreciated stock, valued at $100,000, that has been paying them low dividends (about a 4% return) over the years.

   What to Suggest:

   - Transfer that stock to a Charitable Remainder Annuity Trust
   - The Trust will run for a term of 5 years
   - The Trust will pay $7500 per year, for 5 years, to nephew (now age 18) to help defray college expenses
   - The Trust assets will go to the charity at the end of the 5-year Trust term.

   Benefits:

   - Provides $37,500 to nephew - helps meet college expenses
   - Donors get a tax deduction of about $70,000 for the charitable gift
   - Donors avoid capital gains tax on the stock's appreciation
   - Donors make a major gift to charity at the end of 5 years.

B. Situation: Mr. and Mrs. Smith, ages 75 and 73, have been making gifts to their favorite charities over the years. They would like to continue to make charitable gifts, but would also like to increase their financial security during their retirement years. They own appreciated stock which they purchased years ago for $75,000. The stock is now worth $100,000 and pays them dividends of 4% per year.

What to Suggest: Transfer the stock to a Charitable Remainder Unitrust that will pay the donors a return of 7% per year for the rest of their lives. After their lifetimes the Trust principal will go to the charities they name in the Trust Agreement.

Benefits: By establishing the Unitrust the donors can -

- Increase their income through the Trust from 4% to 7% per year
- Get a Federal income tax deduction for their gift (approximately $39,000)
- Avoid the capital gains tax on the stock they use to fund the Unitrust
- Accomplish their personal goals by increasing their financial security — saving taxes, and making gifts to the charities they care about.

C. Situation: Mrs. Green is a widow who lives in California. She and her husband had purchased land in Oregon years ago. The property produces no income, yet she must continue to maintain the property, pay property taxes, etc. Mrs. Green would like to make a gift to her favorite charity, but also is concerned about her financial security, now that she is alone. She asks if the real estate can be used in some way to increase her own income and make a gift to the charity.

What to Suggest;

- Transfer the property to a Type II Unitrust
- Although there will be no income payments to the donor before the land is sold, once it is sold the Trustee can invest the proceeds to produce income - and can then make payments to the donor for the rest of her life
- After Mrs. Green's lifetime, the Trust assets go to her favorite charity.

Benefits:

- Donor can "unlock income" from an asset that formerly produced no income - and receive income from the Trust for the rest of her life
- Donor gets a Federal income tax deduction and saves taxes
- Donor will avoid the capital gains tax on the property's appreciation
- Donor makes a generous gift to charity.

D. Situation: Bill and Janet Jones, both 55 years of age, are planning now for their retirement. They would also like to make a major gift to their favorite charity. They are both in high-paying careers, so they don't need more income now. However, they could use additional income tax deductions to reduce taxes now.

What to Suggest:

- Set up a Type II Unitrust with a 6.5% payout rate
- Put $50,000 per year, for 4 years, into the Unitrust, for a total of $200,000
- Have the Trust invested for growth (not income) for the first 10 years, then, when Bill and Janet reach age 65, have the Trust invested to produce income.
- After their lifetimes, the Trust principal will go to their favorite charity.

Benefits:

- Donors save taxes during their high earning years
- During the first 10 years of the Trust, they receive little income - while the Trust principal grows and they build a retirement "nest egg" for the future
- When they reach age 65, they start getting substantial income from the Trust - the 6.5% payout (based on a substantially increased principal value)
- In addition, the Trustee can also make payments to the donors to "make up" for prior deficiencies
- The donors ultimately make a substantial gift to their favorite charity.

By discussing Charitable Remainder Trusts with your constituents you will be able to get to know your donors better, get them more involved in your organization and its mission, and help them to increase gifts. By investing in such a program you can benefit both your donors and your organization for years to come.

A CHARITABLE TRUST FOR ALL SEASONS — INCLUDING RETIREMENT

Terry L. Simmons, Esq.
Vice President and Trust Counsel
Baptist Foundation of Texas
and
Of Counsel, Thompson & Knight, PC

Note: The 1992 Conference on Gift Annuities adopted new factos for calculating the payout rate on deferred gift annuities. The effect of these new deferral factors are reflected in the addendum to this paper.

Retirement Unitrusts v. Deferred Gift Annuities: Where's the Rub?

I. Introduction

A. Lately, donors and development officers alike have been inquiring about the use of "retirement unitrusts." There really is no such beast, but what they are referring to is a charitable remainder unitrust that is set up so as to defer payout of income to the donor until a specified date (usually, retirement date), thereby capitalizing the initial investment until the deferred payout date and generating higher payments to the beneficiary after that date.

B. **Theoretically**, deferred gift annuities (DGAs) are a better vehicle for accomplishing retirement objectives of donors than retirement unitrusts, for several reasons:

1. DGAs, on their face, anticipate deferred payout whereas unitrusts, on their face, contemplate annual payout beginning in the year they are established. Using unitrusts as retirement vehicles may be seen as abusive by federal taxing authorities.
2. Retirement unitrusts require an understanding as to how the trust assets will be invested at the time the trust is established. This potentially places undue limits on a trustee's investment discretion.
3. Retirement unitrusts require complex investment techniques that inherently are more difficult to implement and to predict. Unpredictable investment strategies are hardly wise for arrangements in which the donors anticipate generating income for retirement unless sophisticated donors with competent legal and tax advisors are involved and unless the retirement unitrust is only part of a diversified retirement plan.
4. The administration of unitrusts is more complex than gift annuities because unitrusts require individual management, trust preparation fees, and yearly tax returns.

C. **Financially**, do the dollars make sense on retirement unitrusts? The short answer is: The return to the donor on retirement unitrusts is usually better; the return to the charity is almost always worse. The remainder of this discussion and the array of graphs and numbers back up this conclusion.

II. A Description of Retirement Unitrusts

A. **What is it**?: The way a "retirement unitrust" works is this: A donor establishes a charitable remainder unitrust. Under the terms of the trust, the trustee would be required to pay out a set percentage of the trust assets (as revalued annually) or the net income of the trust, whichever is less. Furthermore, the trust would normally contain a "make-up" provision that says that if, in any year, only the net income is paid out to the beneficiary (i.e., because the trust's net income in that year is less than the payout percentage specified in the trust), then in future years when the net income exceeds the payout percentage, the beneficiary would be entitled to all of the income from the trust until past "deficiencies" are "made-up" to the donor.

B. **Investment Technique**: This "net income with make-up" unitrust is a common form of unitrust. What sets a retirement unitrust apart from other unitrusts is that the assets in a retirement unitrust are invested so as to capitalize on the net income with make-up provision. In a retirement unitrust, assets are invested in no income (or low income) producing assets to the extent possible during the deferral period, then switched to high income producing assets during the payout period. The consequence is that trust assets capitalize during the deferral period and generate large "deficiencies" to the donor because the net income is less than the payout percentage. Upon retirement, the donor benefits from large payouts, due to both the increased trust corpus and earnings and the past "deficiencies."

C. **Example**: Assume a donor who is 50 years old begins contributing $2,000 per year to a "retirement unitrust" with a payout percentage of 7%. The donor stops making contributions at age 64. From age 50 to 64, the trust assets are invested in low dividend, high growth stocks. Since the stocks generate very little income (usually 2-3% income), very little income is paid out to the donor. When the donor is age 65, the stock is sold (optimistically at a highly appreciated value) and invested in high income producing assets — say, bonds with an 8% income return. The capital gain is not treated as "income" for purposes of calculating the unitrust's net income. Then, the trust starts paying out an 8% income return to the donor:

7% (of a much bigger pot) as provided in the trust document and the remainder to "make-up" for prior years when the net income of the trust fell below 7%.

III. A Word on the Payout Rate on Deferred Gift Annuities

A. **DGA Payout Larger Than Payout for Current GA**: The Conference on Gift Annuities (CGA) accounts for the value to the charity of deferred payments on a gift annuity by adjusting the payout rate upward. Specifically, the CGA sets factors that reflect the compounding for the relevant period of deferral. The factors reflect an assumed growth rate of 5% during the first 10 years of deferral, 4.5% during the next 10 years, 4% during the next 10 years and 3.5% thereafter until payout begins. The appropriate factor is multiplied against the recommended annuity rate for a donor at a donor's age when the annuity payments are to commence. For example, a donor who sets up a $1000 regular gift annuity at age 65, with payments to begin at age 65, will receive a $73 (7.3%) annual annuity for life. However, a donor who sets up a deferred gift annuity at age 50, with payments to begin at age 65, will receive a $142 (14.2%) annual annuity for life.

B. **Payout Determined at Time of Gift**: Nonetheless, the size of the payout on DGAs, like all annuities, is based on the size of the gift at the time the gift is made. Consequently, unlike unitrust beneficiaries, the beneficiary of a DGA does not share in the appreciation (or depreciation) of the assets once they are given to charity.

C. **A DGA is a Current Gift**: Furthermore, it is important to realize that a deferred gift annuity, unlike a unitrust, is a current gift. Once the gift is made, even though the charity assumes a contractual obligation to pay the annuity, the charity can do whatever it chooses with the funds received. The charity can meet its contractual obligations to pay the deferred annuity in several ways: it can reinsure the obligation (either internally or with an outside insurer); invest the funds as if it were a trust and pay proceeds from the trust (this is the method that Baptist Foundation of Texas uses); or, if state law does not require reserves, spend the money and risk not having assets to meet the obligation at the time payments on the annuity come due.

IV. The Examples

In order to compare deferred gift annuities with retirement unitrusts, we used data on three hypothetical donors. Each donor wants to contribute $2,000 this year and every year through age 64 to a vehicle that will provide income for themselves in retirement and ultimately benefit charity upon their deaths. Each donor considers four different gift vehicles (three types of unitrusts, plus a deferred gift annuity). Each gift vehicle, in turn, was calculated using two sets of investment assumptions: a "standard set," and an "aggressive set." These translate to 24 sets of calculations (three donors times four gift vehicles times two sets of investment assumptions). The assumptions are described more fully below.

A. The Donors
   1. Donor #1 makes $2,000 annual contributions from age 50 through age 64, for a total contribution of $30,000.
   2. Donor #2 makes $2,000 annual contributions from age 55 through age 64, for a total contribution of $20,000.
   3. Donor #3 makes $2,000 annual contributions from age 60 through age 64, for a total contribution of $10,000.

B. The Gift Vehicles
   1. DGA: Each donor sets up a new $2,000 DGA this year and every year through age 64, with payout for each to begin when the donor turns 65. The standard CGA payout rate for a 65 year old beneficiary is 7.3%. In accordance with CGA recommendations, this percentage is adjusted upward on each DGA to reflect the mandated compounding during the deferral period.
   2. Unitrusts: Each donor sets up 5%, 7%, and 9% unitrusts, all containing net income with make-up provisions, and makes a $2000 contribution to the trust every year through age 64.

C. Investment Assumptions
   1. Standard Set: 8% Total Return
      a. DGA: Assets are invested so as to provide a 6% income return and 2% capital appreciation throughout the entire life of the annuity. (Notice that with a DGA it really makes no difference to the annuitant whether the return is income or principal since the tax treatment of annuity payments is governed by Section 72 of the Internal Revenue Code.)
      b. Unitrusts: Assets are invested so as to provide a 3% income return and 5% capital growth during the pre-retirement period; 8% income return and 0% capital growth from age 65 to death.
   2. Aggressive Set: 10% Total Return
      a. DGA: Assets are invested so as to provide a 7% income return and 3% capital growth during the entire life of the annuity.
      b. Unitrusts: Assets are invested so as to provide a 2% income return and 8% capital growth during the pre-retirement

period and an 8% income return and 2% capital growth from age 65 to death.

3. A Word on Investment Assumptions Not Made

These investment assumptions do not accommodate investment vehicles often promoted for funding retirement unitrusts, such as zero coupon Treasury bonds, unimproved land, or variable annuity contracts. Our reasons are these:

a. These investment assumptions are designed to be model investment assumptions: What most fiduciaries would consider standard, routine assumptions and what most would consider aggressive.
b. The use of zero coupon bonds to fund retirement unitrusts raises some questions about how to treat the appreciation on the bonds at maturity. If that appreciation is treated as interest income, then the "make-up" provision in the unitrust would cause all or most of the appreciation to be paid out on the date of maturity. (Consequently, the make-up provision is normally deleted in these arrangements.)
c. Funding unitrusts with unimproved real estate raises questions about the trustee's investment discretion. When the document, on its face, contemplates an annual payout of income to the donor, how can a trustee justify holding the unimproved land in the trust?
d. Funding unitrusts with variable rate annuity contracts poses more practical concerns. The rates of return on a variable rate annuity contract that is typically invested in high-growth stock (which would presumably be the investment of choice for a retirement unitrust) is lower (because the fees are so high), and no safer, than a direct investment in high-growth stock.

D. Other Assumptions

1. Donor's marginal income tax rate is 31% at all times.
2. Donors will live their expected life span.
3. Contributions are made in cash.
4. Benefits are measured in absolute dollars, not present value. Present value calculations would require another set of investment predictions, which could distort the numbers unnecessarily. If present values were used, the advantage to the donor of the unitrust option would be slightly improved because of the small income payout the unitrust donor receives during the pre-retirement years.

E. The Results:

1. The following pages contain calculations for two of the 24 calculations: a 7% unitrust and deferred gift annuity for a donor who makes $2,000 annual contributions from age 55 through age 64, using standard investment assumptions.
2. After those detailed calculations are summaries, in text and graph form, of the results of all 24 calculations.
3. Finally, page 10 is a chart containing all numbers used in creating the graphs.

Baptist Foundation of Texas
Life Income Estimator
Detailed Cash Flow Analysis

ASSUMPTIONS:
Build-up Estimator begins in 1992 and runs for 28 years.
Measuring life age 55 [2/28/1937].
Date of gift is 3/9/1992.
For principal additions, deductions are based on age at time of addition.
Original principal is $20,000: $2,000 in 1992-2001. Cost basis is 100.0%.
Donor income tax bracket is 31.0%.
Beneficiary income tax bracket is 31.0%, 28.0% for capital gains.

7.00% Charitable Unitrust: Income only with make-up provision

YR	Year-End Principal (BUILDUP)	Capital Apprec. (5.00%)	Income Yield (3.00%)	Before-Tax Ben. Inc.	Tax-Free Portion	After-Tax Ben. Inc. (31.0%)
92	$2,000					
93	4,100	$100	$60	$60	$0	$41
94	6,305	205	123	123	0	85
95	8,620	315	189	189	0	131
96	11,051	431	259	259	0	178
97	13,604	553	332	332	0	229
98	16,284	680	408	408	0	282
99	19,098	814	489	489	0	337
00	22,053	955	573	573	o	395
01	25,156	1,103	662	662	0	456
		(0.00%)	(8.00%)			
02	25,156	0	2,012	2,012	0	1,389
03	25,156	0	2,012	2,012	0	1,389
04	25,156	0	2,012	2,012	0	1,389
05	25,156	0	2,012	2,012	0	1,389
06	25,156	0	2,012	2,012	0	1,389
07	25,156	0	,012	2,012	0	1,389
08	25,156	0	2,012	2,012	0	1,389
09	25,156	0	2,012	2,012	0	1,389
10	25,156	0	2,012	2,012	0	1,389
11	25,156	0	2,012	2,012	0	1,389
12	25,156	0	2,012	2,012	0	1,389
13	25,156	0	2,012	2,012	0	1,389
14	25,156	0	2,012	2,012	0	1,389
15	25,156	0	2,012	2,012	0	1,389
16	25,156	0	2,012	2,012	0	1,389
17	25,156	0	2,012	2,012	0	1,389
18	25,315	0	2,012	1,853	0	1,279
19	25,568	0	2,025	1,772	0	1,223
20	25,824	0	2,045	1,790	0	1,235
Total	$25,824	$5,156	$41,376	$40,708	$0	$28,088

Prepared for CGA Conference April 28, 1992
Discount Rate is 8.0%

Baptist Foundation of Texas
Life Income Estimator
Unitrust Makeup Analysis

ASSUMPTIONS:
Build-up Estimator begins in 1992 and runs for 28 years.
Measuring life age 55 [2/28/1937].
Date of gift is 3/9/1992.
For principal additions, deductions are based on age at time of addition.
Original principal is $20,000: $2,000 in 1992-2001. Cost basis is 100.0%.
Donor income tax bracket is 31.0%.
Beneficiary income tax bracket is 31.0%, 28.0% for capital gains.

7.00% Charitable Unitrust: Income only with make-up provision

YR	Before-Tax Ben. Inc.	Unitrust % Amount	Net Income	Shortfall	Amount Madeup	Makeup Balance
93	$60	$140	$60	$80	$0	$80
94	123	287	123	164	0	244
95	189	441	189	252	0	496
96	259	603	259	345	0	841
97	332	774	332	442	0	1,283
98	408	952	408	544	0	1,827
99	489	1,140	489	651	0	2,478
00	573	1,337	573	764	0	3,242
01	662	1,544	662	882	0	4,124
02	2,012	1,761	2,012	0	252	3,872
03	2,012	1,761	2,012	0	252	3,620
04	2,012	1,761	2,012	0	252	3,368
05	2,012	1,761	2,012	0	252	3,116
06	2,012	1,761	2,012	0	252	2,864
07	2,012	1,761	2,012	0	252	2,612
08	2,012	1,761	2,012	0	252	2,360
09	2,012	1,761	2,012	0	252	2,108
10	2,012	1,761	2,012	0	252	1,856
11	2,012	1,761	2,012	0	252	1,604
12	2,012	1,761	2,012	0	252	1,352
13	2,012	1,761	2,012	0	252	1,100
14	2,012	1,761	2,012	0	252	848
15	2,012	1,761	2,012	0	252	596
16	2,012	1,761	2,012	0	252	344
17	2,012	1,761	2,012	0	252	92
18	1,853	1,761	2,012	0	92	0
19	1,772	1,772	2,025	0	0	0
20	1,790	1,790	2,045	0	0	0
Total	$40,708	$40,715	$41,376	$4,124	$4,124	$0

Prepared for CGA Conference April 28, 1992
Discount Rate is 8.0%

Baptist Foundation of Texas
Life Income Estimator
Detailed Cash Flow Analysis

ASSUMPTIONS:
Build-up Estimator begins in 1992 and runs for 28 years.
Measuring life age 55 [2/28/1937].
Date of gift is 3/9/1992.
For principal additions, deductions are based on age at time of addition.
Original principal is $20,000: $2,000 in 1992-2001. Cost basis is 100.0%.
Donor income tax bracket is 31.0%.
Beneficiary income tax bracket is 31.0%, 28.0% for capital gains.

Deferred Gift Annuity

YR	Year-End Principal (BUILDUP)	Capital Apprec. (2.00%)	Income Yield (6.00%)	Before-Tax Ben. Inc.	Tax-Free Portion	After-Tax Ben. Inc. (31.0%)
92	$2,000					
93	4,160	540	$120	$0	$0	$0
94	6,493	83	250	0	0	0
95	9,012	130	390	0	0	0
96	11,733	180	541	0	0	0
97	14,672	235	704	0	0	0
98	17,846	293	880	0	0	0
99	21,273	357	1,071	0	0	0
00	24,975	425	1,276	0	0	0
01	28,973	500	1,499	0	0	0
02	29,453	579	1,738	1,838	474	1,415
03	29,971	589	1,767	1,838	474	1,415
04	30,531	599	1,798	1,838	474	1,415
05	31,135	611	1,832	1,838	474	1,415
06	31,788	623	1,868	1,838	474	1,415
07	32,493	636	1,907	1,838	474	1,415
08	33,255	650	1,950	1,838	474	1,415
09	34,077	665	1,995	1,838	474	1,415
10	34,965	682	2,045	1,838	474	1,415
11	35,925	699	2,098	1,838	474	1,415
12	36,960	718	2,155	1,838	474	1,415
13	38,079	739	2,218	1,838	474	1,415
14	39,288	762	2,285	1,838	474	1,415
15	40,593	786	2,357	1,838	474	1,415
16	42,002	812	2,436	1,838	474	1,415
17	43,524	840	2,520	1,838	474	1,415
18	45,168	870	2,611	1,838	474	1,415
19	46,944	903	2,710	1,838	474	1,415
20	48,861	939	2,817	1,838	474	1,415
Total	$48,861	$15,946	$47,837	$34,922	$8,997	$26,885

Prepared for CGA Conference April 28, 1992
Discount Rate is 8.0%

Baptist Foundation of Texas
Life Income Estimator
Build-Up Trust Principal Additions

ASSUMPTIONS:
Build-up Estimator begins in 1992 and runs for 28 years.
Measuring life age 55 [2/28/1937].
Date of gift is 3/9/1992.
For principal additions, deductions are based on age at time of addition.
Original principal is $20,000: $2,000 in 1992-2001. Cost basis is 100.0% .
Donor income tax bracket is 31.0%
Beneficiary income tax bracket is 31.0%, 28.0% for capital gains.

7.00% Charitable Unitrust: Income only with make-up provision

YR	Gross Principal	Charitable Deduction	Tax Savings	Cost of Gift
92	2,000	511	158	1,842
93	2,000	533	165	1,835
94	2,000	556	173	1,827
95	2,000	580	180	1,820
96	2,000	605	188	1,812
97	2,000	630	195	1,805
98	2,000	656	203	1,797
99	2,000	682	211	1,789
00	2,000	709	220	1,780
01	2,000	736	228	1,772
Total	20,000	6,199	1,922	18,078

Deferred Gift Annuity

YR	Annuity %	Excl. Ratio	Deferred Ages	Gross Principal	Charitable Deduction	Tax Savings	Cost of Gift
92	11.30	0.173	65	2,000	1,212	376	1,624
93	10.80	0.189	65	2,000	1,179	366	1,634
94	10.30	0.206	65	2,000	1,146	355	1,645
95	9.80	0.225	65	2,000	1,113	345	1,655
96	9.30	0.246	65	2,000	1,081	335	1,665
97	8.90	0.269	65	2,000	1,038	322	1,678
98	8.50	0.295	65	2,000	994	308	1,692
99	8.00	0.323	65	2,000	961	298	1,702
00	7.70	0.355	65	2,000	903	280	1,720
01	7.30	0.390	65	2,000	856	265	1,735
Total				20,000	10,482	3,250	16,750

Prepared for CGA Conference April 28, 1992

V. CONCLUSIONS

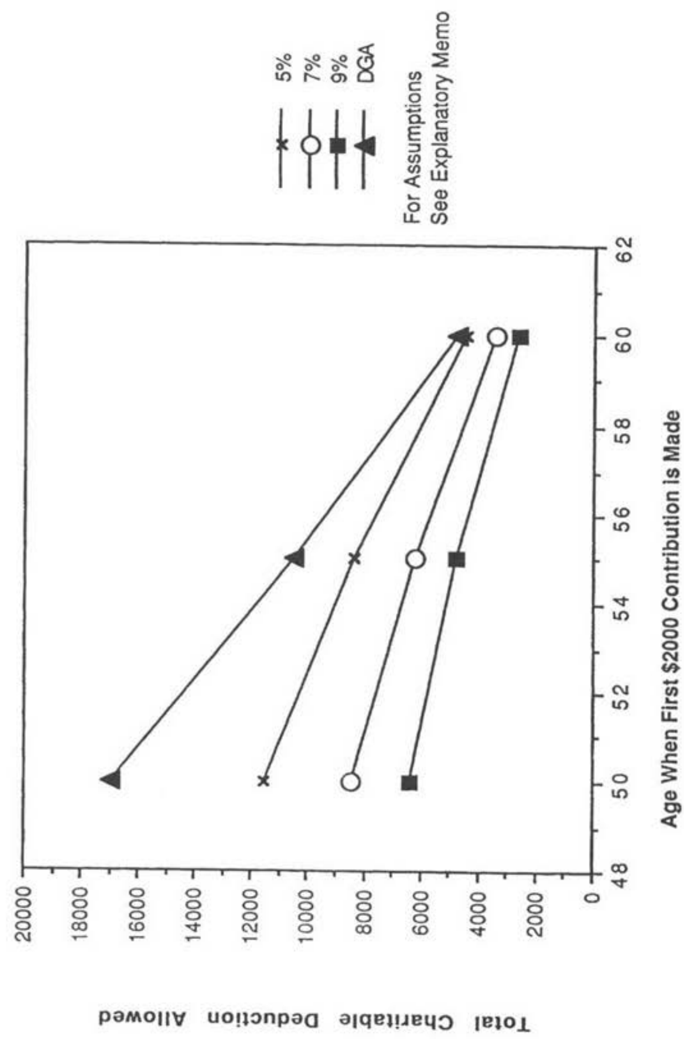
The results, in bare numbers alone, are hard to digest. To make them more clear, we have graphed the results, then summarized in words the conclusions that can be drawn from the graphs.

Each graph compares a dollar benefit yielded by all four gift vehicles. The "y" axis on each graph is the benefit yield; the "x" axis is the age of the donor when the first $2,000 annual payment is made. Each line in the graph represents the benefit generated by a gift vehicle created at the various donor ages. What is important to notice is how the lines in the graph compare with one another. Note which gift vehicles generate the highest benefit, which generate identical benefits, and which generate the least.

A. The Charitable Deduction

1. General Rule: The charitable deduction is always larger for a **DGA** than for a retirement unitrust, and the difference increases exponentially as the income deferral period increases.
2. Why?: The deduction granted for a unitrust is based on the presumption that income will be paid to the donor immediately, whereas the deduction granted for a DGA takes into account the mandatory compounding of the funds during the deferral period.

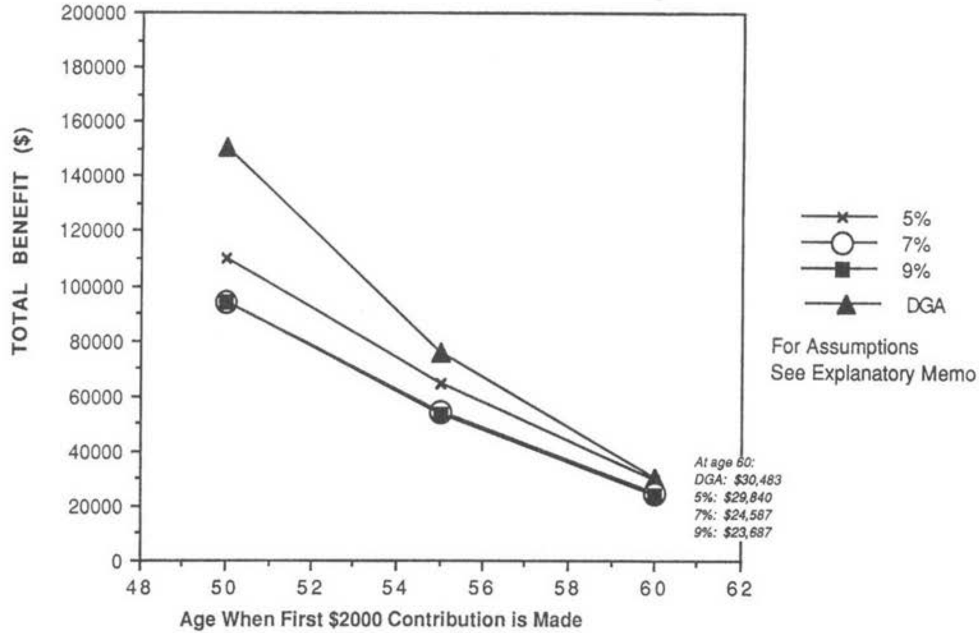
CHARITABLE DEDUCTION
5,7, & 9% Unitrust v. Deferred Gift Annuity



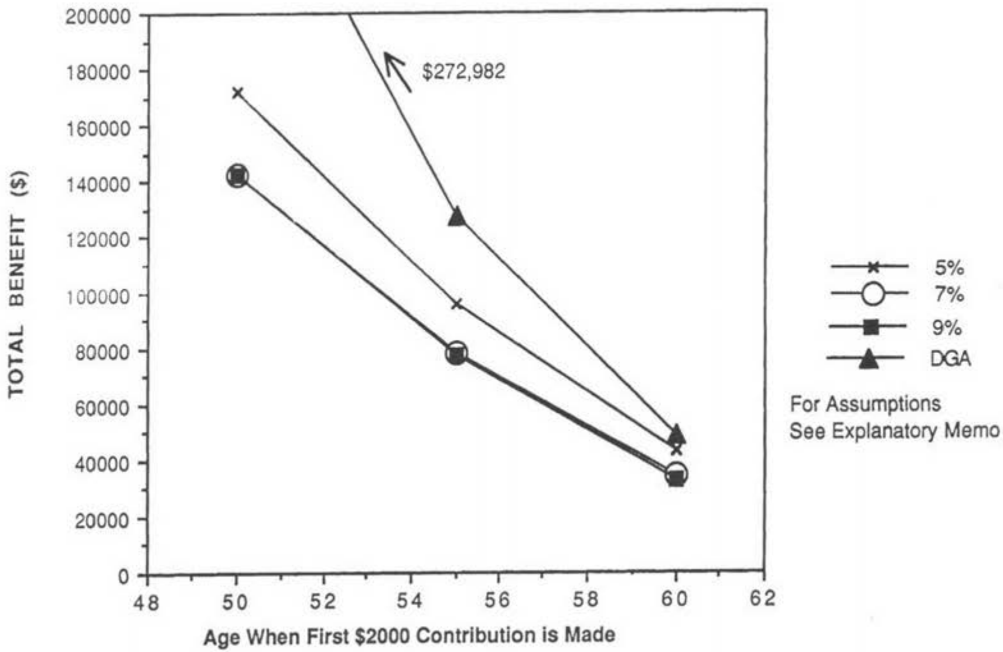
B. Total Benefit

1. General Rule: The total benefit (benefit to charity plus post-tax benefit to donor) is always greater for a DGA that for a retirement unitrust, and the difference increases exponentially the longer the income deferral period.
2. Why?
   a. During the income deferral period, the DGA account capitalizes all income and principal, whereas a unitrust must pay out any income it earns (up to the payout percentage). Consequently, the DGA account grows considerably faster than the unitrust corpus during the deferral period.
   b. During the payout period, the DGA account will be able to capitalize all income in excess of the payout amount, whereas the unitrusts will generally pay out all income to the donor, at least until the makeup amount is satisfied.

TOTAL BENEFIT (CHARITY + DONOR POST-TAX)
5,7,9% Retirement Unitrust v. Deferred G.A.
Standard Investment Assumptions



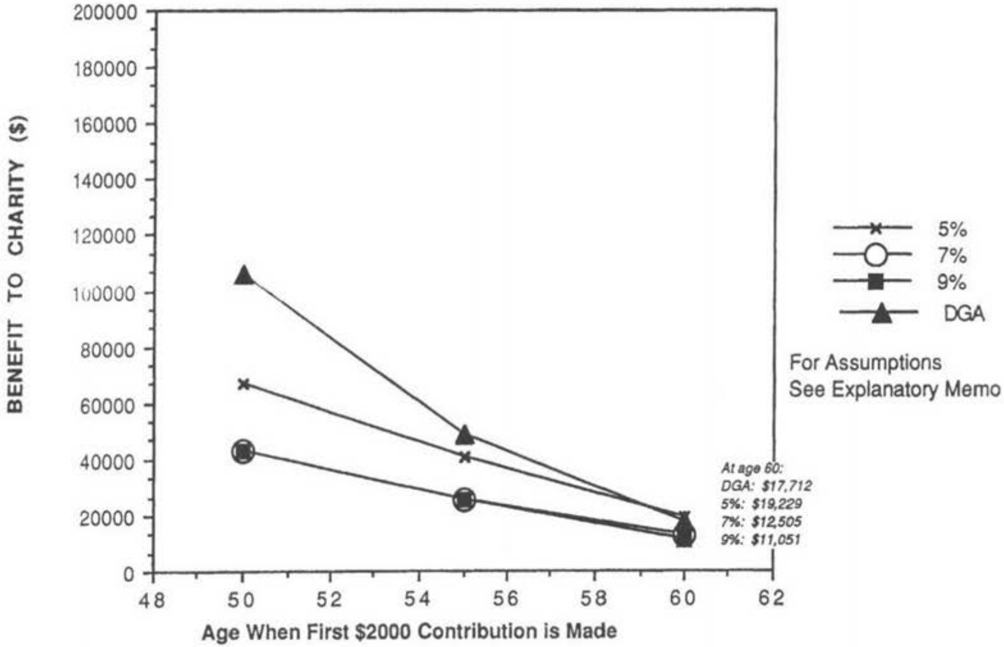
TOTAL BENEFIT (CHARITY + DONOR-POST TAX)
5,7,9% Retirement Unitrust v. Deferred G.A.
Aggressive Investment Assumptions

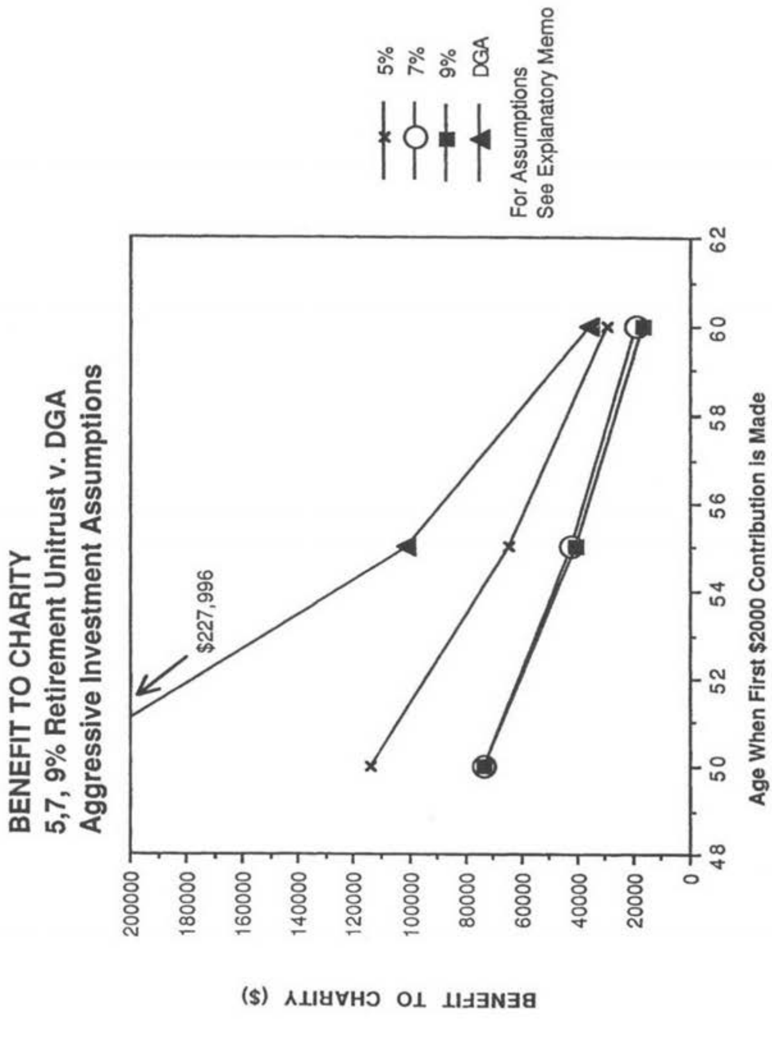


C. Benefit to Charity

1. General Rule: Generally, a DGA produces a considerably higher ultimate payout to the charity than does the retirement unitrust. However, when a unitrust with a low payout is set up with a relatively short income deferral period, the benefit to charity might be slightly larger with a retirement unitrust than with a DGA.
2. Why?
   a. During the income deferral period, a DGA account capitalizes all income and principal, whereas a unitrust must pay out any income it earns (up to the payout percentage amount). Consequently, the DGA account corpus grows considerably faster than the unitrust corpus during the deferral period.
   b. Furthermore, payouts on the DGA are measured by the size of the gift, <u>not</u> the size of the accumulated corpus when payout begins. Thus, the DGA payments remain constant throughout the payout period. Consequently, all appreciation on the corpus during the payout period benefits charity.
   c. A low payout, short-term retirement unitrust may provide a larger benefit to charity than a DGA. If the unitrust payout rate is considerably smaller than the deferred gift annuity payout rate, and there is not much time to accumulate "deficiencies" in the unitrust, then less will be paid out to the donor, so more will be left to charity.
3. Caveat: Because DGAs are contractual obligations and not trusts, DGAs are more risky for the charity than unitrusts in times of poor economic performance. The donor beneficiary of a DGA must always be paid, regardless of the return on the gifted assets. Unitrust beneficiaries only receive income if the trust returns income. Thus, in times of poor economic performance, DGA payments will bite into the charity's benefit.

BENEFIT TO CHARITY
5,7,9% Retirement Unitrust v. Deferred G.A.
Standard Investment Assumptions

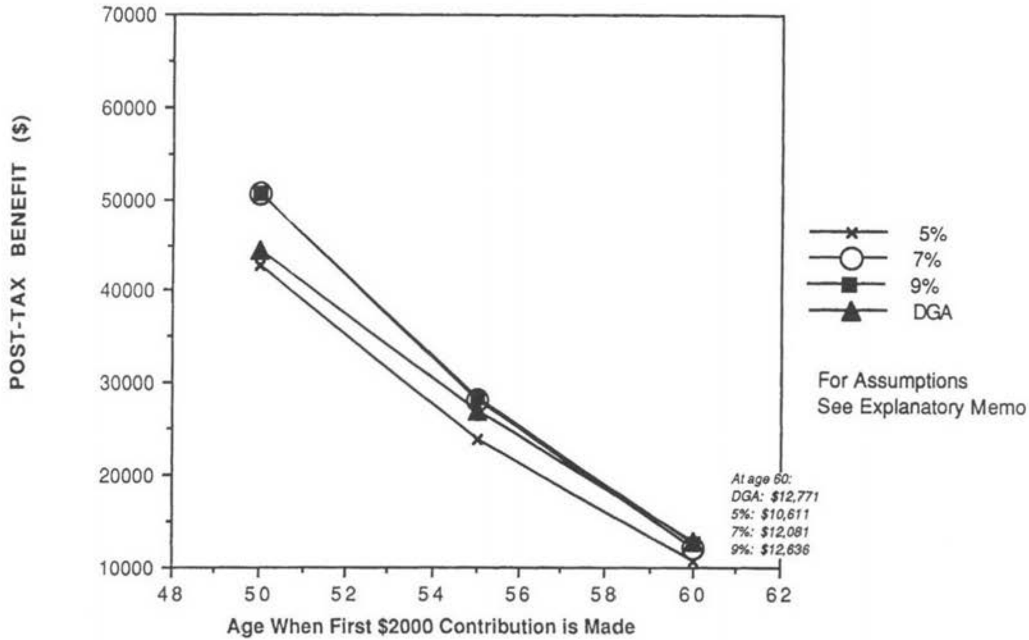



BENEFIT TO CHARITY
5,7, 9% Retirement Unitrust v. DGA
Aggressive Investment Assumptions
$227,996
BENEFIT TO CHARITY ($)
200000
180000
160000
140000
120000
100000
80000
60000
40000
20000
0
48
50
52
54
56
58
60
62
Age When First $2000 Contribution Is Made
5%
7%
9%
DGA
For Assumptions
See Explanatory Memo

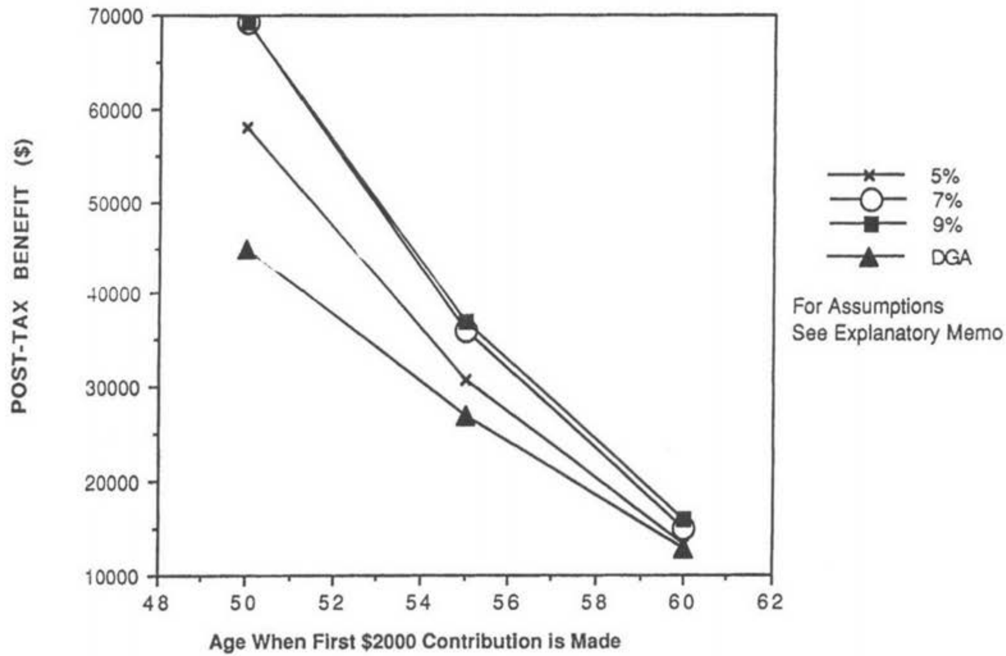
D. Benefit to Donor

1. General Rule: Generally, the retirement unitrust provides a larger benefit to the donor than the DGA. However, a unitrust with a small payout percentage may provide a smaller benefit to the donor than a deferred gift annuity. Furthermore, a unitrust with a large payout percentage may not benefit the donor any more than a unitrust with a smaller payout percentage.
2. Why?
   a. The payout on a DGA is determined by the size of the gift and the length of the deferral, but not the size of the accumulated corpus when the payout begins. Consequently, DGA payments are usually smaller than unitrust payments.
   b. The higher the unitrust payout percentage, the larger the difference between the DGA and unitrust donor benefit — to a point. Obviously, if a unitrust has a payout percentage that is equal to or higher than the amount of income being generated by the unitrust, the higher unitrust rate provision is useless because the trust never generates enough income to "make-up" for past deficiencies. Furthermore, a unitrust with a high payout percentage generates a lower charitable tax deduction.
   c. A note on taxes: Remember that, usually, a portion of the annuity paid to a donor on a DGA is tax-free income to the beneficiary, whereas all of a unitrust payment is taxable income to the beneficiary. Consequently, the difference between the post-tax donor benefits from DGAs and retirement unitrusts are smaller than the pre-tax differences.

DONOR BENEFIT (POST-TAX)
5,7, 9% Retirement Unitrust v. Deferred G.A.
Standard Investment Assumptions



DONOR BENEFIT (POST-TAX)
5,7,9% Retirement Unitrust v. Deferred G.A.
Aggressive Investment Assumptions



Retirement Unitrust V.DGA Data Tue, Apr 7, 1992 2:52 pm

	Gift Vehicle	Invest	Assum	Initial Age	Total Benefit	Char Benefit	Pretx Donor	Postx Donor	Char Deductn
1	Standard DGA	6/2%;	6/2%	50.000	149206.000	104220.000	59660.000	44987.000	16960.000
2	Standard DGA	6/2%;	6/2%	55.000	75746.000	48861.000	34922.000	26885.000	10482.000
3	Standard DGA	6/2%;	6/2%	60.000	30483.000	17712.000	16160.000	12771.000	4752.000
4	Standard 5% U	3/5%;	8/0%	50.000	109789.000	67112.000	61850.000	42677.000	11575.000
5	Standard 5% U	3/5%;	8/0%	55.000	64488.000	40693.000	34486.000	23795.000	8327.000
6	Standard 5% U	3/5%;	8/0%	60.000	29840.000	19229.000	15378.000	10611.000	4485.000
7	Standard 7% U	3/5%;	8/0%	50.000	93867.000	43157.000	73493.000	50710.000	8435.000
8	Standard 7% U	3/5%;	8/0%	55.000	53912.000	25824.000	40708.000	28088.000	6199.000
9	Standard 7% U	3/5%;	8/0%	60.000	24587.000	12505.000	17509.000	12081.000	3413.000
10	Standard 9% U	3/5%;	8/0%	50.000	93867.000	43157.000	73493.000	50710.000	6363.000
11	Standard 9% U	3/5%;	8/0%	55.000	53674.000	25156.000	41330.000	28518.000	4756.000
12	Standard 9% U	3/5%;	8/0%	60.000	23687.000	11051.000	18313.000	12836.000	2666.000
13	Aggrssve 5%	3/7%;	8/2%	50.000	171929.000	113981.000	83982.000	57947.000	11575.000
14	Aggrssve 5%	3/7%;	8/2%	55.000	95694.000	64783.000	44789.000	30904.000	8327.000
15	Aggrssve 5%	3/7%;	8/2%	60.000	42856.000	29440.000	19442.000	13415.000	4485.000
16	Aggrssve 7%	3/7%;	8/2%	50.000	142572.000	73216.000	100516.000	69356.000	8435.000
17	Aggrssve 7%	3/7%;	8/2%	55.000	78278.000	42328.000	52102.000	35950.000	6199.000
18	Aggrssve 7%	3/7%;	8/2%	60.000	34527.000	19337.000	21927.000	15130.000	3413.000
19	Aggrssve 9%	3/7%;	8/2%	50.000	142572.000	73216.000	100516.000	69356.000	6363.000
20	Aggrssve 9%	3/7%;	8/2%	55.000	77353.000	40256.000	53763.000	37097.000	4756.000
21	Aggrssve 9%	3/7%;	8/2%	60.000	32961.000	17091.000	23000.000	15870.000	2666.000
22	Aggrssve DGA	7/3%;	7/3%	50.000	272982.000	227996.000	58900.000	44413.000	16960.000
23	Aggrssve DGA	7/3%;	7/3%	55.000	127799.000	100913.000	34922.000	26885.000	10482.000
24	Aggrssve DGA	7/3%;	7/3%	60.000	48637.000	35866.000	16160.000	12771.000	4752.000

ADDENDUM

The 1992 Conference on Gift Annuities adopted new deferral factors that make the deferred gift annuity an even more attractive vehicle for donors interested in retaining income for their retirement years. These new factors reflect more optimistic assumptions of the annual growth rate of the gifted assets during the deferral period. Compare the new assumptions with the old:

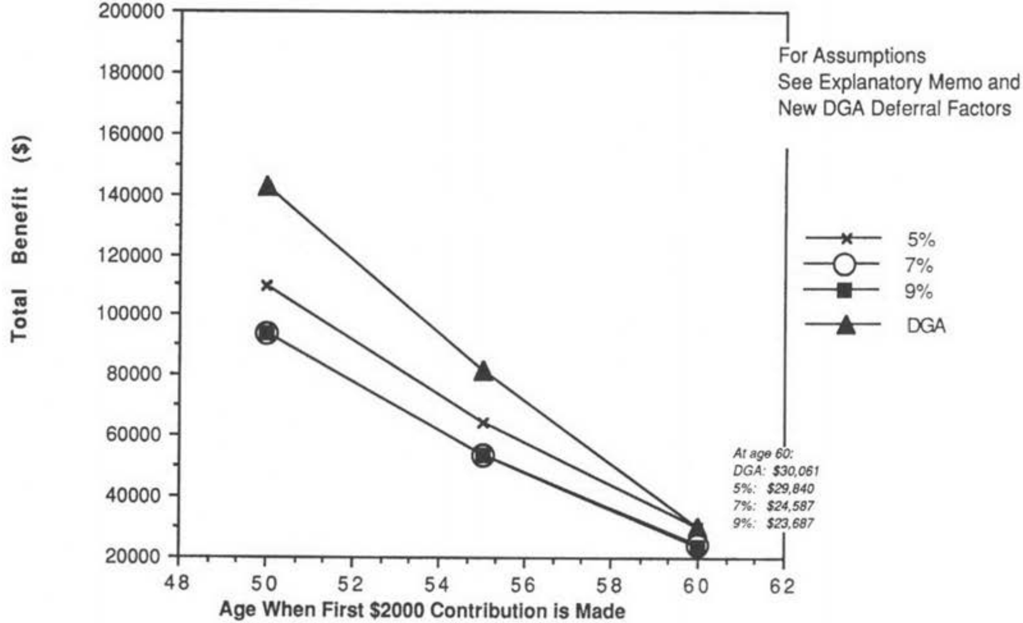
Length of Deferral Period	New Assumptions	Old Assumptions
1-10 years	6.0%	5.0%
11-20 years	5.5%	4.5%
21-30 years	5.0%	4.0%
31+ years	4.5%	3.5%

The new deferral factors thus make a significant difference in the size of the annuity paid to the donor. For example, under the old factors, a donor who set up a $1,000 deferred gift annuity at age 50, with payments to begin at age 65, would receive a $142 (14.2%) annual annuity from age 65 to death. However, under the new factors, that same donor would receive a $162 (16.2%) annual annuity.

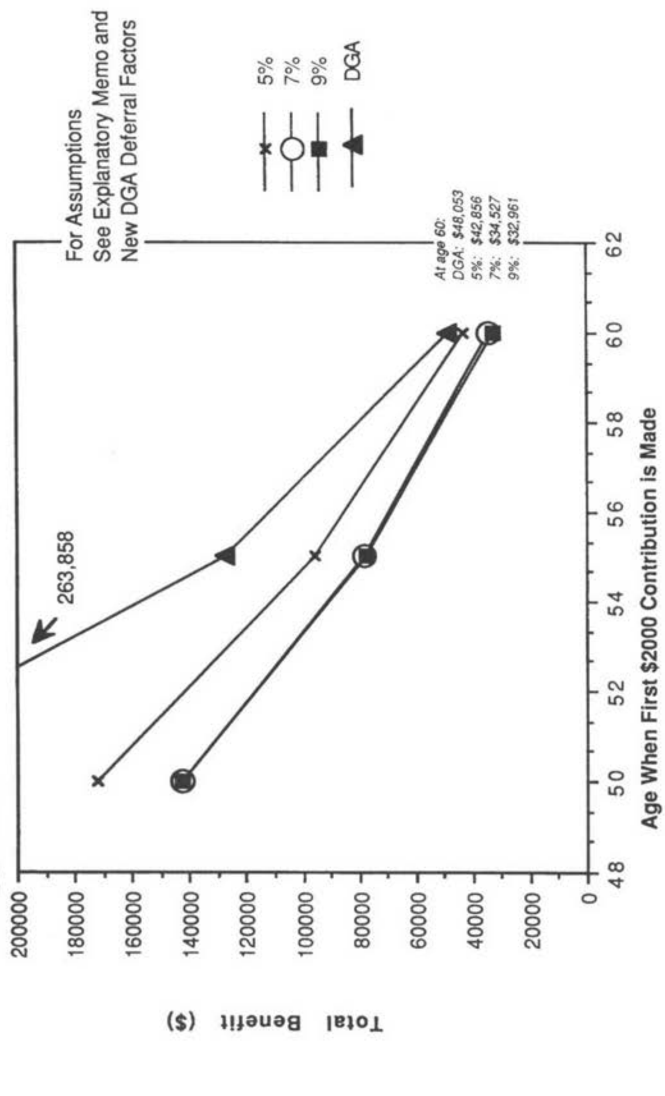
Attached are graphs that compare 5, 7, and 9% retirement unitrusts with deferred gift annuities, using the new deferral factors. The graphs demonstrate that the new deferral factors make deferred gift annuities even more attractive when compared to 'retirement unitrusts." A revised chart of the numbers represented on these graphs, as well as a detailed chart of the numbers for one deferred gift annuity, is also attached.

The result of the new deferral rates is to make DGAs more attractive to donors. The charitable deduction available with these 'new" DGAs is slightly lower than the 'old" DGAs, but still considerably higher than the deduction available with unitrusts. Similarly, the total benefit from DGAs (benefit to charity plus post-tax benefit to donor) is slightly lower under the new rates, but still much higher than the total benefit accruing from a retirement unitrust. The benefit to charity is also slightly lower (because more of the benefit is paid to the donor), but again, almost always better than the charitable benefit available with a retirement unitrust. Finally, because the new rates have the effect of increasing the annuity amount ultimately paid to the donor, the new rates make the benefit to the donor from a DGA almost equivalent, though still usually slightly lower, than the benefit to the donor from a retirement unitrust.

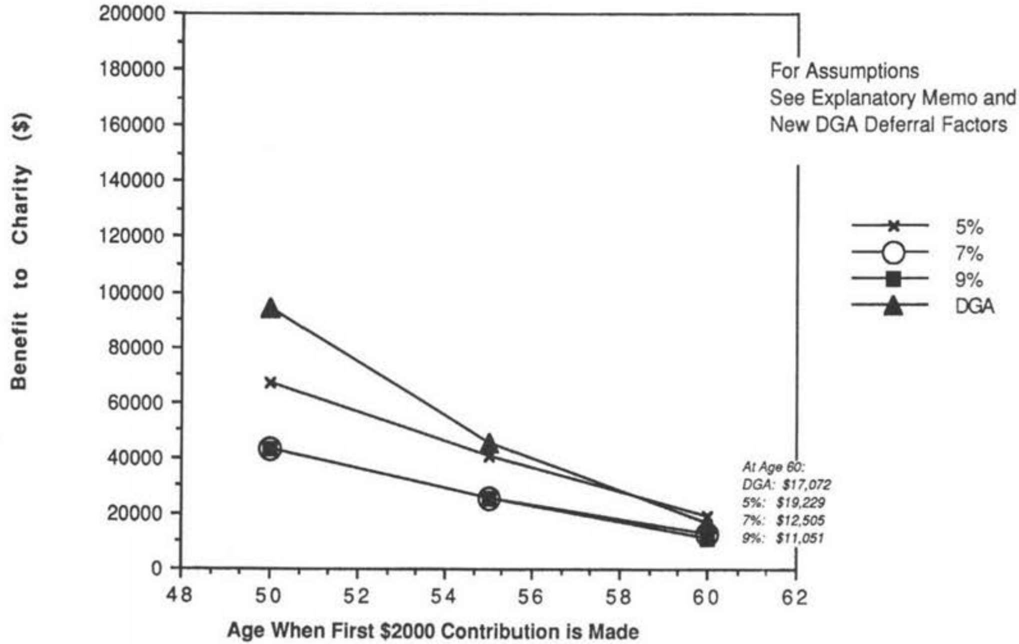
TOTAL BENEFIT (CHARITY + DONOR POST TAX)
5,7,9% Retirement Unitrust v. NEW DGA
Standard Investment Assumptions



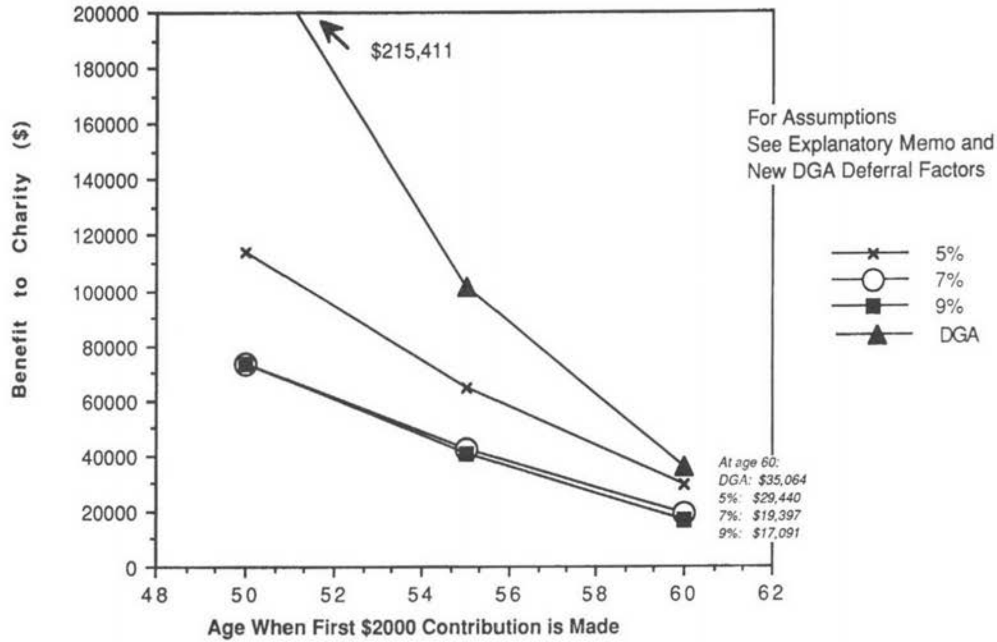
TOTAL BENEFIT (CHARITY + DONOR POST-TAX)
5,7,9% Retirement Unitrust v. NEW DGA
Aggressive Investment Assumptions



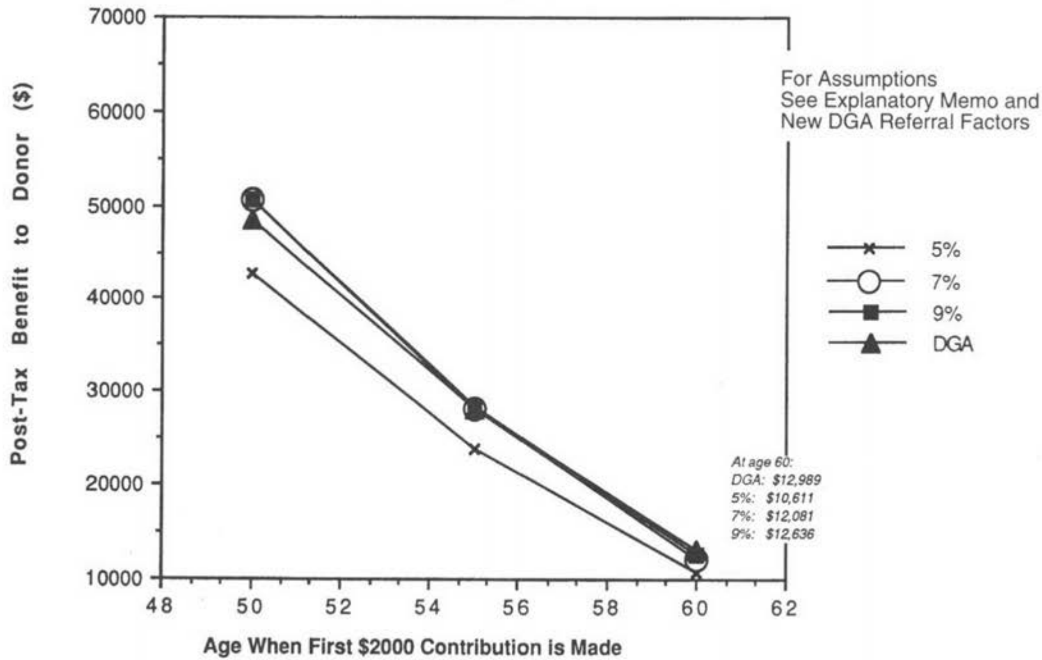
BENEFIT TO CHARITY
5,7,9% Retirement Unitrust v. NEW DGA
Standard Investment Assumptions



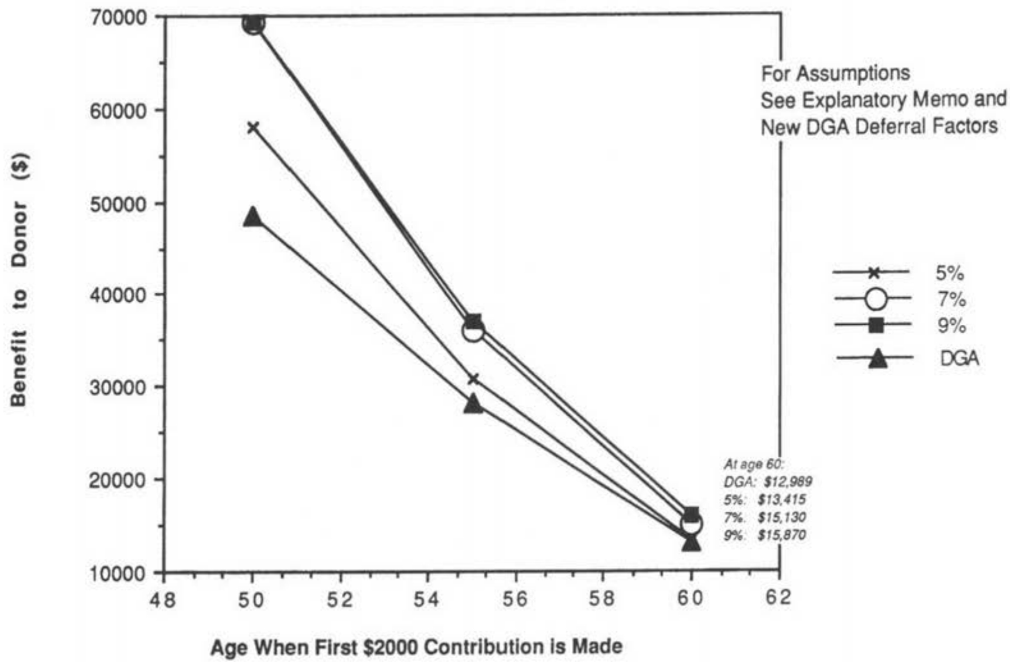
BENEFIT TO CHARITY
5,7,9% Retirement Unitrust v. NEW DGA
Aggressive Investment Assumptions



DONOR BENEFIT (POST-TAX)
5,7,& 9% Retirement Unitrust v. NEW DGA
Standard Investment Assumptions



DONOR BENEFIT (POST-TAX)
5,7,9% Retirement Unitrust v. NEW DGA
Aggressive Investment Assumptions



New DGA Rate Data

	Gift Vehicle	Invest	Assum	Initial Age	Total Benefit	Char Benefit	Pretx Donor	P0stx Donor	Char Deductn
1	Standard DGA	6/2%;	6/2%	50.000	142471.000	94024.000	64334.000	48447.000	16158.000
2	Standard DGA	6/2%;	6/2%	55.000	81853.000	45297.000	36556.000	28122.000	10108.000
3	Standard DGA	612%;	6/2%	60.000	30061.000	17072.000	16440.000	12989.000	4669.000
4	Standard 5% U	3/5%;	8/0%	50.000	109789.000	67112.000	61850.000	42677.000	11575.000
5	Standard 5% U	3/5%;	8/0%	55.000	64488.000	40693.000	34486.000	23795.000	8327.000
6	Standard 5% U	3/5%;	8/0%	60.000	29840.000	19229.000	15378.000	10611.000	4485.000
7	Standard 7% U	3/5%;	810%	50.000	93867.000	43157.000	73493.000	50710.000	8435.000
8	Standard 7% U	3/5%;	8/0%	55.000	53912.000	25824.000	40708.000	28088.000	6199.000
9	Standard 9% U	3/5%;	8/0%	60.000	24587.000	12505.000	17509.000	12081.000	3413.000
10	Standard 9% U	3/5%;	8/0%	50.000	93867.000	43157.000	73493.000	50710.000	6363.000
11	Standard 9% U	3/5%;	8/0%	55.000	53674.000	25156.000	41330.000	28518.000	4756.000
12	Standard 9% U	3/5%;	8/0%	60.000	23687.000	11051.000	18313.000	12636.000	2666.000
13	Aggrssve 5%	3/7%;	8/2%	50.000	171929.000	113981.000	83982.000	57947.000	11575.000
14	Aggrssve 5%	3/7%;	8/2%	55.000	95694.000	64789.000	44789.000	30904.000	8327.000
15	Aggrssve 5%	3/7%;	8/2%	60.000	42856.000	29440.000	19442.000	13415.000	4485.000
16	Aggrssve 7%	3/7%;	8/2%	50.000	142572.000	73216.000	100516.000	69356.000	8435.000
17	Aggrssve 7%	3/7%;	8/2%	55.000	78278.000	42328.000	52102.000	35950.000	6199.000
18	Aggrssve 7%	3/7%;	8/2%	60.000	34527.000	19397.000	21927.000	15130.000	3413.000
19	Aggrssve 9%	3/7%;	8/2%	50.000	142572.000	73216.000	100516.000	69356.000	6363.000
20	Aggrssve 9%	3/7%;	8/2%	55.000	77353.000	40256.000	53763.000	37097.000	4756.000
21	Aggrssve 9%	3/7%;	8/2%	60.000	32961.000	17091.000	23000.000	15870.000	2666.000
22	Aggrssve DGA	7/3%;	7/3%	50.000	263858.000	215411.000	64334.000	48447.000	16158.000
23	Aggrssve DGA	7/3%;	7/3%	55.000	124636.000	96514.000	36556.000	28122.000	10108.000
24	Aggrssve DGA	7/3%;	7/3%	60.000	48053.000	35064.000	16440.000	12989.000	4669.000

Baptist Foundation of Texas
Life Income Estimator
Detailed Cash Flow Analysis

ASSUMPTIONS:
Build-up Estimator begins in 1992 and runs for 28 years.
Measuring life age 55 [2/28/1937].
Date of gift is 3/9/1992.
For principal additions, deductions are based on age at time of addition.
Original principal is $20,000: $2,000 in 1992-2001. Cost basis is 100.0%.
Donor income tax bracket is 31.0%.
Beneficiary income tax bracket is 31.0%, 28.0% for capital gains.

Deferred Gift Annuity

YR	Year-End Principal (BUILDUP)	Capital Apprec. (2.00%)	Income Yield (6.00%)	Before-Tax Ben. Inc.	Tax-Free Portion	After-Tax Ben. Inc. (31.0%)
92	$2,000					
93	4,160	$40	$120	$0	$0	$0
94	6,493	83	250	0	0	0
95	9,012	130	390	0	0	0
96	11,733	180	541	0	0	0
97	14,672	235	704	0	0	0
98	17,846	293	880	0	0	0
99	21,273	357	1,071	0	0	0
00	24,975	425	1,276	0	0	0
01	28,973	500	1,499	0	0	0
02	29,367	579	1,738	1,924	492	1,480
03	29,792	87	1,762	1,924	492	1,480
04	30,252	596	1,788	1,924	492	1,480
05	30,748	605	1,815	1,924	492	1,480
06	31,284	615	1,845	1,924	492	1,480
07	31,862	626	1,877	1,924	492	1,480
08	32,487	637	1,912	1,924	492	1,480
09	33,162	650	1,949	1,924	492	1,480
10	33,891	663	1,990	1,924	492	1,480
11	34 679	678	2,033	1,924	492	1,480
12	35,529	694	2,081	1,924	492	1,480
13	36,447	711	2,132	1,924	492	1,480
14	37,439	729	2,187	1,924	492	1,480
15	38,510	749	2,246	1,924	492	1,480
16	39,667	770	2,311	1,924	492	1,480
17	40,916	793	2,380	1,924	492	1,480
18	42,266	818	2,455	1,924	492	1,480
19	43,723	845	2,536	1,924	492	1,480
20	45,297	874	2,623	1,924	492	1,480
Total	$45,297	$15,463	$46,390	$36,556	$9,351	$28,122

Prepared for CGA Conference April 29, 1992
Discount Rate is 8.0%

Baptist Foundation of Texas
Life Income Estimator
Build-Up Trust Principal Additions

ASSUMPTIONS:
Build-up Estimator begins in 1992 and runs for 28 years.
Measuring life age 55 [2/28/1937].
Date of gift is 3/9/1992.
For principal additions, deductions are based on.age at time of addition
Original principal is $20,000: $2,000 in 1992-2001. Cost basis is 100.0%.
Donor income tax bracket is 31.0%.
Beneficiary income tax bracket is 31.0%, 28.0% for capital gains.

7.00% Charitable Unitrust: Income only with make-up provision

YR	Gross Principal	Charitable Deduction	Tax Savings	Cost of Gift
92	2,000	511	158	1,842
93	2,000	533	165	1,835
94	2,000	557	173	1,827
95	2,000	581	180	1,82
96	2,000	605	188	1,812
97	2,000	630	195	1,805
98	2,000	656	203	1,797
99	2,000	682	211	1,789
00	2,000	709	220	1,780
01	2,000	736	228	1,772
Total	20,000	6,199	1,922	18,078

Deferred Gift Annuity

YR	Annuity %	Excl. Ratio	Deferred Ages	Gross Principal	Charitable Deduction	Tax Savings	Cost of Gift
92	12.30	0.173	65	2,000	1,142	354	1,646
93	11.60	0.189	65	2,000	1,118	347	1,653
94	11.00	0.206	65	2,000	1,088	337	1,663
95	10.40	0.225	65	2,000	1,059	328	1,672
96	9.80	0.246	65	2,000	1,031	320	1,680
97	9.20	0.269	65	2,000	1,005	312	1,688
98	8.70	0.295	65	2,000	970	301	1,699
99	8.20	0.323	65	2,000	936	290	1,710
00	7.70	0.355	65	2,000	903	280	1,720
01	7.30	0.390	65	2,000	856	265	1,735
Total				20,000	10,108	3,133	16,867

Prepared for CGA Conference April 29, 1992
Discount Rate is 8.0%

A CHARITABLE TRUST FOR ALL SEASONS - INCLUDING RETIREMENT

Winton C. Smith, Jr. Esq.
Winton Smith & Associates

I. Charitable Remainder Trusts In General

A. Description

Chariatable remainder trusts are favored by many donors because they provide a generous tax dedution and a substantial gift after the death of the donor, yet retain, and often increase, income for the lifetime of the donor or other beneficiaries.

The regulations under Sec. 664 describe charitable remainder trusts this way:

Generally, a charitable remainder trust is a trust which provides for a specified distribution, at least annually, to one or more beneficiaries, at least one of which is not a charity, for life or for a term of years, with an irrevocable remainder interest to be held for the benefit of, or paid over to, charity. The specified distribution to be paid at least annually must be a sum certain which is not less than 5 percent of the initial net fair market value of all property placed in a trust (in the case of a charitable remainder annuity trust) or a fixed percentage which is not less than 5 percent of the net fair market value of the trust assets, valued annually (in the case of a charitable remainder unitrust). Reg. Sec. 1.664-1(a)(1)(i)

B. Relinquished Control

A trust does not qualify as a charitable remainder trust if it contains a provision that restricts the trustee from investing the trust assets "in a manner which would result in the annual realization of a reasonable amount of income or gain from the sale or disposition of trust assets." Reg. Sec. 1.664-1(a)(3) In other words, if the trust instrument directs how the donated assets are to be managed, it will not qualify as a charitable remainder unitrust. As stated in Reg. Sec. 1.664, the gift must be irrevocable.

C. When a Trust Begins

1. Date of Creation

The trust must function exclusively as a charitable remainder trust from its creation. The CRT does not exist until neither the grantor nor any other person is treated as the owner of the trust. Reg. Sec. 1.664-1(a)(4)

2. Testamentary Trusts

Testamentary transfers often take time to settle after the donor's death. The regulations stipulate that the trust is created on the date of death, even though the funds may not be transferred to the trust immediately. Reg. Sec. 1.664-1(a)(5)(i) In the case of a testamentary transfer, payment to beneficiaries may result in overpayment or under payment. In this case, the trust must pay to the recipient or receive from the recipient the difference between —

* Any annuity or unitrust amounts actually paid, plus interest computed at the rate of interest specified in Reg. Sec. 1.664-1(a)(5)(iv), compounded annually and

* The annuity or unitrust amounts payable, plus interest computed at the rate of interest specified in Reg. Sec. 1.664-1(a)(5)(iv), compounded annually. Reg. Sec. 1.664-1(a)(5)(ii).

If local law or the trust instrument permits, the trustee can defer payout until the end of the taxable year in which the trust is funded. Reg. Sec. 1.664-1(a)(5)

D. Private Foundations and Self-Dealing

Although a charitable remainder trust is not a private foundation, some of the same restrictions apply. The CRT instrument must contain provisions that prohibit activities such as self-dealing, taxable expenditures, some types of investments and excess business holdings. If the trust has unrelated business taxable income for the year, for example, it loses its income tax exemption. Also, if it invests in certain assets or engages in certain other prohibited activities, it could incur a private foundation excise tax. Code Sec. 4947(a)(2) Reg. Sec. 53.4947-1(c)(1)(ii)

Self-dealing prohibits:

* Sale or leasing of property between a trust and a disqualified person (including the contributor)

* Exchange of property between the trustee and a disqualified person except under specific conditions

* Loans between the trust and a disqualified person except under specific conditions

* Transfer or use of trust assets for the benefit of a disqualified person

* Furnishing goods, services or facilities between a trust and a disqualified person except under specific conditions

* Compensating or reimbursing expenses to a disqualified person except under specific conditions

* Agreement to pay a government employee except under specific conditions Reg. Sec. 53.4941(d)(1) and (2) Ltr. Rul. 9104035

E. Combination Trusts

A charitable remainder trust is established either as a unitrust or an annuity trust; a combination of the two types is not allowed. Reg. Sec. 1.664-1(a)(2)

F. Advantages of a Charitable Remainder Trust

* Ability to make a generous charitable contribution even if income from property is needed during lifetime

* Current income tax charitable deduction equal to the present value of the remainder interest in the gift; deduction may be carried forward for five additional years

* No penalty capital gains tax on the sale of highly appreciated assets that have been transferred to the trust

* Income based on the full value of the appreciated asset donated, rather than on the amount that remains after payment of a capital gains tax

* Avoidance of the Alternative Minimum Tax, which might be incurred with outright gifts

* Exclusion of the charitable remainder interest from estate tax.

II. Charitable Remainder Unitrusts

A. Description

1. Straight Unitrust

A straight charitable remainder unitrust is created when the donor irrevocably transfers property to the trust for the benefit of a charitable beneficiary, reserving an interest in the property for a noncharitable beneficiary (donor, spouse, or other recipient).

a. The unitrust pays a set percentage to beneficiaries at least annually, no less than 5 percent of the trust's fair market value. The payout is based on an annual valuation of the trust assets, and therefore can fluctuate from year to year. Reg. Sec. 1.664-3(a) Code Sec. 664(d)(2)

b. Upon the death of the last surviving beneficiary, or upon the expiration of the term of years, the trust is to terminate, and the trust assets must be transferred to, or for the use of, a charitable organization, as described in Code Section 170(c), or be retained for such use.

c. The stated percentage of the payout must be at least 5 percent and can be higher if stated in the trust agreement. To the extent that the investment income of the assets is insufficient to make the required annual payout, the balance must be paid from principal. Conversely, any earned income in excess of the required payout is added back to principal. The trustee can be the charitable organization for whom the remainder interest is designated, or may be an individual or a corporate trustee, such as a bank or trust company. A charitable organization can be an income beneficiary. Except for the required payout from the trust to the income beneficiaries, the trust may not be invaded, altered, amended or revoked for the beneficial use of a person other than an organization described in Code Sec. 170(c).

2. Net Income Unitrust

   A net income unitrust is created in the same way as a straight unitrust, except that payments to the income beneficiary(ies) in any taxable year of the trust are limited to the ordinary investment income (dividends, interest, rent) earned by the trust assets and cannot exceed the fixed payout percentage of the market value of the trust assets stated in the trust agreement. Thus, this type of unitrust can pay out only ordinary income and cannot make capital gain distributions or any payments from the trust corpus. Code Sec. 664(d)(3)(A)

   By paying either the agreed-upon percentage or actual income earned, whichever is less, the net income unitrust helps ensure that the charitable remainder of the trust will be approximately equal to the amount of assets used to create the trust. This trust is suited for gifts that do not necessarily provide immediate income, such as real estate.

3. Net Income-Plus Makeup Unitrust

   The net income-plus makeup unitrust is the same as a net income unitrust, except that the trustee can pay out to the beneficiary income earned by the trust in excess of the stated percentage of the market value of the trust assets to the extent of the accumulated payout deficiencies of prior years (years in which the trust earned less than the stated percentage). Code Sec. 664(d)(3)(B)

   As in the net income unitrust, the beneficiary receives either the agreed-upon percentage or income earned, whichever is less. In a future year, however, when the trust earns more than the agreed-upon percentage, the trustee can make up any prior deficient payments. This is even better suited for gifts of real estate or other property that is expected to generate a low initial yield.

4. Additional Contributions

   Unlike the charitable remainder annuity trust, additional contributions can be made to the charitable remainder unitrust, provided the trust instrument contains specific provision for how those contributions will be valued in determining the payout to beneficiaries.

A unitrust that does not have those provisions must specifically prohibit additional contributions. Reg. Sec. 1.664-3(b)

B. Trust Valuation

Calculation of the fair market value of a unitrust can be made on any date during the taxable year, provided it is the same date every year. It can also be made by averaging the valuations made on more than one date during the taxable year, provided the same dates and valuation methods are used every year. Reg. Sec. 1.664-3(a)(1)(iv)

It is suggested that unitrusts be valued on the first day of each taxable year; since all charitable remainder trusts are required to use a calendar year, the suggested annual valuation date is January 1. Code Sec. 645

For unitrusts that are not valued on the first day of the calendar year, such as when the beneficiary dies, the regulations require trust assets to be valued on the date the trust terminates. The unitrust amount is then prorated based on the number of days in the last year the beneficiary was to receive payments. Reg. Sec. 1.664-3(a)(2)(ii)

III. Retirement Unitrusts — Charitable Retirement Plan

A donor who is planning retirement can take advantage of the net income-plus makeup unitrust to establish a trust that will accrue value over the years and eventually pay a higher return after the donor retires.

A. Pre-Retirement Plan

While the donor is still employed, he establishes the net income-plus makeup unitrust with assets that offer low income but high growth, such as growth stocks, real estate or mutual funds. The donor also may add to the unitrust during these pre-retirement years without the $2,000 contribution limit imposed on Individual Retirement Accounts. For example, the donor may wish to take the income payout and return it to the unitrust.

B. Retirement Plan

After the donor retires, the trust assets are invested in assets that provide high income such as certificates of deposit or corporate bonds. The donor receives the unitrust payout plus excess current income until the deficit from prior years is repaid.

The trustee cannot be required to make certain types of trust investments; therefore, donors frequently act as trustees for this type of gift.

C. Advantages

1. Personal retirement plan
2. Flexible retirement plan
3. Income tax deduction

    4. Tax-free growth
    5. Flexible retirement date
    6. Supplemental retirement income
    7. Charitable gift
D. Disadvantages
    1. Contributions to the unitrust are only partially deductible.
    2. Income is prorated over the donor's lifetime or a term of years.
    3. Unitrust income is usually taxed as ordinary income.
    4. The donor is barred from receiving loans from the unitrust.
    5. All remaining assets from unitrust pass to charity rather than donor's family after donor's death.

IV. Educational Unitrusts

A charitable remainder trust established for a specific term of years rather than for a life income could be used to pay for the education of a child or grandchild.

A. Establish a 4-year trust when the child enters college. Name the child as income beneficiary. At the end of four years, the remainder interest passes to the college.
B. Establish a net income-plus makeup unitrust for a young child, using the same strategies as for a retirement plan. When the child is college age, the trustee sells appreciated assets and begins making regular payments plus makeup amounts for earlier shortfalls. This money could be used for tuition and is taxed at the child's tax rate.

V. Charitable Remainder Annuity Trusts

A. Description

   A charitable remainder annuity trust is created when the donor irrevocably transfers property to the trust for the benefit of a charitable beneficiary, reserving an interest in the property for a noncharitable beneficiary (donor, spouse, or other recipient). A charitable remainder annuity trust provides for a specified distribution, at least annually, to one or more noncharitable beneficiaries, for life or for a term of no more than 20 years. Payments must be no less than 5 percent of the initial net fair market value of all property placed in the trust. The payout can be expressed either as a fixed amount or a percentage of the initial trust value. The amount of the payout, unless altered by subsequent audit of hard-to-value assets, remains the same for the term of the trust. Code Sec. 1.664-1(d)(1)(A) Reg. Sec. 1.664-2(a)(2)(i)

B. Additional Contributions

   Additional contributions cannot be made to an annuity trust. The trust will not qualify as an annuity trust unless the trust instrument provides that no additional contributions may be made after the initial contribution. Reg. Sec. 1.664-2(b)

C. 5 Percent Test

Upon the death of the last surviving beneficiary, or at the end of the term of years, the trust terminates and the trust assets are transferred to the charitable organization for which it was created. Code Sec. 664(d)(1)(C)

To protect the charitable remainder interest in the annuity trust, the IRS has established the 5 percent rule. This states that for a charitable remainder interest to qualify for a tax deduction, it must meet two requirements:

1. There must be a charitable remainder calculated using the tables in Reg. Sec. 1.664-2 and
2. There can be no more than a 5 percent probability that the charitable remainder will be depleted before it passes to the charity. If the chance of assets going to the charity is "so remote as to be negligible," the tax deduction is disallowed. Reg. Sec. 1.70A-1(e) Reg. Sec. 20.2055-2(b) Reg. Sec. 25.2522(c)-3(b) Rev. Rul. 77-374, 1977-2 C.B. 329

D. Payments to Beneficiary(ies)

To the extent that the investment income of the trust assets is insufficient to make the required annual payout, the balance must be paid from principal. Except for the required payout from the trust to the income beneficiaries, the trust may not be invaded, altered, amended or revoked for the beneficial use of a person other than an organization described in Code Sec. 170(c).

VI. Tax Consequences Of Charitable Remainder Trusts

A. Charitable Interest Valuation

The donor receives an income tax charitable deduction equal to the current value of the charitable remainder interest in the trust in the year the trust is created. Code Sec. 170(f)(2)(A)

Valuation of the charitable remainder interest is based on the fair market value of the gift at the time of the contribution, calculated using IRS tables. Reg. Sec. 1.664-4(b)

The tables are unisex, and use a floating rate that changes monthly. The interest assumption is determined by the federal midterm interest rate based on the average market yield of U.S. obligations. The interest rate for calculating charitable gifts is 120 percent of the annually compounded federal rate for midterm obligations. Code Sec. 7520

A donor can use either the Applicable Federal Midterm Rate for the month the gift is transferred to the trust OR the rate for either of the preceding two months. If more than one property is transferred to the trust, the same rate must be used for each property. Code Sec. 7520(a)

B. Individual Deductions

Charitable deductions are generally limited to 30%-50% of an individual's adjusted gross income, depending upon the type of gift used to fund the unitrust. However, if appreciated securities are used to fund a trust that names a private foundation as the charitable remainder beneficiary, the deduction is usually limited to 20% of adjusted gross income.

If the deduction is not fully used in the year the trust is established, it can be carried forward for five additional years until it is depleted. Code Sec. 170(d)(A)

C. Gift Taxes

1. Donor as beneficiary

   The donor can receive a charitable gift tax deduction for the value of the charitable remainder interest when a trust is created. If the beneficiary(ies) of a unitrust is NOT the donor or the donor's spouse, the transfer of income to that beneficiary is subject to gift tax. Code Sec. 2522(c)

2. Donor's spouse as beneficiary

   The donor's spouse automatically receives an unlimited marital gift tax deduction. Code Sec. 2523(g)

3. Noncharitable beneficiary

   If a noncharitable beneficiary such as a parent or brother receives income from the unitrust, the transfer of funds is subject to gift tax. However, the donor can avoid the burden of a current gift tax by making an incomplete gift. To do so, the donor reserves in the trust instrument the right to revoke the gift by will. In this way, the gift is incomplete and avoids the gift tax, yet it still meets requirements for a charitable income tax deduction. Code Sec. 2522(c) Reg. Sec. 25.2503-2(b)

   A gift tax will be owed if a beneficiary's life interest in the trust exceeds the $10,000-per-donee annual exclusion and the tentative tax on the gift is not offset by the unified transfer tax credit. Code Sec. 2503(a) Reg. Sec. 25.2503-2(b) Reg. Sec. 25.2503-3(b)

4. Tax return filing

   The donor must file a gift tax return (Form 709) regardless of whether a gift tax is due. Code Sec. 6019

D. Estate Taxes

1. Donor as beneficiary

   If the donor is the sole beneficiary of a life income trust, then the fair market value of the trust assets at the date of death is included in the estate. However, the estate also is eligible to take an unlimited charitable estate tax deduction equal to the value of the charitable remainder interest. This results in no estate tax. Code Sec. 2036(a)(1) Code Sec. 2055(e)(2)(A) Code Sec. 2036 Code Sec. 2055(e)(1)(B)

2. Spouse as beneficiary

   The donor's spouse automatically receives an unlimited marital estate tax deduction. Code Sec. 2056(b)(8) Code Sec. 2523(g)

3. Noncharitable beneficiary

   If a noncharitable beneficiary such as a brother or sister receives income from the trust, the trust assets are included in the donor's estate. The estate receives a charitable deduction equal to the present value of the charitable remainder interest. Code Sec. 2055(e)(2)(A)

E. Generation-Skipping Taxes

Whenever the beneficiary of a trust is two or more generations younger than the donor's generation, as in a grandchild, the trust may trigger the generation-skipping transfer tax (GSTT).

One of the ways in which unitrusts generate the GSTT is with a taxable distribution. This can occur if the donor creates a trust in which a child is the first income beneficiary and a grandchild is the second income beneficiary. When the initial life income interest ends and the second income interest passes to the grandchild, the GSTT is triggered. Code Sec. 2603(a)(1)

Each donor has a $1 million exemption that can be used against any generation-skipping transfer. However, it is unusual for a donor to establish a trust for a young beneficiary because the charitable deduction will be reduced commensurate with the beneficiary's life expectancy. More typically, a term of years would be used to establish a trust for a purpose such as the education of a grandchild (see Part XX, Educational Trust).

VII. Taxation Of A Trust

A. Filing Requirements

The trustee must file Form 1041-A and Form 5227. The donor must file Form 709 and attach Form 8283 to his Form 1040. Rev. Proc. 73-29, 1973-2 C.B. 483

B. Tax Exemption

Unless it has unrelated business income, a charitable remainder trust is generally exempt from federal income tax. If the trust has any unrelated business income, such as debt-financed income, ALL the trust income will be taxable. Code Sec. 664(c) Reg. Sec. 1.664-1(c)

C. Appreciated Assets

If a trust is funded with highly appreciated assets, the trustee can sell those assets without incurring the penalty capital gains tax. This results in a donor's being able to receive income based upon the entire value of the donated asset, rather than upon the amount remaining after an outright sale and the payment of capital gains tax. Code Sec. 664(c)

D. Taxation of Distributions

Beneficiaries of a charitable remainder trust are taxed in a four-tier system, depending upon how the trust income was earned. Code Sec. 664(b)

Trust income is distributed in the following sequence:

1. Ordinary income, to the extent of the trust's ordinary income for the year and its undistributed ordinary income for prior years. Reg. Sec. 1.664-1(d)(i)(a)
2. Capital gains, to the extent of the trust's undistributed capital gains. Short-term capital gains are deemed to be distributed before long-term gains. Undistributed capital gains are determined on a cumulative net basis. Reg. Sec. 1.664-1(d)(1)(i)(b)
3. Other income, including tax-exempt income. Reg. Sec. 1.664-1(d)(1)(iii)(c)
4. Principal, to the extent that the above are not available to make the required income payments. Reg. Sec. 1.664-1(d)(1)(iii)(d)

VIII. Distribution In Kind

An annuity trust or unitrust may pay beneficiaries in cash or other (in-kind) property. Reg. Sec. 1.664-1(d)(5)

IX. Charitable Remainder Interest

At the end of the trust period or upon the death of the beneficiaries, the trust must be transferred irrevocably to one or more organizations described in Code Sec. 170(c). If the charity is not a Code Sec. 170(c) organization at the time of the transfer, the trust's charitable remainder must be transferred to an alternative organization that fulfills the requirements of Code Sec. 170(c). Reg. Sec. 1.664-2(a)(6) Reg. Sec. 1.664-3(a)(6)

When the noncharitable interest in a trust terminates, the assets of the charitable remainder trust may be transferred entirely or partly to the use of charity, or they can be retained in a successor trust for the use of a charity. Following the death of a donor, the trustee is given a reasonable settlement period to conclude the trust. Reg. Sec. 1.642(a)(6)

If a charitable remainder trust continues to exist after a "reasonable period," it is treated as a private foundation. Reg. Sec. 1.664-2(a)(6)(ii) Reg. Sec. 1.664-3(a)(6)(ii)

X. Early Termination

If both the charitable remainderman and the noncharitable beneficiary(ies) agree, the trust can be terminated early with the remainder of trust assets transferred to the charitable organization. Ltr. Rul. 8602011

The donor and the charitable organization each receive the current value of their interests in the trust. Ltr. Rul. 8647007 Ltr. Rul. 8647006

XI. Substitution Of Charitable Remainderman

If desired, the donor or trustee can retain the right to substitute the charitable organization stipulated in the original trust instrument with another charitable organization. Rev. Rul. 76-8, 1976-1 C.B. 179 Rev. Rul. 76-371, 1976-2 C.B. 305 Rev. Rul. 76-7, 1976-1 C.B. 179

If exercised, the right to substitute a charitable beneficiary will make the trust assets included in the donor's gross estate.

In order to safeguard the income tax charitable deduction, the trust instrument must include language specifically requiring the substitution of a charitable remainderman that meets the requirements of Code Sec. 170(c), 170(b)(1)(A), 2055(a) and 2522(a).

XII. Drafting Suggestions

A. Language and Sample Documents

The trust instrument must fulfill the Code Sec. 664 regulations as well as pertinent revenue rulings in order to be considered a charitable remainder trust. Before drafting a trust document, review the mandatory and optional language suggestions in Rev. Rul. 72-395, 1972-2 C.B. 340, Rev. Rul. 80-123, 1980-1 C.B. 205, Rev. Rul. 82-128, 1982-2 C.B. 71, Rev. Rul. 82-165, 1982-2 C.B. 117, Rev. Rul. 88-81, and IRB No. 1988-39.

Sample documents for trusts that qualify for deductions under Code Sec. 170, Sec. 664 and Sec. 2522 can be found in Rev. Procs. 89-20, 1989-9 IRB 59, Rev. Procs. 89-21, 1989-9 IRB 60, and Rev. Procs. 90-30 through 90-32.

WARNING: Sample forms provided by the IRS for charitable remainder trusts do NOT cover all contingencies, such as an alien spouse, the right to revoke a survivor's interest, sprinkle powers, or other special provisions.

If trust documents "substantially follow" the IRS's samples for one-life inter vivos charitable remainder unitrusts and annuity trusts found in Rev. Procs. 89-20 and 89-21, 1989-9 IRB 59,60, they are recognized as meeting the requirements for a charitable remainder unitrust or charitable remainder annuity trust under Code Sec. 664(d)(2), assuming the trust is valid under local law.

While the IRS generally won't issue rulings on the qualification of substantially similar trusts, it "will continue to issue rulings to taxpayers who create trusts that are not substantially similar to the sample trusts." Rev. Proc. 89-19, 1989-9 IRB 59

B. In Terrorem Clauses

Do not use an in terrorem clause since it could allow the interest of a beneficiary to be terminated for reasons other than death or a fixed term of years. This violates Reg. Sec. 1.664-3(a)(1)(i)(b)(1). Ltr. Rul. 7732011 Ltr. Rul. 7942073

C. Pour-Over

When a charitable remainder trust terminates, it cannot pour over into another charitable remainder trust, since a CRT is not an organization described in Code Sec. 170(e). Code Sec. 664(d)(2)(e)

D. Contingency Provisions

The IRS frowns on second chances. If a donor makes a contribution to a charitable remainder trust contingent on its deductibility, the deduction is automatically disallowed. Rev. Rul. 76-309, 1976-2 C.B. 196

However, if the trust instrument contains a clause that assets will be returned to the donor if the IRS won't rule on whether the trust is a qualified charitable remainder trust, the trust is not automatically disqualified. Rev. Rul. 76-309, 1976-2 C.B 196 Rev. Rul. 60-276, 1960 C.B. 150

XIII. Donor As Trustee

A. Problems

In some situations, the donor wants to act as trustee for the charitable remainder trust. The IRS has ruled favorably for this arrangement, provided the trust is not funded with assets that are hard to value. Ltr. Rul. 8648048

However, the IRS will look closely at such trusts. They run a risk of being disqualified as charitable remainder trusts if the IRS determines the donor is treating the trust assets as his own. Code Sec. 671-677

To avoid this possibility, appoint an independent trustee when:

* a trust is funded with hard-to-value assets, such as real property or closely held stock
* a trust grants the trustee power to change the amount paid to any beneficiary (sprinkling power).

A donor with the power to alter income distributions was considered the owner of the trust in Rev. Rul. 77-285, 1977-2 C.B. 213. However, such power in the hands of an independent trustee who is not the donor does NOT disqualify the charitable remainder trust. Rev. Rul. 77-73, 1977-1 C.B. 175 Ltr. Rul. 8049072 Ltr. Rul. 9052038

A contributor to a unitrust may retain other powers that will not disqualify the trust. For example, one contributor retained the right to revoke his spouse's survivorship interest by will; he retained the right to choose the charitable remainder organizations, and the right to replace any trustee. Since none of those rights gave the contributor the power to alter the payout to noncharitable beneficiaries, the trust qualifies. Ltr. Rul. 9106008

B. Solution

When some hard-to-value assets fund a trust yet the donor wants to be named trustee, he may avert the problem of being considered the trust's owner by including language that names an independent trustee to value the hard to value assets each year and oversee the disposition of any hard-to-value assets.

All decisions about those assets are made by the independent trustee.

XIV. Trustee Fees

A donor who acts as trustee is entitled to reasonable pay for administration of a charitable remainder trust as stipulated by state law, but his payment cannot be made from the noncharitable beneficiary's annuity or unitrust percentage. Ltr. Rul. 8033026 Rev. Rul. 74-19, 1974-1 C.B. 155 Ltr. Rul. 7807096 Ltr. Rul. 7828006

XV. Tax Reform Act Of 1986

A. Changes

1. The top marginal income tax rate fell from 50 percent to 31 percent. This cuts individual income taxes as well as the savings obtained from making charitable deductions. Code Sec. 55
2. The capital gains tax rate increased from 20 percent to 28 percent. This increases the savings obtained by giving highly appreciated assets to a charitable remainder trust.
3. The alternative minimum tax was expanded to reduce the value of deductions that had been taken by high-income taxpayers. To that end, TRA 1986 added the appreciation on gifts of capital gain property to the list of "preference" items that trigger the AMT. The donor must treat the property's appreciation as an AMT preference item when calculating federal income taxes.

The donor figures the tax bill according to the normal methods, then again using AMT methods, and pays whichever amount is higher. IRS Form 6251 IRS Publication 909

a. To calculate the AMT, start with the donor's adjusted gross income. Then:
   subtract AMT deductions
   add AMT preferences
   subtract AMT exemption
   times 24% AMT tax rate
   The resulting figures provides the AMT.
b. The charitable tax deduction of highly appreciated assets to a charitable remainder trust can be reduced by the AMT. Still, it is unusual for a gift of appreciated assets to trigger the AMT for a donor with no other AMT preference items.
c. When the AMT could be triggered by a large gift, it may be possible to avoid it by:
   * Making a gift over a period of years rather than in a lump sum.
   * Increase the payout amount to the donor to reduce the charitable remainder interest
   * Donate property with a higher cost basis
   * If donor has short life expectancy, dispose of highly appreciated assets by will. Surviving spouse can then donate assets at a higher cost basis, avoiding the AMT.

B. The 1992 AMT Exemption for Personal Property
Congress passed a measure in 1990 and again in 1991 that suspends the AMT for one year for gifts of appreciated tangible personal property. Contributions must be made prior to June 30, 1992, and their deductible value may be carried forward into subsequent years. Rev. Rul. 90-111, 1990-53 IRB 1

XVI. Technical And Miscellaneous Revenue Act Of 1988

A. Changes
1. Treasury was required to provide tables using 120 percent of the floating Applicable Federal Midterm Rates, which change monthly.
2. Revised tables must account for the most recent mortality rates. The new tables increase the value of the life income interests and decrease the value of remainder interests.
3. Taxpayer may use either the current Applicable Federal Midterm Rate for the month a gift is transferred to a trust OR the rate for either of the two preceding months.

4. Tables must be updated at least once every 10 years.
5. The rules apply to valuations of annuities, life interests, remainders, reversions, term-of-year interests except for reasons outlined in Code Sec. 401-419.

B. Computing the Rate

Calculating the charitable interest based on the Applicable Federal Midterm Rates is done by multiplying the rate by 120 percent and rounding to the nearest 2/10ths of 1 percent.

EXAMPLE

If: The Federal Midterm Rate = 8.53 percent

Then: The Applicable Rate = 8.6 percent

If: The Federal Midterm Rate = 9.95 percent

Then: The Applicable Rate = 10.0 percent Code Sec. 7520

XVII. Reforming Defective Split-Interest Trusts

A. IRS Requirements

The IRS has strict requirements that must be met in the trust instrument in order for the trust to qualify for tax deductions. In 1984, Congress put into place guidelines allowing for the reformation of defective split-interest instruments.

B. Qualified Reformations

1. A charitable remainder trust can be reformed to a "qualified interest" if the reformation is retroactive to the date of death or the date of the trust's creation (for inter vivos trusts) AND if it provides for the correction of overpayments and underpayments made before reformation.
2. The trust must terminate at the same time following reformation as it did prior to reformation. Exception: If a term of interest is more than 20 years, it can be lowered to 20 years.

B. Reformable Interests

1. A charitable remainder trust is "reformable" if the trust instrument fulfills the rules applicable for deductions under the Tax Reform Act of 1969.
2. The reformation often must begin within a set number of days (such as within 90 days of the filing date of an estate tax return that will claim the tax deduction). Code Sec. 2055 (e)(3)(C)
3. Payouts from the trust must be a fixed dollar amount or a fixed percentage of the trust asset's value. Code Sec. 2055(e)(C)(ii)

C. Reforming a Trust

1. Reformation methods, whether achieved by reformation, amendment, construction or another method, must meet local laws and be binding on all relevant parties.
2. The defect to be reformed must be described.

3. The death of all noncharitable beneficiaries of a charitable remainder trust reforms the trust if all die prior to the filing of the estate tax return that will claim the tax deduction. Code Sec. 2055(e)(3)(F)
4. Reformation is accomplished when a trust instrument designates all or a portion of the trust to be transferred to a charity prior to the filing of an estate tax return.

D. Deductions

In the case of a qualified reformation, the allowable deduction is the lesser amount of:

* the value of the charitable interest following reformation
* the value of the charitable interest before reformation if a deduction was disallowed under Code Sec. 2055(e)(2). Code Sec. 2055(e)(3)(E)

XVIII. Unitrust Vs. Annuity Trust

A. Unitrust

1. Varying Income

   The income from a unitrust varies according to the annual revaluation of the net fair market value of the trust assets. This offers an appealing hedge against inflation.

2. Additions to Initial Gift

   Unitrusts permit donors or others to contribute additional assets to the trust. By staggering a large gift and making several contributions, a donor could avoid triggering the alternative minimum tax.

3. No 5 Percent Provision

   Unitrusts are not required to meet the 5 percent probability test imposed on annuity trusts. Because a unitrust is revalued annually, the beneficiaries' income cannot be large enough to make the charitable remainder "negligible."

4. Valuation

   Annual valuation is required of unitrusts, which could be difficult if they are funded with hard-to-value assets such as real estate or closely held stock.

5. Types of Unitrusts

   Unitrusts may be established as straight, net income, or net income-plus makeup unitrusts. These allow for shortfalls in payouts to beneficiaries to be made up in subsequent years of the trust term. This eases the burden on the charitable remainderman with gifts of assets that offer little or no initial return, such as real estate.

6. Forgiveness of Payout

   If a trustee must invade the principal of a straight unitrust gift to meet the payout to income beneficiaries, the beneficiary can "forgive" the payout and it would be considered an addition to the trust.

7. Preferred Assets to Fund Trust

   Because of the net income provisions available with unitrusts that allow the trustee to reduce or delay payout amounts, unitrusts can be funded with illiquid assets such as real estate.

8. Tax Deduction

   The tax deduction allowed for the charitable remainder unitrust may be smaller than the amount allowed for the annuity trust. This is due to the Applicable Federal Midterm Rates, which can decrease the value of an annuity when rates are high.

B. Annuity Trust

1. Fixed Income

   The payout to beneficiaries is determined at the time the annuity trust is funded and cannot be changed. This secures a stable, fixed income, but lacks the hedge against inflation offered by the unitrust.

2. No Additions to Initial Gift

   The annuity trust instrument must contain language prohibiting any additional gifts to the trust.

3. 5 Percent Provision

   There can be no more than a 5 percent probability that the charitable remainder will be depleted before it passes to the charity. If the chance of assets going to the charity is "so remote as to be negligible," the tax deduction is disallowed.

4. Valuation

   Valuation is made at the time the trust is funded, and is not required again.

5. One Type of Annuity Trust

   By definition, the annuity trust can pay no more nor less than the set amount determined at the initial funding of the trust. If the trust income cannot cover payout to beneficiaries, the trustee may have to sell assets or distribute assets in kind to meet the payout obligations.

6. No Forgiveness of Payout

   If the trustee must invade the trust corpus to meet income payout requirements, the noncharitable beneficiary cannot "forgive" the payment.

7. Preferred Assets to Fund Trust

   Because annuity trusts must make payments to beneficiaries regardless of the performance of the trust, liquid assets are preferred gifts. Gifts of illiquid assets such as real estate could necessitate the distribution of interest in those assets as part of the payout to income beneficiaries.

8. Tax Deduction

   The tax deduction allowed for the charitable remainder annuity trust may be larger than the amount allowed for the unitrust. This is due to the Applicable Federal Midterm Rates, which can decrease the value of an annuity when rates are high, increasing the value of the deduction.

C. Drawbacks to Unitrusts and Annuity Trusts

1. Gifts are irrevocable and trust instruments are complicated.
2. If noncharitable beneficiaries die unexpectedly, the charitable remainder may be larger than initially planned.
3. Gift passes out of family's inheritance after death of donor.
4. Donor and trustee must file tax returns and keep records of all trust activity.

XIX. Estate Planning Strategies

A. Life Income

A donor can make a significant gift and retain a life income for himself or another beneficiary while possibly increasing income. This is accomplished by donating assets, frequently stocks, which traditionally pay a 2 percent annual return. By placing these assets into a trust, the payout to income beneficiaries is no less than 5 percent, and can be higher.

B. Appreciated Assets/Capital Gains

By placing highly appreciated assets into a charitable remainder trust, those assets can be sold completely free of capital gains taxes. In this way, the donor can receive a percentage income based upon the entire value of the appreciated asset, rather than on the value of the asset minus the capital gains tax. Appreciated assets that are ideal for such gifts include:

* Appreciated growth stocks
* Appreciated real estate
* A family business
* Other appreciated property

Remember that illiquid assets such as property, artwork or jewelry are more appropriate for a unitrust, while liquid assets should be used to fund an annuity trust.

C. Income Tax Charitable Deduction

The donor receives a current income tax charitable deduction for both unitrusts and annuity trusts based upon the present value of the remainder interest in the gift. The valuation of the gift is determined by the appropriate IRS tables for the unitrust and annuity trust. This deduction can be carried forward for five additional years until the entire deduction is used.

Any taxes on the distribution of trust income will often be offset by the charitable deduction.

D. Estate Tax

Because the charitable remainder passes to a charitable organizaiton, no estate taxes are paid on the remainder interest after the donor's death. Estate tax will be due if a surviving income beneficiary is not the spouse of the decedent.

XX. Wealth Replacement Trust

The wealth replacement trust transfers property free of federal estate and state inheritance taxes and therefore it often provides an even greater inheritance for heirs.

When a donor makes a major gift, he may realize a substantial savings through an income tax deduction as well as increased income from appreciated assets. With this savings, the donor may purchase an insurance policy with a stated value equal to the value of the gift (or a lesser amount, if desired). The donor names the trustee as owner of the policy, while the final beneficiary(ies) of the policy would be the donor's children or other heirs.

XXI. Qualified Terminable Interest Property

If a donor wishes to establish a testamentary trust with the surviving spouse as the sole beneficiary, an alternative may be the qualified terminable interest property, or QTIP.

A. Tax Deduction

The QTIP allows a deduction equal to the full amount of the assets used to fund the trust, rather than just for the charitable remainder interest. This is accomplished because the QTIP provides a marital deduction for the life interest of the surviving spouse in addition to the charitable deduction for the charitable remainder interest. Code Sec. 2056(b)(8) Code Sec. 2523(g) Code Sec. 2055 Code Sec. 2522

When the first spouse dies, the estate receives a marital deduction. Upon the death of the surviving spouse, the assets of the trust are paid to the charitable organization, and the surviving spouse's estate pays no estate tax. Code Sec. 2044

B. Invasion of Principal

Unlike other trusts, trustees of QTIPs can invade the principal of the trust if it is needed by the surviving spouse (See the Technical and Miscellaneous Revenue Act of 1988).

C. Disadvantages of QTIP

1. The trust is not tax-exempt during the spouse's lifetime.
2. If the QTIP experiences a capital gain, it is subject to the capital gains tax.
3. Trust assets are included in surviving spouse's gross estate and subject to estate tax at surviving spouse's death if the remainderman is the spouse's children or other private heirs.

D. Converting a QTIP into a CRT

In a recent private letter ruling, the IRS permitted a donor to create a QTIP paying his widow income for life, then moving the trust corpus to a new, qualified charitable remainder unitrust. The IRS allowed the husband's estate to take a marital deduction. After his widow's death, the property would be included in her gross estate. However, her estate would receive a tax deduction for the value of the charitable remainder interest created by the unitrust. Ltr. Rul. 9122029

XXII. Tax-Exempt Income

A. Selling Assets to Purchase Tax-Exempt Investments

Because of the four-tier distribution of trust income, payout of tax-exempt income to any beneficiary(ies) is difficult to achieve.

Therefore, if appreciated assets are transferred to a trust, then sold and replaced with tax-exempt assets, all historical ordinary and capital gains income would be distributed before any tax-exempt income could be distributed. Code Sec. 664(b)

If a donor wishes to receive tax-exempt income from a trust, the donor should fund the trust at the outset with tax-exempt assets, such as municipal bonds. Such a funding will not affect the trust's tax exemption as long as there is "no express or implied agreement that the trustee must invest or reinvest in such bonds." Reg. Sec. 1.664-1(a)(3) Ltr Rul. 7803041

XXIII. Funding a Trust with Closely Held Stock

A. The Mom-and-Pop Business

A closely held corporation is a family business that is incorporated with family members as shareholders. When the business reaches a stage in which it has substantial accumulated excess earnings, it is vulnerable to an accumulated earnings tax.

B. A Gift of Closely Held Stock

Donors in this case favor a charitable gift in order to obtain a current income tax charitable deduction. However, the corporation may elect to purchase the shares from the trust at fair market value, giving the family an opportunity to regain 100 percent control of its shares.

The purchase by the corporation has reduced accumulated earnings and helped reduce the risk of an accumulated earnings tax. The offer to purchase the shares must be at fair market value, and must be made to all shareholders as well as to the trust. Code Sec. 4941(d)(2)(F) Reg. Sec. 53.4941(d)-3(d) Ltr. Rul. 9015055

The donor receives a tax deduction, and because the corporation made the purchase offer, it, in essence, has paid for the charitable contribution.

C. Fair Market Value

To ensure that fair market value is offered for the shares, the person making the valuation must be competent to make the valuation and not in a position to profit from the valuation and he must use a generally accepted method for valuing comparable property. Reg. Sec. 53.4941(e)-1(b)(2)(iii)

D. Self-Dealing

While the rules of a trust make it clear that the donor cannot tell the trustee how to manage the fund, it is in the best interest of the trustee to sell the stock back to the family corporation because such stock rarely pays dividends. The IRS has agreed that as long as there is no written agreement between the contributor and the charitable organization compelling the organization to sell the stock back, the gift avoids self-dealing prohibitions and qualifies for the charitable tax deduction. Rev. Rul. 78-197 Ltr. Rul. 8623007 Ltr. Rul. 8647001 Ltr. Rul. 8639046

E. Prohibitions

The closely held stock of an S corporation or Section 306 stock cannot be used to fund a unitrust. The unitrust does not meet the requirements of a Qualified Subchapter S Trust (QSST) and the QSST cannot meet the requirements for a charitable remainder trust. Code Sec. 1361(d) Code Sec. 644

XXIV. Encumbered Property

In general, it is best to fund a charitable remainder trust with property on which no debt is owed. In the real world, however, this is frequently impossible. The war over the deductibility of encumbered property may not be over, but following is a description of the battle so far.

A. History

Before 1990, a gift of mortgaged property could be made to a trust if the debt was older than five years; if the current owner had held it for longer than five years; and if the charity did not assume the mortgage. Ltr. Rul. 8931023

In 1990, the IRS disqualified a charitable remainder unitrust because it was funded with mortgaged property. The ruling reverses the earlier decision that allowed a unitrust to be funded with debt-encumbered property. The basis for the latest ruling is Reg. 1.677(a)-1(d), which treats the grantor as the owner of a trust whose income is or may be applied to discharge a debt of the grantor. Ltr. Rul. 9015049

B. Other Considerations

Using mortgaged property to fund a charitable remainder trust can trigger other problems as well, including a capital gain for the donor, unrelated business taxable income (since the unitrust holds debt-financed property), and self-dealing. Code Sec. 4941 Reg. Sec. 1.1011-2(a)(3) Reg. Sec. 1.642(c)-5 Ltr. Rul. 7908016 Reg. Sec. 53.4941(d)-1(a) Ltr. Rul. 7807041 Code Sec. 514(c)

C. Possible Solutions

1. Donor pays off property prior to contribution, especially if the value of the property is large in proportion to the debt.
2. Donor gives undivided interest to charity. The donor could transfer a deed of an undivided interest in the property to the charity, retaining a portion of the real estate. The donor then asks the mortgagor to accept the retained portion of the property as the security interest. The grantor and the charity hold a joint sale of the property. At closing, the charity's portion of the sale is a charitable deduction. The grantor's portion of the sale is reported as a taxable gain. However, that gain could be offset by the charitable deduction.
3. Donor obtains a "bridge" loan. The donor uses other secured property to obtain a "bridge" loan which is then used to pay off the mortgage. The owner transfers a portion of the charitable gift property to the charity, retaining another portion. When it is sold, the portion owned by the trust becomes a charitable deduction. The portion owned by the donor is used to pay off the recent mortgage.
4. Donor sells undivided interest to charitable organization. The charity can purchase an undivided interest of a portion of a property. The donor uses those funds to pay off any debt and transfers the remainder of the property into the trust.

A PRIMER ON GIFT ANNUITY AND POOLED INCOME FUNDS

Elizabeth A.S. Brown, Esq.
Moody Bible Institute

Clinton Schroeder, Esq.
Gray, Plant, Mooty, Mooty and Bennett

I. Charitable Gift Annuity

A. A contractual arrangement between a donor and a charitable instutuion whereby the donor makes a gift to the charity, and the charity agrees to pay a specified income to the donor for life.

B. Rates
   1. Determined by rate tables provided by Committee on Gift Annuities.
   2 Rates are dependent upon the age of the annuitant. An older annuitant will receive a higher payout.
   3. Once the annuity is established, the payout is fixed and will not change. The payout does not depend upon what the charity earns by investing the gift. There is no opportunity for growth to keep up with inflation.

C. Types of annuity arrangements
   1. Single life
   2. Two-life (joint or successive interests are possible)
   3. Deferred - payout begins at a specified later date, e.g., at age 65.
   4. Donor need not be the beneficiary. But watch gift tax consequences.

D. Tax implications of gift annuity
   1. Charitable income tax deduction is available for annuity established during lifetime.
      a. The amount of the deduction is calculated by first determining the value of the life beneficiary's interest, and subtracting from the total donated principal amount to determine the value of the charity's remainder interest.
      b. The life beneficiary's interest is called the "actuarial value". It is determined by multiplying the annuity payments by the expected life of the annuity, and discounting back to present value. See Rev. Rul. 84-162, Reg. §§ 25.2512; 20.2031-7.
      c. The expected life of the annuity is based upon the life expectancy of the beneficiary or beneficiaries.
   2. Taxation of annual payments received by the beneficiary.
      a. A portion of each payment is taxable ordinary income, and a portion is an excludable return of principal.
      b. The excludable portion is determined by multiplying the payment by a fraction, whose numerator is the actuarial

value of the annuity, (also called "investment in the contract") and the denominator of which is the total amount of payments expected to be received under the annuity (i.e., the annual payment multiplied by the expected life).

   c. For annuities with a start date after 1986, the total exclusion over the life of the annuity will equal the actuarial value. If the annuity is still in existence after the expected life of the annuity (i.e., if the annuitant outlives his life expectancy), the remaining payments will be fully taxable. If the annuity terminates early, the annuitant will be entitled to a deduction on his final return for the unused portion of the actuarial value.

3. Property contributions
   a. Capital gain is partially avoided when appreciated property is given for an annuity.
   b. Transaction is treated as a bargain sale. Donor is treated as having sold the portion of the property which is equal to the actuarial value, and as having given the balance.
   c. Taxable capital gain is reportable ratably over the expected life of the annuity, provided the donor is one of the beneficiaries. Capital gain reported in any one year will not exceed the excludable portion of the payments received.
   d. If beneficiary is not the donor, all of the capital gain is reported in the year of the gift.
4. Estate tax deduction is available for annuities established testamentarily. Calculation is the same as set forth above for income tax purposes.
5. Gift tax consequences may result where someone other than the donor is a beneficiary.
   a. If annuity calls for payments to begin immediately to another beneficiary, there is a potentially taxable gift, but $10,000 annual exclusion would apply.
   b. If annuity calls for a successor beneficiary after donor's death, a taxable gift has been made which is not eligible for the $10,000 exclusion because it is not a present interest. However, this problem can be avoided if donor retains the right to revoke the successor interest by will. Then no completed gift has been made, and gift tax does not apply.
   c. If life interest is established for spouse, marital deduction should apply.
6. A gift is made to charity whenever an annuity is established. This gift is not taxable because it is subject to the charitable gift

tax deduction. However, a gift tax return should be filed whenever the gift (not the face value) exceeds $10,000.

E. Management of the Gift Annuity Program
   1. Not necessary to invest each annuity separately. Gift annuity does not create a trust arrangement.
   2. May commingle with charity's endowment or other funds. However, better practice is to maintain separate annuity fund.
   3. Charity may want to reinsure some or all of its annuities. However, some states may prohibit this.
   4. Tax reporting.
      a. Although not legally required, it's good practice to compute the charitable deduction and send information to the donor regarding reporting his gift for tax purposes.
      b. Annually, send form 1099-R to each annuitant reporting taxable and excludable portions of annuity payments.
      c. For annuities issued after 1986, keep track of life expectancy, so includable/excludable portion can be changed if donor outlives life expectancy. Not clear what reporting is required or what form to use if donor dies before life expectancy. However, it would be good practice to report the availability of the deduction to the person filing the decedent's final return.
      d. For property contribution, over $500, donor will need Form 8283. Appraisal will be required if gift is over $5,000, other than publicly traded stock. With appraisal type gifts, Form 8282 will be required if property sold within two years.
   5. Marketing gift annuities
      a. For older annuitants, much better rate of return than traditional safe investments
      b. Deferred annuity may be alternative to IRA for those who cannot claim IRA deduction. Also, deferred annuity can be used to set aside additional retirement savings for high paid professionals.

II. Pooled Income Fund

A. The closest analogy to the pooled income fund is a mutual fund.
   1. Donors to the fund acquire "units" of participation in the fund.
   2. The number of units acquired depends upon the unit value of the fund at the time of the acquisition.
   3. The value of the unit fluctuates depending upon market conditions and the investment performance of the fund.
   4. The income distributed to the beneficiaries depends upon the income earned in the fund. In fact, all of the income is distributed

to beneficiaries each year, and it is distributed proportionately based upon the number of units each beneficiary holds.

B. The Pooled Income Fund is unlike a mutual fund in that:
   1. Units cannot be sold or withdrawn.
   2. When the beneficiary dies, the value of his units is distributed to charity.

C. Tax aspects of the Pooled Income Fund
   1. A charitable income tax or estate tax deduction is available for contributions to the fund. The amount of the deduction depends upon:
      a. The age of the beneficiary
      b. The historic rate of return of the fund. This is the highest rate of return, calculated according to IRS regulations, of the fund for the previous three years. For a new fund, the rate is 9.8%.
   2. All of the income received by the beneficiaries is taxable. The fund may not invest in tax exempt securities.
   3. Appreciated property may be contributed to a Pooled Income Fund. Capital gains tax is completely avoided.
   4. There may be gift tax consequences if another beneficiary is named.
   5. The pooled fund is not tax-exempt, but is entitled to deduct distributions paid out and long term capital gains set aside for charitable purposes.

D. Tax Reporting
   1. Calculate amount of the deduction and send information to the donor.
   2. For property contribution over $500, Form 8283 is required.
      a. Usually, appraisal type property would not be contributed to a pooled income fund.
      b. Depreciation reserve is required if fund allowed to hold depreciable property.
   3. Annually, the following returns must be filed:
      a. Form 1041
      b. Form 1041-A
      c. Form 5227
      d. Form 1041-K1 to each beneficiary. The income reported on the 1041-K1s should add up to the income earned in the fund.

E. Management and Investment
   1. Legally, pooled income fund is a trust.
   2. The trustee must be the charity or someone that is controlled by the charity. Bank can be named by charity to act as Trustee.

3. Fund may be invested jointly with other properties of the charity, for example, with endowment funds.
4. May want to have separate funds with different investment strategies.

III. Comparison of Life Income Plans

A. Gift annuity v. pooled income fund.
   1. Gift annuity provides a higher return to older beneficiaries.
   2. Pooled income fund provides growth, and is generally better for younger beneficiaries.
   3. Annuity payout is fixed; pooled income fund varies.
   4. Annuity payments are partly taxable, partly excludable; pooled fund distributions are fully taxable.
   5. Gift annuity is a general obligation of the charity; pooled income fund is a trust. Thus, donor may have more legal protection against the charity's general creditors as a pooled fund beneficiary. The converse of this is that the pooled fund beneficiary will bear the brunt of poor investment performance; the annuitant will not.

B. Comparison to other life income plans.
   1. Charitable remainder trust
      a. Separately managed trust - requires substantial investment.
      b. Possibility for growth in a charitable remainder unitrust - similar to pooled fund in this regard.
      c. Charitable remainder annuity trust does not provide growth to the income beneficiary - similar to gift annuity in this regard. However, annuity trust could conceivably run dry; gift annuity obligation continues even if the charity is losing money.
      d. Annual income from charitable remainder trust is often fully taxable, although it can be set up to pay tax-free income.
      e. Sophisticated investment strategies can be used for specific purposes, such as planning for retirement income.
      f. A testamentary term of years trust can provide for multiple income beneficiaries and contingent income beneficiaries. Annuity or pooled income fund typically provide for one or two beneficiaries.
   2. Revocable trust
      a. Provides maximum flexibility. Can be changed at any time during donor's life.
      b. No charitable deduction is available when trust is established.
      c. Because of its revocability and flexibility, the revocable

trust can be used to manage all of the donor's assets, whereas a donor will seldom place all assets under an irrevocable agreement. Thus, consider the use of revocable trust along with the irrevocable arrangements in order to provide management of assets, avoid probate, and care for possibility of incompetence.

ADVANCED POOLED INCOME FUND

Lynda Moerschbaecher, Esq.
Moerschbaecher & Dryburgh

Debra Ashton
Boston College

CASE STUDIES

Case #1—Return of Pooled Income Fund Gifts

A nonprofit organization ran a campaign and solicited contributions to build a new dormitory and clearly defined that goal in its case statement. Individuals contributed to the campaign between 1981 and 1986, including making contributions to the institution's pooled income fund. Shortly after the completion of the campaign, the trustees found that the specific purpose of the campaign could no longer be carried out and began to use the money to refurbish the athletic facilities. A group of donors tried to bring a class action lawsuit against the organization and demanded a return of their campaign gifts. In 1988 several donors requested the return of their pooled income fund gifts.

1. What is the process through which the donors may recover the gift?

   The institution cannot take money out of the pooled income fund on its own to repay donors. This would disqualify the fund for tax purposes as it is operated under strict statutory rules and IRS rules and regulations. In order to return the gift, the institution must ask the donor to send a letter to the Trustee relinquishing his or her income interest. (Please note that certain states may require a petition to a court to relinquish any income interest in a trust.) The Trustee will then sever the units of participation attributable to the gift and distribute the funds to the charity. The charity, in turn, issues a check to the donor. All of this is part of a pre-arranged plan to settle with the donors.

2. What is the income tax ramification of the returned gift?

   The amount of income tax charitable deduction claimed at the time of the gift is reportable as taxable income in the year the gift is returned. If the donor claimed an income tax deduction when he or she was in a 50% bracket, but received the gift back from the charity in 1988 when he or she was in the 28% bracket, this may result in a benefit to the donor. The tax deduction received in the prior year saved more taxes than the return gift generated in 1988.

3. What amount is returned to the donor?

   The amount returned is the fair market value of the units attributable to the gift computed as of the date the income interest is relinquished.

4. What happens if the amount returned to the donor is greater than the amount contributed?
   The appreciation in the units is likely treated as gain, since this transaction is essentially a sale of the income interest to the charity and the value exceeds the basis.
5. What happens if the amount returned to the donor is less than the amount contributed?
   In the same vein, receiving less would result in loss which would be characterized as a capital loss. Capital losses are deductible up to $3,000 per year with carryforwards for unused losses until the whole loss is used up.
6. Is there any difference if the gift were made with cash or appreciated securities?
   With cash, the basis is the same as the value, but with appreciated securities, the basis may be considerably less. Because the income interest in the trust (which is deemed to be an item of property) has a carryover basis from the donor, the lower basis of the appreciated securities gift will cause a lower basis in the income interest and, therefore, more gain to be realized upon return.
7. If the donor named a second beneficiary, what considerations arise when the gift is returned?
   If the right to revoke had been included, no gift to the beneficiary had been made and thus there is no effect on the second beneficiary. If the gift was completed, then the second beneficiary owns something of value in the trust. This can be calculated and at the time the gift is returned, this belongs to the second beneficiary. However, if the donor received the money back, the second beneficiary "made a gift" to the donor.
8. If a beneficiary (not the donor) relinquishes his or her income interest, will the beneficiary be entitled to an income tax deduction?
   If the beneficiary actually owned some value in the trust (the gift was complete, not subject to revocation), when the beneficiary relinquished the interest, he or she made a gift to the charity of that value. However, if the beneficiary also receives money back from the charity in the same year, any deduction taken would be a wash when the income was included in the person's tax return.

Case #2—Merger of Pooled Income Funds

An older pooled income fund ("PIF") that has a private letter ruling on its qualification has only one donor. The fundraising staff and the accounting staff all agree that to maintain this fund for one donor is somewhat of a nuisance. In addition, the charity started a new PIF a few years ago that the organization has been using more actively and it has several donors participating. The organization is considering merging the two funds in order to terminate the one-donor fund and its carrying costs. It has discovered that other funds have merged, but generally they have obtained a private letter ruling stating that the qualification of neither fund is affected by the merger and the merged fund continues to qualify. Knowing that a private letter ruling is quite expensive, the organization is willing to consider alternatives to a merger.

1. What alternatives can you suggest?

   The donor could gift the income interest to the charity. Or he or she could sell the interest to the charity. See above case.

2. Assuming that none of the alternatives are acceptable for some reason, what factors must be addressed in working out a merger between two PIFs?

   The factors to consider include at least the difference in unit values, investment goals, reporting of income, short- and long-term gains in the fund, the payment schedules, the severance rules, the valuation dates and all other areas where the two funds might differ. Then a plan to even out the differences must be established, if possible. See Private Letter Ruling 9203010 for a merger of three pooled income funds, where the units to be assigned in the surviving fund will be calculated by dividing the FMV of the beneficiary's units in funds 2 and 3 by the fair market value of a unit in fund 1 on the date the funds are combined. Then, after the funds are combined, the rate of return must be adjusted by dividing the income earned by the funds in the aggregate by an amount equal to (i) the average fair market value for such year of the property in both funds less (ii) the corrective term adjustment for the funds. At least that is what one private letter ruling states to do.

   Once the staff agreed to look into a merger, the planned giving officer (PGO) called the institution's counsel, who asked to see a copy of the PIF document and the ruling letter. After looking for quite some time, and even calling a prior bank trustee, they could only find a copy of a copy of a copy of the trust. The trust was signed in 1979 and, in fact, it was amended twice since then.

No one could find a copy of the original ruling letter or ruling letters approving the amendments. The PIF trust document had a provision that no amendment was effective without IRS approval. Nevertheless, the staff knew that it was being operated in accordance with the last amendment.

3. Is this fund qualified?
   Probably not. At least for state law purposes, it has not been operated in accordance with the terms of the trust instrument.
4. Should it be merged into a fund that is known to be qualified and without any of these problems?
   Before merging the potentially bad fund into the good one, it should be determined whether the bad fund is truly not qualified. If the records are in such bad shape that one cannot tell, then perhaps it is not wise to merge the two funds. The bad fund may very well taint the good one upon merger.
5. Should this organization obtain a ruling on the proposed merger after all? What if the IRS finds out in the course of the ruling request that the old fund was amended without getting the necessary IRS approval and was operated in accordance with the amendment anyway? Perhaps the organization should merge it without a ruling?
   Obtaining a ruling before merging the funds would be a good idea, however, keep in mind that the IRS may find that the old fund is indeed not qualified and, therefore, it may lose its tax benefits retroactively. Just what you need with the state of the old fund as it already stands! Merging it without a ruling could be disaster, too. Do you want to play tax audit Russian Roulette with your donor???

Case #3—The Remainderman Lending to Itself

A charity planned to create a pooled income fund, but needed to use the donated funds long before the remainders matured. So, it decided to try to borrow against the pooled income fund once contributions had been made to it. The charity also plans to act as trustee of its own pooled income fund.

1. Can the charity borrow the assets and give a note to the pooled income fund?
   At least one private letter ruling has permitted this transaction (PLR 9101018). The remainderman is basically exchanging one set of assets (those in the fund) for another asset (its note or notes). If the value is equal, it is apparently permissible.
2. What if the trust document specifically states that the remainderman may do so? Does this avoid any problems?

For state law purposes of conflict of interest and self-dealing, it would be necessary to include the provision that the charity may borrow the assets and replace them with its own note. For SEC purposes, you may want to disclose that in the disclosure statement.

3. What if the donor's gift agreement also specifically states that the remainderman can do this, does that help?

   The gift agreement in the ruling above in fact included the statement that such a loan may be made both in the trust agreement and the donor's gift agreement. Although the IRS did not make it a requirement of the ruling, the ruling is based on those facts.

   The charity plans to pay a fair market rate of interest on the note. It also plans to make these notes unsecured.

4. What is the value of the fund's assets if the assets are notes from the remainderman? Does the fund's asset value matter if the donors are receiving a fair amount of income?

   Obviously, the value of the fund may be quite different if it holds a note rather than a diversified portfolio. The interest rate on the note as compared to the prevailing rates in the marketplace will determine the PIF's value. With the same note over several years, that value will shift solely because of the climate in the interest rate market. Value is not only important for the donor's psychology, it is critical to determining the fund's rate of return (income earned for the taxable year divided by the average FMV for the year less the corrective term adjustment). Of course, the donors to the fund base their deductions on the rate of return.

5. Does it make any difference if the notes are to be paid off by amortizing the principal and paying interest versus an interest-only, balloon payment-at-end note? Or how the interest rate is determined?

   The repayment schedule will make a difference to the fund only if it is deemed to cause a difference in value. Also, consider the difference between a note with a fixed interest rate and a variable rate pegged to current market rate.

ADVANCED UNITRUST AND ANNUITY TRUST

Marc Carmichael, Esq.
R&R Newkirk Company

I. Mortgaged Real Estate in a Charitable Remainder Trust

Here is a nominee for the ideal tax-planned charitable gift: funding a charitable remainder unitrust with highly appreciated "raw land" that produces no income but costs the owner dearly in real estate taxes, insurance and maintenance.

The trustee can sell the property and reinvest for high income — without any loss from capital gains taxes. The donor trades a "money pit" for a cash cow and gets a charitable deduction for charity's remainder interest, to boot.

Only one problem — a big one: the raw land is mortgaged.

Careful planning is required if an individual wishes to transfer mortgaged property to a charitable remainder trust. Tax results may be poor when debt-encumbered property is used to fund an annuity trust or a unitrust and, in certain cases, the trust may even be disqualified.

Having said that, it must be pointed out that a substantial amount of the real estate in the United States is mortgaged, so gift planners should explore avenues to make mortgaged property "work" in a charitable remainder.

A. Hurdle #1: Acquisition indebtedness

Until 1990, the problem most associated with placing mortgaged property in a CRT was the risk that the trust would have debt-financed income, a form of unrelated business income. The presence of debt-financed income causes the trust to lose its tax-exempt status for the taxable year — and any sale of the property by the trustee may result in capital gains tax for the trust. The debt-financed income problem can be avoided for a period of 10 years following receipt of the property by the trust:

1. in all cases involving a testamentary transfer, and
2. in the case of a lifetime transfer, but only if the mortgage was placed on the property more than five years, and the property was held by the donor for more than five years, before the date of the gift [Reg. Sec. 1.514(c)-1(b)(3)].

Assuming the "five and five" requirements are met, the trust can sell the property within 10 years and avoid debt-financed income. Any gain realized upon such a sale would not be considered debt-financed income and would not be taxable to the trust; of course, the gain would be "trapped" by the trust and might be fully or partially distributed to the beneficiaries under the four-tier system of allocating income and corpus to annuity and unitrust distributions [See Reg. Sec. 1.664-1(d)(1)].

Mini-hurdle. "Self-dealing" may also be a problem if mortgaged property is transferred to a unitrust as an additional contribution. Reg. Sec. 53.494(d)-1(a) provides that "self dealing: does not include a transaction between a CRT and a disqualified person where the disqualified person status arises only as a result of the transaction (See Ltr. Rul. 7807041). In other words, the donor is not a disqualified person before she funds the CRT with mortgaged property; with an additional contribution to a unitrust, however, the donor has pre-existing disqualified person status.

Even if the problems of debt-financed income and self dealing are avoided, the trust must not assume the mortgage and the trustee must not be required to make any payments in respect of the mortgage debt or interest on the debt.

B. Hurdle #2: Disqualification - donor treated as owner of trust under grantor trust rules

Landmark private letter ruling. A donor transferred mortgaged real estate to a unitrust but remained personally liable on the mortgage; the trust was to make future mortgage payments. The IRS disqualified the unitrust, ruling that the donor would be treated as the owner of the trust under Code Sec. 677 because trust income would be used to discharge his legal obligations (Ltr Rul. 9015049, 1-16-90).

Should donors who are personally liable on the real estate forget about putting mortgaged property into a charitable remainder trust? It's clear that donors might be wise to contribute unencumbered assets, instead, or find some way to "finesse" the mortgage problem. Here are ideas:

1. Sell an undivided portion of the real property to the charitable remainderman, sufficient to let the donor pay off the mortgage. The donor then pays off the mortgage and transfers the remaining undivided interest to the charitable remainder trust. The trustee and the remainderman later join to sell the property to a third party, allowing the charity to recover its purchase price. Note: Contributions of undivided interests in property have been given a discounted value by the IRS, on the theory that ownership rights are diminished under co-tenancy.

2. Persuade the mortgage lender to accept other collateral for the outstanding debt. The donor then transfers the real property, unencumbered, to the charitable remainder trust.
3. The donor might pay off the mortgage if it is insubstantial, perhaps by selling assets in which he has a capital loss.

Commentators have suggested other ways to deal with mortgaged property in a charitable remainder trust where the donor remains personally liable.

4. INDEMNITY CONTRACT. One suggestion is that the donor sign an agreement promising to indemnify the trustee of the charitable remainder trust against any liability under the mortgage. The reasoning is that the trustee, by contract, will never be required to use trust assets to discharge the legal obligation of the donor.

   A variation on this plan is for the donor to transfer an undivided interest in the property to the trust and keep a portion sufficient to pay off the mortgage when the property is sold. Gifts of undivided interests to charitable remainder trusts were brought into question by Ltr. Rul. 9114025 as constituting self-dealing; however, one commentator suggests that the self-dealing problems can be overcome through a co-tenancy agreement that segregates the trust portion, establishes a decision-making procedure and indemnifies the trustee against mortgage liability.
5. PARTNERSHIP ARRANGEMENT. A husband and wife avoided the self-dealing aspects of transferring an undivided interest in business property to a unitrust by first transforming the property into a partnership arrangement. They transferred limited partnership shares to the unitrust which, the IRS ruled, overcame any self-dealing problems of disqualified persons owning property jointly with a charitable remainder trust (Ltr. Rul. 9114025; see later discussion in these materials).
6. CHARITABLE OPTION. Other commentators have proposed that the donor create an option to purchase the encumbered property at a certain price and a certain time and transfer the option, not the property, to the charitable remainder trust. The trust becomes funded when a third-party buyer purchases the option from the trustee. The donor receives funds from the buyer when the buyer exercises the option and buys the property. Presumably, the donor uses sale proceeds to pay off the mortgage.

Grantor May Not Be Liable. Grantors of charitable remainder trusts are not always personally liable on mortgage debt. That is, the mortgage lender may have recourse only against the real estate itself and not the grantor's personal assets. So the first question to ask is: Does the donor/grantor have personal liability under the mortgage that extends beyond the encumbered real estate? If not, then it may be appropriate to transfer the mortgaged property to the charitable remainder trust if the five-year holding periods have been satisfied.

Many states provide protection to homeowners in the form of "anti-deficiency" statutes. These depression-era laws basically prevent mortgage lenders from taking judgments against the personal assets of a homeowner who defaults on a loan. Only the real estate itself can be attached, and in such circumstances a mortgaged home could probably be transferred to a charitable remainder trust without running afoul of Ltr. Rul. 9015049. Other types of obligations may be covered as well, such as purchase money debt, including notes secured by a deed of trust or mortgage. Gift planners obviously must check local law to determine if their donors are covered.

Owners of mortgaged real estate sometimes escape personal liability if they have a "non-recourse" loan — a somewhat unusual clause in the agreement that says the lender cannot attach the borrower's personal assets, only the property that secures the loan.

Bargain sale results. Transferring mortgaged property to a charitable remainder trust also may cause the donor to recognize capital gain under the bargain sale rules. The Regulations are clear that a transfer of mortgaged property to a pooled income fund is a bargain sale [Reg. Sec. 1.642(c)-5(a)(3)] and presumably the same rule applies with respect to charitable remainder trusts.

A bargain sale is a sale of property to charity for less than its fair market value. For income tax purposes, a bargain sale is treated as part gift and part sale. A contribution of mortgaged property is treated as a bargain sale because the mortgage debt is treated as an amount realized by the donor.

The gift portion: When an individual makes a bargain sale, she is deemed to make a contribution equal to (FMV-AR), where AR is the "amount realized" by her and FMV is the fair market value of the property in question. In the case of a charitable remainder trust, the reduced gift amount is then multiplied by the remainder interest factor to arrive at the contribution.

The sale portion: A gift of mortgaged property to charity always produces some gain (assuming the property is appreciated). The gain realized by the donor, "G", is equal to

AR - (B x AR÷FMV) where

"B" is the basis of the property.

What happens, in effect, is that the donor's basis is pro-rated between the gift portion and the sale (debt) portion. Put differently, the capital gain is prorated according to what percentage of the transfer is treated as a charitable contribution.

EXAMPLE: Joe transfers real property worth $200,000, with a cost basis of $120,000, to a CRT. The property is subject to a $100,000 mortgage. The remainder interest factor for Joe's age, a 6% payout rate and an 8.0% AFR is .42000.

Gift = FMV - AR x .42000

Gift = $200,000 - 100,000 x .42000 = $42,000

Gain = AR - (B x AR÷FMV)

Gain = $100,000 - ($120,000 x $100,000÷$200,000)

Gain = $100,000 - $60,000

Gain = $40,000

II. Gifts of undivided interests to charitable remainder trusts

IRS private letter rulings have been a source of unpleasant surprises for charitable remainder trust in the recent years. The latest "bad news ruling" brings into question the ability of donors to transfer undivided interests in property to charitable remainder trusts. The idea is to let donors carve up property interests so that the charitable gift needn't be an "all or nothing" arrangement.

Horace and Hilda each own an undivided 15% interest in a parcel of land on which a shopping center is located. The other 70% they own as community property. They wish to create charitable remainder trusts with a portion of their interests, but worry that placing an undivided interest in the land in trust while keeping the rest would run afoul of the self-dealing rules. (The were cautioned by the IRS that holding the shopping center as tenants in common with the charitable trustee would constitute self dealing).

Instead, they propose creating a limited partnership. Each would contribute his or her 15% undivided interest in exchange for a 15% limited partnership interest. The 70% community property interest would be exchanged for a 30 to 40% limited partnership interest and a 30 to 40% general partnership interest.

Once the partnership is created, each would contribute his or her 15% limited partnership interest to a charitable remainder trust. Together they would contribute their community property limited interest to a third trust, while keeping their general partnership interest. All three trusts will be administered by an independent trustee who would probably sell the trusts' interests in the limited partnership.

Does the fact that the donors, both disqualified persons under IRC Sec. 4946(a)(1)(A), retain a partnership interest in common with the trust, constitute self-dealing? Not according to the IRS.

Self-dealing is defined under Code Sec. 4941(d)(1)(E) as any direct or indirect transfer to, or use by or for the benefit of, a disqualified person of the income or assets of a private foundation (includes charitable remainder trusts). Clearly, if the trustee sold the partnership interests back to Horace and Hilda, it would constitute self-dealing under this definition. Reg. Sec. 53.4941(d)-2(f)(1) goes even further, saying that the purchase or sale of stock or securities is self-dealing if done to manipulate the price of the securities to a disqualified person's advantage.

There is an exception to the self-dealing rules where a disqualified person and a trust have a joint or common interest in the same property, but only if the interests of both were acquired prior to October 9, 1969 (IRC Sec. 101(1)(2)(E), Tax Reform Act of 1969). Although this exception doesn't fit Horace's and Hilda's situation, the IRS said the holding and use of separate interests in a limited partnership is not the use of jointly owned property.

The IRS also ruled that the sale of the partnership interest by the trustee would only be considered self-dealing if it is "use by or for the benefit of" Horace or Hilda. That won't happen provided the trustee's sale of the partnership interests is done independently of the couple, said the IRS (Ltr. Rul. 9114025, 1-7-91).

The bad news in this ruling is that, according to the IRS, gifts of undivided interests to charitable remainder trusts, where the donor retains an interest, now seem automatically to be self-dealing — unless the donor takes steps to "sanitize" the transaction. Several cleansing techniques have been suggested by commentators:

A. Transferring an option to purchase an undivided interest in the property to the charitable remainder trust. The trust is funded when an outside buyer surfaces and pays the trustee for the option.
B. Transforming property that is solely owned into a partnership, as was accomplished in the above ruling, and then transferring a partnership interest to the trust.

C. Transferring an undivided interest subject to a written co-tenancy agreement between the donor and an independent trustee that establishes a mechanism for decision making — most likely stating that the trustee makes all decisions with respect to the joint property and excluding personal use of the retained property by the donor.

III. Gifts by Corporations

A. "C" (regular corporations)

Corporations can be grantors and/or beneficiaries of charitable remainder trusts.

Example. Corporation owns undeveloped land worth $150,000 with $30,000 basis. Corporation can transfer property to charitable remainder annuity trust paying 8% annuity for 20 years. Corporation deducts $47,837 (10% A.F.R.). Trust sells property, avoids capital gain tax, and reinvests in preferred stock from domestic corporation paying 8% annual dividends. Corporation goes from zero income on real estate to $12,000 a year. Trust income received by corporation should qualify for a dividends received deduction (IRC Sec. 243). Charity receives trust assets in 20 years.

B. Gifts by "S" Corporations

"S" corporations differ from "C" corporation only in their treatment for tax purposes. Simply put, S corporations are a hybrid business organization in which profits are taxed only once — directly to the shareholders in proportion to their ownership interest, similar to a partnership or proprietorship (IRC Secs. 1361-1379).

Deductions pass through to the shareholders for tax purposes, along with the profits, including charitable deductions, which are deductible up to the donors' basis in their stock [IRC Sec. 1366(d)(1)]. Deductions are subject to the 50%/30% contribution ceilings that apply to individuals [IRC Sec. 170 (b)(1)].

S corporations can be grantors of charitable remainder trusts that benefit the corporation (term-of-years trusts only) or a shareholder (for life or a term of years). See "Charitable Remainder Trusts Funded with S Corporation Assets" by David Wheeler Newman, The Exempt Organization Tax Review, Vol. 4, No. 10, December 1991, page 1320. Charity's remainder interest is deductible by the shareholder up to his basis. If the shareholder is the beneficiary, the present value of the income interest is a taxable distribution to the shareholder.

C. Shareholders of closely-held "C" corporation

A donor/shareholder transfers stock worth $10,000 as an additional contribution to a 7% net income unitrust she established a few years ago. Donor avoids capital gain on the transfer, deducts the remainder interest in the stock and receives 7% income for life. Same technique may work with a pooled income fund if PIF will accept closely held stock. Caveat: Unless stock produces dividends (an unusual situation) the PIF will be under such pressure to cash in the stock that the IRS might claim that redemption was, as practical matter, a condition of the gift — potential dividend problems under Rev. Rul. 78-197.

Self-dealing seems to be a problem, because the trustee will be "doing business" with the donor's corporation when the stock is redeemed (the donor is a disqualified person). But self-dealing can be avoided if fair market value is paid for the stock and the corporation offers to redeem all other stock in the donor's corporation at the same price offered to the trustee [Reg. Sec. 53.4941(d)-3(d)(1)].

D. Shareholders of "S" corporations

Transferring stock in an "S" corporation to a charitable remainder trust will disqualify the corporation from "S" status. It has been suggested that the trust can be funded with a purchase option to acquire S stock that is later sold to a qualified shareholder.

IV. Gift and Estate Tax Aspects of Charitable Remainder Trusts

Gift taxes or estate taxes must be considered whenever a donor establishes a CRT and names a person other than herself as an income beneficiary.

A. Lifetime trusts. The donor makes two gifts: a gift to charity of a remainder interest that qualifies for the gift tax charitable deduction (IRC Sec. 2522) and a private gift equal to the present value of the beneficiary's income interest that is taxable but may qualify for the $10,000 annual gift tax exclusion or the gift tax marital deduction.

1. Annual exclusion. IRC Sec. 2503(b) permits a $10,000 exclusion from gift tax for gifts of present interests. Beneficiary must start receiving trust income currently (no exclusion for survivor beneficiaries). Married couples can boost exclusion to $20,000 by "splitting" gift.
2. Marital deduction. Gifts to a spouse in a one-life or two-life CRT (where both spouses are beneficiaries) qualify for the gift tax marital deduction under IRS 2056 (b)(8). No marital deduc-

tion for term-of-years trusts or for divorced spouses (include qualified contingency in trust?).

3. Right-to-revoke by will. Grantors can reserve a right to revoke the interest of a beneficiary by will. Reserving such a right will render gift of an income interest to a survivor beneficiary incomplete for gift tax purposes, so no taxable transfer occurs until grantor dies. However, gift does not qualify for the $10,000 exclusion and value of trust is included in grantor's estate at date-of-death value (subject to an estate tax charitable deduction). Right to revoke is permitted with a term-of-years trust; questionable for a one-life trust unless IRS treats revocation as a "qualified contingency" [IRC Sec. 664(f)].

B. Estate tax results

Donors who establish one-life trusts for themselves escape taxes on the value of the CRT under the 100% estate tax charitable deduction. Two-life trusts, where a spouse is the survivor beneficiary, qualify for the 100% estate tax marital deduction under IRS Sec. 2056(b)(8).

Donors who establish testamentary trusts for a non-spouse, or who have a non-spouse as a survivor beneficiary of their lifetime CRT, will have the trust assets included in their gross estates, subject to an estate tax charitable deduction for the date-of-death value of charity's remainder interest (IRS Sec. 2055).

A. QTIP trust that empties into CRT for other beneficiaries

A 1991 private letter ruling confirms what makes sense logically: A spouse can bequeath property to a qualified terminable income property (QTIP) trust that pays the surviving spouse income for life, then empties into a charitable remainder trust for children (Ltr. Rul. 9122029, 2-28-91). The QTIP trust was not a charitable remainder trust.

The estate of the first spouse to die qualifies for the marital deduction for property bequeathed to the QTIP trust, assuming the executor makes a timely QTIP election [IRC Sec. 2056(b)(7)]. The surviving spouse's gross estate will include the value of the assets passing to the charitable remainder trust — but the estate will qualify for a charitable deduction equal to charity's remainder interest [IRC Sec. 2055(e)(2)(A)].

Why not just make the children survivor beneficiaries of a qualified charitable remainder trust for the spouse? Under IRC Sec. 2056(b)(8), the interest of the spouse will not qualify for any estate tax charitable deduction at her death because she is not the sole non-charitable beneficiary.

B. Ruling from the grave with a contingency charitable remainder trust

IRC Sec. 664(f)(2) was an interesting piece of legislation:

"(f) CERTAIN CONTINGENCIES PERMITTED.—

1. GENERAL RULE.—If a trust would, but for a qualified contingency, meet the requirements of paragraph (1)(A) or (2)(A) of subsection Id), such trust shall be treated as meeting such requirements.
2. VALUE DETERMINED WITHOUT REGARD TO QUALIFIED CONTINGENCY.—For purposes of determining the amount of any charitable contribution (or the actuarial value of any interest), a qualified contingency shall not be taken into account.
3. QUALIFIED CONTINGENCY.—For purposes of this subsection, the term "qualified contingency" means any provision of a trust which provides that, upon the happening of a contingency, the payments described in paragraph (1)(A) or (2)(A) of subsection (d) (as the case may be) will terminate not later than such payments would otherwise terminate under the trust."

Sec. 664(f)(2) was a creature of the Tax Reform Act of 1984. Prior to passage, a unitrust or annuity trust that directed the trustee to make payment to the grantor's widow for life, or until she remarried, would not have qualified, even though the tax deduction was based on payments for the widow's entire lifetime.

The old rules made no sense, as a matter of public policy, and the law now permits "qualified contingencies" to terminate CRT's early, so long as the trust can only end sooner than the specified trust term. Virtually anything could be a "qualified contingency" — remarriage and death of some other person are two examples cited by the joint committee on taxation that drafted Sec. 664(f). An endless array of contingencies are available, however, to a trust grantor who seeks to control future behavior of a beneficiary:

"2. Payment of the Annuity Amount. The trustee shall pay to John Doe (hereinafter referred to as "the Recipient") in each taxable year of the trust during the Recipient's life an annuity amount equal to five percent of the net fair market value of the assets of the Trust as of this date. However, the interest of the

Recipient shall terminate, under Code Sec. 664(f), upon the happening of the following qualified contingency: election of the Recipient to the Senate or House of Representatives of the United States. Upon the first to occur of (i) the death of the Recipient or (ii) the occurrence of the foregoing qualified contingency, the trustee shall distribute all of the then principal and income of the trust, other than any amount due the recipient, to XYZ charity..."

Sec. 664(f) is a section gift planners can have some fun with, but it may provide practical, personal help to donors who want to influence actions of trust beneficiaries. But what about these other contingencies?

- "The board of trustees of XYZ Charity (the charitable remainderman) passes a resolution that a financial emergency exists at XYZ and thereupon calls for termination of the Trust."
- "The grantor revokes the income interest of the Recipient during the grantor's lifetime." See Rev. Rul. 72-395, Secs. 5 and 7, permitting the power to revoke, but only by will. Could we convince IRS that the "only by will" part of the ruling is now obsolete under IRC Sec. 664(f)? Lifetime revocation is permitted for charitable gift annuities [Reg. Sec. 1.1011-2(a)(4)(ii)]; why not for trusts?
- "The grantor revokes by will the income interest of the Recipient."

Why would it be important to identify revocation by will as a qualified contingency? Suppose a donor establishes a one-life CRT for her brother and reserves the right to revoke his income interest in her will. IRC Reg. Secs. 1.664-2(a)(5)(i) and 1.664-3(a)(5)(i) state that: "If an individual receives an amount for life, it must be solely for his life." Prior to passage of IRC Sec. 664(f), one commentator asked whether the IRS might disqualify a one-life CRT with a right-to-revoke-by-will clause because the term of the trust could be limited to the grantor's life, not that of the beneficiary. That objection weakens if revocation by will is identified as a qualified contingency. Indeed, one can argue that the "solely for his life" rule was made obsolete by IRC Sec. 664(f)—although charitable deductions must continue to be calculated "solely on his life."

As persuasive as we find the foregoing argument, donors would be wise to seek a private letter ruling (something we'd dearly love to see) on whether the right to revoke by will disqualifies a one-life trust or whether revocation is a qualified contingency.

Note: IRS has ruled privately that keeping the right to revoke by will is permissible in a trust established for one other person where the trust was a term of years trust (Ltr. Rul. 8949061, 12-8-89).

Why include the right to revoke by will in a one-life trust?

The hope is that the gift of an income interest to the private beneficiary will be rendered incomplete for federal gift tax purposes; if that is true, completed (taxable) gifts would occur only as annuity or unitrust amounts are actually paid [Reg. Sec. 25.2511-2(b)]. These amounts should qualify for the $10,000 annual gift tax exclusion. Upon the death of the donor, however, the entire value of the trust would be included in the donor's estate under IRC Sec. 2038. An estate tax charitable deduction will be allowed for the value of charity's remainder interest at death.

The IRS might take the position, however, that a completed gift has occurred calculated on the donor's life expectancy. The IRS did not take that approach, however, in the term-of-years-trust ruling.

Assuming the right-to-revoke-by-will clause works as hoped in the one-life CRT situation (avoiding a completed gift for tax purposes), donors might be better off to eschew that strategy and treat the transfer as a completed gift. Why?

If the beneficiary is younger than the donor, the likelihood is that the income interest will be taxed in the donor's estate — and that may be more costly from a transfer tax standpoint. Treating the gift as completed allows the donor to keep future appreciation on the trust out of her estate. Donors who have not used their $192,800 unified gift tax exclusion (which shelters $600,000 in lifetime gifts) should do so soon to guard against erosion of the credit from inflation and possible future reductions by Congress. Even if the donor has expended her credit, it's generally cheaper to pay gift taxes than estate taxes because estate taxes involve a "tax on a tax."

EXHIBIT 1

Donor Creates Lifetime Trust Paying Income to:	Taxable Gift?	$10,000 Gift Tax Exclusion?	Marital Deduction?	Included In Gross Estate?
1. Self for life	No	N/A	N/A	Yes, but 100% charitable deduction
2. Spouse for life	No	N/A	Yes	No
3. Self and spouse for life	No	N/A	Yes	Yes, but 100% marital deduction
4. Spouse and third person for life	Yes	Yes	No	No
5. Non-spouse for life, no right to revoke in will reserved	Yes	Yes	No	No
6. Self, then to non-spouse without right to revoke by will reserved	Yes	No (gift of future interest)	No	Yes, but charitable deduction for date of death remainder value
7. Self, then to non-spouse reserving right to revoke by will	No (gift incomplete)	N/A	No	Yes, but charitable deduction based on date of death remainder value
8. Self and non-spouse as joint and survivor beneficiaries, no right to revoke by will reserved	Yes	Yes	No	Yes, but charitable deduction based on age at donor's death
9. Non-spouse for life, reserving right to revoke by will (see discussion in above article on possible disqualification)	Probably as to annual payments, uncertain as to income interest	Yes, for annual payments	No	Yes, but charitable deduction based on age at donor's death
10. Non-spouse for term of years with right to revoke by will	Annual payments taxed	Yes, for annual payments	No	Yes, but charitable deduction based on remainder value at donor's death.
11. Non-spouse for term of years, no right to revoke In will	Yes, on value of income interest	Yes	No	No—out of estate

ADVANCED UNITRUST AND ANNUITY TRUST

Designing the Charitable Remainder Trust - Advanced Issues

Douglas K. Freeman, Esq.
Freeman, Freeman & Smiley

I. Timing the Contribution

A. Donor Motivation

1. transition planning: shifting the investment or business portfolio
2. deduction planning: sheltering other income
3. estate planning: wealth transfer
4. retirement planning: building an investment base for the future
5. post-retirement planning: enjoy the equity while alive

B. Concerns

1. pre-arrangement: assignment of income
   a. The rule:
      "[W]here the right to income has matured at the time of the transfer, the transferor will be taxed, notwithstanding the technical transfer of the income-producing property [prior to its disposition]." Estate of Applestein, 80 Tax Court 331, 345.
   b. The issue in any given case is the point of time at which the right to proceeds has "ripened" or "matured" too far. If the Donor transfers the appreciated asset to a charitable trust before that point, the Donor will not be taxed on the appreciation. If the Donor misses that window, however, the gain on sale by the Trust will be re-attributed to the Donor. <u>Ripeness is measured by all of the facts and circumstances of the transaction.</u>
   c. In <u>Peterson Irrevocable Trust</u>, 86, 267 Memo T.C., the Court held the transaction had "ripened" considerably before the time when all of the conditions for completion of a sale had been met.
   d. fact patterns
      1) listing
      2) escrow
      3) option
2. AMT
3. economic reversals
4. catastrophic illness

II. Selecting the Type of Trust

A. Donor goals
   1. tax deduction
   2. cash flow
   3. inflationary impact
   4. upside potential
   5. downside risk

B. Trustee perspective
   1. fiduciary duty to income beneficiary and remainderman
   2. liquidity requirements
   3. investment alternatives

III. Selecting the Payout Rate

A. Impact on deduction

B. Impact on cash flow

C. Effect on investment decisions
   1. High income demand: debt instruments
   2. Moderate income demand: balanced portfolio
   3. Low income demand: high growth instruments

IV. Designating the Income Beneficiaries

A. Income tax consideration
   1. Impact on tax deduction
   2. Impact on qualification: Requirement that fixed percentage payout to all beneficiaries taken together cannot be less than 5% of the value of the Trust (Regs. 1.664-3(a)(2)(i). The following provisions satisfy the minimum 5% payment:
      a. A fixed percentage of at least 5% to A and B for their joint lives and then all to the survivor for life.
      b. A fixed percentage of at least 5% to A for a term of years not longer than 20 years, whichever is longer (or shorter).
      c. A fixed percentage of at least 5% to A for a term of years not longer than 20 years and then to B for life (provided B was living at the creation of the Trust).
      d. A fixed percentage to A for life and concurrently a fixed percentage to B for life (the percentage to each recipient to terminate at death) if the percentage given to each individual is not less than 5%.
      e. A fixed percentage to A for life and concurrently an equal percentage to B for life, and at the death of the first to die, the Trust to distribute one-half of the then value of its assets to an organization described in Section 170(c), if the total of the

percentages is not less than 5% for the entire period described in this subparagraph.

f. A fixed percentage to A for life and then to B for life or a term of years (not to exceed 20 years), whichever is shorter (but not longer) if both A and B in being at creation of Trust.

g. It is <u>not</u> permissible to pay fixed percentage to A for life and then to B for a term of years because it is possible for the period to last longer than the lives of recipients in being at creation of Trust or term of years not exceeding 20 years. (Regs. 1.664-3(a)(5)).

h. It is <u>not</u> permissible to include both an income only provision and a separate share provision (where each share administered separately) in a charitable remainder unitrust since effect of different investment strategy of each share could result in total payout of less than 5% of all Trust assets. (Rev. Rul. 76-310, 1976-2 CB 197).

i. Donor cannot name another individual as income beneficiary and measure term of Trust by Donor's life. Reg. 1.664-3(a)(5)(i) states: "If an individual receives an amount for life, it must be solely for his life."

j. A gift to a class of individuals (i.e., Donor's children) for life is permissible if all gift beneficiaries are in being at date of gift, or gift can be to open class if gift is solely for a term of years. (1.664-3(a)(3)).

k. Retention of a right to revoke interest of Successor Income Beneficiary where Donor is not Beneficiary could disqualify Trust because the Trust might be measured by Donor's life not Income Beneficiary's life. PLR 8949061.

B. Gift and Estate Tax Considerations

1. Marital deduction

a. Unlimited marital deduction available for interest passing to surviving spouse in a 2-life trust only. See "Special Rule for Charitable Remainder Trusts" 2056(b)(8).

1) Arguably, an annuity trust (but not a unitrust) should permit a QTIP election under IRC 2056(b)(7)(C). If so, marital deduction available in annuity trusts with no successor beneficiaries to surviving spouse. But, the Service says no. See TAM 8730004.

2) Marital deduction probably not available for term of year's trust unless trust terminate at death of surviving spouse.

b. Effect of loss of marital deduction: Estate of the deceased spouse will be subject to estate tax for the value of 50% of the income interest passing to survivor (assuming trust funded with community property). Tax cannot be paid out of charitable trust.
c. Marital deduction not available for interest passing to former spouse: Reserve right to revoke successor's interest or have interest terminate upon divorce to avoid estate tax problem. (IRC §664(f)(3)).
d. Law is unclear as to whether or not marital deduction may be available for interest passing to non-resident spouse in 2-life trust (IRC §2056(d); 2056A).
    1) Prior to Revenue Reconciliation Act of 1989 ("1989 Act"), all income had to pass to surviving spouse, so clearly could not comply.
    2) After 1989 Act, all income distribution requirement has been removed.
    3) However, executor still must elect qualified terminable interest property treatment and comply with treasury regulations. Might not regulations conflict with charitable trust rules? QTIP requires that remaining assets be included in surviving spouse's estate.

2. Non-marital beneficiaries
    a. right to revoke
    b. revocation rights when donor is not a beneficiary.
        1) Facts of PLR 8949061: Donor funded a 6% unitrust in December 1988. The unitrust amount was divided equally among 7 individuals for a 15-year term. If any beneficiary dies before the end of term such beneficiary's interest ends. Donor retained testamentary right to revoke each beneficiary's interest. Donor intends to release revocation right.
        2) Service rules:
            a) Charitable Deduction. The Trust will qualify as a charitable remainder unitrust, entitling the donor to an income tax deduction.
            b) Gift Tax Consequences. Three types of gift are involved: the charity's remainder interest, each year's unitrust payments to the bene-ficiaries, and each beneficiary's unitrust interest taken as a whole.
                i. Regarding charity's remainder interest: Donor is entitled to gift tax charitable deduction.

ii. Regarding income beneficiary's whole unitrust interest: no gift tax since incomplete gift by virtue of revocation right.

iii. Regarding income beneficiary's annual gifts from trust: taxable gifts to donor but will qualify for 10,000 annual per donee exclusion.

When donor releases all of his revocation rights, he will make completed gifts to the benefic-iaries equal to the value of their whole unitrust interests at that time. Those gifts will qualify for the annual \$10,000-per-donee gift tax exclusion, as well as gift splitting between spouses under IRC §2513(a).

c) Estate tax consequences. When donor dies, the charitable remainder will qualify for an estate tax charitable deduction. The amount of the deduction will depend on several variables.

i. If donor dies without having released his revocation rights, a portion of the Trust will be included in his estate under IRC §2036(a)(2), due to his retained right to revoke. (See Rev. Rul. 76-273, 1976-2, CB 268.)

ii. If donor dies within three years of releasing his revocation rights, a portion of the Trust will be included in his estate under IRC §§ 2038 and 2035(d)(2).

iii. If donor releases his revocation rights and survives for more than three years, no part of the trust assets will be included in his estate.

V. Identifying the Charitable Beneficiaries

A. Type of Charity

1. Public Charity
2. Private Foundation
3. Supporting Foundation

B. Retaining right to revoke or modify

C. Trustee's duty to Remainderman

1. Notice
2. Investment responsibility

VI. Tough Assets

A. Debt-Encumbered Property

1. Five-and-Five Rule:

"... If an organization acquires property by gift subject to a mortgage which was placed on the property more than five years before the gift, which property is held by the donor more than five years before the gift, the indebtedness secured by such mortgage shall not be treated as acquisition indebtedness during a period of ten years following the date of such gift." IRC § 514(c).

2. A new private letter ruling has been published (PLR 9015049) which holds that the contribution of debt-encumbered property to a charitable remainder trust will cause the trust to be treated as a grantor trust. The effect is that the donor would be taxed on the income generated by a sale of property held by the trust, and no deduction would be available until the encumbrance is fully released. Accordingly, a devastating tax effect could result from a contribution of encumbered property to a remainder trust.
3. The new ruling appears to be applicable whether or not the five-and-five rule applies. Whether, and to what extent, the Ruling may be distinguished on its facts remains to be seen. Until some clarification is reached, we are recommending that donors avoid the contribution of debt-encumbered property to a remainder trust (whether or not the five-and-five rule applies).
4. In light of new ruling, importance of preliminary title report cannot be overstated. Was property encumbered for credit line?
5. Possible planning alternatives: measuring the risk
   - Sale of portion, then contribution of balance to trust
   - Contribution of an option to trust, followed by sale of the option (new ruling)
   - Non-recourse loan
   - Refinance debt on other property
   - Donor indemnification of trust

B. S Corporations
   1. CRT is non-qualified shareholder
   2. Application of repeal of <u>General Utilities</u>
   3. Planning alternative: option
      a. concern: 2nd class of stock
      b. legislative response

C. Fractional Interest Gift
   1. Objective: Donor wishes to contribute a portion of the property to a charitable remainder trust, retaining the balance.
   2. Issue: PLR 9114025 holding that such co-ownership is "per se" self-dealing.
   3. Planning alternative: creation of partnership and contribution of partnership units to a CRT.

VII. Selecting the Trustee

A. Statutory Rules

B. Responsibilities

1. Filings: 1041/5227/8282/state reports
2. Recordkeeping: Four tier/annual valuations
3. Distributions: Timing/interest on overpayments or underpayments
4. Investments: Fiduciary duty

C. Right to Replace

VIII. Trust Investments

A. Multi-State Assets

B. Closely-held Stock

C. Deferred Annuities

D. Life Insurance

IX. Miscellaneous Issues

A. Expense Allocation

B. Finders Fees and Commissions: tax impact to donor

C. Professional Conflict of Interest

Case Study

CLIENTS

1. Husband: .... Age 68
2. Wife: .... Age 63
3. Children: .... two
4. Estate Value: .... $3.6 Million
5. Target Asset: Apartment valued at $600,000
   Cost Basis: $25,000
   Income: $24,000

ASSUMPTIONS

1. Client's adjusted gross income: $175,000
2. Itemized deductions/exemptions: $35,000
3. Cash flow objectives from sale 8%
4. Total return expectation: 10%
5. Combined state/fed capital gain tax: 36.8%
6. Combined state/fed income tax rate: 39%

ALTERNATIVES

1. Hold
   a. Annual income: $24,000
   b. Income over 22 years (life expectancy): $528,000
   c. Remainder to heirs (45%): $270,000

2. Sale and Reinvestment
   a. Net sale proceeds
      Sale: $600,000
      Gain: $575,000
      Tax at 36.8%: .... ($211,600)
      Net proceeds: $388,400
   b. Income on proceeds (8%): $31,072
   c. Income over life expectancy (22 years): $683,584
   d. Remainder to heirs (45%): $174,780
3. Contribution and Sale
   a. Net sale proceeds $600,000
   b. Income from trust (8%) in initial year: $48,000
   c. Income from trust over life expectancy: $1,056,000
   d. Remainder to heirs
      1) Assuming premium of $6681 for 8.9 years: $300,000
      2) Premium using all excess income for life: .... $400,000 to $1,100,000
   e. Income tax deduction on gift: $133,445
   f. Income tax savings to client: $27,757
   (Note: effective tax benefit is 20.8% of the tax deduction, due to effect of alternative minimum taxes)
4. Explanation of Graphs
   a. Figure 1: Shows projected after-tax income for outright sale vs. CRUT
   b. Figure 2: Shows growth over time of net worth, where excess income (income earned over that which would have been received in outright sale) is reinvested in a tax-deferred variable annuity at 10%)
   c. Figure 3: Probability of death of clients
   d. Figure 4: Shows clients' expected net income from the outright sale vs. CRUT/wealth replacement program
   e. Figure 5: Shows comparative net worth of donors after sale vs. CRUT
   f. Figure 6: Shows net to children if asset sold and net proceeds reinvested in a variable annuity for the lifetime of donors vs. asset contributed to trust, with $300,000 insurance purchased by children with gifts from parents
   g. Figure 7: Compares the net amount transferred to the children through an outright sale vs. gifting to children who purchase a deferred variable annuity, but no life insurance.
   h. Figure 8: Outright sale vs. maximum life insurance using all excess income gifted to kids

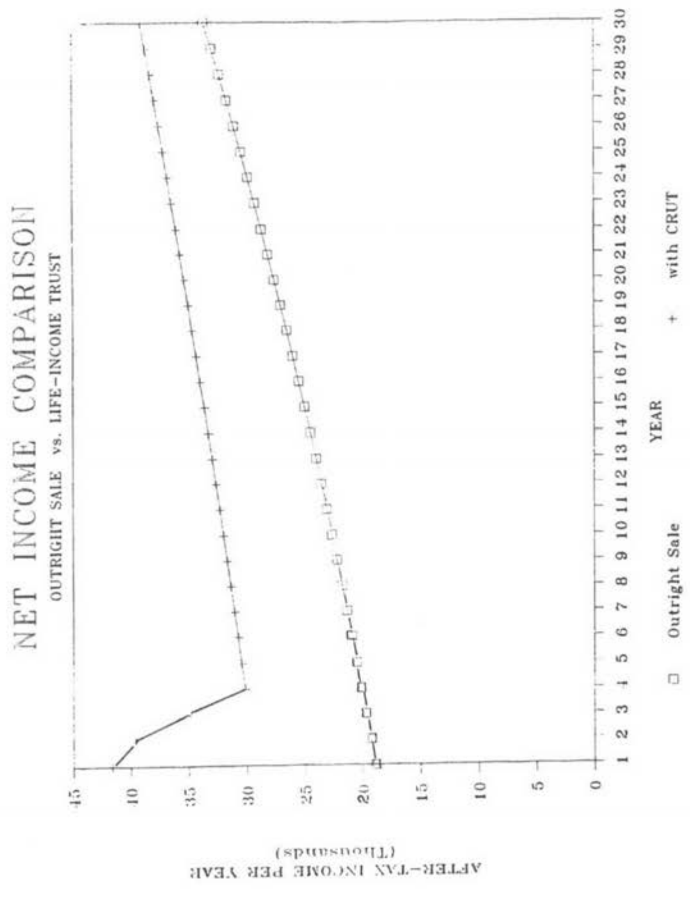

NET INCOME COMPARISON
OUTRIGHT SALE vs. LIFE-INCOME TRUST
AFTER-TAX INCOME PER YEAR
(Thousands)
YEAR
Outright Sale
with CRUT

FIGURE 1

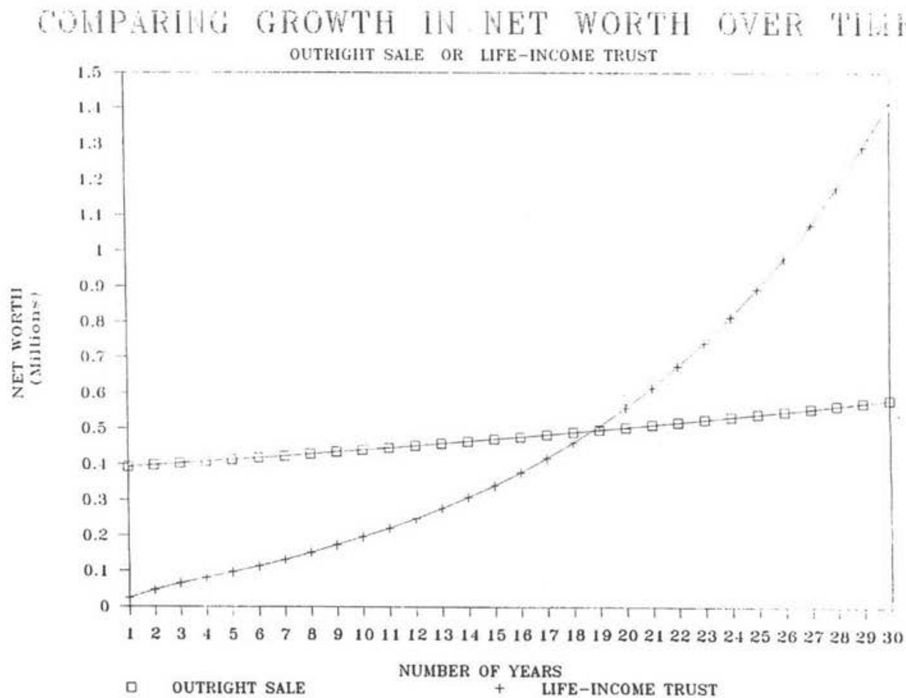

COMPARING GROWTH IN NET WORTH OVER TIME
OUTRIGHT SALE OR LIFE-INCOME TRUST
NET WORTH (Millions)
1.5
1.4
1.3
1.2
1.1
1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30
NUMBER OF YEARS
OUTRIGHT SALE
LIFE-INCOME TRUST

FIGURE 2

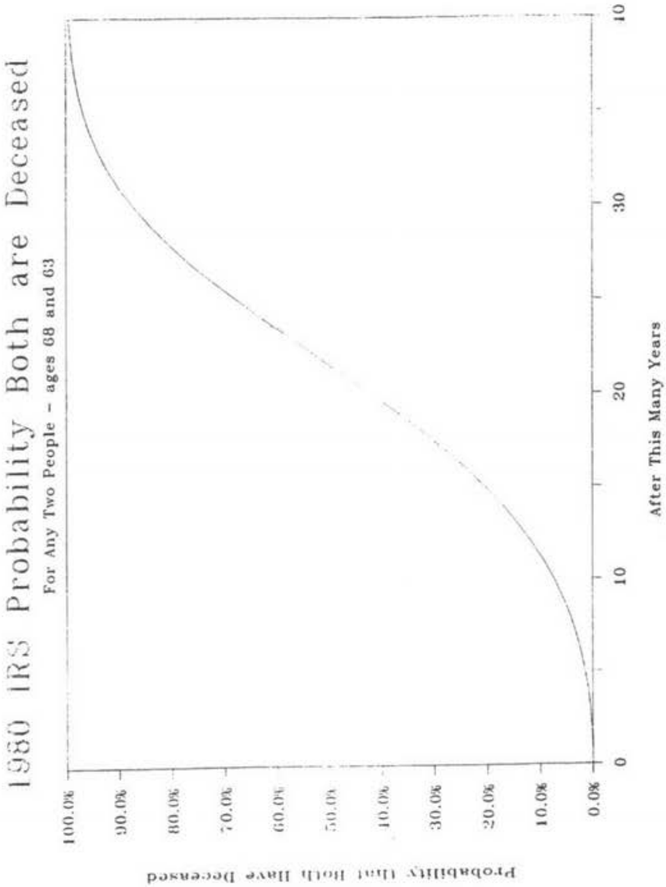

1980 IRS Probability Both are Deceased
For Any Two People - ages 68 and 63
100.0%
90.0%
80.0%
70.0%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
Probability that Both Have Deceased
0
10
20
30
40
After This Many Years

FIGURE 3

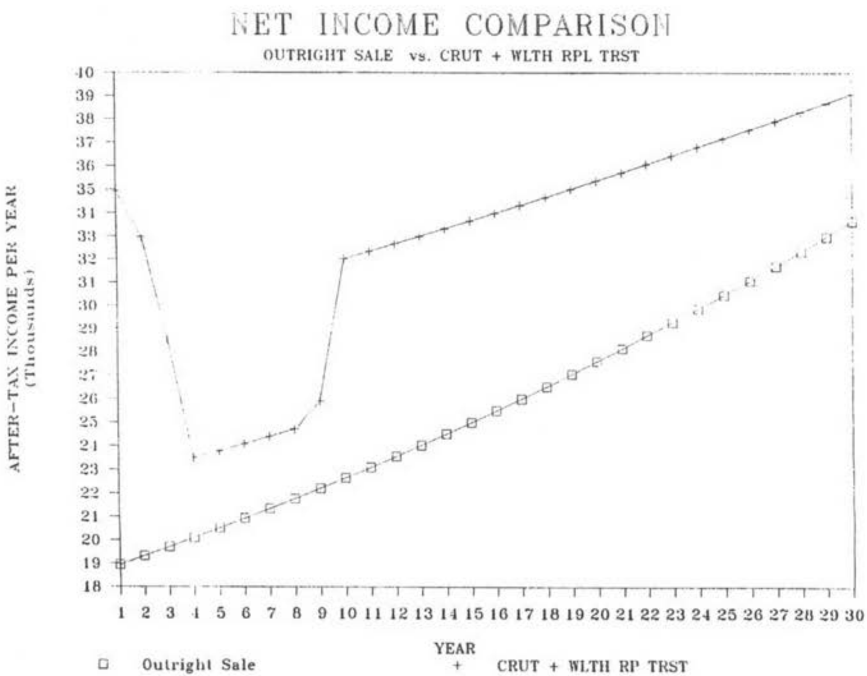

NET INCOME COMPARISON
OUTRIGHT SALE vs. CRUT + WLTH RPL TRST
AFTER-TAX INCOME PER YEAR
(Thousands)
YEAR
Outright Sale
CRUT + WLTH RP TRST

FIGURE 4

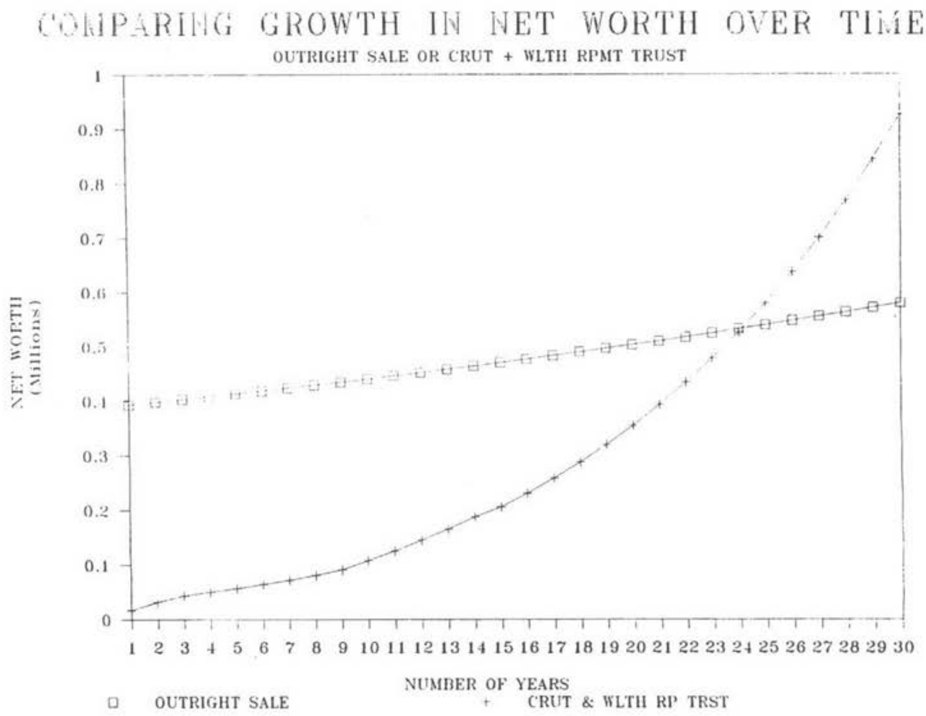

COMPARING GROWTH IN NET WORTH OVER TIME
OUTRIGHT SALE OR CRUT + WLTH RPMT TRUST
NET WORTH (Millions)
0
0.1
0.2
0.3
0.4
0.5
0.6
0.7
0.8
0.9
1
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30
NUMBER OF YEARS
OUTRIGHT SALE
CRUT & WLTH RP TRST

FIGURE 5

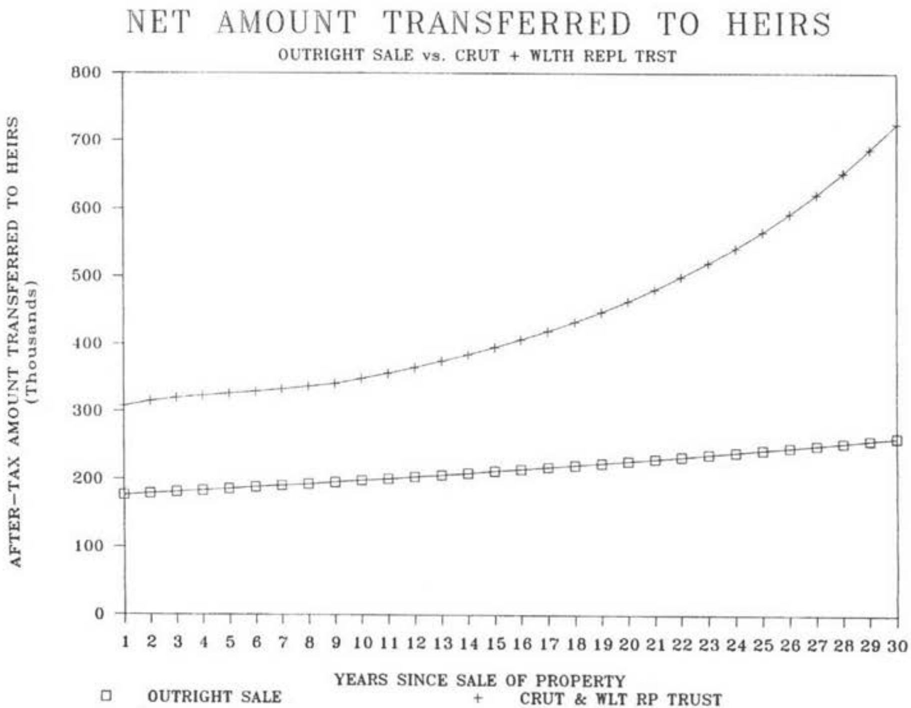

NET AMOUNT TRANSFERRED TO HEIRS
OUTRIGHT SALE vs. CRUT + WLTH REPL TRST
AFTER-TAX AMOUNT TRANSFERRED TO HEIRS
(Thousands)
800
700
600
500
400
300
200
100
0
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30
YEARS SINCE SALE OF PROPERTY
□ OUTRIGHT SALE
+ CRUT & WLT RP TRUST

FIGURE 6

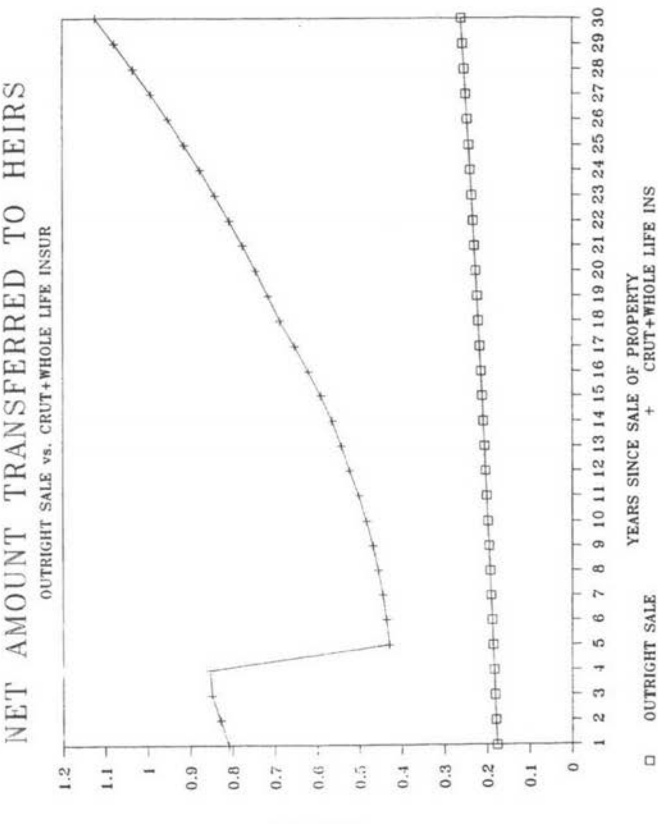

NET AMOUNT TRANSFERRED TO HEIRS
OUTRIGHT SALE vs. CRUT+WHOLE LIFE INSUR
AFTER-TAX AMOUNT TRANSFERRED TO HEIRS
(Millions)
1.2
1.1
1
0.9
0.8
0.7
0.6
0.5
0.4
0.3
0.2
0.1
0
1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30
YEARS SINCE SALE OF PROPERTY
OUTRIGHT SALE
CRUT+WHOLE LIFE INS

FIGURE 7

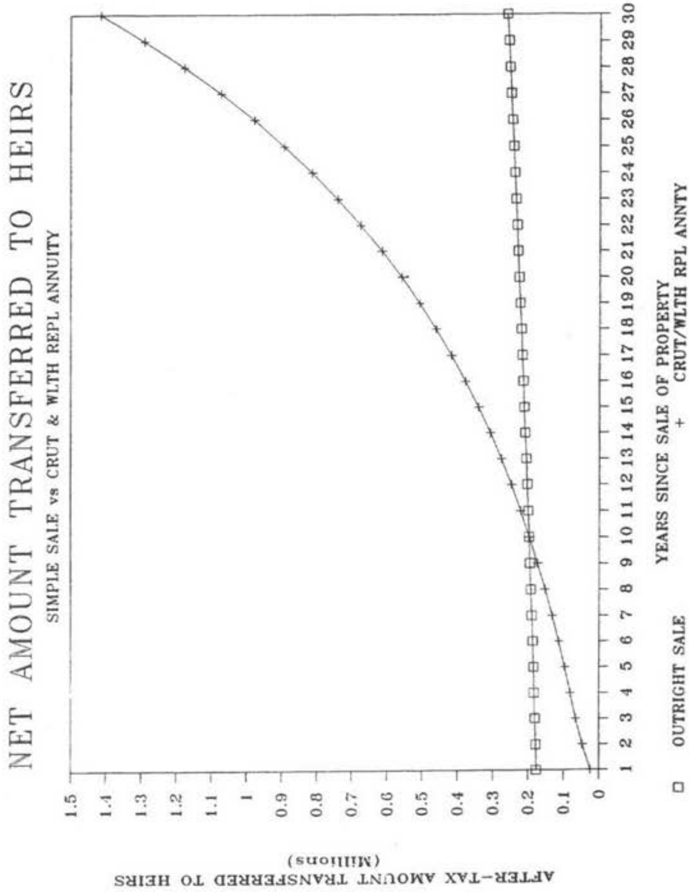

NET AMOUNT TRANSFERRED TO HEIRS
SIMPLE SALE vs CRUT & WLTH REPL ANNUITY
AFTER-TAX AMOUNT TRANSFERRED TO HEIRS
(Millions)
YEARS SINCE SALE OF PROPERTY
OUTRIGHT SALE
CRUT/WLTH RPL ANNTY

FIGURE 8

Exhibit A

UNIFIED FEDERAL TRANSFER TAX

Taxable Estate, in dollars	Federal Estate Tax, in dollars
600,000 *	-0- *
750,000	55,500
850,000	94,500
1,000,000	153,000
1,250,000	255,500
1,350,000	298,500
1,500,000	363,000
1,750,000	475,500
2,000,000	588,000
2,250,000	710,500
2,500,000	833,000
2,750,000	965,500
3,000,000	1,098,000

* After utilization of 192,800 unified credit.

UNIFIED TRANSFER TAX RATES

If the Amount is:		Tentative Tax is:			
Over	**But not over**	**Tax**	**+**	**%**	**On excess over**
0	10, 000	0		18	0
10,000	20,000	1,800		20	10,000
20,000	40,000	3,800		22	20,000
40,000	60,000	8,200		24	40,000
60,000	80,000	13,000		26	60,000
80,000	100,000	18,200		28	80,000
100,000	150,000	23,800		30	100,000
150,000	250,000	38,800		32	150,000
250,000	500,000	70,800		34	250,000
500,000	750,000	155,800		37	500,000
750,000	1,000,000	248,300		39	750,000
1,000,000	1,250,000	345,800		41	1,000,000
1,250,000	1,500,000	448,300		43	1,250,000
1,500,000	2,000,000	555,800		45	1,500,000
2,000,000	2,500,000	780,800		49	2,000,000
2,500,000	3,000,000	1,025,800		53	2,500,000
3,000,000	10,000,000	1,290,800		55	3,000,000
10,000,000	21,040,000	5,140,800		60	10,000,000
21,040,000				55	

Exhibit B

Charitable Remainder Trust
Comparative Tax Deductions
Single Life

Discount Rate — 10.0%

Age	7%	8%	9%	10%
60	.31865	.27864	.24532	.21741
61	.33153	.29110	.25726	.22877
62	.34463	.30383	.26950	.24047
63	.35795	.31682	.28204	.25247
64	.37149	.33009	.29488	.26482
65	.38531	.34368	.30811	.27758
66	.39944	.35765	.32175	.29079
67	.41388	.37199	.33582	.30448
68	.42863	.38669	.35032	.31865
69	.44360	.40169	.36517	.33321
70	.45876	.41695	.38032	.34515

Discount Rate — 10.5%

Age	7%	8%	9%	10%
60	.31952	.27946	.24608	.21812
61	.33241	.29193	.25803	.22950
62	.34552	.30467	.27029	.24121
63	.35884	.31767	.28284	.25323
64	.37239	.33095	.29570	.26559
65	.38621	.34455	.30893	.27836
66	.40034	.35852	.32259	.29159
67	.41478	.37286	.33667	.30529
68	.42953	.38757	.35117	.31947
69	.44449	.40257	.36603	.33404
70	.45965	.41783	.38118	.34898

Discount Rate — 11.0%

Age	7%	8%	9%	10%
60	.32039	.28027	.24684	.2184
61	.33329	.29276	.25880	.23024
62	.34640	.30551	.27107	.24196
63	.35973	.31851	.28364	.25400
64	.37327	.33180	.29651	.26638
65	.38710	.34541	.30975	.27916
66	.40123	.35938	.32342	.29240
67	.41567	.37373	.33750	.30612
68	.43041	.38844	.35201	.32031
69	.44538	.40345	.36688	.33489
70	.46053	.41870	.38204	.34983

Discount Rate — 11.5%

Age	7%	8%	9%	10%
60	.32126	.28108	.24759	.21956
61	.33416	.29358	.25957	.23097
62	.34727	.30634	.27185	.24271
63	.36060	.31935	.28443	.25477
64	.37416	.33264	.29731	.26716
65	.38798	.34626	.31056	.27995
66	.40211	.36024	.32424	.29321
67	.41655	.37456	.33833	.30693
68	.43130	.38930	.35285	.32113
69	.44626	.40431	.36772	.33572
70	.46140	.41957	.38289	.35068

Exhibit C

Charitable Remainder Trust
Comparative Tax Deductions
Joint Life

Discount Rate — 10.0%

Old/ Young	7%	8%	9	10%
55/55	.15393	.12043	.09480	.07510
60/55	.17521	.13952	.11174	.09001
60/60	.20253	.16421	.13380	.10958
65/60	.2284	.18828	.15586	.12962
65/55	.26152	.21912	.18429	.15561
70/65	.29245	.24872	.21227	.18179
70/70	.33164	.28646	.24814	.21556
75/70	.36706	.32139	.28212	.24827
75/75	.41172	.36567	.32541	.29017
80/75	.45095	.40546	.36521	.32954
80/80	.50044	.45593	.41594	.37998

Discount Rate — 10.5%

Old/ Young	7%	8%	9	10%
55/55	.15470	.12109	.09536	.07557
60/55	.17602	.14023	.11235	.09054
60/60	.20339	.16498	.13448	.11017
65/60	.22938	.18909	.15658	.13026
65/55	.26246	.21999	.18508	.15633
70/65	.29340	.24962	.21310	.18256
70/70	.33262	.28740	.24903	.21639
75/70	.36804	.32234	.28303	.24914
75/75	.41270	.36664	.32636	.29109
80/75	.45191	.40643	.36616	.33047
80/80	.50137	.45687	.41689	.38093

Discount Rate — 11.0%

Old/ Young	7%	8%	9	10%
55/55	.15547	.12175	.09592	.07607
60/55	.17683	.14094	.11296	.09109
60/60	.20425	.16574	.13515	.11079
65/60	.23027	.18990	.15731	.13094
65/65	.26339	.22085	.18586	.15707
70/65	.29435	.25051	.21393	.18335
70/70	.33359	.28833	.24990	.21724
75/70	.36901	.32329	.28394	.25003
75/75	.41367	.36760	.32730	.29202
80/75	.45286	.40738	.36710	.33141
80/80	.50230	.45781	.41783	.38189

Discount Rate — 11.5%

Old/ Young	7%	8%	9	10%
55/55	.15523	.12240	.09647	.07656
60/55	.17763	.14164	.11356	.09163
60/60	.20510	.16650	.13582	.11140
65/60	.23115	.19070	.15802	.13160
65/65	.26431	.22170	.18664	.15780
70/65	.29529	.25140	.21475	.18414
70/70	.33455	.28925	.25077	.21809
75/70	.36998	.32423	.28484	.25091
75/75	.41463	.36855	.32822	.29294
80/75	.45380	40833	.36804	.33235
80/80	.50321	.45875	.41877	.38284

Exhibit D

Comparison of Benefits
Husband/Wife Prospect

A. Input Assumptions:	#1	#2	#3	#4
Type of Technique .	Rem. Unitrust	Rem. Unitrust	Rem. Unitrust	Rem. Unitrust
Time Period Projected	1991-2011	1991-2011	1991-2011	1991-2011
Income Payout Rate	5.00%	7.00%	8.00%	10.00%
Income is Paid	Quarterly	Quarterly	Quarterly	Quarterly
Investment Period Measured by	2 Lives	2 Lives	2 Lives	2 Lives
B. Contributions:				
Fair Market Value of Property	1,000,000	1,000,000	1,000,000	1,000,000
Income Tax Deduction	377,420	261,900	219,470	155,900
Capital Gains Tax on Sale	0	0	0	0
C. Cash Flow:				
Income During Life	1,691,625	1,812,911	1,827,791	1,799,987
(=) Net Spendable Income	1,691,625	1,812,911	1,827,791	1,799,987
D. Benefit Summary:				
Net Income	1,691,625	1,812,911	1,827,791	1,799,987
(+) Endowment to Charity	4,474,874	2,963,981	2,404,857	1,573,112
(=) Total Benefit	6,166,499	4,776,892	4,232,648	3,373,099

FREEMAN FREEMAN AND SMILEY   Report date: Feb 18, 1991
Record name: Samples

Exhibit E

Comparison of Value of Assets
Husband/Wife Propsect

Yr	CRU #1	CRU #2	CRU #3	CRU #4
1	1,003,561	984,493	974,959	955,891
2	1,081,453	1,040,276	1,019,987	980,009
3	1,165,383	1,099,210	1,067,085	1,004,723
4	1,255,828	1,161,483	1,116,356	1,030,060
5	1,353,291	1,227,284	1,167,903	1,056,036
6	1,458,328	1,296,825	1,221,843	1,082,681
7	1,571,507	1,370,293	1,278,261	1,109,984
8	1,693,470	1,447,923	,1337,283	1,137,975
9	1,824,898	1,529,952	1,399,031	1,166,672
10	1,966,537	1,616,642	1,463,646	1,196,109
11	2,119,160	1,708,228	1,531,228	1,226,272
12	2,283,625	1,805,004	1,601,932	1,257,196
13	2,460,855	1,907,262	1,675,900	1,288,900
14	2,651,856	2,015,331	1,753,301	1,321,420
15	2,857,663	2,129,504	1,834,259	1,354,744
16	3,079,443	2,250,146	1,918,954	1,388,907
17	3,318,436	2,377,622	2,007,560	1,423,933
18	3,575,998	2,512,343	2,100,280	1,459,860
19	3,353,528	2,654,673	2,197,259	1,496,675
20	4,152,596	2,805,067	2,298,715	1,534,418
21	4,474,874	2,963,981	2,404,857	1,573,112

FREEMAN FREEMAN AND SMILEY   Report date: Feb 18, 1991
Record name: Samples

Exhibit F

Comparison of Net Spendable Income
Husband/Wife Prospect

Yr	CRU #1	CRU #2	CRU #3	CRU #4
1	55,639	69,950	77,106	91,417
2	53,616	73,287	80,398	85,926
3	61,430	76,109	71,099	67,621
4	64,466	56,873	56,903	69,326
5	63,943	56,100	61,623	71,074
6	46,689	59,278	64,468	72,866
7	50,312	62,637	67,446	74,705
8	54,217	66,185	70,560	76,589
9	58,425	69,935	73,818	78,520
10	62,959	73,897	77,227	80,500
11	67,846	78,084	80,793	82,532
12	73,111	82,507	84,524	84,613
13	73,795	87,182	88,427	86,747
14	84,900	92,121	92,510	88,934
15	91,489	97,340	96,782	91,178
16	98,589	102,855	101,251	93,477
17	106,241	108,682	105,926	95,835
18	114,486	114,839	110,817	98,251
19	123,372	121,346	115,935	100,730
20	132,947	128,221	121,289	103,271
21	143,265	135,485	126,889	105,875
Totals	1,691,625	1,812,911	1,827,791	1,799,987

FREEMAN FREEMAN AND SMILEY Report date: Feb 18, 1991
Record name: Samples

Exhibit G

Summary of Input Assumptions
Husband/Wife Prospect

A. Technique:

	#1	#2	#3	#4
Type of Technique .	Rem. Unitrust	Rem. Unitrust	Rem. Unitrust	Rem. Unitrust
Time Period Projected	1991-2011	1991-2011	1991-2011	1991-2011
Income Payout Rate	5.00%	7.00%	8.00%	10.00%
Income is Paid	Quarterly	Quarterly	Quarterly	Quarterly
Investment Period Measured by	2 Lives	2 Lives	2 Lives	2 Lives
Type of Unitrust	Standard	Standard	Standard	Standard

Transfer:

Date of First Transfer	02/01/1991	02/01/1991	02/01/1991	02/01/1991
Total Amount Transferred	1,000,000	1,000,000	1,000,000	1,000,000
Ordinary Income Rate	4,000%	4.000%	4.000%	4.000%
Capital Gain Income Rate	0.00%	0.00%	0.00%	0.00%
Exempt Income Rate	0.00%	0.00%	0.00%	0.00%
Growth Rate	6.00%	6.00%	6.00%	6.00%

Investment Switches:

Switch Year	1991	1991	1991	1991
New Ordinary Income Rate	5.00%	5.00%	5.00%	5.00%
New Capital Gain Income Rate	5.00%	5.00%	5.00%	5.00%
New Exempt Income Rate	0.00%	0.00%	0.00%	0.00%
New Growth Rate ..	3.00%	3.00%	3.00%	3.00%

Financial Information (First Year):

Income Tax Bracket .	31	31	31	31
Contribution Base ..	250,000	250,000	250,000	250,000
Estate Tax Rate	55	55	55	55

FREEMAN FREEMAN AND SMILEY Report date: Feb 18, 1991
Record name: Samples

Exhibit H

Comparison of Net Present Value of Benefits (at 7.94)
Husband/Wife Prospect

A. Input Assumptions:				
	#1	#2	#3	#4
Type of Technique .	Rem. Unitrust	Rem. Unitrust	Rem. Unitrust	Rem. Unitrust
Time Period Projected	1991-2011	1991-2011	1991-2011	1991-2011
Income Payout Rate	5.00%	7.00%	8.00%	10.00%
Income is Paid	Quarterly	Quarterly	Quarterly	Quarterly
Investment Period Measured by	2 Lives	2 Lives	2 Lives	2 Lives
B. Contributions:				
Fair Market Value of Property	1,000,000	1,000,000	1,000,000	1,000,000
Income Tax Deduction	332,440	243,669	207,820	151,686
Capital Gains Tax on Sale	0	0	0	0
C. Cash Flow:				
Income During Life	827,396	910,654	933,959	956,611
(=) Net Spendable Income	827,396	910,654	933,959	956,611
D. Benefit Summary:				
Net Income	827,396	910,654	933,959	956,611
(+) Endowment to Charity	1,156,392	765,949	621,461	406,522
(=) Total Benefit	1,983,789	1,676,603	155,419	1,363,133

FREEMAN FREEMAN AND SMILEY   Report date: Feb 18, 1991
Record name: Samples

Exhibit I

Charitable Remainder Unitrust Cash Flow
Cash Flow from Unitrust
Husband/Wife Prospect, Tech. #1

Yr	Young Age	Old Age	Contrib. to Unitrust	Sales Fee Paid	Unitrust Value (at End of Year)	Gross Income from Unitrust	Net Income from Unitrust	Income Tax Deduction Permitted	Income Tax Savings from Deduction	Unitrust Income plus Tax Savings	Net Cash Flow from Unitrust
1	65	66	1,000,000	60,000	1,003,561	45,694	31,529	77,773	24,109	55,639	55,639
2	66	67	0	0	1,081,453	50,178	34,623	77,397	23,993	58,616	58,616
3	67	68	0	0	1,165,383	54,073	37,310	77,306	24,120	61,430	61,430
4	68	69	0	0	1,255,828	58,269	40,206	78,260	24,261	64,466	64,466
5	69	70	0	0	1,353,291	62,791	43,326	66,184	20,517	63,643	63,843
6	70	71	0	0	1,458,328	67,665	46,689	0	0	46,689	46,689
7	71	72	0	0	1,571,507	72,916	50,312	0	0	50,312	50,312
8	72	73	0	0	1,693,470	78,575	54,217	0	0	54,217	54,217
9	73	74	0	0	1,824,898	84,673	58,425	0	0	58,425	58,425
10	74	75	0	0	1,966,539	91,245	62,959	0	0	62,959	62,959
11	75	76	0	0	2,119,160	98,327	67,846	0	0	67,846	67,846
12	76	77	0	0	2,283,625	105,958	73,111	0	0	73,111	73,111
13	77	78	0	0	2,460,855	114,181	78,785	0	0	78,785	78,785
14	78	79	0	0	2,651,856	123,043	84,900	0	0	84,900	84,900
15	79	80	0	0	2,857,663	132,593	91,489	0	0	91,489	91,489
16	80	81	0	0	3,079,443	142,883	98,589	0	0	98,589	98,589
17	81	82	0	0	3,318,436	153,972	106,241	0	0	106,241	106,241
18	82		0	0	3,575,998	165,922	114,486	0	0	114,486	114,486
19	83		0	0	3,853,528	178,300	123,372	0	0	123,372	123,372
20	84		0	0	4,152,596	192,676	132,947	0	0	132,947	132,947
21	85		0	0	4,474,874	207,630	143,265	0	0	143,265	143,265
Totals			1,000,000			2,282,065	1,574,625	377,420	117,000	1,691,625	1,691,625
NPV @ 7%			1,000,000			1,049,768	724,340	332,440	103,057	827,396	827,396

FREEMAN FREEMAN AND SMILEY
Record name: Samples, Tech. #1

Report date: Feb 18, 1991

Exhibit J

Charitable Remainder Unitrust Cash Flow
Cash Flow from Unitrust
Husband/Wife Prospect, Tech. #2

Yr	Young Age	Old Age	Contrib. to Unitrust	Sales Fee Paid	Unitrust Value (at End of Year)	Gross Income from Unitrust	Net Income from Unitrust	Income Tax Deduction Permitted	Income Tax Savings from Deduction	Unitrust Income plus Tax Savings	Net Cash Flow from Unitrust
1	65	66	1,000,000	60,000	984,493	63,972	44,141	83,256	25,809	69,950	69,950
2	66	67	0	0	1,040,276	68,915	47,551	83,018	25,736	73,287	73,287
3	67	68	0	0	1,099,210	72,819	50,245	83,430	25,863	76,109	76,109
4	68	69	0	0	1,161,483	76,945	53,092	12,196	3,781	56,873	56,873
5	69	70	0	0	1,227,284	81,304	56,100	0	0	56,100	56,100
6	70	71	0	0	1,296,825	85,910	59,278	0	0	59,278	59,278
7	71	72	0	0	1,370,293	90,778	62,637	0	0	62,637	62,637
8	72	73	0	0	1,447,923	95,920	66,185	0	0	66,185	66,185
9	73	74	0	0	1,529,952	101,355	69,935	0	0	69,935	69,935
10	74	75	0	0	1,616,642	107,097	73,897	0	0	73,997	73,997
11	75	76	0	0	1,708,228	113,165	78,084	0	0	78,084	78,084
12	76	77	0	0	1,305,004	119,576	82,507	0	0	92,507	92,507
13	77	78	0	0	1,907,262	126,350	87,182	0	0	87,182	87,182
14	78	79	0	0	2,015,331	133,508	92,121	0	0	92,121	92,121
15	79	50	0	0	2,129,504	141,073	97,340	0	0	97,340	97,340
16	80	81	0	0	2,250,146	149,065	102,855	0	0	102,855	102,855
17	81	82	0	0	2,377,622	157,510	108,682	0	0	108,682	108,682
18	18	82	0	0	2,512,343	166,434	114,839	0	0	114,839	114,839
19	83		0	0	2,654,673	175,864	121,346	0	0	121,346	121,346
20	84		0	0	2,805,067	185,827	128,221	0	0	128,221	128,221
21	85		0	0	2,963,981	196,355	135,485	0	0	135,485	135,485
Totals			1,000,000			2,509,742	1,731,722	261,900	61,189	1,812,911	1,812,911
NPV @ 7%			1,000,000			1,210,314	835,116	243,669	75,538	910,654	910,654

FREEMAN FREEMAN AND SMILEY
Record name: Samples, Tech. #2

Report date: Feb 18, 1991

Exhibit K

Charitable Remainder Unitrust Cash Flow
Cash Flow from Unitrust
Husband/Wife Prospect, Tech. #3

Yr	Young Age	Old Age	Contrib. to Unitrust	Sales Fee Paid	Unitrust Value (at End of Year)	Gross Income from Unitrust	Net Income from Unitrust	Income Tax Deduction Permitted	Income Tax Savings from Deduction	Unitrust Income plus Tax Savings	Net Cash Flow from Unitrust
1	65	66	1,000,000	60,000	974,959	73,111	50,447	85,998	26,659	77,106	77,106
2	66	67	0	0	1,019,987	77,997	53,818	85,743	26,580	80,398	80,398
3	67	68	0	0	1,067,085	81,599	56,303	47,730	14,796	71,099	71,099
4	68	69	0	0	1,116,356	85,367	58,903	0	0	58,903	58,903
5	69	70	0	0	1,167,903	89,309	61,623	0	0	61,623	61,623
6	70	71	0	0	1,221,843	93,432	64,468	0	0	64,468	64,468
7	71	72	0	0	1,278,261	97,747	67,446	0	0	67,446	67,446
8	72	73	0	0	1,337,283	102,261	70,560	0	0	70,560	70,560
9	73	74	0	0	1,399,031	106,983	73,818	0	0	73,818	73,818
10	74	75	0	0	1,463,646	111,923	77,227	0	0	77,227	77,227
11	75	76	0	0	1,531,228	117,092	80,793	0	0	80,793	80,793
12	76	77	0	0	1,601,932	122,498	84,524	0	0	84,524	84,524
13	77	78	0	0	1,675,900	128,155	88,427	0	0	88,427	88,427
14	78	79	0	0	1,753,301	134,072	92,510	0	0	92,510	92,510
15	79	80	0	0	1,834,259	140,264	96,782	0	0	96,782	96,782
16	80	81	0	0	1,918,954	146,741	101,251	0	0	101,251	101,251
17	81	82	0	0	2,007,560	153,516	105,926	0	0	105,926	105,926
18	82		0	0	2,100,280	160,605	110,817	0	0	110,817	110,817
19	83		0	0	2,197,259	168,022	115,935	0	0	115,935	115,935
20	84		0	0	2,298,715	175,781	121,289	0	0	121,289	121,289
21	85		0	0	2,404,857	183,987	126,889	0	0	126,889	126,889
Totals			1,000,000			2,550,370	1,759,756	219,470	68,036	1,827,791	1,827,791
NPV @ 7%			1,000,000			1,260,195	869,535	207,820	64,424	933,959	933,959

FREEMAN FREEMAN AND SMILEY
Record name: Samples, Tech. #3

Report date: Feb 18, 1991

Exhibit L

Charitable Remainder Unitrust Cash Flow
Cash Flow from Unitrust
Husband/Wife Prospect, Tech. #4

Yr	Young Age	Old Age	Contrib. to Unitrust	Sales Fee Paid	Unitrust Value (at End of Year)	Gross Income from Unitrust	Net Income from Unitrust	Income Tax Deduction Permitted	Income Tax Savings from Deduction	Unitrust Income plus Tax Savings	Net Cash Flow from Unitrust
1	65	66	1,000,000	60,000	955,891	91,389	63,058	91,481	28,359	91,417	91,417
2	66	67	0	0	980,009	95,589	65,956	64,419	19,970	85,926	85,926
3	67	68	0	0	1,004,723	98,001	67,621	0	0	67,621	67,621
4	68	69	0	0	1,030,060	100,472	69,326	0	0	69,326	69,326
5	69	70	0	0	1,056,036	103,006	71,074	0	0	71,374	71,374
6	70	71	0	0	1,082,681	105,604	72,866	0	0	72,866	72,866
7	71	72	0	0	1,109,984	108,268	74,705	0	0	74,705	74,705
8	72	73	0	0	1,137,975	110,998	76,589	0	0	76,589	76,589
9	73	74	0	0	1,166,672	113,797	78,520	0	0	78,520	78,520
10	74	75	0	0	1,196,109	116,667	80,500	0	0	80,500	80,500
11	75	76	0	0	1,226,272	119,611	82,532	0	0	82,532	82,532
12	76	77	0	0	1,257,196	122,627	84,613	0	0	84,613	84,613
13	77	78	0	0	1,288,900	125,720	86,747	0	0	86,747	86,747
14	78	79	0	0	1,321,420	128,890	88,934	0	0	88,934	88,934
15	79	80	0	0	1,354,744	132,142	91,178	0	0	91,178	91,178
16	80	81	0	0	1,388,907	135,474	93,477	0	0	93,477	93,477
17	81	82	0	0	1,423,933	138,891	95,835	0	0	95,835	95,835
18	82		0	0	1,459,860	142,393	98,251	0	0	98,251	98,251
19	83		0	0	1,496,675	145,986	100,730	0	0	100,730	100,730
20	84		0	0	1,534,418	149,667	103,271	0	0	103,271	103,271
21	85		0	0	1,573,112	153,442	105,875	0	0	105,875	105,875
Totals			1,000,000			2,538,635	1,751,658	155,900	48,329	1,799,987	1,799,987
NPV @ 7%			1,000,000			1,318,244	909,589	151,686	47,023	956,611	956,611

FREEMAN FREEMAN AND SMILEY
Record name: Samples, Tech. #4

Report date: Feb 18, 1991

MARKETING PLANNED GIFTS

Frank Minton, Ph.D.
President
Planned Giving Services

I. Presuppositions

In his latest book, Murther and Walking Spirits, the Canadian author Robertson Davies observes that reason is like a white thin cloud floating over a whole earth of emotions. When we present to a prospect a financial illustration showing the tax savings and increased cash flow, we are appealing primarily to the prospect's reason. Our underlying assumption is that a logical argument with documentation will be convincing. Unfortunately — or perhaps fortunately — people don't make decisions just based on reason. That is particularly true of major gifts. They are driven by emotions.

Any number of feelings may engender a gift:

Empathy. The donor may contribute to Children's Hospital because she saw a story on the nightly news about a severely burned child being treated there.

Gratitude. The donor recognizes that much of his success is due to the training he received in the School of Business, so he feels he should give something back.

Love. The donor deeply loved her late husband, and wants to express that love by establishing an endowment memorializing him.

Loyalty. The donor identifies with the local college, is proud of its achievements, and wants to help maintain its reputation.

Desire for recognition and acceptance. This is particularly important in capital campaigns when a volunteer who has made a major gift invites a peer to do likewise. The prospect feels pressure to give at that level, to be accepted into the club and to be recognized as financially successful.

Self-preservation. Sometimes making a gift is almost like paying an insurance premium. For example, if I give for cancer research now, perhaps there will be help for me when I need it.

One of the strongest motivators of the ultimate planned gift is the craving for significance. James Jones, in his novel about World War II, raises a voice against anonymous death in this passage:

I remember lying on my belly more than once, and looking at the other sweating faces all around me and wondering which of us lying there would be remembered in the particulars of his death by any of the others who survived. And, of course, nobody else would know, or much care. I simply did not want to die and not be remembered for it. Or not be remembered at all.

Another author, Saul Bellow, spoke of "keeping the wolf of insignificance from the door."

While religious faith may give a life ultimate significance, most of us want to feel that our lives have made a difference here on earth, and that we will be remembered with appreciation. One way to achieve that is through a lasting gift, particularly an endowment, that expresses one's values and has an impact on the future.

The particular property people give also embodies their life in a special way. Sometimes we forget that when we prepare financial illustrations. We are eager to show the financial advantages of making the gift, but the donor who farmed that lap of earth for forty years, lugged every upturned stone to the edge of the field, and knows every tree and stream, is not just transferring an asset. He is surrendering part of his very being. Likewise, for the person who has followed his stocks in the Wall Street Journal for the past twenty-five years and built a portfolio in which he takes pride, making the gift is like losing a child.

Feelings such as these, more than financial illustrations, stimulate or inhibit gifts. Are those financial illustrations important then? You bet they are. Feelings create the desire to give. Gift planning gives shape to the desire — incarnates it, transforms it into action. All of our literature focusing on tax savings and cash flow usually doesn't make people want to give. It does cause them to realize they can give, and at a higher level than they thought possible.

We have dwelt at some length on the motivations of gifts because our perception of why people make planned gifts will affect how we market them. My underlying presupposition is that planned gifts are primarily motivated by psychological factors. Therefore, marketing materials must appeal to emotional needs and evoke feelings. A primary emphasis on investment return and tax savings is misdirected. Financial considerations, to be sure, are more important for some kinds of gifts than others, and to some donors than others. But in general, the most effective marketing materials will blend emotional content and financial considerations, always keeping the focus on the gift.

This was confirmed recently by an informal survey of planned giving officers of thirty-five colleges. Each was asked to select five representative gifts and indicate the relative importance of the various motivators. Here are the results:

II. How Planned Gifts Were First Identified

In preparing for this session on marketing I wanted to find out which techniques are actually working. Naturally I had impressions based on fourteen years in the field, but I did not know whether my experience was representative. In an effort to gather some empirical data on how planned giving donors were first identified, I sent the grid depicted on pages two and three of the outline to selected charities — educational, health care, religious, cultural and social service. Although the study is not scientific, it is illuminating and may be useful in directing our marketing efforts.

Note that we sought information on how donors to each type of planned giving were identified. That would show us, for example, whether some techniques worked better for generating new bequest provisions, others for gift annuities. While the responses came from many types of charities, I have singled out only colleges and universities for comparison with the whole group. Some conclusions from the survey are listed on page four.

For all types of charities previous donors are the best prospects for new gifts. That probably comes as no surprise, but it certainly underscores the importance of a stewardship program. More on that later.

Donors to charitable remainder trusts are more likely to come to the charity's attention from responses to the financial planning newsletter and referrals from allied professionals. These instruments can be, and often are, initiated by the donor's attorney or financial planner, whereas the gift annuity must be offered by the charity. The newsletter is probably the best means of describing remainder trusts in sufficient detail to plant the idea and generate an inquiry.

The newsletter is also relatively important for identifying pooled income donors, though a number of these result from referrals from donors and volunteers. If I had shown absolute numbers in the grid, rather than percentages, you would have noticed that gift annuities outnumber pooled income gifts at least four to one. The early eighties may have been the golden age of the pooled income fund. Then the charity could offer the best of all worlds — a deduction based on a 6 percent discount rate, and a return of 10 to 12 percent. Now, for new funds the deduction will be based on a 9.2 percent discount rate, and the return may be only 7 or 8 percent. When a gift annuity offers more income, partly tax-free, and a larger deduction, little wonder that it is more appealing than the pooled income fund.

The major contrast between educational institutions and other charities concerns the marketing of bequests. Colleges and universities rely heavily on target mailings, other charities on seminars. In general colleges and universities are better positioned to make use of direct mail because they have a clearly defined constituency in their alumni, which they can easily segment based on age.

Where target mailings are used, they are primarily to seek bequests. That is true for all charities. I was somewhat surprised by this statistic because I was expecting relatively more target mailing to be done to promote gift annuities and life insurance. Actually, the primary source of life insurance donors is allied professionals, probably life insurance agents and financial planners.

Check-off boxes on annual giving solicitation materials are more effective in identifying bequest donors than life-income donors. I suspect that, in many instances, these boxes uncover provisions already made. If they did nothing more, that would be sufficient reason to retain them, for disclosure of a bequest enables the charity to thank, recognize and retain the donor.

As might be expected, attorneys are a primary source of bequest provisions, for often the charity first learns about the gift when the attorney calls for language. Cultivating relationships with attorneys increases the charity's chances of getting information about the bequest when the will is executed.

Finally, referrals are important. In institutions such as universities, many gifts result from referrals to the planned giving office by other members of the development team. Referrals from donors and volunteers are relatively more important for other charities, especially religious organizations.

The primary lesson to be drawn from this data is the importance of a comprehensive marketing plan. A number of methods must be used simultaneously. Each will reach some of the people, but no one will reach all of the people. It is better to experiment with new ideas and risk some failures than to limit yourself to a few tried and true techniques.

For the remainder of the session we will consider some of those marketing techniques. We will group them in two broad categories — internal marketing and external marketing. As we go along, I invite you to share with the group stories of marketing initiatives that have worked especially well for you.

III. Internal Marketing

Internal marketing refers to all efforts directed toward the charity's own family — trustees, volunteers, and staff.

I know one university where the planned giving office conducts quarterly training sessions for the entire development staff. Every development officer, face-to-face with a prospect, would know when it was appropriate to suggest a charitable remainder trust, gift annuity or other planned gift. Moreover, the development officer would be able to explain the plan conceptually and gather pertinent information. Of course, the planned giving office is then brought in for follow-up meetings, and to prepare all documents.

Does one take a risk when non-technicians undertake to discuss these highly-complex instruments? Not if the non-technician understands that his or her role is to invite exploration on an idea and arrange the next step. The advantage is that the planned giving office will have a large field staff without adding one dollar to its budget. Suppose your planned giving office has only two professionals, but thirty development officers are spread around your campus raising money for various academic units. If all thirty are constantly on the lookout for prospects and regularly feeding them to you, think what that means. Training colleagues to help you is probably the most productive thing you can do.

After the development staff, the most important family group to train are your trustees. Almost always, after I have made a presentation to trustees, one or more will seek me out and say that a certain case discussed resembles their situation, and request an appointment. The seminar was a non-threatening way to educate them and arouse their interest. They are also well connected and may mention acquaintances who could benefit from one of these plans. How or when do you schedule these presentations?

If your Board of Trustees has an annual retreat, lobby for an hour on the program. If you are presenting an action item — for example, adoption of new planned giving policies and guidelines — precede it with a thirty-minute description of gift methods. Or make periodic reports to the Board about progress of the program, and let each report feature a different type of gift.

Your volunteers, as well as your Board, need to be educated. Likely some of them will have already made a planned gift. Recently, while helping an institution in Oregon set up a planned giving program, I was introduced to the woman who had been recruited to chair the Planned Giving Committee. We knew fortune had smiled on us when we learned that, before moving to Oregon, she had served on the Foundation Board of the University of Colorado, an institution that does a superb job training its volunteers. This woman noted that planned giving presentations were a regular feature of their meetings and, she observed, "After about the third time I began to understand them.? The director of the Colorado planned giving office told me that three major gifts were traceable to a seminar for volunteers held that last spring.

I should note here that these seminars have a certain snob appeal.

They are held in lovely settings, and people understand that they are for major donors and special friends.

If you are in a capital campaign, you might focus on training sessions, or materials, for all of the volunteer committees. When a prospect looks your volunteer in the eye and says, "There is no way I can make a $250,000 gift; I don't have that kind of cash," you don't want your volunteer to close his or her brief case and leave. Rather, you want them to probe alternatives — a gift of property or a gift that pays income. At the University of Washington we gave all of our campaign volunteers a copy of this (?) handbook, which contains a primer on planned gifts. Like other development officers, volunteers can plant ideas, keep the dialogue going, and then bring you into the loop.

Finally, there are seminars for current and retired staff. We recently conducted one for the retired physicians of an HMO. We focused on the three issues we believed were of greatest concern to them:

1. Lower interest from their cash investments.
2. Capital gains tax faced by those who have ridden the bull market.
3. Selling the family homestead and moving to a retirement community.

When you cast a stone in the water, ripples spread out in all directions from the point of impact. Likewise start at the center, with your charity's immediate family. Then spread out to the external constituencies.

IV. External Marketing

All of these efforts to penetrate the community and reach those with any connection to your institution, we refer to as "external marketing".

A. Networking with Allied Professionals

In my experience no form of external marketing is more important than networking with allied professionals. By the time I left the University of Washington nearly half of our major planned gifts came as a result of referrals from attorneys and other professionals. In some cases the relationship had been built over a ten-year period.

Since leaving the university and working with other charities, I have found allied professionals to be equally important. In the fall we closed a $3 million unitrust — a referral from an attorney. In the winter we collaborated with an attorney in completing two unitrusts worth $4 million. He had initiated the idea. Now we are working on a $1 million unitrust. The donor was brought to us by an insurance agent.

Besides being a source of prospects, allied professionals can provide access to prospects. It's one thing to know a person has money; it's quite another to get inside the door. I knew Jim was CEO of a local company, but I probably would never have been invited to his home had his insurance agent not asked me to prepare an illustration for a unitrust with wealth-replacement life insurance and join him in presenting it.

Allied professionals also provide essential services for closing a gift. One annuity trust required the services of three professionals — one to analyze the donors' tax situation, one to review the trust agreement to make sure it met all of the requirements, and one to determine the procedure for transferring mutual fund shares from their living trust. A planned giving officer is like a head football coach, who has an assistant coach to work with the quarterback, another for the linebackers, another for the offensive line and so on. His job is to coordinate all of them, using each coach's expertise.

Allied professionals can also help you by being an advocate for the gift. Note that I did not say an advocate for the institution, for the professional represents the donor, not your charity. However, if the professional is informed about charitable gift plans, and you have prepared a credible illustration that serves the donor, then that professional is likely to recommend the gift because s/he genuinely believes it is in the client's best interest. On the other hand, the uninformed professional may well discourage the gift.

One of the best ways to market planned gifts is to educate the allied professionals in your community and build relationships with them. How do you do this?

One way is to speak to their associations — Estate Planning Councils, CLU chapters, real estate broker associations, you name it. Let the officers know you are available — they're always looking for programs — the word will get around, and you'll always be booked. These are great opportunities to spread the gospel of planned giving. Invariably, someone from the audience will call you a couple of days later saying, "I have this client with a piece of real estate..."

Through such appearances you quicken interest, even if you can't treat the subject in depth. A way to provide an in-depth experience is by offering a half-day seminar carrying continuing education credit, and bringing in name speakers. When I was at the University of Washington we did this every two years or so in collaboration with the Law School. It would be jointly sponsored by the Law School and Estate Planning Board. In many communities this would more appropriately be a cooperative effort by all of the charitable organizations. If such a seminar is not practical at all, at least agitate to have your local Estate Planning Council include planned giving in its list of programs.

Stanford University has developed what it calls the "R-Plan Manual". It is a reference manual in the Cardinal jacket designed to be on the shelf of selected attorneys and other professionals. In the manual is information about Stanford, bequest language for all kinds of situations including endowments, sample trust and annuity agreements, summary of tax rules, and whom to call for information. This is a loose leaf binder, so every year updates are sent, even as one would receive from CCH. You can be sure that Stanford has an edge when an attorney with their manual on his shelf is talking to charitably inclined clients.

To produce such a manual and keep it current would exceed the resources of most charities, but there are less expensive alternatives. Consider, for example, putting together an information packet, then having one-on-one lunches with key professionals in your community where you brief them on your program, present the packet, and offer your services when they have a client interested in your institution. One service I have found that attorneys and accountants appreciate is your providing computations of charitable remainder interests. Surprisingly, many do not have software. I would provide help whether or not the particular client was interested in my institution. In due time you will be rewarded.

Finally, still another way to reach out is through a newsletter, available from a number of vendors, specifically written for professionals. These are appreciated and read, and they do stimulate calls. While I was at the University we sent about 1,500 throughout the state, trying to have at least one copy in every law firm with a probate practice, every major CPA firm, every trust department and a number of CLUs and Planners.

The most important way of reaching allied professionals was the volunteer Estate Planning Board. It consisted of seventeen members — four attorneys, four CPAs, four trust officers, four life underwriters who may also be financial planners, and a chairperson. For the last four years the chairperson was an attorney, but this need not be the case. Each board member served a two-year term, so half of the board rotated each year.

The board was generally comprised of the top estate planners in our region. In fact, many had been officers in the Seattle Estate Planning Council. They were nominated by the sitting board, who were acquainted with the leaders in their respective fields. When they were recruited they were told that this was not a fundraising board.

They would not be expected to make a gift, nor would they be asked to solicit gifts. Rather, they had been chosen because of their technical expertise. They may have been invited to speak at University-sponsored seminars, but mostly we wanted their wisdom. We asked them to comment on gift arrangements, critique our material, make presentations to the Board, and provide a limited amount of pro bono counsel.

The Board met monthly for a deli lunch, 12:00-1:30, at the board room of a downtown law firm. The University provided the lunch. The agenda, prepared by the planned giving office, usually included a feature item — funding trusts with closely held stock, use of charitable vehicles in retirement planning — plus current items. The members of the Board took turns making presentations on such topics. But the planned giving staff would also make a number of presentations in the course of the year, making sure that every Board member finished his or her two-year term with a good understanding of our planned giving program. After all, we were teaching as well as learning. Several members commented that our luncheon meetings were like graduate seminars, and they enjoyed the lively exchange.

Obviously we got a lot of good advice from this group. It was great to know that when a technical problem arose, I could dial any of seventeen people and get a response. Even more important to us than their counsel was our opportunity to educate them. After ten years we had nearly 80 alumni of the Board. They understood planned giving opportunities. They were far more likely to mention them to their clients. When our donors sought counsel, they were more likely to find someone both knowledgeable and sympathetic. And we got a steady stream of referrals from people who had served on the Board. Then there was that intangible chemistry we called "rapport". When you have been with a person for two years on a board, you begin with that rapport when they represent one of your donors.

Recruiting board members was not difficult. Rarely did anyone refuse to serve. They gained prestige by serving on the University of Washington Estate Planning Board, and we rewarded them with a reception at the president's home, occasional football tickets and other perks. I have dwelt at length on the Estate Planning Board because it proved very successful. Planned giving was late in coming to the Pacific Northwest. Ten years ago few professionals really understood it. We believe the Estate Planning Board made a major contribution to sensitizing the professional community, and thus indirectly benefitted all charities. I commend it to you for your communities.

B. Financial Planning Newsletter

Next to networking with professionals, the financial planning newsletter is, in my opinion, the most effective marketing tool. That seems to be consensus based on the popularity of newsletters and the growing number of vendors who offer them. Aside from giving visibility to a planned giving program, a newsletter is a good way to uncover hidden wealth. Many of those who respond do not have a history of giving and would never have been identified at a major gift screening session. Perhaps they have inherited property, quietly built a portfolio over the years, or made some astute investments.

The newsletter is probably the most expensive of all the marketing techniques, and it requires a real time commitment to do it well. Unfortunately, some people handle their newsletter like the minister who always prepares his sermons on Saturday. Plan ahead.

Make sure you have a well qualified mailing list. It should probably include those 50 and older who have a clear connection with the institution — alumni, former patients, etc. While previous donors are your best prospects, I would not limit the newsletter to them. For example, there is not necessarily a correlation between those who make outright gifts and those who leave bequests.

Plan your topics so that over a two-year cycle you present a variety of gift planning ideas. Timing is also important. For example, people often revise their wills before leaving on vacation. Real estate sales are greatest in spring and early summer. People get concerned about deductions in late fall. Focus on the theme most relevant at that time of year.

Should the entire newsletter be devoted to a single theme — for example, the charitable gift annuity? Or is it better to have a number of short articles on various subjects? The thematic approach is the best way to offer in-depth education, but that particular issue may be irrelevant to many of your readers. With the short article approach you relate to more people, albeit superficially.

Your purpose, though, is not to provide a full explanation of concepts. It is to intrigue, arouse interest, and prompt a response.

Whether or not you use a thematic approach, personalize part of the copy. Feature completed gifts. Use case studies and profiles. Your readers are most interested in what others have done. No one wants to be first when it comes to giving.

How do you measure the success of your newsletter? Certainly the number of responses is an important measurement, but even moreso is the quality of the responses. If you had offered a follow-up booklet explaining the landmark 1986 tax cut, you probably would have been inundated by responses. A booklet on gift annuities will generate far fewer responses, but perhaps more gifts. Your response rate will probably fluctuate between 0.5% and 3%, with a 1-2% average. If it is consistently disappointing, either your list isn't very good or the content isn't connecting. To get some sense of your readers' interests, you might enclose a survey with one of the issues.

What do you do with the responses you receive? Some charities systematically call all of them. I didn't do this, partly because of lack of time and partly because I feared that people might be inhibited from responding if every response elicited a phone call. A compromise is to send the follow-up booklet with an appropriate cover letter to every responder, then to call selectively, giving priority to those in the optimum age range who have responded more than once. During the telephone call you do some preliminary screening and seek appointments with those who appear to be genuine prospects. You will be surprised by how many of these "cold" calls lead to gifts.

C. Target Marketing

A less expensive but very effective way to identify prospects is through target marketing. This is commonly used in commercial advertising. For example, the 600 or so models of automobiles now available are each marketed to a very specific demographic group. Subscribe to Backpacker magazine, and very quickly you will receive mailings from the Sierra Club, the National Audubon Society, and Greenpeace. You can be sure those organizations aren't wasting their money mailing to subscribers of Sports Illustrated or hunting magazines.

Target marketing entails segmenting your audience into a rather narrow group with common interests, e.g. physicians 45-60, recently retireds 65-70, graduates of the School of Agriculture, or those who give $1,000 or more per year. The newsletter is like fitting your camera with a wide angle lens. Target marketing is a zoom lens bringing out the detail of one tiny area. You may send a single newsletter issue to ten or twenty thousand, but each target mailing may go to only a few hundred.

With target marketing you can test a message on a small audience and, based on the reaction, refine the message before you send it to a larger audience. By scheduling a series of target mailings throughout the year, you can have a constant flow of prospects.

An example of target marketing is a mailing recently sent out by the Group Health Foundation, one of my clients in Seattle. I show this to you with the permission of Barbara Lardy, President of the Foundation. This package was sent to 2,000 members over age 70, most of whom were not previous donors.

(Show transparencies)

Here are some other examples of target marketing which I have gleaned from various sources:

Wellesley — Peter Doyle

Amherst — Dick Park

Claremont McKenna — Joe Schreiber

Johns Hopkins — Ron Sapp

McGill — Ann Cihelha

D. Referrals from Donors

Regarding referrals from donors, I would only note that we may be missing opportunities. Insurance agents are trained to ask for referrals when they deliver a policy. They know that a satisfied client has immense credibility.

Sometimes donors will mention an idea on their own initiative. For example, I recall Jim telling his cousin about his pooled income fund gift, Ron informing a colleague about his decision to transfer a farm to a unitrust, and Roberta confiding in her neighbor about her bequest provision. All three of these second parties subsequently made gifts themselves. Many more such gifts would happen if we specifically asked donors if they have friends or family members who might benefit from such an arrangement.

Two retired attorneys, who had made pooled income fund gifts, decided to go a step further and write to 50 friends, telling what they had done and commending the idea. Excerpts from their letter, written in their own words, appear on pages 10-11 of the outline. Several gifts resulted from their initiative.

E. Seminars

I have mixed feelings about public seminars. In general, I prefer to be allotted time on a program sponsored by another group — for example, be one of the featured speakers at an estate planning seminar sponsored by the retired faculty and staff association. Then I don't have to worry about all the logistics and nervously wait for a respectable number to show up. Of course, when you piggy-back on others' programs you have less time to present and don't control context.

Seminars are used very effectively by many charities. To increase your chances of success, I would suggest the guidelines on page 11 of the outline. Remember that competition for time is intense. The marketplace is saturated with seminars on living trusts, investing, estate planning and sundry other topics. You will not draw unless you target a specific audience, choose an appealing topic, and send personal invitations.

Here is an example of a seminar recently conducted that did draw pretty well.

(Transparency of Senior Caucus Seminar)

F. Annual Fund Solicitation Materials

Some types of marketing can be continuous, and they cost you virtually nothing. Check-off boxes on annual fund solicitation materials are one example. Commonly they appear on the card to be filled out when sending the annual gift. They could also appear on a separate card mailed with the gift receipt.

If space permits, give people a chance to state whether you are already in the will, they are considering a bequest, or they are interested in a life income plan. Although the percentage checking one of these boxes will be quite small, you will uncover some expectancies and occasionally a good prospect you would not have reached using other techniques.

V. Stewardship

Stewardship is what happens after the gift is closed, so why include it in a session on marketing? Because your best prospects for future gifts are those who have made past gifts. In our survey 26 percent of all planned gifts came from previous donors. Obviously, if you do a good job servicing those donors, they are more likely to make another gift.

To assess the quality of your stewardship, ask yourself these questions:

1. When a person makes a gift, what is the elapsed time before a receipt is mailed?
2. If a donor has established an endowment, do you regularly report on the use of the income? (E.G. Weeks)
3. Does your institution have endowed funds just sitting there unused?
4. If you are you are managing a life income plan — gift annuity, pooled fund, or remainder trust — and making quarterly payments, when do the checks arrive?
5. When do you send the K-1s and 1099s?
6. How often do you visit, call, or write those who have completed a planned gift?
7. When a person completes a planned gift, do you provide complete tax information?

(Transparency — Example of disclosure information)

Good stewardship is particularly important when you are notified that a person has included, or is intending to include, your charity in the will. One institution that does a particularly good job in bequest stewardship is the University of Colorado.

(Summary of program, including communication with the family of the deceased.)

Practice of good stewardship in all of these areas makes previous donors receptive to the idea of a repeat gift. You tap this good will by regular visits and special communications in which you invite consideration of another gift.

A mature planned giving program with good stewardship practice will invariably reach the point where previous donors are the primary source of new gifts.

Initially, it's how do I find people to see. Eventually, it's how do I find time to see the people.

MARKETING PLANNED GIFTS

"Increasing Productivity In A Downsizing Decade"

John S. Ryan, CFRE
President
Major Gifts, Inc.

I. Introduction

It is my honor to be participating in this conference for the fourth consecutive session. Frank Minton, Phd. will be covering the marketing of Planned Gifts from another perspective and I hope you will receive a value added benefit from our separate presentations. A synopsis of my presentation is as follows:

This is the best of times for planned giving. We can't waste time and money working with less than the best prospects. A productive initial face to face interview is absolutely necessary.

Many non profits with the greatest potential will never be able to hire a professionally trained Planned Giving Officer. Volunteers and non planned giving staff can be effective in identifying, motivating, closing and the ongoing cultivation of major donors. Someone must actively manage the above donor prospect activities but not necessarily a Planned Giving Officer. The ongoing emphasis on cloning technically trained Planned Giving Officers will not be adequate to mine the pending transfer of wealth. Change is in order. Is there a better way?

A leader shapes and shares a vision which gives point to the work of others. A vision has to reframe the known scene, to reconceptualize the obvious, connect the previously unconnected dream. The vision remains a dream without the work of others.[1]

II. Encouraging Factors Impacting Productivity

Although the majority of our best prospects would react negatively to being referred to as wealthy the next twenty years will result in the "biggest intergenerational transfer of wealth in U.S. history".[2] The dollar value is estimated at 6.8 trillion. Allow me to replace the word wealth with the word net worth.

In order of preference the recipients of this net worth transfer will be first the spouse, second the children and thirdly non profits. Thinking of my own experience the majority of my best prospects have had neither spouse or living children.

How many have an existing will or estate plan in place? I have seen figures ranging from 30% to 70%. My personal experience is as follows. When those I have worked with have really been honest I have usually discovered that they are not completely satisfied with their current estate arrangements. In over 400 thorough interviews conducted by others I have supervised volunteers and staff have observed responses that would lead them to conclude that net worth distribution decisions aren't written in stone. The implication of these findings is that it doesn't really make any difference whether they have a will or not. Our opportunity is to motivate our very best friends to consider our non profit as their beneficiary of choice.

III. What Is The Extent Of Your Market For Net Worth Resources?

My practice is to have a non profit's leadership respond to the following questions:

Is your organization <u>mature</u> in service?

Does it have an <u>image of stability</u>?

Are your best friends <u>long-termers</u>?

Do you have <u>committed</u> volunteers?

Do you have an <u>inventory of older constituents</u>?

Do your best friends have <u>high levels of ownership</u>?

Is your leadership <u>committed to endowments</u>?

If they respond with a resounding yes to each category then success is virtually guaranteed. Frankly, I don't even want to waste my time making a presentation unless I know in advance how they will respond. Why? The reason is that the opportunity for immediate success is so great, if those affirmative yes's come forth, then I feel compelled to spend my time with those non profits that are ready <u>now</u>. Other professionals will do a much better job than I can in helping an organization position itself for success in the distant future. My satisfaction today comes in reproducing myself by teaching, enabling and coaching others to experience the satisfaction of immediately surfacing net worth resources for their much loved philanthropic missions.

Usually organizations with less than a 20 year history cannot respond affirmatively to the above criteria while organization with a 40 plus year history are more often ready to reap. In these mature non profits the fruit (transfer of proverbial wealth) is ready to be harvested.

IV. Staffing Trends

<u>Gearing Up</u> - In the last six months I have received numerous requests to recommend experienced professionals. Often the salaries offered extend into the seventies. I have not been surprised at how often a non profits leadership was not able to answer affirmatively the qualifying questions. Therefore, I can envision trouble on the horizon.

Gearing Down - Wheaton College, where I cut my planned giving teeth, disbanded its field staff. Hospital downsizing has literally closed down foundations and left C.E.O.'s on the street.

Squeezed - There is a growing trend to add other responsibilities to the planned giving person's job description. The most common example is major giving. Once this occurs the agenda is blurred. These otherwise worthy add-on tasks make it very difficult to surface the hitherto untapped resources derived form net worth. There is just not enough time left and guess what gets squeezed out? A campaign mentality takes over and the non profit limits itself to activities to raise money from a revenue source limited to cash flow.

Frozen - Two non profits come to mind who have top planned giving professionals in place; one is a denominational college and another a social service organization. Their case loads are so over extended that they are not able to devote enough time to seeking new donors. They both have an extensive untapped inventory of gray-head prospects. The probability of hiring additional staff to harvest millions is frozen. This is simply the reality of the budgeting and leadership decision making process. Their potential is seriously limited.

Ground Zero - A historic and healthy city-centered church has a \$5 mm endowment fund managed by its foundation. The most recent surprise bequest amounted to \$1 mm. They had no program to actively reach their living, financially comfortable, committed and aging population. Their pastor said following after an initial presentation. "Every Sunday I look out over my congregation and I see a significant number of my aging flock who aren't going to be here in six months." One month from today this congregation will have completed initial interviews on their top 50 candidates for a net worth gift. They will know exactly how each prospect feels about an estate gift to their ministry.

Summary: It has been my observation that those organizations that have the greatest immediate opportunity for surfacing estate donors do not and probably will never be able to hire a planned giving professional. Furthermore, charities with a frozen staff and a great existing high ownership prospect base will also fail to reach their full potential in attracting their optimum share of the available transfer of wealth.

> Is there an alternative to meeting this endowment building opportunity.
>
> In an era when change is constant it is essential that we break out of traditional ways of thinking in order to use change to our advantage.[3]

V. Short Cuts To Identifying Your Best Prospects

A qualifying organization can establish the criteria to identify its best candidates for an interview in 1 1/2 hours. You simply invite a handful of long termers to a meeting where they participate in creating their organization's Ownership Grid.[4] This grid lists adjectives and activities which identify and describe their very best and oldest friends. In several days a list of 80 - 200 best prospects are forthcoming. The first criteria for success is now in place. You know who you should be visiting. You have reduced the mass of donors and friends to a manageable few.

VI. Whose On The Donors Side

It is no longer surprising for me to hear "terms of extraction" when I initially meet with an organization's leadership. The mindset is one of conversion. Somehow we must persuade them into doing something they would not normally do. What would happen if we were only interviewing those who had a demonstrated record of long term close ties to our non profit. What would happen if we could get them to tell us what they would like to do with their surplus net worth?

Example: A denomination with its national office in Toronto and divisions thereof in each province. Each needed money for their worthy national, and district agendas. Guess where the best prospects were located? In the local parish. Of course, the local parish also needed money for its own agenda.

What would happen if we could find a way to visit the very best senior friends in these parishes and ask them what objectives they would like to see perpetuated with their individually designated endowment fund. What would they describe?

What do you think is the probability of these seniors describing present or proposed activities which the local parish and the regional diocese also have high on their priority list?

Has the activity begun? No, not yet? Is it possible to hire a professional to achieve this goal? No. Can volunteers be selected, trained and supported to accomplish this objective? Yes. Can the mini-philanthropists surfaced be cultivated on an ongoing basis for the balance of their lifetime? Yes. Has this activity begun? No, not yet!

Meanwhile, scores of committed possible donors are expiring without giving a thought to organizing their estate giving to reflect their personal values.

VII. Stages Of Activity

- Leadership Decision to Launch or Upgrade a Program

  The most difficult and complex activity necessary to launch, reactivate, invigorate or expand a net worth giving program is dealing with an advisory committee or board.

I have found knowing in advance the socioeconomic makeup of each member is the key to affirmative decisions and more extensive involvement in an endowment or campaign project. Each member brings their own past experience or lack thereof, motivation, perception of their responsibility to every meeting. Rarely does a committee or board understand the difference between a campaign or counselor approach to the prospect, the separate methods of identifying the best prospects for an estate gift versus a campaign gift or that there are two distinct sources of money available for charitable purposes.

If the content mentioned in the above paragraph is not clearly understood by the CEO then he or she cannot clearly lead the board. If the board doesn't clearly understand these foundation stones then it cannot make prudent decisions. If the board fully understands the power contained in these foundation stones they will gladly donate additional time to achieve the agenda they will have participated in designing.

There are two alternatives to getting action. The first is to gradually educate the board in their regular meetings. The second is to seek creative ways to get from the board an immediate green light without involving them in the execution of a project. Once you achieve success without the direct involvement of the board they will gladly approve and willingly take credit for the dollars raised.

- Establishing Policies, Procedures & Guidelines

  Robert A. Evenson, CFRE, President of Planned Giving Seminars and Services, Inc. is especially gifted at assisting an organization dealing with this issue. This activity is extremely important. However, we were raising millions at the University of Minnesota before we ever completed a clear-cut policies and procedure statement.

- Technical Expertise

  We must be equipped with technical training, hardware, software, manuals. Somehow when we know all this we will be prepared to talk to a prospect. Although a non profit needs to have access to someone who can provide technical answers my experience is that you do not need to be a charitable C.P.A. to find, cultivate and close a major donor. Recently, I spent 1 1/2 hours on the telephone coaching a client's experienced Planned Giving Officer on what to do next with an elderly multimillion dollar couple — not once did anything technical come up in our conversation.

- Positioning

  This term is meant to describe a multitude of activities which normally make up a planned giving portfolio: Committees, mailings, hardware, software, newsletters, planned giving quarterlies, literature, policies. Each have their appropriate place. My task today is to keep them in their place so they won't become a hindrance to your success.

  Many non profits are overpositioned, are ready and were ready years ago, to make direct prospect contact but have difficulty getting beyond this positioning activity. If you add staff call reluctance to this scenario you can guarantee that your management is very nervous.

- Making the Call

  Herein is the heart of good development. If the call isn't made then nothing will ever happen. Should we wait till all the other positioning activities are in place before we make the call? If we do, many of our best net worth donors will have expired. Obviously, we need to do all in our power to remove every obstacle to making the call. The clock is ticking.

VIII. Manpower For The Call

The Planned Giving Industry has been staffing up to provide competent well trained paid professionals for several decades. I have been proud to be in their ranks. I submit that it is impossible to fulfill our mission if we fail to find another source of man to and woman power to enable a legion of seniors to become mini-philanthropists.

Volunteers are the answer. The Common Cause Sponsored program of giving 5% and five hours per week in volunteer time is noble but no one has yet harnessed this volunteer potential to build charitable endowments. Is it possible to equip select volunteers to assist Development professionals harvest the coming transfer of wealth? Experience has taught me that volunteers, properly selected and trained, supported and managed can be much more effective than a professional.

IX. Components Of A Successful Interview

The term interview refers in this context to a structured visit [6] which can be controlled and measured. It does not refer to previous contacts or future visits that might be required as the outcome of this structured interview.

- Whom Do I Call On?

  We only have time to call on the very best prospects. The Ownership Grid will help zero in on 50 to 200 of the best candidates for an estate gift. In summary, they usually are the oldest who by measurable indicators have been predetermined to have high levels of ownership in the specific non profit. The interviewer needs to be assured that he or she will be visiting someone who feels as strongly about the non profit as he as she does.
- Why Am I Calling?

  The prospect is going to want to know the purpose of the call and the volunteer needs to know that this issue has been addressed in order to feel comfortable. A carefully designed letter usually guarantees that a high percentage of those selected will actually be honored to be selected for the interview project and will participate.
- What Do I Say?

  The interviewers must be scripted on exactly what to say. Specific questions need to be assigned to get the prospects to open up and tell you exactly how he or she feels about:
- Your non profit and their involvement therein.
- Their family situation, values, and attitudes.
- The distribution of their net worth.
- How Do I Interpret the Prospects Responses?

  The interview questions need to be structured to produce a natural flow of information culminating in the prospect revealing exactly what they intend to do with their net worth. Listening to their responses is just the beginning. The interviewer must be trained on how to react depending on the revelations of the prospect. All of the above needs to be scripted, so that the answers can be recorded during the interview.
- What Do I Do Next?

  Prospects will be surfaced who are already estate donors, want to make an estate gift or are strong candidates for the future always required some attention, action or follow-up.

  The caller needs to be debriefed by someone who knows how to assist the interviewer in extracting every piece of obvious information or disguised signals in order to put in place an appropriate action plan. Specific responsibility must be assigned for the implementation of each action plan component.

X. Cumulative Results

Last December I reviewed the cumulative results of 348 interviews completed by ten non profit organizations using volunteers and selected non planned giving professionals. Here are the statistics:

82	24%	Identified Already-Existing Estate Gifts
50	14%	Declared Intention to Make Estate Gift
141	41%	Interviewers Felt There Was a Possibility of a Future Estate Gift
61	17%	Expressed No Present Interest
14	4%	Inconclusive Data

XI. An Untapped Work Force - Reactions To The Call

This video will briefly show the experience of non-planned giving professionals in a calling situation.

- Volunteer Planned Giving Committee Members
- President of Technical Institute
- Vice President of Advancement
- Director of Annual Giving

XII. Cycle Of Cultivation To Closure

Is it reasonable for the significant net worth donor to expect a non profit to participate in a long term mutually beneficial relationship. If so, who will maintain that relationship?

If our professional manpower is inadequate to identify, interview present and potential estate donors is it reasonable to expect paid professionals will have the time to provide for the ongoing cultivation of the identified prospective donor.

Success brings higher time demands on the professional to serve the ongoing needs of already closed high net worth donors. This in turn means he will have less time to identify, visit, and close new donors.

Some radical change in our thinking needs to take place if we are to reach our full potential in harnessing this transfer of wealth.

XIII. What Do We Do Next?

I thought it might be instructive to take four interview reports and let you participate in the creation of specific action plans.

- First, an interview report of a graduate who has just told the interviewer that the non profit is already in his will.

  Technical college in will. Never married, bros. & sister deceased. Wouldn't be where he is today without college. So poor couldn't buy books, used library. Started in machine dept. out of work, switched to electrical. Spent one quarter at U of IA "paper work education". Employed by railroad for 17 yrs. In 1948 joined City of Des Moines. Not joiner, no church, only attended 50 yr group twice. Following worked with him for city: Don Elber, Bob Nelson, Tom Parson. Tech College bigger, more expensive, totally different electrical — now into electronics. "Everything depends on the individual." Only schooling, where I learned my trade. Wishes he had been more active. Goes to Arizona from Thanksgiving to May. Father farmer. Uncle influenced life: goodness and honesty. Word was contract. doesn't want to see money squandered, wants to do right thing after lifetime of work. "Not satisfied with present plan." Vague about 100% to charity except for Institute. Wants help. Made suggestion for State Fair booth. Always designates annual gifts to electrical but sees other needs: library and loans for needy students are hot buttons.

Let's discuss: What should we do now and who should do it?

- Now let's see an example of a graduate who wants to put you in his will.

  Anxious to leave his half of estate to Technical College. Mrs. wants hers to go to nursing. Sold business in '81, great health except prostate surgery next month, South every winter, no kids, seven figure estate, never donated, attended 50 yr club 6-7 times. College got him on right track, gave opportunity to learn. Bob Jones and Jack Smith long-time friends. Integrity most important value. Father was a laborer. Held office for Ducks Unlimited, Pres. of State Assoc., Nat. Board. Father had great influence on life. Getting around to it is biggest problem. Wants help. "How desires could be met and include Institute." Return from Arizona late April. Mrs. didn't participate in visit. From evaluation card "The meeting helped give me confidence in my original decision".

What should we do now and who should do it?

- Next let's review an example of someone who might make an estate gift.

  Will consider Technical College in this estate, when asked by volunteer. Ethnic Historical Society and church causes are his dream. Doesn't believe in giving too much to church so bad decisions can be made. College never wavered from being tough. "Taught him American way of working in painting trade. Heart of artist, painted just to pay bills. Wealthy - sold business to employees - present management selfish. French instructor in sculpture influenced life. Strong work ethic. Really wanted to go to Art School. Has cancer attended off and on for three years - mostly during winter when work scarce. Several lasting friendships. Learned how to work with hands. Son, in Florida. Daughter housewife. Some interest in Catholic Charities. Wants ongoing lasting value from giving. Volunteer shared that he told prospect he was seriously considering making an estate gift to the College. Then asked prospect if he would consider same. Prospect responded yes.

What should we do now and who should do it?

- Finally, an example of a wealthy community leader.

Considering an estate gift to Technical College. Former board member in 50's & 60's. Concerned about deterioration at trustee level. Life saved by Morse code learned at Institute. Father knew founder. Institute critical part of his company's and his life. Feels great indebtedness. His company sold to 3M. Attended Report Meeting. Offered to make calls on wealthy of community for outright gifts. Son possibly a disappointment. Daughter a homemaker, teacher. Volunteers for youth organization. Funded large projects. Gave real estate. In process of revising estate. Grandson would be great student. Institute doesn't change courses by "whim". Wife's father attended in 20's. Family tree goes back to 1400's in Italy.

What should we do now and who should do it?

XIV. Life Time Social Contract

Someone must take responsibility for extracting vital information from the interviewers. Also someone, most likely the interviewer, must take responsibility for initial action steps.

Will volunteers assume this responsibility? My experience is yes. Volunteers properly selected will already have made an estate gift or have a high probability of making one.

Remember the prospect has often told the volunteer very personal things that causes a bond of intimacy. Something mystical has taken place. Bringing in a professional fund raiser prematurely is very difficult. Why? That mystical bond is difficult to transfer to another. Therefore, this volunteer is in the most natural and effective person to assume follow up responsibility.

XV. Conclusion

Opportunity is knocking at the door. The Planned Giving Industry must build on its present success by equipping volunteers to harvest a non profits rightful share of the upcoming transfer of wealth. Volunteers need structure, direction and support.

NOTES

1. The Age of Unreason, Charles Handy, Harvard Business School Press, p. 134-135.
2. "The Windfall Awaiting the New Inheritors", Alan Farnham, Forture Magazine, May 7, 1990, p. 72, 74, 78.
3. The Age of Unreason, Charles Handy, Harvard Business School Press, p. 134-135.
4. Planned Giving Today, September 1991.
5. Bob Evenson. 2048 Garden Avenue, Falcon Heights, Mn. 55113
6. Fund Raising Management, February, 1992 P. 35, 38, 39.

FINANCIAL OFFICE AND FINANCIAL REPORTS IN PLANNED GIVING

Louis R. Morrell
Vice President and Treasurer
Rollins College

One should always be cognizant that a gift is a voluntary act on the part of a donor. Different people make gifts for different reasons. The role of the fund raiser is to identify those reasons which make one want to become a donor. How to achieve that goal is why we are here at this conference. Anyone attempting to raise funds should always be prepared to answer the question, Why should I give?

Donors, like other investors, are in essence suppliers of capital to charities. Such capital comes in various forms. It can be an outright grant fully unrestricted as to use or it can come with conditions, either as to the expenditure purposes of the funds or with an obligation to provide a future income stream to the donor.

Gifts can be separated into three basic varieties — current, capital, and planned. The current gift takes place at a point in time and can be described as a fleeting transaction that comes and goes quickly. Although a charity and a donor have common interests, their financial relationship in a current gift transaction is very limited. A capital gift for plant or endowment requires accountability on a continuing basis — how the building is used or for what purposes the income from the endowment is expended. A planned gift has a much longer time horizon that can last for years. The financial benefit to a donor from a planned gift can be either fixed in amount or variable. The relationship between a donor and a charity is very similar to that found in the commercial world of investing. In both situations an individual supplier of capital may provide resources in return for a fixed dollar amount. Such persons are called bondholders in the world of investing and like annuitants, in the non-profit world, they receive a scheduled, fixed dollar payment from the charity. For the bondholder the payment period is fixed by the term of the debt instrument while the annuitant's life expectancy determines the payment period from a charity. The financial performance of the charity, in annuity arrangements, has little influence on the dollar return to the donor. The only real risk for the donor is the assurance that the charity will be in existence as long as there is a payment obligation. However, the financial performance of the charity becomes much more important for planned gifts that involve active management by the charity such as pooled income funds or unitrusts. Here the relationship changes drastically as the donor and charity become partners. One is always more prudent when entering into any partnership since there are direct financial consequences from the actions and judgments of one's partner. A similar situation exists in the commercial world where the traditional term shareholder applies. The shareholder concept is based on the premise that one owns a share (part) of a corporation and as such is entitled to a proportionate share of the assets and the earnings of the company. There is a direct relationship between the financial skills of the company's management and the return to the stockholders. When the company is profitable, the owners prosper. Since corporations rely on shareholders as a critical source of capital, they devote much effort to attracting new investors and convincing current investors that their funds are well placed. Corporate financial results are carefully presented both in terms of the current situation and trends. A poor performance, for example, might be presented as either temporarily disappointing or better than expected. If last year's returns were not favorable, better performance for the past five or ten years may be presented. The underlying theme is one of building and maintaining investor confidence. Charities are in many ways like private corporations in that they too must develop a sense of confidence in their supporters. Donors, particularly those making a planned gift, have become investors in the charity — it is a partnership by necessity. When a donor enters into a planned gift, the tax consequences are set based on a number of assumptions. The financial performance of the charity subsequent to the making of the gift has no impact on the initial tax benefits to the donor. If charity A achieves an annual return of 8% from the management of assets in a unitrust and charity B realizes 16% from its unitrust, the donor is far better of financially with charity B. However, the tax consequences upon entering into the unitrust would be the same with either charity. Since tax benefits provide no competitive edge, it behooves charities to attempt to realize outstanding investment performance to satisfy existing donors and to attract more gifts.

The environment in which planned giving is now being conducted has changed in a number of ways as follows:

- Donors are demanding greater accountability for the care and performance of their funds.
- Donors are more knowledgeable about investments in general and vehicles in particular.
- Donors see the relationship between them and charities as being long-term in nature.
- While the charitable intent remains, there is also a desire on the part of many donors to enjoy some financial benefit from a gift transaction.
- Planned gifts are increasingly seen as an alternative to more traditional forms of investing.

- Giving options are more numerous and complex, demanding more sophisticated presentations and reporting methods.

The effect of the changing environment is a need for the creation of a new internal relationship between the fundraising and financial operations of an organization. A sense of teamwork is essential in all phases of fundraising from the initial solicitation to the periodic reporting of management performance.

The process starts with the preparation of what could be called a "disclosure document" that describes the various giving programs. Included in the document are a number of suggested items as follows:

1. Objective of the program in terms of benefits to the participants.
2. Strategy for achieving the above objective.
3. Performance results of the program as compared to a benchmark.

Training and information sessions for members of the fundraising staff should be conducted periodically to ensure that persons representing the institution have a clear understanding of the general finances of the organization as well as the operations of the financial and investment aspects of the planned giving programs. Does the charity have an operating deficit? Is it sound financially? Financial equilibrium is a critical element for any organization whether non-profit or for-profit. It is achieved when:

- The operating budget is in balance with income equal to expense.
- There are no unrecorded liabilities such as deferred maintenance that can impair the financial future stability of the organization.
- The debt burden of the institution is not excessive — generally not calling for more than five percent of operating income to cover debt service obligations.
- The rates of growth of income and expense are comparable.
- The purchasing power of the endowment assets is being maintained on an inflation adjusted basis.

It is important that fund raising personnel have a clear understanding of the nature of financial equilibrium and know how the charity stands on each of the above aspects.

The organization's financial report should be enhanced to include a section on operating results and an assessment of management performance, following the approach taken by many highly successful market-oriented commercial enterprises. Donors are interested in the success of the charity to which they are making gifts. For most charities that will include elements of both quantity and quality. For example, an educational institution can talk of the number of its graduates — what they do following graduation such as entering the workforce, going into public service, or on to graduate education. The school can disclose its success in achieving diversity among its student body and its rate of success as measured by the retention and/or graduation rates.

In the area of financial management, information can be provided about the management of the organization's endowment funds. It should describe both the system under which the assets are managed and the strategy followed in achieving the stated objectives. If the funds are overseen by a trustee investment committee, the charge of such a group should be set out. A number of institutions take social issues into consideration as a criteria for the inclusion of individual holdings in the portfolio. It is important that donors and prospects be aware of such restrictions. If the situation is deemed to be complicated and the institution does not wish to include a detailed explanation of the social aspects of investing as part of this document, it should indicate that investment decisions are based in part on social criteria and advise the reader that a separate policy statement is available and may be obtained by contacting a designated representative of the institution. One key element of any investment strategy is risk management. The document can meet the need for the disclosure of risk avoidance techniques by referring to the various asset classes in the portfolio, in terms of diversification, and the method for achieving asset class re-balancing. To give the reader an idea of the nature of the investment portfolio, some institutions might wish to list the ten largest holdings in the fund. Since such a list would be constantly changing, it might be included as a supplement or attachment to the basic document. A number of colleges and universities have investment guidelines that are intended to protect the portfolio through such practices as limiting the percent of the holdings that may be invested in a single company or industry, setting credit rating standards for bonds, limiting the dollar amount of any single purchase transaction, etc. The above safeguards should be disclosed as part of the description of the investment management process. Another section could be devoted to performance measurement with an overview of how the endowment is monitored in terms of target return. If there are performance benchmarks such as market indices, they should be identified. The document should also describe the institution's endowment spending policy which is the mechanism that provides funding for the programs and activities while protecting the economic value of the endowment. Donors are often interested in knowing such things as the approximate amount of income that an endowment fund will earn, how the amount is determined, and whether it will increase in the future. The content and format of the above document should be the result of a joint effort between the senior officers for institutional advancement and financial affairs with the tone and content representing a balance between technical comprehensiveness and reader friendliness.

If the organization has an annual Report of Giving it should include a brief section on the finances of the institution with special emphasis on the critical role played by the giving program. It might also include a section on the tax benefits of gifts to charities with an emphasis on laws designed to encourage giving, rather than to avoid paying taxes.

Accountability will become increasingly important for charities dealing with donors. Attachment A is an annual report rendered in connection with a pooled life income program. It is presented as a stewardship document for fund participants.

Traditionally, development staffs have raised the monies and the financial operations staff have been responsible for managing them. Like a football team the ball was handed off at a specific point in time. The situation has now changed in this era of more sophistication and accountability. Members of the financial staff have a greater role in assisting in fund raising efforts and must direct their activities from an institutional advancement perspective. At the same time, fund raisers must better understand the financial operations of the charity and how those resources can be better deployed in obtaining the critical gifts needed to support the organization. Institutional teamwork will be the mark of success for fund raising in the 1990s.

Attachment A

ANNUAL REPORT OF THE ROLLINS COLLEGE POOLED INCOME FUND (Year ended December 31, 1991)

Introduction

This report on the management and investment performance of the Rollins College Pooled Income Fund for the year ended December 31, 1991 is presented to Fund participants on behalf of the Trustee Committee on Business and Finance. It has been prepared by the Vice President and Treasurer.

The Trustee Business and Finance Committee oversees the operations of the Fund which is managed by the NCNB National Bank (formerly known as the Trust Company of Florida, a wholly owned subsidiary of NCNB Corporation, headquartered in Charlotte, North Carolina) under the direction of Frank W. Schornagle, Assistant Vice President and Trust Investment Officer.

Fund Management Objective

The investment objective of the Pooled Income Fund is to seek an above average yield return with the opportunity for long-term growth of both income and principal.

Investment Environment

Calendar year 1991 turned out to be a turbulent period but one that on balance was good for investors. The market opened on January 2, 1991 with the Dow Jones at 2633.33 and ended with the average at 3168.80 which represented a principal gain of 20.3%. The broader market as measured by the S&P 500 did even better, with a principal gain of 26.3% while small stocks had a spectacular performance of a 56.8% gain as measured by the NASDAQ Composite Index. Bonds also experienced an outstanding year in terms of performance, providing the highest return in six years. The overall bond market rose by 15.85% in calendar year 1991 with U.S. Treasurys up approximately 15% and corporates more than 18%.

The experts are in agreement that 1992 will be less favorable for investors. Stock prices already reflect an improved economy and higher anticipated corporate profits. an question whether the market might already be ahead of itself. While they still expect the recovery, it might be less robust due to consumer psychology which is now described as gloomy. The general consensus calls for a stock market gain of 7% - 10%. On the fixed income front, few anticipate 1992 to be as favorable as 1991, given the sense that interest rates are not expected to fall much lower, while the threat of higher inflation remains in the background. There is now widespread fear that the U.S. Government might attempt to fix the economy which would mean both higher inflation and interest rates. It is expected that the unusually large gap between short-term and long-term interest rates will close.

Calendar Year 1991 Investment Results

During the year, the Fund continued to grow exceeding the $1 million mark on December 31, 1991. The cash distribution for an addition to the Fund made at the start of the year was 6.96% of the value of the addition. It is anticipated that in spite of the environment of falling interest rates, the Fund will continue to be able to hold its distribution near to the 7% target.

The Rollins College Pooled Income Fund experienced a very favorable performance for the calendar year 1991, achieving a total return (appreciation plus yield) of 17.92%. This compares to a total return of 18.03% for a composite index (which Rollins College uses as a benchmark) with the same asset weightings as found in the Pooled Income Fund, as follows:

		—Total Return—		
Asset Class	**Fund Mix**	**Rollins**	**Benchmark**	**Benchmark**
Equities	25%	31.60%	30.40%	S&P 500
Short-Term Instruments	6%	6.00%	5.75%	90-day T-Bill
Fixed Income	69%	14.00%	14.63%	Shearson Lehman
TOTAL RETURN		17.92%	18.03%	

A listing of investment holdings may be found in the Attachment.

Closing

The Rollins College Trustee Business and Finance Committee oversees the operation of the Fund. Fund participants are encouraged to write to the Treasurer or Associate Vice President for Development should they wish to comment on the operations of the Fund.

Louis R. Morrell
Vice President and Treasurer
Rollins College
1000 Holt Avenue (C.B. 2717)
Winter Park, FL 32789-4499

Elizabeth Brothers
Associate Vice President for Development
Rollins College
1000 Holt Avenue (C.B. 2724)
Winter Park, FL 32789-4499

Members of the Committee on Business and Finance

Exhibit A

Account
06-07-005-0008334

Summary of Account Assets as of 12/31/91
I/M Rollins College Pooled Inc

	Federal Tax Cost	Market Value	% Of Account	Projected Annual Income	% Yield At Market	Unrealized Gain/Loss
Cash Equivalents						
Daily Funds	64,760.14	64,760.14	5.906	2,996.45	4.626	
Fixed Income						
Bonds	682,641.47	753,464.56	68.721	61,359.45	8.143	70,823.09
Equities						
Common Stock	190,491.41	278,173.75	25.371	7481.00	2.689	87,682.34
Total Investments	937,893.02	1,096,398.45	100.000	71,836.90	6.552	158,505.43
Principal Cash		000.00				
Income Cash		000.00				
Account Total		1,096,398.45				

Account
06-07-005-0008334

List of Account Assets as of 12/31/91
I/M Rollins College Pooled Inc

Par Value /Shares	Description	Market Price Per Unit	Federal Tax Cost	Market Value	% Of Account	Projected Annual Income	% Yield At Market	Unrealized Gain/Loss
Cash Equivalents								
Money Market								
41,719.490	Hatteras Fund, Inc. Prime Fund		41,719.49	41,719.49	3.805	1,930.36	4.626	
23,040.650	Hatteras Fund, Inc. Prime Fund (Income Investment)		23,040.65	23,040.65	2.101	1,066.09	4.626	
	Total Money Market		64,760.14	64,760.14	5.906	2,996.45	4.626	
	Total Cash Equivalents		64,760.14	64,760.14	5.906	2,996.45	4.626	
Bonds								
Us Government Bonds								
40,000.000	United States Treas Bds 7.25% Dtd 07/08/77 08/15/1992	101.906	37,275.00	40,762.40	3.717	2,900.00	7.114	3,487.40
40,000.000	United States Treas Nts 10.50% Dtd 11/15/82 Due 11/15/1992	105.312	37,325.00	42,124.80	3.842	4,200.00	9.970	4,799.80
50,000.000	United States Treas Bds Dtd 10/10/78 8.625% Due 11/15/93	106.906	40,093 75	53,453.00	4.875	4,312.50	8.067	13,359.25

Account
06-07-005-0008334

List of Account Assets as of 12/31/91
I/M Rollins College Pooled Inc

Par Value /Shares	Description	Market Price Per Unit	Federal Tax Cost	Market Value	% Of Account	Projected Annual Income	% Yield At Market	Unrealized Gain/Loss
40,000.000	United States Treas. Notes 9.50% Due 5/15/1994	109.875	39,982.00	43,950.00	4.008	3,800.00	8.646	3,968.00
40,000.000	United States Treas Bds Dtd 07/09/1979 8.75% Due 08/15/1994	108.844	36,325.00	43,537.60	3.970	3,500.00	8.039	7,212.60
50,000.000	United States Treas Nts Dtd 4/15/1988 8.375% Due 4/15/1995 B.E. Only	108.656	49,515.63	54,328.00	4.955	4,187.50	7.707	4,812.37
40,000.000	United States Treas Nts Dtd 05/15/86 7.375% Due 05/15/1996 Ser. C	105.469	37,500.00	42,187.60	3.847	2,950.00	6.992	4,687.60
20,000.000	United States Treas Nts Dtd 07/31/91 7.875% Due 07/31/96	107.500	19,987.80	21,500.00	1.960	1,575.00	7.325	1,512.20
40,000.000	United States Treas Nt Dtd 08/15/89 8.0% Due 08/15/1999	108.375	39,987.50	43,350.00	3.953	3,200.00	7.381	3,362.50
20,000.000	United States Treas Nts Dtd 08/15/91 7.875% Due 08/15/01	107.812	19,911.40	21,562.40	1.966	1,575.00	7.304	1,651.00
	Total U S Government Bonds		357,903.08	406,755.80	37.093	32,200.00	7.916	48,852.72

Exhibit A continued

Par Value /Shares	Description	Market Price Per Unit	Federal Tax Cost	Market Value	% Of Account	Projected Annual Income	% Yield At Market	Unrealized Gain/Loss
Federal Agency								
40,000.000	Student Loan Mktg Assn 10.50% Dtd 05/19/83 Dtd 5-19-83 Due 4-22-93	107.094	39,400.00	42,837.60	3.907	4,200.00	9.804	3,437.60
40,000.000	Federal Natl Mtg Assn Dtd 12/11/89 8.300% Due 12/12/1994	103.312	40,000.00	41,324.80	3.769	3,320.00	8.033	1,324.80
	Total Federal Agency		79,400.00	84,162.40	7.676	7,520.00	8.935	4,762.40
Corporate Bonds								
30,000.000	Mobil Corp 6.750% 10/01/95	102.750	29,922.00	30,825.00	2.811	2,025.00	6.569	903.00
30,000.000	Associates Corp North Amer Dtd 10/16/89 8.70% 01/01/97	106.875	30,037.50	32,062.50	2.924	2,610.00	8.140	2,025.00
30,000.000	Philip Morris Cos Inc Opt Call 12/15/95 @ Par Dtd 12/20/88 9,80% 12/15/1998	111.000	30,300.00	33,300.00	3.037	2,940.00	8.828	3,000.00
30,000.000	Weyerhaeuser Co. Deb 8.625% 10/01/2000	101.500	29,946.00	30,450.00	2.777	2,587.50	8.497	504.00
30,000.000	Wal Mart Stores Inc Dtd 04/01/91 8.625% Due 04/01/01	107.500	29,898.00	32,250.00	2.941	2,587.50	8.023	2,352.00
30,000.000	BP Amer Inc Dtd 04/22/91 8.50% 04/15/2001	105.875	29,700.00	31,762.50	2.896	2,550.00	8.028	2,062.5
	Total Corporate Bonds		179,803.50	190,650.00	17.386	15,300.00	8.025	10,846.50

Exhibit A continued

Account
06-07-005-0008334

List of Account Assets as of 12/31/91
I/M Rollins College Pooled Inc

Par Value /Shares	Description	Market Price Per Unit	Federal Tax Cost	Market Value	% Of Account	Projected Annual Income	% Yield At Market	Unrealized Gain/Loss
Mortage/Asset Backed Securities								
17,514.120	Gnma Gtd Pass Thru Ctf Pool # 131921 Dtd 8/1/85 11.00% 7/15/2015	112.00	17,054.35	19,615.81	1.789	1,926.55	9.821	2,561.46
49,032.170	Gnma Gtd Pass Thru Ctf Pool #282170 Dtd 12/01/89 9.00 11/15/2019	106.625	48,480.54	52,280.55	4.768	4,412.90	8.440	3,800.01
	Total Mortgage/Asset Backed Securities		65,534.89	71,896.36	6.557	6,339.45	8.817	6.361.47
	Total Bonds		682,641.47	753,464.56	68.712	61,359.45	8.143	70,823.09
Common Stocks								
200.000	Abbott Laboratories	68.875	4,630.00	13,775.00	1.256	200.00	1.451	9,145.00
75.000	Atlantic Richfield Co	106.750	8,985.00	8,006.25	.730	412.50	5.152	-978.75
250.000	Baxter International, Inc.	40.000	8,000.00	10,000.00	.912	185.00	1.850	2,000.00
150.000	Boeing Co	47.750	8,126.25	7,162.50	.653	150.00	2.094	-963.75
100.000	Bristol Myers Squibb Co.	88.250	4,055.00	8,825.00	.804	276.00	3.127	4,770.00
100.000	British Tele Plc Adr British 15%	62.500	6,155.00	6,250.00	.570	271.90	4.350	95.00
100.000	Cpc Intl Inc.	90.5600	5,167.50	9,050.00	.825	220.00	2.430	3,882.50
100.000	Chevron Corp	69.000	7,067.50	6,900.00	.629	330.00	4.782	-167.50
100.000	Coastal Corp	24.625	3,219.38	2,462.50	.224	40.00	1.624	-756.88
50.000	Dillard Dept Stores Inc Cla	123.500	6,102.50	6,175.00	.563	12.00	.194	72.50

Exhibit A continued

Par Value /Shares	Description	Market Price Per Unit	Federal Tax Cost	Market Value	% Of Account	Projected Annual Income	% Yield At Market	Unrealized Gain/Loss
400.000	Exxon Corp	60.875	2,047.11	24,350.00	2.220	1,072.00	4.402	22,302.89
200.000	Federal Natl Mtg Assn	69.000	8,735.00	13,800.00	1.258	240.00	1.739	5,065.00
400.000	Gte Corp	34.625	11,835.00	13,850.00	1.263	680.00	4.909	2,015.00
200.000	General Elec Co	76.500	12,060.00	15,300.00	1.395	440.00	2.875	3,240.00
60.000	General Mtrs Corp Cl E	63.000	2,500.50	3,780.00	.344	38.40	1.015	1,279.50
200.000	Hanson Plc Adr British 15%	20.375	4,160.00	4,075.00	.371	228.20	5.600	-85.00
200.000	Johnson & Johnson	114.500	15,797.50	22,90.00	2.088	320.00	1.397	7,102.50
100.000	Lilly Eli & Co.	83.500	7,317.50	8,350.00	.761	220.00	2.634	1,032.50
500.000	National Medical Enterprises Inc.	16.875	10,965.00	8,437.50	.769	230.00	2.725	-2,527.50
100.000	Nicor Inc	45.500	3,930.00	4,550.00	.414	224.00	4.923	620.00
150.000	Paine Webber Group Inc	23.375	2,730.00	3,506.25	.319	60.00	1.711	776.25
300.000	Pepsico Inc	33.875	3,655.00	10,162.50	.926	144.00	1.416	6,507.50
200.000	Philip Morris Co Inc	80.250	5,415.00	16,050.00	1.463	420.00	2.616	10,635.00
150.000	Schlumberger Ltd	62.375	7,901.25	9,356.25	.853	180.00	1.923	1,455.00
200.000	Smithkline Beecham Plc Equity Units Adr	79.625	7,610.00	15,925.00	1.452	351.00	2.204	8,315.00
200.000	Syntex Corp	48.250	7,997.50	9,650.00	.880	184.00	1.906	1,652.50
200.000	Warner Lambert Co	77.625	14,326.92	15,525.00	1.415	352.00	2.267	1,198.08
	Total Common Stocks		190,491.41	278,173.75	25.357	7,481.00	2.689	87,682.34
	Total Investments		937,893.02	1,096,398.45	100.000	71,836.90	6.552	158,505.43
	Total Cash							
Account Total				1,096,398.45				

THE NEEDS OF OLDER ADULTS - FINANCIAL AND PSYCHOLOGICAL

The Planned Giving Decision Tree

Laura Hansen Dean, Esq.
President
Laura Hansen Dean & Associates

Pamela Jones Davidson, Esq.
Director of Planned Giving
Indiana University Foundation

INTRODUCTION

In the authors' opinion, charitable gift planning or planned giving is not "selling" charitable gift methods to donors. The primary motivation for such donors is to make a charitable contribution which, through planned giving techniques, can be more substantial than the donor ever contemplated. Designing planned gifts is a process which properly begins with discovering the donor's personal needs and objectives, personal financial situation and plans for the future. The most appropriate planned gift is the one which allows the donor to make a satisfying, and many times substantial, charitable contribution to one or several organizations through a plan which also addresses the donor's personal objectives.

In the authors' experience, the nature of the donor's personal objectives leads the charitable gift planner toward some and away from other charitable plans or methods.

The following diagrams begin with some of the personal objectives of donors which are typically heard in discussions with donors. The diagrams are not intended to encompass all the possible donor objectives and may not be appropriate in certain circumstances due to the nature of the donor's financial holdings or personal affairs.

The diagrams are intended as a reference tool for individuals involved in charitable gift planning on a regular or periodic basis.

DONOR'S PRIMARY PERSONAL OBJECTIVE:

To Make a Significant Contribution to the Charity of His/Her Choice and To Realize the Greatest Tax Savings Possible by Making a Charitable Contribution

OUTRIGHT OR DEFERRED GIFT

Possible Assets to Use to Fund the Gift:

1. Cash (due to the 50% deduction ceiling)
2. Appreciated Assets with the Greatest Amount of Appreciation Element (due to the 30% deduction ceiling), such as:
   a. Closely Held Securities
   b. Property Received through Gift

c. Real Property Not Held for Business Purposes

d. Real Property Held for Business Purposes With Only Straight Line Depreciation Taken on Structures

e. Tangible Personal Property Not Held for Business Purposes

f. Securities with a Number of Stock Splits or Stock Dividends

(If Appreciation Element Triggers Alternative Minimum Tax Calculation Make Contribution Over 2 or More Years to Avoid or Lessen AMT Impact)

DONOR'S PRIMARY PERSONAL OBJECTIVE:

Avoid Capital Gain Recognition on Transfer of an Appreciated Asset

1. Lifetime Outright
2. Charitable Remainder Trusts
3. Pooled Income Funds
4. Charitable Gift Annuities
5. Lifetime Charitable Lead Trusts (to avoid future appreciation)

DONOR'S PRIMARY PERSONAL OBJECTIVE:

To Retain a Life-Income Interest for Self or Self and Spouse

DONOR'S SECONDARY PERSONAL OBJECTIVE:

Ability to Consume Corpus for Future Health Care Needs

1. Revocable Trust
2. Deposit Agreement
3. Only Use Part of Assets to fund Charitable Gift Annuity or Pooled Income Fund or Charitable Remainder Trust (if economically feasible)

(In situations where all assets are consumed, the income stream from an irrevocable charitable plan assures some income for the spouse.)

DONOR'S SECONDARY PERSONAL OBJECTIVE:

Obtain Assistance in Managing Assets

Any Charitable Income Plan with Someone Other than the Donor as Trustee

DONOR'S SECONDARY PERSONAL OBJECTIVE:

Retain Maximum Control of Investment of the Assets

Charitable Remainder Trust with Donor as the Trustee

DONOR'S SECONDARY PERSONAL OBJECTIVE:

Increase Lifetime Income from Low-Yield Assets

1. Charitable Remainder Trust
2. Charitable Gift Annuity
3. Pooled Income Fund

DONOR'S PRIMARY PERSONAL OBJECTIVE:

To Retain a Life-Income Interest for Self or Self and Spouse

DONOR'S SECONDARY PERSONAL OBJECTIVE:

Fixed Amount of Income for Life

1. Charitable Gift Annuity
2. Charitable Remainder Annuity Trust

DONOR'S SECONDARY PERSONAL OBJECTIVE:

Assurance of Some Tax-Exempt Income

1. Immediate or Deferred Payment Charitable Gift Annuity
2. Fund Charitable Remainder Trust with Cash or Tax-Exempts

DONOR'S SECONDARY PERSONAL OBJECTIVE:

Possibility of Increase in Income Payments

1. Charitable Remainder Unitrust with 5% Payout
2. Pooled Income Fund

DONOR'S SECONDARY PERSONAL OBJECTIVE:

Largest Tax Deduction Possible

1. Charitable Gift Annuity if Younger Beneficiaries (because lower payout rates)
2. Deferred Payment Gift Annuity (results in larger deduction)
3. Charitable Remainder Annuity Trust with 5% Payout Selected if Older Beneficiaries

DONOR'S PRIMARY PERSONAL OBJECTIVE:

To Provide Income to Other Family Member(s)

CHILD/CHILDREN FOR LIFE:

1. Charitable Gift Annuity
2. Pooled Income Fund
3. Charitable Remainder Trust

If beneficiary's age results in very small tax deduction, might consider:

Revocable Trust or Deposit Agreement with a 3rd Party Given Right to Consume Corpus for the Benefit of the Child/Children

PARENT OR OLDER RELATIVE:

1. Charitable Gift Annuity
2. Charitable Remainder Annuity Trust
   (results in larger deduction for the donor and fixed payments for budget purposes)
3. Pooled Income Fund
4. Charitable Remainder Unitrust
   (if life expectancy of parent or relative such that possibility of variable income desirable)

CHILD/GRANDCHILDREN FOR EDUCATION, START IN BUSINESS, HOME DOWN PAYMENT, ETC.:

1. Charitable Remainder Trust for Term of Years
2. Deferred Payment Gift Annuity with Right to Lump Sum Payment

DONOR'S PRIMARY PERSONAL OBJECTIVE:

To Provide Income to Self or Self and Spouse or Other Family Member for Life or Term of Years

FUND WITH UNPRODUCTIVE REAL ESTATE

1. Net Income Charitable Remainder Unitrust with Make-up Provision
2. Deferred Payment Gift Annuity

FUND WITH COLLECTIBLES

1. Charitable Gift Annuity
2. Deferred Payment Gift Annuity

DONOR'S PRIMARY PERSONAL OBJECTIVE:

100% Tax-Exempt Income for Life

CHARITABLE REMAINDER TRUST (ANNUITY OR UNITRUST) FUNDED WITH:

1. Cash
2. Tax-Exempt Securities
   (Due to fluctuations in value of tax-exempt securities, the charitable remainder annuity trust may be a better choice where tax-exempt income desired, because only valued once as opposed to annually with unitrusts.)

Donor's Primary Personal Objective:

To Supplement Retirement Income

DONOR'S SECONDARY PERSONAL OBJECTIVE:

To Replace Non-Deductible IRA Contribution of $2,000 Per Year

1. Deferred Payment Charitable Gift Annuity Funded Annually
2. Net-Income Charitable Remainder Unitrust with Make-up Provision Funded Annually (Trustee fees may be Prohibitive)

DONOR'S SECONDARY PERSONAL OBJECTIVE:

To Maximize Deferred Compensation Opportunities with Benefit of Appreciation and Internal Build-Up

Net Income Charitable Remainder Unitrust with Make-up Provision Invested for Growth before Retirement and for Income After Retirement(Funded Annually or Lump Sums)

DONOR'S SECONDARY PERSONAL OBJECTIVE:

Close to Retirement and Want to Lock-in Higher Income Using Appreciated Low-Yield Assets

1. Charitable Gift Annuity
2. Pooled Income Fund
3. Charitable Remainder Trust

Donor's Primary Personal Objective:

Transfer A Residence or Farm to a Charity Retaining Possession During Lifetime and Realize Income Tax Savings Now

Gift of a Remainder Interest in a Home or Farm

DONOR'S SECONDARY PERSONAL OBJECTIVE:

Unable to Continue Residing in the Property

1. Transfer Retained Life Estate Interest to Charity Which Owns Remainder
2. Rent Property
3. Join in Sale with Charity Which Owns Remainder (life interest owner receives actuarial share of proceeds)

DONOR'S SECONDARY PERSONAL OBJECTIVE:

Needs Additional Income for Life and Unable to Continue Residing in the Property

Exchange the Value of the Remaining Life Interest for Income through a Charitable Gift Annuity

Donor's Primary Personal Objective:

Maximum Reduction of Federal Estate Tax

DONOR'S SECONDARY PERSONAL OBJECTIVE:

Retain Control of Assets During Life

1. Outright Testamentary Gifts
2. Testamentary Charitable Income Plan Where Surviving Spouse is Only Life Beneficiary
3. QTIP Trust with Charity as Ultimate Beneficiary
4. Testamentary Charitable Lead Trust

DONOR'S SECONDARY PERSONAL OBJECTIVE:

Realize Income Tax Savings

1. Lifetime Outright Gifts
2. Lifetime Gift of Remainder Interest of Home or Farm
3. Establishment of Life Income Plans During Life Where Donor or Donor & Spouse Only Income Beneficiaries

INSTITUTIONAL READINESS FOR PLANNED GIVING

Your Case For Support

Robert E. Fogal, Ph.D.
Director of the
Fund Raising School
Indiana University
Center for Philanthropy

Kay Sprinkle Grace
Special Projects Advisor
Fund Raising School
Indiana University
Center for Philanthropy

Your organization's case is related to your cause. Charitable causes come into being because problems and needs exist in society.

An individual or group of individuals forms an organization or formulates programs to address problems or to meet needs. Worthiness of the cause should be related to its capacity to address problems or its ability to adjust its focus and problem-solving capabilities in accordance with changing market or societal conditions.

Cause is further measured by the degrees of its relevance, importance, and urgency. Harold J. Seymour expressed it this way:

> A cause should be relevant to some major public need or problem of today and relevant also to the personal interest, loyalties, or concerns of its natural constituencies.

A cause today should have a clear image of importance...both in its own field and within its sphere of influence.

Any public cause today must establish and maintain the image of genuine urgency.

The case is the expression of the cause, or all of the reasons why anyone should contribute to the advancement of the cause. The case is bigger than the organization's needs, bigger than the organization itself. For effective fund raising, the case must be well articulated and thoroughly understood by all those representing the organization to prospective donors. It must also be conveyed enthusiastically and persuasively to those from whom support is sought.

I. THERE ARE TWO MAJOR ELEMENTS OF THE CASE: CASE RESOURCES AND CASE EXPRESSIONS.

A. *Case resources* are those documents that provide an information background and from which the case statement is drawn. Case resources provide a thorough background for everything a prospective donor may need or want to know about an organization. Case resources may be existing documents, or staff may have to create them in order to have all the necessary information in written and accessible form. Components of the case resource file are the following:

1. Mission: a philosophical statement of the human and societal needs and problems the organization exists to serve. The mission answers the question, "Why?"
2. Goals: general statements that identify what the organization wants to achieve as it addresses the needs and problems identified in the mission statement. Goals answer the question, "What?"
3. Objectives: specific statements of what the organization is going to do to see that the goals are achieved. Objectives must be measurable, achievable, time-specific, and results-oriented. They answer the question, "How?"
4. Programs and services: detailed descriptions of how the organization implements its objectives, defined in people terms.
5. Governance: how the governing board is elected or appointed, how it functions, how it represents the community and the service population.
6. Staffing: the overall staffing patterns, both paid and volunteer, for effective delivery of programs and services.
7. Facilities and/or mechanics of service delivery: description of physical setting and procedures used to deliver the program, including off-site centers or traveling programs.
8. Finances: narrative, numerical, and graphic materials which give a clear picture of how the organization acquires and spends financial resources.
9. Organizational planning, development, and evaluation: description of the long-range and short-range planning processes used by the organization.
10. History: brief description of how and why the organization came into being.

B. *Case expressions* distill information from the case resources for the specific purpose of obtaining understanding outside the organization. If the case resources summarize all the benefits the organization provides and all the reasons people should support the cause, then writers of case expressions can choose the positions that will be of most interest to the specific prospects they are trying to reach. Some examples of case expressions are the following:
   1. Brochures.
   2. Foundation proposals.
   3. Appeal letters.
   4. Capital campaign prospectuses.

5. Press releases.
6. Newsletter articles.
7. Speeches to community organizations.
8. Face-to-face conversations for cultivation and solicitation.

II. Preparing the case.

A. Since the case will provide rationale and justification for the fund raising purposes, its preparation should be guided by the fund raising specialist, who gathers and generates information from all program and administrative sources.

B. The fund raising specialist should seek input from trustees, administrators, staff, consumers, key volunteers, and representatives of the constituency in preparing the case.

C. Preparation of various case expressions may require the assistance of other professionals in the areas of copy writing or graphics.

III. The following questions are pertinent to ask during the preparation of the case:

1. What is the problem or social need that is central to our concern?
2. What specific service or program do we offer to respond to this need? How do the various components of an organization (staffing, governance, facilities, finances, planning, evaluation, history) contribute to your programs?
3. Why are the problem and service important?
4. What constitutes the market for our services? What do we know about this market, segments within the market, and forces that impinge on it?
5. Are others doing what we are doing to serve our service market, and perhaps doing it better? Are we duplicating services? If so, how do we justify our existence? How are we distinctive?
6. Do we have a written plan with a statement of philosophy, objectives, a program? Does it include current, short-term, and long-term organization needs?
7. What are the specific financial needs against which private gift support will be sought?
8. Is the organization competent to carry out the defined program? How can this competency be evaluated?
9. Who are the people associated with the organization: staff, key volunteers, trustees, or directors?
10. Who should support the organization? Why should any individual or agency support the organization? What benefit can accrue to the contributor for such support?

IV. How marketing affects case preparation.

A. A market is a distinct group of people and/or organizations that have resources which they want to exchange for products or benefits. In philanthropic fund raising, the exchange is based on values and societal needs, as articulated in the mission statement.

B. Organizations that take a marketing view of fund raising should consider the exchange potential when preparing the internal case statement and external case expressions.

   1. Exchange can be interpreted as "What values does the donor fulfill by giving?"
   2. Exchange benefits will have to be considered from the perspective of various giving markets: corporations, foundations, individuals, associations, etc.

C. The marketing process requires study and research to determine the following:

   1. Who are the potential donors?
   2. What will they require in the form of exchange?
   3. What are their interests, concerns, prejudices, conditioning, giving patterns?
   4. Who makes the decision about giving and what will affect these decisions? Who are the opinion-makers and what opinions do they hold about this organization?
   5. What will stir them to make a gift? What are the motivating forces? What are the exchange potentials and how can we emphasize them?

Illustrations of Mission Language for Mission Statements

Religious Organization

Community is the combination of bonds that make us one with one another. There are bonds within families, with friends, with humanity, with God. Community thrives best in a climate of peace and justice. Mutual nurturing, support, and affirmation flourish. Diversity is valued, power shared, unanimity sustained. All in all, needs are met.

Prominent School of Medicine

We are in the midst of one of the most profound intellectual revolutions of all time: the revolution in the biological sciences. Its implications for understanding life processes and for combating disease are boundless.

[Name of institution] is in the forefront of this revolution.

Centennial Campaign for a Major University

The fits and starts of progress have brought humanity to yet another critical juncture in its history. As we stand on the threshold of a new age, we face problems and opportunities of a magnitude that would have been incomprehensible a century ago when [name of institution] was founded. If this new age is to be a bright one, educated men and women must reach a deeper understanding than ever before of the complexities they face, of the ethical and moral dilemmas surrounding them, and of the interrelatedness of all decisions. If we wonder whether we are up to meeting these enormous challenges, we need only remind ourselves of humanity's past triumphs: the glories of ancient Greece; the renaissance of commerce, science, literature and art that swept away the dark ages in Europe; the industrial revolution; the settling and development of the American West.

Today we have the same imagination, wisdom, daring and energy that led to those revolutions in the human condition, and we have greater power - derived from modern science and technology and from accumulated records of the past as interpreted through its art, its artifacts and its chronicles - to help us shape the future.

Multi-Service Agency for Elderly and Disabled Adults

For frail or elderly adults, or ones with mental, emotional or neurological handicaps, the world can be an isolated place and life's options may seem limited. But neither age nor disability diminishes the need these adults have for care and services that increase their sense of health, companionship, dignity and respect. Their needs may be challenging, but through an alliance of resources and a dedication by those who serve them, their needs can be met.

Women's and Families' Service Organization

Innovation, renovation and growth have transformed the [name of area] from a scattering of farms and orchards to the nation's hub of high technology. Recognizing that such change has an impact on the emotional, social and economic well-being of our community, we offer continuity, comfort and support to thousands of individuals and families through a variety of programs and service.

Serving women, but reaching out to everyone, we work to break the barriers that deny individuals full and equal access to becoming contributing members of society. As a community resource, we are meeting the challenges of today, ready for tomorrow.

Leadership/Service Organization for Youth

There is no greater gift to the future than a generation of young people who are empowered with leadership skills and deeply committed to employing those skills in their local, state, national and global communities. The challenges to our society require leadership that is ethical, sensitive and aware of the needs of people and the environment. Without this leadership, our future as a nation and as a world is in peril.

Leadership/Service Organization for Youth

The quality of our tomorrow depends to a large extent on the education, encouragement and support these young people receive today. If they are to thrive in our chaotic times and exercise thoughtful citizenship as adults, we must equip them with the tools of success: leadership and problem solving skills, enhanced self-esteem, and opportunities to realize and fulfill their personal vocational potential.

Center for Music and Sound Technologies at a Major University

Sound. We use it, depend on it, speak with it, are warned by it, calmed by it, and make magnificent abstract structures out of it which we call music. Yet we are only now learning its true nature, the difference between its physical reality and our perception of it, and the remarkable way we are constructed - physically, psychologically, and even spiritually - to interact with it.

The Center for New Music & Audio Technologies will link [name of institution] various disciplines whose pursuits require research or creative work in the domain of sound: music, computer science, cognitive psychology, linguistics, architecture, and others. Truly interdisciplinary, it will thus join artists and scientists in an exciting interaction to stimulate scientific inquiry into foreseen areas and to create an art truly reflective of man's knowledge of his world through sound in the late 20th Century.

A Children's Television Resource Education Center

Childhood. It's a time we hold dear. The starting novelty. The wonder of discovery. The joy taken in new found knowledge. As adults, many of us treasure childhood memories, knowing that they somehow make us more human - that they help us see the world with more understanding and compassion.

Yet, from a child's eye-view, the world can be an awesome and confusing place. Each day children must face the challenge of deciphering the codes, understanding the symbols, and learning the skills that are necessary to piece together the puzzle of life.

Through the years, the Children's Television Resource & Education Center (C-TREC) has translated our concern for children into projects that include school curricula, media programming, an educational workshop series, and innovative products for both children and adults.

Our role is to provide the tools that help kids experience childhood as it was meant to be - with wonder, joy, and discovery intact.

A Health Program/Service

Next to the human face, hands are our most expressive feature. We talk with them. We play with them. We work with them. We comfort and love with them.

From a laceration to a complex amputation, an injury to the hand affects a person's life vocationally and emotionally.

[Name of institution] gives people back the use of their hands.

An Environmental Education Organization

We are challenged as never before in our history to reverse the environmental destruction and social injustices that are eroding our stability as a planet and a people. If we are to succeed, our actions must be directed by a profound appreciation of the interdependence of all living things and a bold commitment to support the dignity and diversity of all individuals.

The [name of organization] is meeting these challenges by engaging children and adults in hands-on, innovative programs promoting environmental awareness and humanitarian values. A 1600 acre wilderness preserve with teaching center and working farm, [name of organization] demonstrates stewardship of the land, fosters cooperation between groups, and offers the community an incomparable natural, educational, historic and recreational resource.

Food Bank Providing Meals to the Poor and Homeless

Hunger hurts. It denies dignity, lessens human energy, erodes community stability and impairs the potential of people and societies to achieve. Long the land of plenty, America now faces a crisis of hunger. An increasing number of its citizens are without food for the first time in their lives. For those of all ages who now confront hunger, sustenance must be provided and solutions must be sought.

The following, while not a "mission statement" in the purest sense, makes a compelling case for the organization (a center for abused boys which provides therapy not only to them but to their families) and weaves in the implicit mission of the organization.

At [name of institution] we have a simple purpose - to help children and their families overcome serious and complex problems.

Keeping our goals simple doesn't mean that meeting them is easy. Actually the task of reorienting the lives of children and families is highly complex, intensive work. But it is satisfying to know that we are making a difference in a few hundred lives each year.

In a society with enormous problems, we have chosen to work one-by-one with people in need. Instead of rhetoric, we prefer to let our actions speak for themselves.

When we help a youngster shun violence as a means of expressing anger, we have made the world a less violent place to live.

When we have helped a family parent more effectively, we have improved that family and tomorrow's families.

When a learning disabled child learns to read, we may be unlocking the potential of a future Edison, Galileo, Einstein, or a fine next door neighbor.

We are awed by the fact that - while one of our successes can be a productive member of society, raise a family, run a company, or coach Little League - a single failure will cost the community at least $500,000 over his lifetime for prison or hospitalization.

Help us solve some of the biggest problems faced by our society - child-by-child, family-by-family.

Arts Organizations Serving the Deaf Community

Communication is the basis for virtually all human transactions. Without the ability to communicate, people are cut off from each other in a way that impairs the transmission of knowledge, culture and friendship.

Private School

Each child has a unique and individual potential - spiritual, intellectual, emotional and physical. Children deserve the opportunity to develop this potential in an environment conducive to the development of character, good citizenship and a sense of personal responsibility.

Theatre

Theatre is a force that probes life, chides it, mirrors it, laughs at it and challenges it. Theatre exists not only to mirror life but to leave its mark on time.

Youth and Family Serving Organization

The cultivation of human potential and dignity is crucial to the survival of our culture. Feelings, spirit, identity, relationships are all important ingredients for human development. We exist in order to provide belonging for those who need to belong, care for those who need care, incentive for those who need incentives, achievement for those who need to achieve.

Law School

The law must serve society as an instrument to resolve controversy, to accommodate change, and to shape institutions. Seemingly irreconcilable controversies appear between differing life styles, younger and older generations, industry and labor, buyers and sellers, manufacturers and consumers, the poor and the affluent, minorities and majorities, men and women.

OPTIONAL WORKSHOP SESSIONS REPORTS

The following pages contain presentations from the three optional workshop sessions.

THE "COLLEGE TUITION" ANNUITY AND OTHER DEFERRED GIFT ANNUITY OPPORTUNITIES

Marc Carmichael, Esq.
R&R Newkirk Company

Deferred payment gift annuities historically have not "sold" as well as immediate payment annuities. One reason is that the deferred payment annuity lacks any refunding, death benefit or minimum payment features. If a donor arranges a gift annuity at age 55, with payment to begin at 65, then dies at age 62, everything remains with the charity [Code Sec. 514(c)(5)].

A recent private letter ruling, however, indicates a willingness on the part of the IRS to allow some flexibility with deferred payouts (Ltr. Rul. 9017071). Here were the facts of the ruling:

A donor plans to purchase an annuity from Calvin College for $10,000, with payments to be made to the donor and his wife starting in 1998 of $940 a year. The contract provides that if the donor or the wife dies before the scheduled start date of the annuity payments, the survivor may elect to receive a reduced annuity payment commencing before 1998. Will this plan qualify for a charitable contribution deduction? Will the charity have taxable income as a result of the annuity?

The IRS noted that in Rev. Rul 73-1, 1973-1 C.B. 117, a donor purchased an annuity from a charity that allowed him to elect any time before the commencement date to terminate the agreement and get all his money back. That ruling held that the donor's power to require repayment of the entire amount voided the charitable contribution entirely.

In this case, The IRS ruled, the option to receive reduced annuity payments prior to the start date of the annuity would not invalidate the charitable deduction because it was merely an additional provision of the contract governing the method of payment.

The IRS said it was unable to rule, however, on the amount of the charitable deduction or the value of the donor's annuity or on the application of Code Sec. 514(c)(5) — the so-called Clay-Brown rules — with respect to debt-financed income of the charity. Sec. 514(c)(5)(C) proscribes contracts that guarantee a minimum amount of payments, but the contact described in the letter does not do that; it simply says that the annuitants can take payments early, at a reduced level.

While the IRS would not rule on the charitable deduction available, the donors' advisers (Metz & Company, of Grand Rapids, Michigan) calculated a reduced payment schedule that would result in an identical charitable contribution, irrespective of when and whether a donor took an early, reduced payout. They basically calculated an annuity factor (the present value of the right to receive \$1.00 a year starting at some date in the future) for each year of the deferral period and divided that amount into the present value of the annuity calculated for the year of the gift. The result would be the annual payment that the charity could commence paying "early" if one of the spouses died.

This is "only a letter ruling" of course, but it does indicate the way the IRS is leaning. Seemingly, the same arrangement should work with a one-life annuity, perhaps allowing a donor to begin payments early in the event he or she suffers illness prior to the start date of the annuity.

Question: Could the donors build into the contract a lump-sum, or installment-payment option (along the lines of the college-funding gift annuity), in addition to the "early start date" provision? It would seem so. However, if the annuitant had a terminal illness, IRS might require a different valuation method.

A copy of the annuity contract that was submitted to the IRS, together with a schedule of reduced payments, is contained in Exhibit 1. The author expresses appreciation for the assistance of Philip Metz and Don Metz of Metz & Company, and John Heerspink of the West Michigan Planned Giving Group.

EXHIBIT 1

(Deferred Annuities)

Gift Annuity Agreement

This agreement is made on this 31st day of December, 1989, between _______________________________ of _______________________________ hereinafter called the "Donor," and Calvin College and Seminary, of Grand Rapids, Michigan, Hereinafter called the "Payor."

1. **Transfer of Property by Donor.** The Donor hereby transfers to the Payor, and the Payor hereby acknowledges receipt of, the amount of $10,000 in cash.
2. **Payment of Annuity.** In consideration for the money transferred by the Donor, the Payor agrees to pay the Donor and the Donor's wife, during each of their joint lives commencing in 1998 an annuity of $940.00 in equal amounts, and to pay the survivor of the Donor and his spouse an annuity of $940.00 during each year of his or her life. The annuity shall be paid in equal installments at the end of each calendar quarter, with the first installment due on March 31,1998.
3. **Reduced Annuity Amount.** In the event of death of the Donor or his spouse prior to the commencement of the annuity in 1998, the survivor of the Donor or his spouse shall have the option to elect to receive reduced annuity payments, the amount of the payments being dependent upon the date the annuity payments begin. The reduced annuity shall be paid in equal installments at the end of each calendar quarter, with the first installment due on the March 31 on the first year following the year in which the election is made. The reduced annuity amounts shall be as follows:

Option Election	Reduced Annuity Amount
1990	$397.08
1991	$447.32
1992	$504.47
1993	$569.64
1994	$644.08
1995	$729.35
1996	$827.25
1997	$940.00

4. **Nonassignability of Annuity.** The annuity specified in Paragraph 2 and the reduced annuity specified in paragraph 3 shall be nonassignable, except to the Payor.
5. **Termination of Annuity.** The obligation of the Payor under this agreement shall terminate with the regular payment next preceding the death of the survivor of the Donor and his Spouse.

Executed this 31st day of December, 1989.

/s/_______________________________

DONOR

Calvin College and Seminary

BY:/s/_______________________________

PAYOR

THE "COLLEGE TUITION" ANNUITY AND OTHER DEFERRED GIFT ANNUITY OPPORTUNITIES

Emanuel J. Kallina, II, Esq.
Kallina & Associates

Executive Summary

"A tax-exempt educational institution [Gettysburg College] intends to engage in the sale of deferred gift annuities. Under the plan, donors will make a payment of cash or property in return for an annuity. The gift portion of the consideration paid by the donor will be eligible for a charitable contribution deduction. Each donor will designate one recipient and may designate an alternate recipient. The recipient is entitled to a lifetime payout but has the option to sell or assign the annuity to the college or to a third party in return for a lump-sum payment or installment payments over several years. It is contemplated that recipients will use funds generated by the annuity to attend the college, but that is not required and recipients may use the funds for any purpose." General Counsel's Memorandum 39826, issued August 27, 1990.

Gettysburg College (the "College") intended to invest the monies received from the sale of the gift annuity at a rate of return high enough to fulfill its commitment to the donor, while at the same time leaving a significant residue for its own charitable purposes. **For a summary of economic and tax aspects, see Exhibits L-1 to L-6**.

This arrangement ran into technical difficulties because the initial contribution and the income earned thereon could be subject to tax as unrelated business income, the College could be taxed as an insurance company and/or the College could lose its tax exempt status, unless the gift annuity met the criteria of Code §514(c)(5).

The difficulty in complying with Code §514(c)(5) lay in the requirement that the annuity be payable over the life of one or two people and not have a minimum or maximum payout period. The College obviously desired to commute payments so that the annuity monies could be bunched together to pay tuition during the college years, rather than being spread out over the annuitant's lifetime.

In light of the significant tax risks, especially if the Deferred Gift Annuity Tuition Plan ("DGA Tuition Plan" or "Plan") were extremely successful, the College requested a private letter ruling from the Service and offered three alternative theories why it complied with Code §§514(c)(5) and 501(m).

The third theory was accepted by the Service, namely that a standard gift annuity, payable for the life of one or two individuals, could be issued, and the annuitant could sell or exchange the annuity prior to the annuity starting date for one or more installment payouts. Apparently, the Service agreed with the College that the annuity was a property right and as such could be sold or assigned.

THE "COLLEGE TUITION" ANNUITY

I. THE TAX BACKGROUND - TAXATION OF GIFT ANNUITIES

A. Tax Implications to the Donor Upon the Gift

[Note: The word "Code" means the Internal Revenue Code of 1986, as amended from time to time. Unless clearly indicated to the contrary, all references to "§," "Sec." or "Section" refer to the Code.]

1. **Generally** — A gift annuity is a gift of cash or other property to a charity in return for an annuity. For purposes of this paper, we will assume that the annuity is only payable for one or two lives. See, §514(c)(5)(B) and the discussion later regarding §514(c)(5). The gift annuity can be divided into two components: a sale portion and a gift portion. The first component is really a sale of the gifted property in return for a fixed income (or annuity) for life (the "sale portion"). The fixed income for life is valued (as set forth below) and the difference between the fair market value of the gifted property and the value of the lifetime payout is the "gift portion." Without the intention of making a gift, no gift exists. See, U.S. v. American Bar Endowment, 106 S.Ct. 2426, 86-1 USTC ¶9482 (1986). A gift annuity is taxed according to the same rules as a bargain sale to charity, and accordingly is governed by the "part gift/part sale" under §1011(b); see, Reg. §1.1011-2(a) - (c); Reg. §1.1011-2(c)(ex. 8); Reg. §1.170A-4(b) - (d); and Rev. Rul. 84-162, 1984-2 C.B. 200. See also, Terry L. Simmons, "Planning Opportunities With Gift Annuities and Bargain Sales," Third National Conference on Planned Giving, National Committee on Planned Giving, Oct. 14, 1990.
2. **Determining the Amount of the Charitable Gift**
   a. **Determining the Rate**
   The Committee on Gift Annuities ("CGA") establishes a rate, computed in general as follows: (i) determine the age of the person receiving the annuity (the "annuitant"); (ii) reduce the age by one year (assume the annuitant is one year younger); (iii) determine the mortality rate using 1983 mortality tables for a female; (iv) assume payments are made semi-annually at the end of each period; (v) assume that the rate of interest is 6 1/2%; (vi) assume a 5% load for expenses of administration; (vii) assume a 50% "residuum," meaning that 1/2 of the initial gift

will remain once all payments have been made and the annuitant dies; (viii) compute the residuum by determining the net present value of a single sum of money which will grow to 50% of the gifted amount, at the assumed interest and mortality rates; (ix) subtract the present value of the residuum and the 5% load from the gifted amount; (x) divide the result by a single premium discounted present value factor for a life annuity of $1 per annum based on the age of the annuitant; and (xi) divide the result by the gifted amount to determine the CGA rate. See, Committee on Gift Annuities, "Tax Implications of an Annuity Gift (Based on IRS Valuation Tables Effective May 1, 1989 and Expected Return Multiples Effective July 1, 1986, reflecting May 5, 1983 Rates, Reconfirmed April 6, 1989 by Twentieth Conference on Gift Annuities, Nov., 1989)," also known as the "Green Book." Note: Please see Michael Mudry, Senior Vice President of Hay/Huggins Company, Inc., Philadelphia, PA for a more technical explanation.

For example, if the gifted amount is $10,000, the load is $500, the residuum (based upon the above mortality rates and interest assumptions) is $2,000 and the present value factor at the issue age for an annuity of $1 per year for life was $10, the annual annuity which could be paid would be $750 ($10,000 less $500, less $2,000, divided by 10), and the rate would be 7.5% ($750 divided by $10,000).

Deferred Gift Annuity Rates — A deferred gift annuity is an annuity which commences payments more than one year from the date the donor transfers the gifted property to the charity. The rate is determined as set forth above in I.A.2.a.(1), and then "compounded annually at a given rate of interest for the period until the annuity begins." See, Committee on Gift Annuities, "Deferred Gift Annuities — Guide for Calculation of Rate and Gift Value (Based on IRS Valuation Tables Effective May 1, 1989, reflecting May 5, 1983 Rates, Reconfirmed April 6, 1989 by Twentieth Conference on Gift Annuities, Nov., 1989)," also known as the "Yellow Book," especially Schedule 14 thereof, which is attached as Exhibit A.

b. **Computing the amount of the charitable gift** — The amount of the charitable gift is determined by: (i) multiplying the rate determined in I.A.2.a. above by the amount of the gift; (ii) multiplying this result by the value of an annuity for the actual age of the annuitant, using Table S of IRS Publication 1457 for the so-called "Charitable Midterm Federal Rate or "CMFR"

(120% of Applicable Federal Rate for mid-term bonds rounded to the nearest .2%) for the current month (or for either of the immediately preceding two months); (iii) in turn multiplying this result by the Table K factor (Publication 1457) for the appropriate CMFR to adjust for the fact that the payout is to occur at the end of the payout period (this number constitutes the adjusted present value of the lifetime payout, sometimes referred to as "present value of the annuity" or the "sale portion"); and (iv) subtracting the present value of the annuity from the fair market value of the gifted asset, to produce the amount of the charitable gift. See, PG Calc computations attached as Exhibit B for an immediate gift annuity, and PG Calc computations attached as Exhibit C for a deferred gift annuity.

3. **Income Tax Consequences to the Donor Upon the Sale/Gift**
   a. If the donor contributes cash (or an asset where the fair market value and adjusted basis are equal), there are no income tax consequences to the donor with respect to the "sale" of the cash in return for the annuity.
   b. If the gifted property has appreciated in value, gain is "realized" (but not necessarily "recognized") by the donor to the extent that the present value of the annuity exceeds the basis allocated to the annuity. According to Reg. §1.1011-2(b), the basis in the gifted property must be allocated between the sale portion and the gift portion. The present value of the annuity, divided by the fair market value of the gifted property, times the adjusted basis of the gifted property, is the amount of the adjusted basis to be allocated to the sale portion.
      (1) If the gain is long-term capital gain, the gain will be pro-rated over the life expectancy of the donor, provided that the annuity is nonassignable (except to the charity issuing the annuity) and that the donor and/or a contingent survivor annuitant are the only annuitants.
      (2) If the gain is short-term capital gain or ordinary income, or the terms and conditions of I.A.3.b(1) above are not met, such gain will be recognized immediately to the donor for income tax purposes. See, Reg. §1.1011-2(c)(Ex.8).
      (3) If no charitable deduction is available (as set forth below), no allocation of basis to the sale portion is required. See, Reg. §1.1011-2(b); see also, Rev. Rul. 55-388, 1955-1 C.B. 233. Therefore, gain will only be recognized to the extent that the sale portion exceeds the aggregate adjusted basis of the gifted property.

c. The amount of a mortgage encumbering gifted property is treated as cash received by the donor at the time of the gift. Basis is pro-rated as discussed above, and gain is realized and recognized immediately. See, Reg. §1.1011-2(a)(3) and (b); Rev. Rul. 81-163, 1981-1 C.B. 433; and Rev. Rul. 79-326, 1979-2 C.B. 206. If the gifted property is a partnership interest, the same result follows. See, Rev. Rul. 75-194, 1975-1 C.B. 80.

4. Charitable Income Tax Deduction for the Donor

a. In general, a charitable income tax deduction for an individual is available to the extent of the gift portion.

b. The charity must pay the annuity out of its general funds, and not out of a trust or segregated account or out of the gifted property (as is the case with a charitable remainder trust or pooled income fund). See, Rev. Rul. 80-281, 1980-2 C.B. 282; PLR 8851030; §2522(c)(2); and Reg. §1.170A-1(d). [Query: does the Rabbi Trust concept have any applicability here?]

c. In general, charitable deductions are limited by the rules of §170(b)(1)(A) (for cash gifts to public charities, 50% of adjusted gross income), §170(b)(1)(B) (for cash gifts to private foundations, 30% of adjusted gross income), §170(b)(1)(C) (for gifts of long-term capital gain property to public charities, 30% of adjusted gross income), §170(b)(1)(D) (for gifts of long-term capital gain property to private foundations, 20% of adjusted gross income). There are also exceptions, additions and adjustments to the limitations of §170(b)(1)(A)-(D). See, §§170(b)(1)(E)-(F) and 170(d) (relating to carryovers of excess contributions) and the regulations thereunder; see also, §170(f)(5) which limits the charitable deduction by the amount of any liability assumed; see also, Estate of P. E. Bullard, 87 T.C. 261 (1986), where the Tax Court declared invalid Reg. §1.170A-4(c) and Reg. §1.1011-2 which required the deduction be reduced by 100% of the unrealized appreciation inherent in the entire property; and T.D. 8176, 53 Fed. Reg. 5568 (2/25/88) which amended the regulations accordingly.

d. §170(e) also limits charitable deductions

(1) Tangible personal property — If a gift of tangible personal property to a charity is not used to further its exempt purpose and the donor did not, at the time of making the gift, have a "good faith" belief that the charity intended to use the gift to further its tax exempt purposes, the charitable deduction will effectively be limited to the adjusted basis of the gifted property.

(2) Short-term capital gain property — the charitable deduction is reduced as in I.A.4.d.(1) above for tangible personal property.

(3) Ordinary income property — the charitable deduction is reduced as in I.A.4.d.(1) above for tangible personal property.

(4) Recapture property — the charitable deduction is reduced by the amount of the recapture.

(5) Private foundations — the charitable deduction is limited to basis except where gifted property is marketable securities. See, §170(e)(5).

(6) Note: §170(e) should be applied first in order to determine if §1011(b) applies.

e. §170(b)(1)(C)(iii) provides special rules and an election so that the 30% percentage deduction limitation on capital gain property can be raised to 50%, but is limited to basis and causes a loss of any carryover.

5. Gift Tax Implications to the Donor

a. The Donor's Charitable Gift Tax Deduction — §2511 provides that a gift tax applies whether a gift is in trust or otherwise, whether it is direct or indirect and whether the property is real or personal, tangible or intangible. Where property is transferred for less than adequate and full consideration in money or money's worth, §2512(b) provides that the amount by which the value of the gifted property exceeds the value of the consideration received (the sale portion) is a gift. §2522 permits a charitable gift tax deduction for amount of the gift. See, Rev. Rul. 80-281, 1980-2 C.B. 282; and Rev. Rul. 70-15, 1970-1 C.B. 20. The donor must file Form 709 to claim a deduction if the gift exceeds $10,000.

b. Gift Tax Implications to the Donor of an Immediate Annuity (where the donor is not the sole annuitant)

(1) Donor is not an annuitant — If the donor is not an annuitant, he has made a gift to the annuitant of the present value of the annuity as computed above. In general, if the annuity is immediate, the gift qualifies as a present interest and the $10,000 per person (donee) exclusion of 2503(b) can be used. If there is more than one annuitant and the donor retains the right during life or under his will to revoke the interest of an annuitant, no gift will exist (as to such annuitant), because the right to revoke creates an incomplete gift under 2511. See Reg. 25.2511.2(b). Retention of this right

or retention by the transferor of the right to relinquish his or her own annuity does not cause the capital gain tax to be accelerated. See Reg. 1.1011-2(a)(4)(ii).

(2) Donor gifts separate property and donor and spouse are consecutive annuitants — If the donor contributes his separate property (i.e., his wife is not a co-owner) and if the annuity provides for payments to the donor for his life, followed by payments to his spouse for her life, the annual exclusion of §2503(b) is <u>not</u> available, but the marital deduction is available under §2523(f)(6). This result occurs because the wife cannot presently enjoy the gift because it is a gift of a "future" interest in violation of §2503(b). As to the marital gift tax deduction, this is available and the election is automatic, unless the executor elects out under §2523(f)(6)(B). Any danger of loss of the marital deduction in this area can be avoided by the donor retaining the right during life or under his will to revoke his wife's interest in the annuity, since such a contingency creates an incomplete gift under §2511. <u>See</u>, Reg. §25.2511-2(b). Retention of this right or retention by the transferor of the right to relinquish his or her own annuity does not cause the capital gain tax to be accelerated. <u>See</u>, Reg. §1.1011-2(a)(4)(ii).

(3) Donor and wife gift jointly held property and donor and spouse are equal annuitants. If a husband and wife gift property which is co-owned (whether as community property, tenants by the entireties, joint tenants with right of survivorship or tenants in common), and each is to receive 50% of the annuity with 100% to the survivor, a gift exists if the present value of the survivor annuity of one of them is greater than that of the other (which is likely). Once again, the annual exclusion is not available, but the marital deduction can be utilized.

(4) Donor gifts property with himself and another as annuitants — If the donor gifts property and he is named as an annuitant with another individual, whether they be consecutive or concurrent annuitants, a gift has been made as set forth in I.A.5.b.(2) above.

c. Gift Tax Implications to the Donor of a Deferred Gift Annuity

(1) Generally, all of the above rules regarding the gift tax consequences of immediate annuities apply within the context of the deferred gift annuity, except that the deferral

causes the gift to be one of a future interest and so the annual exclusion under §2503(b) is not available. See, Reg. §25.2503-3(a).

(2) If the annuitant can sell the annuity back to the charity or to a third party (caveat: acceleration of capital gain taxes) for an immediate payout, then the annuity, even though deferred, should still be a gift of a present interest under §2503(b).

6. **Estate Tax Implications to the Donor**

   a. **Donor is the sole annuitant** — If the donor is the sole annuitant, there are no estate tax implications, since the annuity terminates with the donor's death. See, §2039(a).

   b. **Donor is not the sole annuitant (no right to revoke)** — If the donor is not the sole annuitant and does not retain the right to revoke during life or at his death, there is an immediate gift to the other annuitant. The present value of the gift is includible in the donor's adjusted taxable gifts under §2001(b), and the present value of the survivor's annuity is includible in the donor's gross estate under §2039(a), assuming that the other annuitant survives the donor.

   c. **Donor is not the sole annuitant (but retains the right to revoke)** — If the donor is not the sole annuitant but does retain the right to revoke a survivor annuitant's interest, then no gift occurs until the donor's death and the then present value of the survivor annuity is includible in the donor's gross estate under §2038(a)(1) (as a revocable transfer), and also §2039(a) (annuity payable to a survivor beneficiary), assuming that the other annuitant survives the donor. If the other annuitant is the donor's spouse, the donor's estate should be entitled to a marital deduction under §2056.

7. **Generation Skipping Tax Implications to the Donor**

   a. **A skip person is an annuitant** — A direct skip will occur upon the creation of the gift annuity if the sole annuitant is a skip person. Similarly, if a grandfather creates a gift annuity with his son as the primary annuitant and a grandchild as the survivor annuitant, at the death of the child there will be a taxable termination. In either event, it is imperative that the charity is not required to pay any generation-skipping transfer tax, or no charitable tax deduction will be allowable.

   b. **Protecting the charitable tax deductions** — The charitable tax deduction can be protected in a number of ways: (i) if the grandchild is the primary annuitant, the present value of the income payments may be equal to or less than the $10,000 per donee exclusion of Code §2503, or $20,000 for split gifts by husband and wife under Code §§2503 and 2513; (ii) the donor can always provide by will that his or her estate will be responsible for the payment of any such generation-skipping transfer taxes; (iii) the surviving annuitant can be required under the annuity agreement to consent to the payment of such taxes prior to being entitled to any benefits under the gift annuity; and (iv) the donor can allocate his or her $1,000,000 generation-skipping transfer exemption under Code §2631 to the non-charitable portion of the annuity.

B. Tax Implications to the Annuitant(s) Upon the Payout

1. **Generally** — An immediate or deferred gift annuity is taxable to the annuitant under the rules of §§1011(b) and 72 and the regulations thereunder.
2. **Gifted Property is Cash** — Where cash or other property which has not appreciated is gifted, in order to determine the income tax implications to the annuitant, the following steps must be taken: (i) multiply the amount of the annual annuity by the annuitant's life expectancy (the "expected return multiple") as determined under Table V (Note: Table V is for single lives, Table VI for 2 lives), in order to obtain the "expected return"; (ii) divide the present value of the annuity (the "investment in the contract") by the expected return, in order to obtain the "exclusion ratio"; (iii) multiply the exclusion ratio by the annual annuity amount in order to obtain the amount annually excluded from taxation (the "annual exclusion"); and (iv) subtract the annual exclusion from the amount of the annual annuity to determine the amount each year which is ordinary income. For an example, see Exhibit B.
3. **Gifted Property is Long Term Capital Gain Property** — Where appreciated long term capital gain property is gifted, in order to determine the income tax implications to the annuitant, the following steps must be taken: (i) subtract the adjusted basis of the sale portion as determined in I.A.3.b above from the present value of the annuity as determined in I.A.2.b above to determine the long term capital gain which must be reported; (ii) divide the long term capital gain by the annuitant's life expectancy (the "expected return multiple") as determined under Table V (Note: Table V is for single lives, Table VI for 2 lives), to ascertain the amount of long term capital gain which is to be reported annually; (iii) multiply the amount of the annuity as determined above by the expected return multiple in order to obtain the "expected return"; (iv) divide the

present value of the annuity (the "investment in the contract") by the expected return, in order to obtain the "exclusion ratio"; (v) multiply the exclusion ratio by the annual annuity amount in order to obtain the amount annually excluded from taxation (the "annual exclusion"); (vi) subtract the annual exclusion from the amount of the annual annuity to determine the amount each year which is ordinary income; and (vii) subtract the long term capital gain to be reported annually from the annual exclusion to arrive at the amount which is not reportable as gain. After all long term capital gain is reported, the annuitant only needs to report the ordinary income component thereafter. For an example, see Reg. §1.1011-2(c)(Ex. 8), attached as Exhibit D, and PG Calc computations attached as Exhibit E.

C. Taxation of the Charity

1. **Loss of Tax-Exempt Status** — Under §501(m)(1), a charity can lose its tax exempt status if a substantial part of its activities consists of providing commercial-type insurance. The issuance of a gift annuity is "commercial-type insurance," unless the annuity qualifies as a "charitable gift annuity" for which a deduction is available under §170 or §2055 and fulfills the requirements of §514(c)(5). See, §501(m)(5). Most practitioners do not believe that this section of the Code presents any great dangers, although the Internal Revenue Service (the "Service" or "IRS") has yet to define "substantial part."
2. **UBIT** — Even if the issuance of annuities is not a substantial part of the charity's activities and thus the charity is not in danger of losing its tax-exempt status, the issuance of annuities, other than qualified "charitable gift annuities," is to be treated as an unrelated trade or business, and in lieu of the corporate tax imposed by §511, the charity will be taxed as an insurance company. See, §501(m)(2)(b). One can only speculate upon the federal and state tax and insurance law implications of this Code provision. Does this mean that the charity must file tax returns for this activity as if it were an insurance company? How much will it cost to hire someone to file these returns? How difficult will it be to find someone with this expertise? Does this require a corresponding filing with the charity's state income tax division? Would such a return cause the state to regulate the charity as if it were an insurance company under the state laws dealing with insurance?
3. **§514(c)(5)** — If a charity were to issue annuities which did not qualify as charitable gift annuities, not only can the charity face adverse implications from losing its tax-exempt status or being

taxed as an insurance company, but the charity can <u>also</u> be taxed under §511. §514(c)(5) provides:

"(5) Annuities.—For the purposes of this section, the term "acquisition indebtedness" does not include an obligation to pay an annuity which

(A) is the sole consideration (other than a mortgage to which paragraph (2)(B) applies) issued in exchange for property if, at the time of the exchange, the value of the annuity is less than 90 percent of the value of the property received in the exchange,

(B) is payable over the life of one individual in being at the time the annuity is issued, or over the lives of two individuals in being at such time, and

(C) is payable under a contract which

(i) does not guarantee a minimum amount of payments or specify a maximum amount of payments, and

(ii) does not provide for any adjustment of the amount of the annuity payments by reference to the income received from the transferred property or any other property."

If a charity issues an annuity which fails to qualify under §514(c)(5), the annuity creates "acquisition indebtedness" under §514(c) which produces "unrelated debt-financed income" under §514(b), thus resulting in unrelated business taxable income under §§514(a) and 512, which income is taxed under §§511 and 11 at normal corporate rates. In negotiations prior to the issuance of the two PLRs, the Service initially took the position that all contributions to the Plan were unrelated business taxable income to the charity.

D. Regulation under State Laws

Although not necessarily a tax matter, attention should be paid to the various state laws which regulate the issuance of gift annuities. Some states may treat the gift annuity in the same fashion as a commercial annuity. It is very important to seek the help of competent counsel on this issue, since "inappropriate" questions to state officials may cause more attention than you desire.

E. Taxation of the Deferred Gift Annuity Tuition Plan

1. **Factual Background** — The DGA Tuition Plan, as set forth in the Executive Summary above, is a deferred gift annuity issued by a charity which commences with a lifetime payout to the annuitant during a child's 1st year of college. The annuitant, the one who receives the annuity payments, can be the grandparent, child or grandchild in a typical scenario. Initially, the deferred gift annuity

is payable for a lifetime, but simultaneous with the issuance of the annuity, the annuitant usually sells the annuity to the charity in return for a 4 year installment payout during the college years.

2. **Taxation of the DGA Tuition Plan** — In general, all of the above rules concerning the taxation of annuities apply to the DGA Tuition Plan. One must consider whether or not 10% additional tax of §72(q) is applicable to the "installment" payments under the DGA Tuition Plan.
3. **Income Tax Issues on the Sale of the Gift Annuity** — One distinction between a deferred gift annuity payable in 4 installments and a normal deferred gift annuity is that there is an extra step in the process, namely the sale of the former for the latter. An obvious question arises the income tax implications of selling the lifetime annuity for a 4 year term certain annuity (see the Executive Summary on page 237). Under Code §72, as long as this sale takes place prior to the annuity starting date, there should be no acceleration of income taxes. See, Code §72(e)(2)(B) and Reg. §1.72-11(e). In addition, the new annuity contract should have the same exclusion ratio as the old, pro-rated over the 4 year term certain.
4. **THE BIG DANGER** — Assume a small college institutes a DGA Tuition Plan which is modestly successful: it has 100 participants enter the plan each year for 5 years, averaging $25,000 per participant, and raises a total of $12,500,000. If the gift annuity does not meet the requirements of §514(c)(5) discussed in I.C above, arguably the charity will have $12,500,000 of taxable income. The federal tax will be approximately 33%, so the charity will have $4,000,000+ of taxes due, plus probable interest and penalties of an equal amount, amounting to a total bill of over $8,000,000. The charity will also have state taxes, penalties and interest to pay, along with a huge legal bill. It will still have to pay the promised annuity! It might also be taxed as an insurance company under Subchapter L. If things really go bad, it could also lose its tax-exempt status.
5. **THE BOTTOM LINE** — If your charity issues gift annuities or will be instituting a DGA Tuition Plan, discuss the matter with your tax counsel. If counsel has any doubts as to whether or not your deferred gift annuities qualify under §514(c)(5), give him/her the authority to obtain a private letter ruling.

   GCM 39826 and PLRs 9042043 and 9108021 cannot be relied upon by the public. Specifically, in PLR 9042043 (as in all PLRs) the Service states: "This ruling is directed only to the organization that requested it. Section 6110(j)(3) of the Code provides that it cannot be used or cited as precedent."

II. History of the Deferred Gift Annuity Tuition Plan

A. The Players

1. Michael P. Goodrich, President of Charitable Consultants, Inc. — helped originate and develop the idea.
2. Bruce E. Bigelow, former Director of Planned Giving and William P. VanArsdale, Sr., Vice President and Treasurer, of Gettysburg College — bought the idea and helped develop and mature the concept.
3. Internal Revenue Service — didn't like the idea.
4. The Honorable Benjamin L. Cardin, House of Representatives, 3rd Congressional District of Maryland, and Ben's Administrative Assistant, David Koshgarian — liked the idea and were willing to help.

B. The Beginning

1. **Filling a vacuum**
   a. **A Tuition Plan for Parents** — From the outset, there was a significant void in the market. There was no plan or program which was adequately addressing the skyrocketing costs of higher education, and parents' ability to save enough money for their children's education. See, chart of tuition increases, attached as Exhibit F. Many parents had little or no prospect of ever being able to educate their children at an institution of higher learning.
   b. **An Endowment for our Charities** — If there was a void regarding the funding of education from the parents' perspective, there was an equally great void from the perspective of the charity. Little time and attention had been devoted to establishing long-term endowment programs which would be necessary to meet the demands of decreased enrollment, decreased federal aid, increased operating costs, increased capital maintenance costs, increased capital improvement costs and a stagnant economy. It was obvious 5 years ago, and is clear now, that charities were not and are not adopting a long-term approach to education and the attendant costs.
2. **Competitive from Both Perspectives** — The DGA Tuition Plan needed to meet both goals, namely to provide a program for funding education and to create a long-term endowment. If the Plan was to be successful, it could not achieve one goal at the expense of the other. Further, in order for the charity to benefit from this program, the Plan needed to be tied to the charity in some fashion.

3. **Tax Benefits** — The Plan needed to have a high rate of return, after tax, if it were to meet the needs of the parent for an educational fund and the charity for an endowment fund. Ideally, the monies needed to grow on a tax-free basis, accumulating during the pre-college years. It appeared that the only way to squeeze enough economic benefit out of an investment to meet both goals was to find a charitable vehicle which could be invested, grow and pay out on a tax-free basis. Thus the Deferred Gift Annuity Tuition Plan was born — it provides a partial tax deduction when the contribution is made, grows tax-free and pays out on a partially tax-free basis.
4. **Simplicity** — The Plan needed to be presented in a simple fashion to prospective donors. As with most good products, it was immensely complex from a legal and tax standpoint. A "Question & Answer" format seemed to be the best alternative. See, the attached Exhibit G (where the investment vehicle was insurance). Further, the only document the donors had to sign would be a simple one or two page agreement. See, Marc Carmichael, "College Tuition Funding Gift Annuities and Other Gift Annuity Developments," Fourth National Conference on Planned Giving, National Committee on Planned Giving, Oct. 13, 1991.
5. **Flexibility**
   a. **Limits on Schools to Attend** — Some existing tuition plans seemed extremely limited in scope and flexibility. For example, Michigan and Florida would only permit the student to attend a public school in their states. Failure to go to school in state or to a state public school resulted in a forfeiture of all interest, with only principal being returned to the donor. Concerning the first tuition plan, instituted by Duquesne University, one individual commented: "...parents who joined the program made two chancy assumptions...[that] Duquesne will still be a good university in 18 years, and that their kid will want to go to the same school where dear old dad went." Ideally, the DGA Tuition Plan should not require a student to attend any particular institution in any particular state. In fact, if the student failed to attend college, the guaranteed monies should still be paid, without any forfeiture or penalty.
   b. **Limits on Expenses Covered** — Some existing plans permitted the student to use plan monies only for tuition, but not for room and board and other necessary costs. Such was and is the case, for example, with the Michigan Plan and Series EE bonds. Obviously, the DGA Tuition Plan should be structured to pay all types of expenses.

6. **Economically Sound** — Some tuition plans arguably were not economically sound. For example:
   a. **Michigan** — In Michigan 85,000 families signed up for the tuition program <u>during the first week</u>. Later, Michigan found out the vehicle it was utilizing, a trust, was not tax-exempt, at least according to the Service. Currently the matter is in litigation. Based upon a projected annual tuition increase of 7%-10%, Michigan would have to earn over 15% annually on an initial investment of $6,756 in order to meet its financial commitments. I am not aware whether Michigan is standing behind the financial commitments of the trust, or the trust is solely responsible for the tuition payments based upon its available assets. Currently, the Michigan Plan has been discontinued.
   b. **CollegeSure™ CD** — A bank in Princeton, N.J., the College Savings Bank, has instituted a program to issue Cds to interested parents. The CD's interest rate is pegged at 1% to 1 1/2% below the college tuition inflation rate. Some financial analysts have questioned the economic viability of the bank in the event that tuition inflation rates significantly exceed interest rates. The Bank contends it has more than enough in reserve to cover this contingency.
   c. **DGA Tuition Plan** — The Plan's payout rate should be at least as conservative as the rates established by the CGA computation (<u>see</u>, I.A.2.a above). Thus, the Plan in and of itself should not jeopardize the issuing charity's economic status. The purpose or intent of the Plan was to produce a product which was extremely conservative, but yet offered the donor a reasonable rate of return.
7. **Logically Ordered and Conceived** — Many existing plans were not well-conceived, since they first focused on an investment product to fulfill the need for college funding, then considered marketing, and ended with a legal and tax analysis. The DGA Tuition Plan began with the legal and tax, next addressed the investment alternatives and finally focused on marketing.

C. The Submission

Bruce E. Bigelow and William P. VanArsdale at Gettysburg College liked the Plan from the outset, and decided to institute it. Bruce in particular was responsible for molding the program into a viable vehicle for Gettysburg. However, Bruce and Van were concerned with the potential adverse tax consequences outlined above, and decided a private letter ruling request was the safest route.

D. The Ruling Request

Accordingly, a private letter ruling request was submitted to the Service in July, 1988, explaining that Gettysburg was an institution of higher learning which was attempting to utilize the deferred gift annuity concept to enable parents and grandparents to save for college education, while at the same time raising money for the College so it could continue to perform its charitable function. Every communication with the Service for the next 11 months resulted in their request for further information or a response that the request was being processed. The Service would not commit to a time period for a response.

E. The Congress

Finally, Maryland Congressman Benjamin L. Cardin, a supporter of charities, intervened. If the Service did not want to rule, maybe he could at least get them to talk.

F. The Meeting

1. **In general** — After some difficulty, the Service finally met one year after the submission. They noted our plan was receiving a speedy response, compared to one state which had to wait for two years to obtain a negative ruling. They indicated their dislike of the proposed DGA Tuition Plan, especially because it was partially tax-free upon the contribution, grew on a tax-free basis and was partially tax-free upon the payout. They noted that one state plan was not partially tax-free on the front or back end, and that they had determined the fund was taxable as it grew.
2. **UBIT** — The Service argued that the deferred gift annuity was payable for the 4 college years only and thus did not meet the requirements of §514(c)(5)(B) because it was not payable over 1 or 2 lives and did not meet the requirements of §514(c)(5)(C)(i) because it had both a minimum and a maximum number of payments (namely 4). Consequently, they reasoned, every dollar contributed to the Plan was taxable as unrelated business income.
3. **Gettysburg's Argument** — The College argued (i) that the DGA Tuition Plan was substantially related to its tax-exempt purpose and so no UBIT arose, (ii) that the annuity was "payable" as required by §514(c)(5)(B) over the life of one or two annuitants and was merely commuted, and (iii) that the annuity would be structured for a lifetime payout, but that the annuitant would probably sell or commute it immediately so that it would only pay out during the 4 college years.
4. **Conclusion** — After 2 hours, it was clear that the Service was still not happy, but they did consent to one more amendment to our

earlier request. They strongly indicated a "negative ruling" would be issued and urged that the ruling request be withdrawn.

G. The Answer

In July, 1990, the Service called to say it was going to issue a ruling, a favorable ruling. This result was and still is inexplicable. The author does not take credit for this unexpected turn-around.

H. The GCM

General Counsel's Memorandum 39826, attached as Exhibit H, was issued Aug. 27, 1990, a little less than 60 days before the PLR 9042043 was open to public inspection!

I. The PLRs

PLR 9042043 is attached hereto as Exhibit I. PLR 9108021 is substantially similar and is not reproduced.

III. MARKETING

A. Advantages of the DGA Tuition Plan

1. **Example** — As a typical scenario, assume a grandparent desires to contribute $10,000 cash on behalf of his 5 year old grandchild and purchases a deferred gift annuity which guarantees a fixed payout for 4 years commencing when the grandchild is projected to be entering college.
2. **Competitive Rate of Return**
   a. **CGA Rates** — According to PG Calc and Exhibits B and C, a lifetime payout commencing immediately would be $600 per year, and a lifetime payout commencing at age 18 would be $1,120 per year. If the lifetime deferred gift annuity were sold for 4 installment payments commencing at the college years, the payout each year for 4 years would be $3,949.22, for a total of $15,796.88. See, PG Calc computations for a cash gift and for a gift of appreciated property, attached as Exhibits J and K, respectively.
   b. **A Change in the Recommended Payout?** — The CGA rate in I.A.2.a above is predicated upon a life expectancy and an earnings period which may well extend for 70-80 years. The rate as computed using a 6 1/2% interest assumption must be conservative, or we could impair the economic stability of our charitable institution and in turn jeopardize the very payout upon which the donor is relying. There is, nonetheless, an argument that the CGA rate should be increased where the investment period is significantly shorter and a much more accurate prediction of investment performance is possible. For

example, 70-80 year Treasury Bills or high-grade corporate bonds are not available in the marketplace today, but a similar investment with a 20-25 year term can easily be acquired. Obviously, the answer to this question must come from such individuals as Tal Roberts, Conrad Teitell, Terry Simmons, Michael Mudry, etc.

c. **Some Examples of a New Payout Rate** — Attached as Exhibits L-1 to L-6 are a number of Lotus 1-2-3™ projections, showing different assumptions concerning rate of growth (Column 3) and payout rate (Column 4). These projections assume a contribution of $10,000, a CMFR rate of 8.4% (April, 1992), a donor's tax bracket of 36% (Column 11) and an annuitant's tax bracket of 15% (bottom of page, in Column 7).

d. **Economic Benefits** — The Lotus projections show that the donor can receive a reasonable rate of return, while the charity at the same time can receive a substantial economic benefit.

3. **No Specific College Attendance** — The DGA Tuition Plan does not require the annuitant to attend a specific school, nor does it compromise the integrity of the admission procedure. Further, payments under the Plan will be made, regardless of whether the annuitant goes to school or chooses some alternative.

4. **Alternative Recipient** — One of the most attractive aspects of the deferred gift annuity tuition plan is its practicality, especially with regard to the beneficiary designation. For instance, under the plan our grandparent can name himself as a joint annuitant with his son and then, prior to the annuity starting date, assign the annuity to the grandchild without adverse income tax implications under Code §72. For many donors, this a critical element in the plan, since they fear (quite rightly) that the grandchild might spend his tuition monies "inappropriately."

5. **All College Costs** — The Plan is not restricted to just tuition expenses, but can cover all costs of attending college, unlike the state plans and a program utilizing Series EE Bonds.

B. Other Plans

1. **Variations on the DGA Tuition Plan** — The DGA Tuition Plan cited in GCM 39826 and which is the topic of this paper is structured so that the annuitant sells the gift annuity, <u>simultaneous with its creation</u>, in return for a 4 year installment payout commencing with the college years. Some commentators have suggested that the DGA Tuition Plan should be structured differently. In one such variation, the donor enters into a conventional lifetime deferred gift annuity contract commencing when the child will be starting

college. Prior to the annuity starting date (when the child commences college), the donor then sells the lifetime DGA in return for the 4 year installment payout. In other words, the difference between the two plans is when the DGA is sold for the 4 year installment payout. There are some negatives to this alternative approach:

a. The Service could make the same argument it made regarding the DGA Tuition Plan, namely that the donor always intended to sell the lifetime annuity 13 years later for a 4 year payout. If the Service were successful, this DGA variation would not qualify under §514(c)(5), and the charity would have to contend with all of the attendant adverse tax consequences outlined above in I.C. Thus, arguably a private letter ruling is necessary. See, Emanuel J. Kallina, II, "Charitable Gift Annuity Tuition Plan," Char. Gift Plan. News, Vol.9/No.7 at p. 3 (July, 1991).
b. The 4 year installment payout must be computed on the basis of mortality and interest assumptions at the time the sale takes place 13 years later. Thus, there is no certainty regarding the amount of the 4 year payout at the time the annuity is first purchased.
c. There seems to be an extreme risk to the issuing charity if it institutes a tuition plan of the latter variety, especially if the plan is successful. Interest and/or mortality rates may be significantly different at the time our 5 year old attends college 13 years later, and the annuitant may not be interested in selling his lifetime annuity for a 4 year payout based upon less favorable interest and mortality assumptions. Even if the interest and mortality rates are the same, the annuitant may decide he wants a lifetime payout. Thus, the charity may find itself in the business of being an insurance company, from a practical standpoint, since it could be paying out annuities for another 70 years! Most charities do not want to be placed in this posture and would not issue a deferred gift annuity to a 5 year old, to commence payout in 13 years for the rest of his life.
d. With the DGA Tuition Plan variation, because the charity must be prepared to make annuity payments for 70 years, it cannot be aggressive on the payout rate, as arguably it can when it only needs to predict earnings for a 20-25 year period. Therefore, **the variation cannot offer a rate of return to the donor which is attractive and competitive with other forms of investment and other tuition plans.**
e. When the lifetime annuity is sold 13 years later, there may be

other factors which the Code or the Service would require be taken into account other than mortality and interest assumptions.

f. Any commitment today to a 4 year payout amount which is in excess of fair market value at the time of such sale could give the Service room to raise the pervasive "private inurement/benefit" argument. Further, any such commitment would impair the current income tax deduction which is available today based upon the amount the contribution exceeds the present value of the deferred lifetime payout.

2. **Series EE bonds** — Series EE savings bonds are not as attractive as one might think, on first blush. For example, among other things: (i) they may not be gifted or issued in the name of anyone under 24 and still retain their tax benefits; (ii) if grandparents hold the bonds, they cannot be redeemed income tax free unless the student is their §151 dependent; (iii) they are income tax exempt only for "eligible expenses" such as tuition and fees and not for room, board, recreational and sporting activities, etc.; (iv) the interest exclusion phases out after $40,000 of modified adjusted gross income (or $60,000 with a joint return), and the interest on such bonds is added to other income before making this computation; and (v) "eligible expenses" are reduced by certain scholarships and other non-taxable payments for educational expenses. If the bonds are not tax exempt on redemption, they lose much of their appeal as a tuition plan vehicle.

3. **Michigan and Florida Plans** — The Michigan and Florida Plans require the prospective student to attend public school in their respective states. If the student fails to do so, the donor receives back only his principal (minus "administrative" fees in Michigan). I am unaware of what happens if the student decides to delay entrance into a Michigan or Florida school or decides to go to school on a part-time basis.

4. **CollegeSure™ (CD) Plan** — As mentioned above in II.B.6.b, CDs from this program have been issued by the College Savings Bank, Princeton, NJ since 1987. They are the chief competition to zero coupon bonds — by January 1990, $11 million had been sold. In some cases, they are used in connection with specific college plans: for example, the UCLA Alumni Association offers the CDs to their members. The CD rate is pegged to a college inflation index generated by the College Board, a non-affiliated company. The inflation index rose **7.61%** in 1991 while CollegeSure CD's paid

anywhere from **5.89%** to **7.11%**, depending on the deposit. There is a 5% penalty for early withdrawal but no maintenance or other fees. One major negative to this program is that the CDs are taxable each year, so that the actual rate of return, when compared to the rate of tuition increases, may be less than 1/2 of what is needed.

5. **Baccalaureate/Zero Coupon Bonds** — Typically, these state-issued zero coupons are free from all taxation when proceeds are used for college and do not pay interest or principal until maturity. The major drawback is that they fail to pay a competitive rate of return. On the positive side, most baccalaureate bonds have higher credit ratings than zero-coupon municipals, usually because the states promise to raise taxes if necessary to pay them off. Also, the risk of early redemption or "calling" is less than with other zeroes. North Carolina, Washington, Missouri, Iowa, Minnesota, Oregon, North Dakota, Connecticut, and Illinois have a baccalaureate bond program.

IV. Exhibits

A. Exhibit A — Schedule 14, Committee on Gift Annuities "Yellow Book"

B. Exhibit B — PG Calc Computations for an Immediate Gift Annuity

C. Exhibit C — PG Calc Computations for a Deferred Gift Annuity

D. Exhibit D — Reg. §1.1011-2(c)(Ex. 8)

E. Exhibit E — PG Calc Computations for a Deferred Gift Annuity (gift of appreciated long term capital gain property)

F. Exhibit F — Tuition Increases (Cost of College - How it Grows & College Tuition Costs, F-1 and F-2, respectively)

G. Exhibit G — Questions & Answers ("In Answer to the Donor's Questions About the ABC College Tuition Plan")

H. Exhibit H — General Counsel's Memorandum 39826

I. Exhibit I — Private Letter Ruling 9042043

J. Exhibit J — PG Calc Computations for the Deferred Gift Annuity Tuition Plan (gift of cash)

K. Exhibit K — PG Calc Computations for the Deferred Gift Annuity Tuition Plan (gift of appreciated property)

L. Exhibit L — Lotus 1-2-3™ Projections (L-1 to L-6)

EXHIBIT A

SCHEDULE 14

UNIFORM INTEREST FACTORS ADOPTED 4/6/89 BY THE CONFERENCE ON GIFT ANNUITIES FOR THE CALCULATION OF MAXIMUM DEFERRED GIFT ANNUITY RATES

NUMBER OF FULL YEARS FROM THE DATE OF ISSUE OF THE AGREEMENT TO THE DATE SIX MONTHS BEFORE THE DATE OF FIRST PAYMENT					INTEREST FACTOR*
		Less than	1	year	1.000
At least	1	year but less than	2	years	1 050
	2		3		1.103
	3		4		1.158
	4		5		1.216
	5		6		1.276
	6		7		1.340
	7		8		1.407
	8		9		1.477
	9		10		1.551
	10		11		1.629
	11		12		1.702
	12		13		1.779
	13		14		1.859
	14		15		1.942
	15		16		2.030
	16		17		2.121
	17		18		2.217
	18		19		2.316
	19		20		2.421
	20		21		2.530
	21		22		2.631
	22		23		2.736
	23		24		2.845
	24		25		2.959
	25		26		3.078
	26		27		3.201
	27		28		3.329
	28		29		3.462
	29		30		3.600

At least 30 year but less than	31 years	3.744
31	32	3.876
32	33	4.011
33	34	4.152
34	35	4.297
35	36	4.447
36	37	4.603
37	38	4.764
38	39	4.931
39	40	5.103

Interest Compounded Annually as Follows: 1st 10 years 5%
2nd 10 years 4 1/2%
3rd lO years 4%
After 30 years 3 1/2%

***WARNING:** *The resulting annuity rates should not be used if the gift portion using applicable IRS tables is not more than 10% of the amount paid for the annuity.*

EXHIBIT B

CHARITABLE CONSULTANTS, INC.
PG CALC INCORPORATED
PLANNED GIVING MANAGER
Gift Annuity Calculator
Summary of Benefits

ASSUMPTIONS:	
Annuitant	[4/28/1987] 5
Date of Gift	4/28/1992
Principal Donated	$10,000.00
Cost Basis	$10,000.00
Annuity Rate	6.00%
Payment Schedule	semiannual at end

CALCULATIONS:	
Charitable Deduction	$2,806.00
Annuity	$600.00
Tax-free Portion	$94.20
Ordinary Income	$505.80

After 76.4 years, when the investment in contract has been fully recovered, the entire annuity becomes ordinary income.

Actuarial Calculations

ASSUMPTIONS:	
[1] Annuitant	[4/28/1987] 5
Date of Gift	4/28/1992
[2] Principal Donated	$10,000.00
[3] Cost Basis	$10,000.00
[4] Annuity Rate	6.00%
[5] Payment Schedule	semiannual at end
[6] Discount Rate under IRC Section 7520(a) for 4/92	8.4%

CALCULATIONS:	
[7] Annuity ([2] x [4])	$600.00
[8] [a] Value of $1 for age on [1] (Table S in IRS Publication 1457)	11.7480
[b] Adjustment for payment schedule on [5] (Table K in IRS Publication 1457)	1.0206
[c] Value of $1 ([8a] x [8b])	11.9900
[9] Investment in Contract ([7] x [8c])	$7,194.00
[10] CHARITABLE DEDUCTION ([2] - [9])	$2,806.00

[11] [a] Expected Return for age on [1] (Table V & VI in Reg. 1.72-9)	76.6
[b] Adjustment for payment schedule on [5] (Reg. 1.72-5(a)(2)(i))	-0.2
[c] Expected Return per $1 ([lla] + [1lb])	76.4
[12] Expected Return ([7] x [11c])	$45,840.00
[13] Exclusion Ratio ([9] / [12]) (Regs. 1.72-4, 1.1011-2(c) Example (8))	0.157

Taxation of Annuity Payments

ASSUMPTIONS:	
Annuitant	[4/28/1987] 5
Date of Gift	4/28/1992
Principal Donated	$10,000.00
Cost Basis	$10,000.00
Annuity Rate	6.00%
Payment Schedule	semiannual at end

CALCULATIONS: Charitable Deduction	$2,806.00
Number of Regular Payments in First Year	1
Annuity	$600.00
Regular Semiannual Payment	$300.00

BREAKDOWN OF ANNUITY:

	Tax-free Portion	Ordinary Income	Total Annuity
1992 to 1992	47.10	252.90	300.00
1993 to 2067	94.20	505.80	600.00
2068 to 2068	81.90	518.10	600.00
2069 onward	0.00	600.00	600.00

After 76.4 years, when the investment in contract has been fully recovered, the entire annuity becomes ordinary income.

April 1, 1992

Discount Rate is 8.4%

Prepared for Committee on Gift Annuities - 4/28/92

EXHIBIT C

CHARITABLE CONSULTANTS, INC.
PG CALC INCORPORATED
PLANNED GIVING MANAGER
Deferred Gift Annuity Calculator
Summary of Benefits

ASSUMPTIONS:	
Annuitant	[4/28/1987] 5
Date of Gift	4/28/1992
Age at Date of First Payment	[4/28/2006] 19
Principal Donated	$10,000.00
Cost Basis	$10,000.00
Annuity Rate	11.20%
Payment Schedule	semiannual

CALCULATIONS:	
Charitable Deduction	$5,582.70
Annuity	$1,120.00
Tax-free Portion	$70.56
Ordinary Income	$1,049.44

After 63.1 years from the year the payments begin, when the investment in contract has been fully recovered, the entire annuity becomes ordinary income.

Actuarial Calculations

ASSUMPTIONS:	
[1] [a] Annuitant	[4/28/1987] 5
Date of Gift	4/28/1992
[b] Age at Date of First Payment	[4/28/2006] 19
[2] Principal Donated	$10,000.00
[3] Cost Basis	$10,000.00
[4] Annuity Rate	11.20%
[5] Payment Schedule	semiannual
[6] Discount Rate under IRC Section 7520(a) for 4/92	8.4

CALCULATIONS:	
[7] Annuity ([2] x [4])	$1,120.00
[8] [a] Value of $1 for age on [1b] (Table S in IRS Publication 1457)	11.5421
[b] Adjustment for payment schedule on [5] (Table K in IRS Publication 1457)	1.0206
[c] Adjustment for payment at beginning	0.5000

(reg. 20.2031-7(b)(3)(i)	
[d] Value of $1 (([8a] x [8b]) + [8c])	12.2799
[e] Deferred Discount Factor for age on [1]	0.3212
[f] Value of $1 Deferred ([8b] + [8c])	3.9440
[9] Investment in Contract ([7] x [8f])	$4,417.30
[10] CHARITABLE DEDUCTION ([2] - [9])	$5,582.70
[11] [a] Expected Return for age [1b]	62.9
(Table V & VI in Reg. 1.72-9)	
[b] Adjustment for payment schedule on [5]	0.2
(Reg. 1.72-5(a)(2)(i))	
[c] Expected Return per $1 ([lla] + [1lb])	63.1
[12] Expected Return ([7] x [11c])	$70,672.00
[13] Exclusion Ratio ([9] / [12])	0.063
(Regs. 1.72-4, 1.1011-2(c) Example (8))	

Taxation of Annuity Payments

ASSUMPTIONS:	
Annuitant	[4/28/1987] 5
Date of Gift	4/28/1992
Age at Date of First Payment	[4/28/2006] 19
Principal Donated	$10,000.00
Cost Basis	$10,000.00
Annuity Rate	11.20%
Payment Schedule	semiannual

CALCULATIONS:	
Charitable Deduction	$5,582.70
Number of Regular Payments in First Year	2
Annuity	$1,120.00
Regular Semiannual Payment	$560.00

BREAKDOWN OF ANNUITY:

	Tax-free Portion	Ordinary Income	Total Annuity
2006 to 2067	70.56	1,049.44	1,120.00
2068 to 2068	42.58	1,077.42	1,120.00
2069 onward	0.00	1,120.00	1,120.00

After 63.1 years from the year the payments begin, when the investment in contract has been fully recovered, the entire annuity becomes ordinary income.

April 1, 1992
Discount Rate is 8.4%
Prepared for Committee on Gift Annuities - 4/28/92

Example (8)

(a) On January 1, 1970, A, a male of age 65, transfers capital assets consisting of securities held for more than 6 months to a church in exchange for a promise by the church to pay A a nonassignable annuity of $5,000 per year for life. The annuity is payable monthly with the first payment to be made on February 1, 1970. A's contribution base for 1970, as defined in section 170(b)(1)(F), is $200,000, and during that year he makes no other charitable contributions. On the date of transfer the securities have a fair market value of $100,000 and an adjusted basis to A of $20,000.

(b) The present value of the right of a male age 65 to receive a life annuity of $5,000 per annum, payable in equal installments at the end of each monthly period, is $59,755 ($5,000 * [11.469 + 0.482]), determined in accordance with section 101(b) of the Code, paragraph (e)(1)(iii)(b)(2) of §1.101-2, and section 3 of Rev. Rul. 62-216, C.B. 1962-2, 30. Thus, A makes a charitable contribution to the church of $40,245 ($100,000 - $59,755).

(c) Under paragraph (b) of this section, the adjusted basis for determining gain on the bargain sale is $11,951 ($20,000 * $59,775/$100,000). Accordingly, A has a recognized long-term capital gain of $47,804 ($59,755 - $11,951) on the bargain sale. Such gain is to be reported by A ratably over the period of years measured by the expected return multiple under the contract but only from that portion of the annual payments which is a return of his investment in the contract under section 72 of the Code. For such purposes, the investment in the contract is $59,755, that is, the present value of the annuity.

(d) The computation and application of the exclusion ratio, the gain, and the ordinary annuity income are as follows, determined by using the expected return multiple of 15.0 applicable under Table I of §1.72-9:

A's expected return (annual payments of $5,000 * 15)	$75,000.00
Exclusion ratio ($59,755 investment in contract divided by expected return of $75,000)	79.7%
Annual exclusion (annual payments of $5,000 * 79.7%)	3,985.00
Ordinary annuity income ($5,000 - $3,985)	1,015.00
Long-term capital gain per year ($47,804/15) with respect to the annual exclusion	3,186.93

(e) The exclusion ratio of 79.7 percent applies throughout the life of the contract. During the first 15 years of the annuity, A is required to report ordinary income of $1,015 and long-term capital gain of $3,186.93 with respect to the annuity payments he receives. After the total long-term capital gain of $47,804 has been reported by A, he is required to report only ordinary income of $1,015.00 per annum with respect to the annuity payments he receives.

EXHIBIT E

CHARITABLE CONSULTANTS, INC.
PG CALC INCORPORATED
PLANNED GIVING MANAGER
Gift Annuity Calculator
Summary of Benefits

ASSUMPTIONS:

Annuitant	[4/28/1987] 5
Date of Gift	4/28/1992
Principal Donated	$10,000.00
Cost Basis	$1,000.00
Annuity Rate	6.00%
Payment Schedule	semiannual at end

CALCULATIONS:

Charitable Deduction	$2,806.00
Annuity	$600.00
Tax-free Portion	$9.42
Capital Gain Income	$84.78
Ordinary Income	$505.80

Total reportable capital gain of $6,474.6 must be reported in equal installments of $84.78 over 76.4 years, the expected lifetime of the donor age 5.

After 76.4 years, when the investment in contract has been fully recovered, the entire annuity becomes ordinary income.

Actuarial Calculations

ASSUMPTIONS:

[1] Annuitant	[4/28/1987] 5
Date of Gift	4/28/1992
[2] Principal Donated	$10,000.00
[3] Cost Basis	$1,000.00
[4] Annuity Rate	6.00%
[5] Payment Schedule	semiannual at end
[6] Discount Rate under IRC Section 7520(a) for 4/92	8.4

CALCULATIONS:

[7] Annuity ([2] x [4])	$600.00
[8] [a] Value of $1 for age on [1] (Table S in IRS Publication 1457)	11.7480
[b] Adjustment for payment schedule on [5] (Table K in IRS Publication 1457)	1.0206
[c] Value of $1 ([8a] x [8b])	11.9900
[9] Investment in Contract ([7] x [8c])	$7,194.00

[10] CHARITABLE DEDUCTION ([2 - 9])	$2,806.00
[11] [a] Expected Return for age on [1] (Table V & VI in Reg. 1.72-9)	76.6
[b] Adjustment for payment schedule on [5] (Reg. 1.72-5(a)(2)(i))	-0.2
[c] Expected Return per $1 ([lla] + [1lb])	76.4
[12] Expected Return ([7] x [11c])	$45,840.00
[13] Exclusion Ratio ([9] / [12]) (Regs. 1.72-4, 1.1011-2(c) Example (8))	0.157
[14] Bargain Sale Ratio ([9] / [2]) (Regs. 1.170A-1(d), 1.1011-2(b))	0.7194
[15] Total Reportable Gain ([14] x ([2] - [3]))	$6,474.60
[16] Life Expectancy of Donor Age 5 (Reg. 1.1011-2(a)(4)(ii))	76.4

Taxation of Annuity Payments

ASSUMPTIONS:

Annuitant	[4/28/1987] 5
Date of Gift	4/28/1992
Principal Donated	$10,000.00
Cost Basis	$1,000.00
Annuity Rate	6.00%
Payment Schedule	semiannual at end

CALCULATIONS:

Charitable Deduction	$2,806.00
Number of Regular Payments in First Year	1
Annuity	$600.00
Regular Semiannual Payment	$300.00

BREAKDOWN OF ANNUITY:

	Capital Gain	Tax-free Portion	Ordinary Income	Total Annuity
1992 to 1992	42.39	4.71	252.90	300.00
1993 to 2067	84.78	9.42	505.80	600.00
2068 to 2068	73.71	8.19	518.10	600.00
2069 onward	0.00	0.00	600.00	600.00

Total reportable capital gain of $6,474.60 must be reported in equal installments of $84.78 over 76.4 years, the expected lifetime of the donor age 5.

After 76.4 years, when the investment in contract has been fully recovered, the entire annuity becomes ordinary income.

April 1, 1992
Discount Rate is 8.4%

Prepared for Committee on Gift Annuities - 4/28/92

EXHIBIT F

COST OF COLLEGE — HOW IT GROWS

1992 Cost: $16,000 Today's Date: 04/14/92

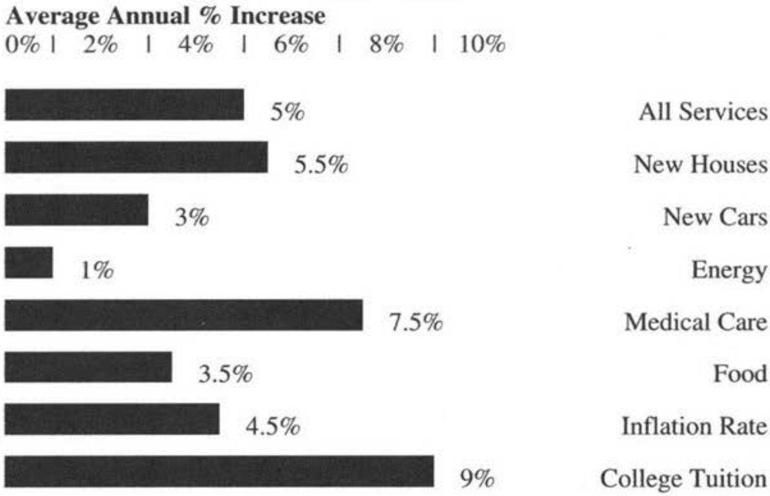
Todays Time: 03:04 pm

YEAR	4% INFLATION	6% INFLATION	8% INFLATION
1993	$ 16,640	$ 16,960	$ 17,280
1994	$ 17,306	$ 17,978	$ 18,662
1995	$ 17,998	$ 19,056	$ 20,155
1996	$ 18,718	$ 20,200	$ 21,768
1997	$ 19,466	$ 21,412	$ 23,509
1998	$ 20,245	$ 22,696	$ 25,390
1999	$ 21,055	$ 24,058	$ 27,421
2000	$ 21,897	$ 25,502	$ 29,615
2001	$ 22,772	$ 27,032	$ 31,984
2002	$ 23,684	$ 28,654	$ 34,543
2003	$ 24,631	$ 30,373	$ 37,306
2004	$ 25,617	$ 32,195	$ 40,291
2005	$ 26,641	$ 34,127	$ 43,514
2006	$ 27,707	$ 36,174	$ 46,995
2007	$ 28,815	$ 38,345	$ 50,755
2008	$ 29,968	$ 40,646	$ 54,815
2009	$ 31,166	$ 43,084	$ 59,200
2010	$ 32,413	$ 45,669	$ 63,936
2011	$ 33,710	$ 48,410	$ 69,051
2012	$ 35,058	$ 51,314	$ 74,575

COLLEGE TUITION COSTS

Percentage Increase in Tuition

1980 — 1989



IN ANSWER TO THE DONOR'S QUESTIONS ABOUT THE ABC COLLEGE TUITION PLAN...

1. **Q: Does a Donor have to be an alumnus to participate in this program?**

   A: No. It is open to anyone wishing to provide benefits for prospective students.

2. **Q: What does the ABC College Tuition Plan cost?**

   A: The Plan is flexible, so it is personally tailored to meet the needs of the Donor. For example, an initial investment of $30,000 for a newborn can reasonably be expected to produce over $114,000 available for college costs when that child reaches his or her 18th birthday. The longer the assets accumulate the more the Plan guarantees. But, $5,000 will get a Tuition Plan started.

3. **Q: Will the child still be eligible for financial aid if the Donor contributes to this Plan?**

   A: Yes, although it will probably diminish that eligibility. The important thing is that with this Plan, the Donor knows that the resources will be there, and will not be dependent on a financial aid decision to ensure the child's education.

4. **Q: Does the child have to attend ABC College?**

   A: No. The money will be available regardless of where the child decides to attend college.

5. **Q: What if the child decides not to go to college?**

   A: ABC College will still make the guaranteed payments. The college decision process does not affect the College's obligation to pay the guaranteed amount to the Recipient.

6. **Q: Would this Plan guarantee a child admission to ABC College?**

   A: No. The Plan only provides a fund for college, and is totally separate from the admission process. If the child would like to attend ABC College and is accepted for admission in the normal competitive process, then we would be pleased to have him or her use these funds to pay the costs of attending.

7. **Q: What if the child transfers from one institution to another?**

   A: The payment for the child's benefit continues, without penalty, wherever the child elects to go.

8. **Q: To whom and how are the payments to be made?**

   A: Payments are made in cash on August 1 of the child's projected 1st, 2nd, 3rd and 4th years of college, directly to the Donor for the benefit of the child, or directly to the child. The Donor has the right to select the recipient of the payments. The Donor does not have to gift the payments to the child, but may do so at any time after he or she becomes a Donor in the Plan.

9. **Q: How do the Donor and the child know that the College will be able to make the payments when promised?**

   A: The College, in its Tuition Plan Agreement, promises that it will not use or distribute Plan monies for any reasons other than Plan payments except (a) to pay Plan expenses, (b) if the College is insolvent and/or (c) if the Plan assets exceed the Plan liabilities by 125%, and then only as to such excess. Since the College has been financially stable for decades, the Donor and the child's interest in the Plan is very secure; much more so than many conventional investments!

10. **Q: Is cash the only way to invest?**

    A: No. However, any gifts of cash or property must be accepted as such by the College.

11. **Q: What if a Donor doesn't have the full amount he or she wants to invest right now?**

    A: The Tuition Plan can be established for less than the total amount needed. Investments can also be made over a period of years, or money can be borrowed. By borrowing, one could receive income tax deduction benefits both for their plan investment and for the loan interest, depending on the collateral used.

12. **Q: Is there a minimum or maximum investment in this program?**

    A: The minimum lump sum on the first payment is $5,000. There is no maximum. On an annual contribution basis, $1,000 is the minimum.

13. **Q: Can the Tuition Plan cover more than one child at a time?**

    A: No. The best way is to establish a separate account for each child.

14. **Q: What tax advantages does a Donor gain by investing in the Tuition Plan program?**

    A: Under the tax law as it now exists, there are four advantages:

    a. The Donor receives an immediate income tax deduction for a portion of his or her investment.
    b. Payouts are taxed at the Recipient's rates under special annuity provisions of the tax law.
    c. The tuition account has a tax-free status, so monies accumulate free of tax.
    d. The Donor is assured that a certain guaranteed sum will be paid when needed in the future and the interest on the money, as it grows, does not create a current tax liability.

15. **Q: Does this Tuition Plan guarantee to cover all college costs?**
    A: No. Actual costs may be greater. On the other hand, college costs may be less than expected. It all depends on how rapidly college costs escalate, which college the child elects to attend, and the amount invested.
16. **Q: What if college costs are less than the dollars paid out?**
    A: Payments will be made regardless of costs.
17. **Q: What happens to the monies remaining when the College has made all payments to all recipients?**
    A: The balance of any monies passes to ABC College for its general use, including scholarships and financial aid.
18. **Q: Do any proposed changes in the tax law affect the Tuition Plan?**
    A: No. Proposed changes to the law will necessitate that each deferred gift annuity be structured as a payout for the life of the designated Recipient. However, the Donor has the right at the time of contribution to the Plan to commute the payout from life to a four year period of time commencing on the date the child is expected to enter college. The charitable income tax deduction will be the lesser of the deduction computed as a lifetime payout or a four year payout.
19. **Q: Prior to signing the Donor Agreement, what is the relationship between the prospective Donor and the College?**
    A: THE COLLEGE RESERVES THE RIGHT TO REFUSE TO ENTER INTO A DEFERRED GIFT ANNUITY WITH A PROSPECTIVE DONOR FOR ANY REASON. PRIOR TO SIGNING THE DONOR AGREEMENT, THE COLLEGE FURTHER RESERVES THE RIGHT TO UNILATERALLY ALTER THE PROJECTED PAYOUT SET FORTH IN THE ILLUSTRATIONS.

IN ANSWER TO THE NON-PROFIT'S QUESTIONS ABOUT THE ABC COLLEGE TUITION PLAN...

1. **Q: How does the College invest the contributions to guarantee the payment in the future?**
   A: The College guarantees the payout benefit over the four anticipated college years by investing the contributions in life insurance on the life of the child.
2. **Q: What is an example of projected benefits to the College?**
   A: In the example of the 3 year old receiving a 4 year payout, on pages 13-14, the policy pays a death benefit in a lump sum of \$419,885 if death occurs the day after the money is contributed. However, the College is not obligated to pay to the alternate

recipient the $20,000 per year for four consecutive years until fifteen years from the date of gift. In the interim, the earnings on the insurance proceeds can be invested by the College outside the Plan for endowment purposes (within certain guidelines) and/or within the Plan to guarantee future payments.

3. **Q: What will the endowment value (face amount) be at various times during the policy's lifetime?**

   A: Assuming a dividend interest rate of 10.25%, the death benefit will be $522,324 in year 8, $603,828 in year 12, and $680,576 in the year before the first payout is to be made. If the child lives to age 70 and dies, the benefit to the College for endowment purposes will be $2,675,250. (Note: If there is a group of 100 children under age 12, there is a 62.5% chance of one death within 15 years, and a 42.5% chance of two deaths.)

4. **Q: How does the College determine which insurance company or companies can assure it the ability to make its guaranteed payments?**

   A: Charitable Consultants, Inc. ("CCI") will only choose life insurance companies which pass rigid tests of economic strength and past performance and can demonstrate a safety hedge of at least 10%-17% (see paragraph 2C of the Consulting Agreement).

5. **Q: How much can the dividend interest rate drop before the underlying policy no longer supports the guaranteed payout?**

   A: The current dividend rate of the policy in the example of the 3 year old receiving a 4 year payout is 10.25%. If a world-wide depression of the same nature and extent as the one commencing in 1929, were to occur, assuming a worst-case scenario, <u>the policy would still support the guaranteed payout</u>. The back-up documentation on pages 17-19 reflects the dividend interest rate of highly respected insurance company from 1872 to date. The worst case scenario picks the greatest reduction in the dividend interest rate during a thirteen year period (assuming 100 children averaging age 5 commence participation in the Plan today). The analysis continues on page 20 and projects the same drop today (as a percentage) in dividend interest rates over the next thirteen years as occurred during the worst years of the Depression. Even assuming no deaths, the policies will support the projected guaranteed payouts.

6. **Q: What happens if there is a depression worse than the one in 1929?**

   A: The worst case scenario assumes 100 5 year olds become participants today. Realistically, some of these 100 participants will be older than age 5, and thus the dividend interest rate will not drop as much as projected in the worst case scenario. Also, if the 100 5 year old participants enter the Plan over time and if dividend interest rates start to drop, the non-profit will reduce the guaranteed amount of the payout to so reflect the drop. Finally, the worst case scenario does not reflect anticipated mortality.

7. **Q: How might the College use endowment dollars for scholarships, financial aid, or other uses consistent with its charitable purposes?**

   A: Once the fair market value of the insurance and investments in the Plan exceed 125% of the total anticipated liabilities, the excess will be available for current use by the College for any charitable purpose. Death benefit proceeds are treated like any other asset of the Plan and thus may be used by the College for any reason when the 125% figure is met. The Plan provides the College with a future endowment potential of substantial proportion and, depending upon mortality, a current financial aid and scholarship reserve unmatched in value.

8. **Q: Does the College have to guarantee admission to a Participant?**

   A: No, there is no guaranteed admission. The student applicant must go through the regular admissions process.

9. **Q: Will the administration of a Tuition Plan burden the College's Development Office?**

   A: No, the administration of the Plan, investment accounts and reporting will be the responsibility of CCI under a Consulting Agreement. The College will, however, be responsible for annual mailings, etc., to the Donor and Participant.

10. **Q: Is this Plan an offering superior to others a donor might consider?**

    A: Yes, and as support, see II. B. 1. a. The deferred gift annuity is well established in law and has a long history. The tax treatment of the deferred gift annuity has been consistent over many years. As the example demonstrates, the rate of return to the Donor is excellent in most cases.

11. **Q: How is the Tuition Plan a better vehicle than a Unitrust or other vehicles that have been used by some states and institutions?**

    A: The Unitrust or investment vehicles of the State of Michigan and Duquesne University were based on guaranteeing educations in the future. Analyses have demonstrated that these plans would require the College to invest monies at 16% or better for the next

15 - 20 years to make them work. By contrast, the Tuition Plan targets a fixed dollar payout determined at the time of donation and secured by the insurance industry's hedges against future market volatility. The College knows its obligation and its ability to pay from the outset. In addition, the Plan's death benefit endowment dimension is absent in other vehicles.

12. **Q: What is the role of the College once it has identified interested donors?**

A: To have its people, with the assistance of CCI, complete the Enrollment Kit (especially the Donor Agreement), and any other necessary documents, including the insurance application. The complete Enrollment Kit, ready for signatures, will be provided to the College by CCI. Medical information will be procured by the underwriting company representatives. The College will be responsible for establishing a marketing plan and CCI will be available to consult in this vital area.

EXHIBIT H

GENERAL COUNSEL'S MEMORANDUM 39826, IRPO P2221

Internal Control Number: CC:EE:TR-58-14-90 Br5:MRosenbaum
Uniform Issue List No(s).:

0501.03-22
0501.03-23
0511.00-00
0514.06-00
0514.07-00

[Code Secs. 501, 511 and 514]

Exempt organizations: Unrelated business income: Issuance of deferred annuities. — A tax-exempt educational institution that issues deferred gift annuities does not incur unrelated business income tax with respect to such annuities. Back reference: The underlying document is exempt under Code Sec. 6110(k).

ROBERT I. BRAUER
Assistant Commissioner
(Employee Plans and Exempt Organizations)
Attention: Director, Exempt Organizations Technical Division

By memorandum dated ***** the Director, Exempt Organizations Technical Division (OP:E:EO), requested our views regarding the issuance of deferred gift annuities by the above-captioned organization.

ISSUES

Whether the issuance of deferred gift annuities by an educational institution described in IRC 170(b)(1)(A)(ii) and section 501(c)(3) gives rise to the unrelated business income tax imposed by section 511.

CONCLUSION

An educational institution described in sections 170(b)(1)(A)(ii) and 501(c)(3) that issues deferred gift annuities described in section 514(c)(5) does not incur unrelated business income tax with respect to such annuities.

FACTS

***** is an organization described in sections 170(b)(1)(A)(ii) and 501(c)(3). The organization intends to engage in the sale of deferred gift annuities. Under the plan, donors will make a payment of cash or property in return for a deferred gift annuity. It is our understanding, given the arrangement as structured in this case, that the gift portion of the consideration paid by the donor will be eligible for a charitable contribution deduction. Each donor will designate one recipient and may designate an alternate recipient. The recipient is entitled to a lifetime payout but has the option to sell or assign his or her annuity to the organization or to a third party in return for a lump sum payment or installment payments over several years. It is contemplated that recipients will use funds generated by the annuity to attend college at the organization's institution. However, this is not required and recipients may in fact use the funds for any purpose.

The organization has requested a ruling that income derived from the sale of the deferred gift annuities will not be considered income from an unrelated trade or business within the meaning of sections 511-513 and that the income generated from the investment of the proceeds received by the organization from the issuance of the annuities will not be considered debt-financed within the meaning of section 514. *****.

With respect to the issue of acquisition indebtedness, you have concluded that ***** the annuity is payable over the lifetime of one individual in being at the time the annuity is issued, and all other requirements of section 514(c)(5) have been met. Therefore, the annuities will not be considered acquisition indebtedness within the meaning of section 514 and the income generated from the investment of the proceeds will not be considered debt-financed. We accept your conclusion.

In your proposed ruling letter you have concluded that because the annuity payments may be used for any purpose, the annuities do not contribute importantly to the organization's exempt purpose. Therefore, the income derived from the sale of the annuities would be subject to the tax on unrelated trade or business income imposed by section 511. We do not agree.

ANALYSIS

Section 501(m) was added to the Internal Revenue Code by the Tax Reform Act of 1986, Pub. L. 99-514 (1986). The section states that an organization described in section 501(c)(3) or section 501(c)(4) may be exempt from tax under section 501(a) only if no substantial part of its activities consists of providing "commercial-type insurance." Section 501(m)(3) sets forth a list of items deemed not to be "commercial-type insurance." Section 501(m)(4) provides that the issuance of annuity contracts shall be treated as providing insurance.

Section 501(m)(2) provides that an organization that provides insurance as an insubstantial part of its activities shall be treated as an insurance company for purposes of applying Subchapter L (Insurance Companies) with respect to such activity.

The Technical and Miscellaneous Revenue Act of 1988, Pub. L. 100-647 (1988) amended section 501(m) by adding 501(m)(3)(E) which adds the term "charitable gift annuities" to the list of exceptions from commercial-type insurance. Section 501(m)(5) provides that for purposes of 501(m)(3)(E) the term "charitable gift annuity" means an annuity if (A) a portion of the amount paid in connection with the issuance of the annuity is allowable as a deduction under section 170 or 2055, and (B) the annuity is described in section 514(c)(5) (determined as if any amount paid in cash in connection with such issuance were property).

The legislative history accompanying the 1988 Act provides that "[t]he present-law exception to the debt-financed property rules has historically exempted from tax any income resulting from the issuance of charitable gift annuities." H.R. Rep. No. 795, 100th Cong., 2d Sess. 116 (1988) emphasis supplied.

Section 511 imposes a tax upon the unrelated trade or business income of tax-exempt organizations.

Section 513(a) provides that the term "unrelated trade or business" means any trade or business, the conduct of which is not substantially related (aside from the need of an organization for funds) to the exercise or performance by such organization of its charitable, educational or other function which constitutes the basis for its exemption.

Treas. Reg. 1.513-1(d)(2) provides that a trade or business is related to exempt purposes in the relevant sense, only where the conduct of the business activity has a causal relationship to the achievement of exempt purposes (other than through production of income) and is "substantially related" only if the causal relationship is a substantial one. The activity from which income is derived must contribute importantly to the accomplishment of exempt purposes.

Section 512(b)(1) excludes interest income from the computation of the tax on unrelated trade or business income.

Section 514(a)(1) states that in computing the unrelated business income tax under section 512, income derived from debt-financed property should be included.

Section 514(c)(5) provides that the rules concerning debt-financed property should not apply to the sale of annuities where (1) the annuity is the sole consideration issued in exchange for the property if, at the time of the exchange, the value of the property is less than 90 percent of the value of the property received in the exchange, (2) the annuity is payable over the life of one individual in being at the time the annuity is issued or over the life of two individuals in being at such time, and (3) the annuity is payable under a contract which does not guarantee a minimum amount of payments and does not provide for any adjustment of the amount of the annuity payment by reference to the income received from the transferred property or any other property.

Charitable gift annuities are a well established method for educational institutions to obtain contributions. Section 501(m)(3)(E) was added to the Code to make it clear that "charitable gift annuities" were not "commercial-type insurance." If they were classified as "commercial-type insurance" and a substantial part of an educational institution's activities consisted of issuing these contracts, the educational institution would lose its section 501(c)(3) exemption pursuant to section 501(m). If, as is far more likely, the issuance of charitable gift annuity contracts was not a substantial part of the educational institution's activities it would not lose its exemption but the provisions of these annuity contracts would be treated as an unrelated trade or business subject to tax pursuant to section 501(m)(2).

Since it is rather unlikely that a "substantial part" of an educational institution's total activities would consist of issuing charitable gift annuities, it is reasonable to assume that in enacting section 501(m)(3)(E) Congress was primarily interested in making it clear that the issuance of charitable gift annuities did not constitute an unrelated trade or business. This interpretation is supported by the legislative history of section 501(m)(3)(E) which indicates that under the law prior to the enactment of section 501(m) all income resulting from charitable gift annuities was exempt from tax. See H.R. Rep. No. 795, supra at 116. It is also supported by the fact that if the issuance of "charitable gift annuities" were to be taxed as an unrelated trade or business section 501(m)(2) would provide a more favorable and more appropriate method for calculating the unrelated business income tax. Section 501(m)(2) would allow the educational institution to be taxed on this activity as an insurance company under subchapter L and it would get the benefit of deductions for reserves that would not be available under the general rules for taxing unrelated business income. Thus, if Congress had thought that the sale of charitable gift annuities were subject to unrelated business income tax, it would probably have allowed educational institutions to use the method of taxation described in section 501(m)(2) rather than specifically making it unavailable.

Historically it appears that the issuance of "charitable gift annuities" has been treated as a borrowing of money by the issuing organization and the sales aspect of the transaction has been ignored. Section 514(c)(5) specifically exempts "charitable gift annuities" from being considered "acquisition indebtedness" and thereby ensures that the interest, rents or dividends secured by the educational institution from the investment of the proceeds it receives from issuing these annuities will not be subject to unrelated business income tax. This exception from the debt-financed income provisions of the unrelated business income tax would be virtually useless if the proceeds themselves were subject to the unrelated business income tax. For these reasons, we agree with the statement in H.R. Rep. No. 795, supra, that the present law exception to the debt-financed property rules has historically exempted from tax any income resulting from the issuance of charitable gift annuities. Accordingly, we believe that the issuance of charitable gift annuities described in section 514(c)(5) does not result in unrelated business income.

JAMES J. McGOVERN
Assistant Chief Counsel
By: JAMES L. BROKAW
Chief, Branch No. 5
Office of the Assistant Chief Counsel
(Employee Benefits and Exempt Organizations)

EXHIBIT I

LETTER RULING 9042043

Letter Ruling 9042043, July 24, 1990

CCH IRS Letter Rulings Report No. 712, 10-24-90

IRS REF: Symbol: Not Given

Uniform Issue List Information:

UIL No. 0511.00-00

Tax on unrelated business income of charitable, etc., organizations

[Code Sec. 511]

This is in reply to your request for rulings dated July 11, 1988, as supplemented and modified by subsequent correspondence. You are an educational institution exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code. You have been classified as not a private foundation by reason of sections 509(a)(1) and 170(b)(1)(A)(ii) of the Code.

You intend to engage in the sale of deferred gift annuities. Under your plan, individuals will make a payment of cash or property in return for a deferred gift annuity. The purpose of the annuity is to provide funds for education. Each donor will designate one recipient and may designate an alternate recipient. The recipient is entitled to a lifetime payout but has the option to sell or assign his or her annuity to you or to a third party in return for a lump sum payment or installment payments over several years. It is contemplated that recipients will use funds generated by the annuity to attend college at your institution. However, this is not required and recipients may in fact use the funds for any purpose.

You have requested a ruling that income derived by you as the result of the sale of these deferred gift annuities will not be considered income from an unrelated trade or business as defined in sections 511-513 of the Code. You have also requested a ruling that interest income derived by you from these annuities will not be considered debt-financed income within the meaning of section 514 of the Code.

Section 511 of the Code imposes a tax upon the unrelated trade or business income of tax-exempt organizations.

Section 513(a) of the Code states that the term "unrelated trade or business" means any trade or business, the conduct of which is not substantially related (aside from the need of an organization for funds) to the exercise or performance of such organization of its charitable, educational or other function which constitutes the basis for its exemption.

Section 1.513-1(d)(2) of the Income Tax Regulations provides that a trade or business is related to exempt purposes in the relevant sense, only where the conduct of the business activity has a causal relationship to the achievement of exempt purposes (other than through production of income) and is "substantially related" only if the causal relationship is a substantial one. The activity from which income is derived must contribute importantly to the accomplishment of exempt purposes.

Section 501(m) was added to the Code by the Tax Reform Act of 1986, Pub. L. 99-514 (1986). The section states that an organization described in section 501(c)(3) or section 501(c)(4) may be exempt from tax under section 501(a) only if no substantial part of its activities consists of providing "commercial-type insurance." Section 501(m)(3) sets forth a list of items deemed not to be "commercial-type insurance." Section 501(m)(4) provides that the issuance of annuity contracts shall be treated as providing insurance.

The Technical and Miscellaneous Revenue Act of 1988, Pub. L. 100-647 (1988) amended section 501(m) by adding 501(m)(3)(E) which adds the term "charitable gift annuities" to the list of exceptions from commercial-type insurance. Section 501(m)(5) provides that for purposes of 501(m)(3)(E) the term "charitable gift annuity" means an annuity if (A) a portion of the amount paid in connection with the issuance of the annuity is allowable as a deduction under section 170 or 2055, and (B) the annuity is described in section 514(c)(5) (determined as if any amount paid in cash in connection with such issuance were property).

The legislative history accompanying the 1988 Act provides that "[t]he present-law exception to the debt-financed property rules had historically exempted from tax any income resulting from the issuance of charitable gift annuities." H.R. Rep. No. 795, 100th Cong., 2d Sess. 116 (1988) (emphasis supplied).

Section 512(b)(1) of the Code excludes interest income from the computation of the tax on unrelated trade or business income.

Section 514(a)(1) of the Code states that in computing the unrelated business income tax under section 512, income derived from debt-financed property should be included.

Section 514(c)(5) of the Code states that rules concerning debt-financed property should not be applied to annuities where (1) the annuity is the sole consideration issued in exchange for the property if, at the time of the exchange, the value of the property is less than 90 percent of the value of the property received in the exchange, (2) the annuity is payable over the life of one individual in being at the time the annuity is issued or over the life of two individuals in being at such time, and (3) the annuity is payable under a contract which does not guarantee a minimum amount of payments and does not provide for any adjustment of the amount of the annuity payments by reference to the income received from the transferred property or any other property.

Charitable gift annuities are a well-established method for an educational institutions to obtain contributions. Section 501(m)(3)(E) was added to the Code to make it clear that "charitable gift annuities" were not "commercial-type insurance." If they were classified as "commercial-type insurance" and a substantial part of an educational institution's activities consisted of issuing these contracts, the educational institution would lose its section 501(c)(3) exemption pursuant to section 501(m). If, as is far more likely, the issuance of charitable gift annuity contracts was not a substantial part of the educational institution's activities it would not lose its exemption but the provisions of these annuity contracts would be treated as an unrelated trade or business subject to tax pursuant to section 501(m)(2).

Since it is rather unlikely that a "substantial part" of an educational institution's total activities would consist of issuing charitable gift annuities, it is reasonable to assume that in enacting section 501(m)(3)(E) Congress was primarily interested in making it clear that the issuance of charitable gift annuities did not constitute an unrelated trade or business. This interpretation is supported by the legislative history of section 501(m)(3)(E) which indicates that under the law prior to the enactment of section 501(m) all income resulting from charitable gift annuities was exempt from tax. See H.R. Rep. No. 795, supra at 116. It is also supported by the fact that if the issuance of "charitable gift annuities" were to be taxed as an unrelated trade or business, section 501(m)(2) would provide a more favorable and more appropriate method for calculating the unrelated business income tax. Section 501(m)(2) would allow the educational institution to be taxed on this activity as an insurance company under subchapter L and it would get the benefit of deductions for reserves that would not be available under the general rules for taxing unrelated business income. Thus, if Congress had thought that the sale of charitable gift annuities were subject to unrelated business income tax, it would probably have allowed educational institutions to use the method of taxation described in section 501(m)(2) rather than specifically making it unavailable.

Historically it appears that the issuance of "charitable gift annuities" has been treated as a borrowing of money by the issuing organization and the sales aspect of the transaction has been ignored. Section 514(c)(5) specifically exempts "charitable gift annuities" from being considered "acquisition indebtedness" and thereby ensures that the interest, rents or dividends secured by the educational institution from the investment of the proceeds it receives from issuing these annuities will not be subject to unrelated business income tax. This exception from the debt-financed income provisions of the unrelated business income tax would be virtually useless if the proceeds themselves were subject to the unrelated business income tax. For these reasons, the present law exception to the debt-financed property rules has historically exempted from tax any income resulting from the issuance of charitable gift annuities.

Since in accordance with Donor Agreement III, the annuity is payable over the lifetime of one individual in being at the time the annuity is issued, and all other requirements of section 514(c)(5) of the Code have been met, the annuities will not be considered to be debt-financed property within the meaning of section 514. Therefore, interest income derived by you from the annuity is excludable from the computation of unrelated business income by reason of section 512(b)(1) of the Code.

Based on the above, we rule that:

1. Income from your sale of annuities is not subject to the tax on unrelated business income under sections 511-513 of the Code.
2. Interest income derived from investment of annuity funds is excludable from the computation of unrelated trade or business tax under the provisions of section 512(b)(1) of the Code.

Our holdings are contingent upon your meeting all the requirements under section 501(m) and 514(c)(5) of the Code, including the requirement that a deduction be allowed under section 170 or 2055.

Your ruling requests concerning deductibility of contributions and other matters have been forwarded to the appropriate offices within the Service. These offices will respond directly to you.

This ruling is directed only to the organization that requested it. Section 6110(j)(3) of the Code provides that it cannot be used or cited as precedent.

EXHIBIT J

CHARITABLE CONSULTANTS, INC.
PG CALC INCORPORATED
PLANNED GIVING MANAGER
Deferred Gift Annuity Calculator
Summary of Benefits

ASSUMPTIONS:	
Annuitant	[4/28/1987] 5
Date of Gift	4/28/1992
Age at Date of First Payment	[4/28/2006] 19
Years for Commuted Payments	4
Principal Donated	$10,000.00
Cost Basis	$10,000.00
Annuity Rate	11.20%
Payment Schedule	semiannual

CALCULATIONS:	
Charitable Deduction	$5,582.70
Commuted Annual Payment	$3,949.22
Tax-free Portion	$1,104.33
Ordinary Income	$2,844.89

After 4.0 years from the year the payments begin, the investment in contract has been fully recovered.

Actuarial Calculations

ASSUMPTIONS:	
[1] [a] Annuitant	[4/28/1987] 5
Date of Gift	4/28/1992
[b] Age at Date of First Payment	[4/28/2006] 19
[c]Years for Commuted Payments	4
[2] Principal Donated	$10,000.00
[3] Cost Basis	$10,000.00
[4] Annuity Rate	11.20%
[5] Payment Schedule	semiannual
[6] Discount Rate under IRC Section 7520(a) for 4/92	8.4%

CALCULATIONS:	
[7] [a] Annuity ([2] x [4])	$1,120.00
[b] Commuted Payment Factor for [1] (Value of $1 for [1b] /[8])	3.526086
[c] Commuted Annual Payment ([7a] x [7b])	$3,949.22

[8] Value of $1 for Commuted Payment on [1]	1.1185
(V. of $1 for [1] - V. of $1 for [1b] + [1c])	
[9] Investment in Contract ([7] x [8c])	$4,417.30
[10] CHARITABLE DEDUCTION ([2] - [9])	$5,582.7
[11] Expected Return per $1 for [1b] & [1c]	4.0
(Table VIII in Reg. 1.72-9)	
[12] Expected Return ([7c] x [11])	$15,796.87
[13] Exclusion Ratio ([9] / [12])	0.2796314
(Regs. 1.72-4, 1.1011-2(c) Example (8))	

Taxation of Annuity Payments

ASSUMPTIONS:

Annuitant	[4/28/1987] 5
Date of Gift	4/28/1992
Age at Date of First Payment	[4/28/2006] 19
Years for Commuted Payments	4
Principal Donated	$10,000.00
Cost Basis	$10,000.00
Annuity Rate	11.20%
Payment Schedule	semiannual

CALCULATIONS:

Charitable Deduction	$5,582.70
Number of Regular Payments in First Year	2
Commuted Annual Payment	$3,949.22
Regular Semiannual Payment	$1,974.61

BREAKDOWN OF ANNUITY:

	Tax-free Portion	Ordinary Income	Total Annuity
2006 to 2008	1,104.33	2,844.89	3,949.22
2009 to 2009	1,104.31	2,844.91	3,949.22

After 4.0 years from the year the payments begin, the investment in contract has been fully recovered.

April 1, 1992

Discount Rate is 8.4%

Prepared for Committee on Gift Annuities - 4/28/92

EXHIBIT K

CHARITABLE CONSULTANTS, INC.
PG CALC INCORPORATED
PLANNED GIVING MANAGER
Deferred Gift Annuity Calculator
Summary of Benefits

ASSUMPTIONS:

Annuitant	[4/28/1987] 5
Date of Gift	4/28/1992
Age at Date of First Payment	[4/28/2006] 19
Years for Commuted Payments	4
Principal Donated	$10,000.00
Cost Basis	$1,000.00
Annuity Rate	11.20%
Payment Schedule	semiannual

CALCULATIONS:

Charitable Deduction	$5,582.70
Commuted Annual Payment	$3,949.22
Tax-free Portion	$1,104.33
Ordinary Income	$2,844.89

Total reportable capital gain of $3,975.57 must be reported in the year of the gift.

After 4.0 years from the year the payments begin, the investment in contract has been fully recovered.

Actuarial Calculations

ASSUMPTIONS:

[1] [a] Annuitant	[4/28/1987] 5
Date of Gift	4/28/1992
[b] Age at Date of First Payment	[4/28/2006] 19
[c]Years for Commuted Payments	4
[2] Principal Donated	$10,000.00
[3] Cost Basis	$1,000.00
[4] Annuity Rate	11.20%
[5] Payment Schedule	semiannual
[6] Discount Rate under IRC Section 7520(a) for 4/92	8.4%

CALCULATIONS:

[7] [a] Annuity ([2] x [4])	$1,120.00
[b] Commuted Payment Factor for [1] (Value of $1 for [1b] /[8])	3.526086
[c] Commuted Annual Payment ([7a] x [7b])	$3,949.22

[8] Value of $1 for Commuted Payment on [1]	1.1185
(V. of $1 for [1] - V. of $1 for [1b] + [1c])	
[9] Investment in Contract ([7] x [8c])	$4,417.30
[10] CHARITABLE DEDUCTION ([2] - [9])	$5,582.7
[11] Expected Return per $1 for [1b] & [1c]	4.0
(Table VIII in Reg. 1.72-9)	
[12] Expected Return ([7c] x [11])	$15,796.87
[13] Exclusion Ratio ([9] / [12])	0.2796314
(Regs. 1.72-4, 1.1011-2(c) Example (8))	
[14] Bargain Sale Ratio ([9] / [2])	0.4417
(Regs. 1.70A-1(d), 1.1011-2(b))	
[15] Total Reportable Gain ([14] x ([2] - [3]))	$3,975.57

Taxation of Annuity Payments

ASSUMPTIONS:

Annuitant	[4/28/1987] 5
Date of Gift	4/28/1992
Age at Date of First Payment	[4/28/2006] 19
Years for Commuted Payments	4
Principal Donated	$10,000.00
Cost Basis	$1,000.00
Annuity Rate	11.20%
Payment Schedule	semiannual

CALCULATIONS:

Charitable Deduction	$5,582.70
Number of Regular Payments in First Year	2
Commuted Annual Payment	$3,949.22
Regular Semiannual Payment	$1,974.61

BREAKDOWN OF ANNUITY:

	Tax-free Portion	Ordinary Income	Total Annuity
2006 to 2008	1,104.33	2,844.89	3,949.22
2009 to 2009	1,104.31	2,844.91	3,949.22

Total reportable capital gain of $3,975.57 must be reported in the year of the gift.

After 4.0 years from the year the payments begin, the investment in contract has been fully recovered.

April 1, 1992

Discount Rate is 8.4%

Prepared for Committee on Gift Annuities - 4/28/92

EXHIBIT L.1

$10,000 CONTRIBUTION TO TUITION PLAN

SEC. 7520 INTEREST RATE = 8.4%

AGE OF CHILD (1)	YEAR 4 YR PAY BEGINS (2)	GROWTH RATE 8% (3)	PAYOUT RATE 6% (4)	PAYOUT AMOUNT/ YEAR (5)	REMAINDER TO CHARITY (6)	IRS FACTOR (7)	PRESENT VALUE ANNUITY (8)
0	18	$39,960	$28,543	$7,771	$15,321	0.751322	$5,839
1	17	$37,000	$26,928	$7,331	$13,574	0.824826	$6,047
2	16	$34,259	$25,404	$6,916	$11,992	0.894945	$6,190
3	15	$31,722	$23,966	$6,525	$10,559	0.970750	$6,334
4	14	$29,372	$22,609	$6,155	$9,263	1.052816	$6,481
5	13	$27,196	$21,329	$5,807	$8,092	1.141716	$6,630
6	12	$25,182	$20,122	$5,478	$7,036	1.238073	$6,783
7	11	$23,316	$18,983	$5,168	$6,083	1.342521	$6,938
8	10	$21,589	$17,908	$4,876	$5,226	1.455737	$7,098
9	9	$19,990	$16,895	$4,600	$4,455	1.578435	$7,260
10	8	$18,509	$15,938	$4,339	$3,763	1.711424	$7,426
11	7	$17,138	$15,036	$4,094	$3,142	1.855542	$7,596
12	6	$15,869	$14,185	$3,862	$2,587	2.011797	$7,770
13	5	$14,693	$13,382	$3,643	$2,092	2.181320	$7,947
14	4	$13,605	$12,625	$3,437	$1,650	2.365441	$8,130
15	3	$12,597	$11,910	$3,243	$1,257	2.565496	$8,319
16	2	$11,664	$11,236	$3,059	$909	2.782897	$8,513
17	1	$10,800	$10,600	$2,886	$601	3.019183	$8,713

EXHIBIT L.1 continued

CHAR. DEDUC. AMOUNT (9)	PERCENT TAX DEDUC. (10)	TAX SAVINGS 36% (11)	INVEST. AFTER TAX (12)	TAX-FREE AMT ON RECEIPT (13)	AFTER TAX IRR (14)	BEFORE TAX IRR (15)
$4,161	41.61%	$1,498	$8,502	18.78%	6.18%	7.27%
$3,953	39.53%	$1,423	$8,577	20.62%	6.15%	7.24%
$3,810	38.10%	$1,372	$8,628	23.37%	6.14%	7.23%
$3,666	36.66%	$1,320	$8,680	24.27%	6.14%	7.22%
$3,519	35.19%	$1,267	$8,733	26.32%	6.13%	7.21%
$3,370	33.70%	$1,213	$8,787	28.54%	6.12%	7.20%
$3,217	32.17%	$1,158	$8,842	30.95%	6.11%	7.19%
$3,062	30.62%	$1,102	$8,898	33.56%	6.10%	7.18%
$2,902	29.02%	$1,045	$8,955	36.39%	6.09%	7.17%
$2,740	27.40%	$986	$9,014	39.46%	6.09%	7.16%
$2,574	25.74%	$926	$9,074	42.79%	6.08%	7.16%
$2,404	24.04%	$865	$9,135	46.39%	6.08%	7.16%
$2,230	22.30%	$803	$9,197	50.29%	6.09%	7.16%
$2,053	20.53%	$739	$9,261	54.53%	6.10%	7.18%
$1,870	18.70%	$673	$9,327	59.14%	6.13%	7.21%
$1,681	16.81%	$605	$9,395	64.14%	6.17%	7.26%
$1,487	14.87%	$535	$9,465	69.57%	6.26%	7.36%
$1,287	12.87%	$463	$9,537	75.48%	6.44%	7.57%

EXHIBIT L.1 continued

Assumption: Child is only recipient of 4 year payout
Column (3) = Future value @ age 18 if College invests contribution at stated growth rate
Column (4) = Future value @ age 18 if College pays out at stated payout rate
Column (5) = Column (4), paid out over 4 years at stated payout rate (self-amortizing)
Column (6) = Future value at stated growth rate of difference between Column (3) & Column (4) at end of payout
Column (7) = IRS factor from tables
Column (8) = Column (5) times Column (7)
Column (9) = Contribution minus Column (8)
Column (10) = Column (9) divided by contribution
Column (11) = Column (9) times combined (assumed) fed. & state tax rate
Column (12) = Contribution minus column (11)
Column (13) = Column (8), divided by the product of Column (5) times 4
Column (14) = After Tax Internal Rate of Return (avg. fed. & state tax = 15.00%)
Column (15) = Before Tax Internal Rate of Return

EXHIBIT L.2

$10,000 CONTRIBUTION TO TUITION PLAN

SEC. 7520 INTEREST RATE = 8.4%

AGE OF CHILD (1)	YEAR 4 YR PAY BEGINS (2)	GROWTH RATE 8% (3)	PAYOUT RATE 6% (4)	PAYOUT AMOUNT/ YEAR (5)	REMAINDER TO CHARITY (6)	IRS FACTOR (7)	PRESENT VALUE ANNUITY (8)
0	18	$39,960	$24,066	$6,464	$21,212	0.751322	$4,856
1	17	$37,000	$22,920	$6,156	$18,870	0.824826	$5,078
2	16	$34,259	$21,829	$5,863	$16,738	0.894945	$5,247
3	15	$31,722	$20,789	$5,584	$14,800	0.970750	$5,420
4	14	$29,372	$19,799	$5,318	$13,038	1.052816	$5,599
5	13	$27,196	$18,856	$5,065	$11,438	1.141716	$5,782
6	12	$25,182	$17,959	$4,823	$9,987	1.238073	$5.972
7	11	$23,316	$17,103	$4,594	$8,672	1.342521	$6,167
8	10	$21,589	$16,289	$4,375	$7,482	1.455737	$6,369
9	9	$19,990	$15,513	$4,167	$6,407	1.578435	$6,577
10	8	$18,509	$14,775	$3,968	$5,435	1.711424	$6,791
11	7	$17,138	$14,071	$3,779	$4,560	1.855542	$7,013
12	6	$15,869	$13,401	$3,599	$3,771	2.011797	$7,241
13	5	$14,693	$12,763	$3,428	$3,063	2.181320	$7,477
14	4	$13,605	$12,155	$3,265	$2,427	2.365441	$7,722
15	3	$12,597	$11,576	$3,109	$1,858	2.565496	$7,977
16	2	$11,664	$11,025	$2,961	$1,350	2.782897	$8,241
17	1	$10,800	$10,500	$2,820	$897	3.019183	$8,514

EXHIBIT L.2 continued

CHAR. DEDUC. AMOUNT (9)	PERCENT TAX DEDUC. (10)	TAX SAVINGS 36% (11)	INVEST. AFTER TAX (12)	TAX-FREE AMT ON RECEIPT (13)	AFTER TAX IRR (14)	BEFORE TAX IRR (15)
$5,144	51.44%	$1,852	$8,148	18.78%	5.41%	6.36%
$4,922	49.22%	$1,772	$8,228	20.62%	5.39%	6.34%
$4,753	47.53%	$1,711	$8,289	23.37%	5.39%	6.34%
$4,580	45.80%	$1,649	$8,351	24.27%	5.38%	6.33%
$4,401	44.01%	$1,584	$8,416	26.32%	5.38%	6.33%
$4,218	42.18%	$1,518	$8,482	28.54%	5.37%	6.32%
$4,028	40.28%	$1,450	$8,550	30.95%	5.37%	6.32%
$3,833	38.33%	$1,380	$8,620	33.56%	5.37%	6.32%
$3,631	36.31%	$1,307	$8,693	36.39%	5.37%	6.31%
$3,423	34.23%	$1,232	$8,768	39.46%	5.37%	6.31%
$3,209	32.09%	$1,155	$8,845	42.79%	5.37%	6.32%
$2,987	29.87%	$1,075	$8,925	46.39%	5.37%	6.32%
$2,759	27.59%	$993	$9,007	50.29%	5.38%	6.33%
$2,523	25.23%	$908	$9,092	54.53%	5.40%	6.35%
$2,278	22.78%	$820	$9,180	59.14%	5.43%	6.39%
$2,023	20.23%	$728	$9,272	64.14%	5.48%	6.45%
$1,759	17.59%	$633	$9,367	69.57%	5.57%	6.56%
$1,486	14.86%	$535	$9,465	75.48%	5.76%	6.77%

EXHIBIT L.2 continued

Assumption: Child is only recipient of 4 year payout
Column (3) = Future value @ age 18 if College invests contribution at stated growth rate
Column (4) = Future value @ age 18 if College pays out at stated payout rate
Column (5) = Column (4), paid out over 4 years at stated payout rate (self-amortizing)
Column (6) = Future value at stated growth rate of difference between Column (3) & Column (4) at end of payout
Column (7) = IRS factor from tables
Column (8) = Column (5) times Column (7)
Column (9) = Contribution minus Column (8)
Column (10) = Column (9) divided by contribution
Column (11) = Column (9) times combined (assumed) fed. & state tax rate
Column (12) = Contribution minus column (11)
Column (13) = Column (8), divided by the product of Column (5) times 4
Column (14) = After Tax Internal Rate of Return (avg. fed. & state tax = 15.00%)
Column (15) = Before Tax Internal Rate of Return

EXHIBIT L.3

$10,000 CONTRIBUTION TO TUITION PLAN

SEC. 7520 INTEREST RATE = 8.4%

AGE OF CHILD (1)	YEAR 4 YR PAY BEGINS (2)	GROWTH RATE 7% (3)	PAYOUT RATE 5% (4)	PAYOUT AMOUNT/ YEAR (5)	REMAINDER TO CHARITY (6)	IRS FACTOR (7)	PRESENT VALUE ANNUITY (8)
0	18	$33,799	$24,066	$6,464	$12,707	0.751322	$4,856
1	17	$31,588	$22,920	$6,156	$11,365	0.824826	$5,078
2	16	$29,522	$21,829	$5,863	$10,135	0.894945	$5,247
3	15	$27,590	$20,789	$5,584	$9,008	0.970750	$5,420
4	14	$25,785	$19,799	$5,318	$7,978	1.052816	$5,599
5	13	$24,098	$18,856	$5,065	$7,035	1.141716	$5,782
6	12	$22,522	$17,959	$4,823	$6,175	1.238073	$5,972
7	11	$21,049	$17,103	$4,594	$5,390	1.342521	$6,167
8	10	$19,672	$16,289	$4,375	$4,674	1.455737	$6,369
9	9	$18,385	$15,513	$4,167	$4,022	1.578435	$6,577
10	8	$17,182	$14,775	$3,968	$3,430	1.711424	$6,791
11	7	$16,058	$14,071	$3,779	$2,892	1.855542	$7,013
12	6	$15,007	$13,401	$3,599	$2,404	2.011797	$7,241
13	5	$14,026	$12,763	$3,428	$1,962	2.181320	$7,477
14	4	$13,108	$12,155	$3,265	$1,563	2.365441	$7,722
15	3	$12,250	$11,576	$3,109	$1,203	2.565496	$7,977
16	2	$11,449	$11,025	$2,961	$878	2.782897	$8,241
17	1	$10,700	$10,500	$2,820	$587	3.019183	$8,514

EXHIBIT L.3 continued

CHAR. DEDUC. AMOUNT (9)	PERCENT TAX DEDUC. (10)	TAX SAVINGS 36% (11)	INVEST. AFTER TAX (12)	TAX-FREE AMT ON RECEIPT (13)	AFTER TAX IRR (14)	BEFORE TAX IRR (15)
$5,144	51.44%	$1,852	$8,148	18.78%	5.41%	6.36%
$4,922	49.22%	$1,772	$8,228	20.62%	5.39%	6.34%
$4,753	47.53%	$1,711	$8,289	23.37%	5.39%	6.34%
$4,580	45.80%	$1,649	$8,351	24.27%	5.38%	6.33%
$4,401	44.01%	$1,584	$8,416	26.32%	5.38%	6.33%
$4.218	42.18%	$1,518	$8,482	28.54%	5.37%	6.32%
$4,028	40.28%	$1,450	$8,550	30.95%	5.37%	6.32%
$3,833	38.33%	$1,380	$8,620	33.56%	5.37%	6.32%
$3,631	36.31%	$1,307	$8,693	36.39%	5.37%	6.31%
$3,423	34.23%	$1,232	$8,768	39.46%	5.37%	6.31%
$3,209	32.09%	$1,155	$8,845	42.79%	5.37%	6.32%
$2,987	29.87%	$1,075	$8,925	46.39%	5.37%	6.32%
$2,759	27.59%	$993	$9,007	50.29%	5.38%	6.33%
$2,523	25.23%	$908	$9,092	54.53%	5.40%	6.35%
$2,278	22.78%	$820	$9,180	59.14%	5.43%	6.39%
$2,023	20.23%	$728	$9,272	64.14%	5.48%	6.45%
$1,759	17.59%	$633	$9,367	69.57%	5.57%	6.56%
$1,486	14.86%	$535	$9,465	75.48%	5.76%	6.77%

Assumption: Child is only recipient of 4 year payout
Column (3) = Future value @ age 18 if College invests contribution at stated growth rate
Column (4) = Future value @ age 18 if College pays out at stated payout rate
Column (5) = Column (4), paid out over 4 years at stated payout rate (self-amortizing)
Column (6) = Future value at stated growth rate of difference between Column (3) & Column (4) at end of payout
Column (7) = IRS factor from tables
Column (8) = Column (5) times Column (7)
Column (9) = Contribution minus Column (8)
Column (10) = Column (9) divided by contribution
Column (11) = Column (9) times combined (assumed) fed. & state tax rate
Column (12) = Contribution minus column (11)
Column (13) = Column (8), divided by the product of Column (5) times 4
Column (14) = After Tax Internal Rate of Return (avg. fed. & state tax = 15.00%)
Column (15) = Before Tax Internal Rate of Return

EXHIBIT L.4

$10,000 CONTRIBUTION TO TUITION PLAN

SEC. 7520 INTEREST RATE = 8.4%

AGE OF CHILD (1)	YEAR 4 YR PAY BEGINS (2)	GROWTH RATE 7% (3)	PAYOUT RATE 4% (4)	PAYOUT AMOUNT/ YEAR (5)	REMAINDER TO CHARITY (6)	IRS FACTOR (7)	PRESENT VALUE ANNUITY (8)
0	18	$33,799	$20,258	$5,366	$17,580	0.751322	$4,032
1	17	$31,588	$19,479	$5,160	$15,787	0.824826	$4,256
2	16	$29,522	$18,730	$4,961	$14,137	0.894945	$4,440
3	15	$27,590	$18,009	$4,771	$12,618	0.970750	$4,631
4	14	$25,785	$17,317	$4,587	$11,222	1.052816	$4,829
5	13	$24,098	$16,651	$4,411	$9,938	1.141716	$5,036
6	12	$22,522	$16,010	$4,241	$8,760	1.238073	$5,251
7	11	$21,049	$15,395	$4,078	$7,680	1.342521	$5,475
8	10	$19,672	$14,802	$3,921	$6,689	1.455737	$5,708
9	9	$18,385	$14,233	$3,770	$5,782	1.578435	$5,951
10	8	$17,182	$13,686	$3,625	$4,953	1.711424	$6,204
11	7	$16,058	$13,159	$3,486	$4,195	1.855542	$6,468
12	6	$15,007	$12,653	$3,352	$3,503	2.011797	$6,743
13	5	$14,026	$12,167	$3,223	$2,873	2.181320	$7,030
14	4	$13,108	$11,699	$3,099	$2,299	2.365441	$7,330
15	3	$12,250	$11,249	$2,980	$1,778	2.565496	$7,644
16	2	$11,449	$10,816	$2,865	$1,305	2.782897	$7,973
17	1	$10,700	$10,400	$2,755	$876	3.019183	$8,318

EXHIBIT L.4 continued

CHAR. DEDUC. AMOUNT (9)	PERCENT TAX DEDUC. (10)	TAX SAVINGS 36% (11)	INVEST. AFTER TAX (12)	TAX-FREE AMT ON RECEIPT (13)	AFTER TAX IRR (14)	BEFORE TAX IRR (15)
$5,968	59.68%	$2,149	$7,851	18.78%	4.60%	5.41%
$5,744	57.44%	$2,068	$7,932	20.62%	4.59%	5.40%
$5,560	55.60%	$2,002	$7,998	22.37%	4.60%	5.41%
$5,369	53.69%	$1,933	$8,067	24.27%	4.60%	5.41%
$5,171	51.71%	$1,861	$8,139	26.32%	4.60%	5.41%
$4,964	49.64%	$1,787	$8,213	28.54%	4.60%	5.42%
$4,749	47.49%	$1,710	$8,290	30.95%	4.61%	5.42%
$4,525	45.25%	$1,629	$8,371	33.56%	4.61%	5.42%
$4,292	42.92%	$1,545	$8,455	36.39%	4.62%	5.43%
$4,049	40.49%	$1,458	$8,542	39.46%	4.62%	5.44%
$3,796	37.96%	$1,366	$8,634	42.79%	4.63%	5.45%
$3,532	35.32%	$1,271	$8,729	46.39%	4.64%	5.46%
$3,257	32.57%	$1,173	$8,827	50.29%	4.66%	5.48%
$2,970	29.70%	$1,069	$8,931	54.53%	4.69%	5.51%
$2,670	26.70%	$961	$9,039	59.14%	4.72%	5.56%
$2,356	23.56%	$848	$9,152	64.14%	4.78%	5.63%
$2,027	20.27%	$730	$9,270	69.57%	4.88%	5.74%
$1,682	16.82%	$606	$9,394	75.48%	5.07%	5.96%

EXHIBIT L.4 continued

Assumption: Child is only recipient of 4 year payout
Column (3) = Future value @ age 18 if College invests contribution at stated growth rate
Column (4) = Future value @ age 18 if College pays out at stated payout rate
Column (5) = Column (4), paid out over 4 years at stated payout rate (self-amortizing)
Column (6) = Future value at stated growth rate of difference between Column (3) & Column (4) at end of payout
Column (7) = IRS factor from tables
Column (8) = Column (5) times Column (7)
Column (9) = Contribution minus Column (8)
Column (10) = Column (9) divided by contribution
Column (11) = Column (9) times combined (assumed) fed. & state tax rate
Column (12) = Contribution minus column (11)
Column (13) = Column (8), divided by the product of Column (5) times 4
Column (14) = After Tax Internal Rate of Return (avg. fed. & state tax = 15.00%)
Column (15) = Before Tax Internal Rate of Return

EXHIBIT L.5

$10,000 CONTRIBUTION TO TUITION PLAN

SEC. 7520 INTEREST RATE = 8.4%

AGE OF CHILD (1)	YEAR 4 YR PAY BEGINS (2)	GROWTH RATE 10% (3)	PAYOUT RATE 5% (4)	PAYOUT AMOUNT/ YEAR (5)	REMAINDER TO CHARITY (6)	IRS FACTOR (7)	PRESENT VALUE ANNUITY (8)
0	18	$55,599	$24,066	$6,464	$44,004	0.751322	$4,856
1	17	$50,545	$22,920	$6,156	$38,705	0.824826	$5,078
2	16	$45,950	$21,829	$5,863	$33,950	0.894945	$5,247
3	15	$41,772	$20,789	$5,584	$29,685	0.970750	$5,420
4	14	$37,975	$19,799	$5,318	$25,865	1.052816	$5,599
5	13	$34,523	$18,856	$5,065	$22,445	1.141716	$5,782
6	12	$31,384	$17,959	$4,823	$19,387	1.238073	$5,972
7	11	$28,531	$17,103	$4,594	$16,656	1.342521	$6,167
8	10	$25,937	$16,289	$4,375	$14,219	1.455737	$6,369
9	9	$23,579	$15,513	$4,167	$12,047	1.578435	$6,577
10	8	$21,436	$14,775	$3,968	$10,115	1.711424	$6,791
11	7	$19,487	$14,071	$3,779	$8,398	1.855542	$7,013
12	6	$17,716	$13,401	$3,599	$6,875	2.011797	$7,241
13	5	$16,105	$12,763	$3,428	$5,527	2.181320	$7,477
14	4	$14,641	$12,155	$3,265	$4,336	2.365411	$7,722
15	3	$13,310	$11,576	$3,109	$3,286	2.565496	$7,977
16	2	$12,100	$11,025	$2,961	$2,363	2.782897	$8,241
17	1	$11,000	$10,500	$2,820	$1,553	3.019183	$8,514

CHAR. DEDUC. AMOUNT (9)	PERCENT TAX DEDUC. (10)	TAX SAVINGS 36% (11)	INVEST. AFTER TAX (12)	TAX-FREE AMT ON RECEIPT (13)	AFTER TAX IRR (14)	BEFORE TAX IRR (15)
$5,144	51.44%	$1,852	$8,148	18.78%	5.41%	6.36%
$4,922	49.22%	$1,772	$8,228	20.62%	5.39%	6.34%
$4,753	47.53%	$1,711	$8,289	22.37%	5.39%	6.34%
$4,580	45.80%	$1,649	$8,351	24.27%	5.38%	6.33%
$4,401	44.01%	$1,584	$8,416	26.32%	5.38%	6.33%
$4,218	42.18%	$1,518	$8,482	28.54%	5.37%	6.32%
$4,028	40.28%	$1,450	$8,550	30.95%	5.37%	6.32%
$3,833	38.33%	$1,380	$8,620	33.56%	5.37%	6.32%
$3,631	36.31%	$1,307	$8,693	36.39%	5.37%	6.31%
$3,423	34.23%	$1,232	$8,768	39.46%	5.37%	6.31%
$3,209	32.09%	$1,155	$8,845	42.79%	5.37%	6.32%
$2,987	29.87%	$1,075	$8,925	46.39%	5.37%	6.32%
$2,759	27.59%	$993	$9,007	50.29%	5.38%	6.33%
$2,523	25.23%	$908	$9,092	54.53%	5.40%	6.35%
$2,278	22.78%	$820	$9,180	59.14%	5.43%	6.39%
$2,023	20.23%	$728	$9,272	64.14%	5.48%	6.45%
$1,759	17.59%	$633	$9,367	69.57%	5.57%	6.56%
$1,486	14.86%	$535	$9,465	75.48%	5.76%	6.77%

EXHIBIT L.5 continued

Assumption: Child is only recipient of 4 year payout
Column (3) = Future value @ age 18 if College invests contribution at stated growth rate
Column (4) = Future value @ age 18 if College pays out at stated payout rate
Column (5) = Column (4), paid out over 4 years at stated payout rate (self-amortizing)
Column (6) = Future value at stated growth rate of difference between Column (3) & Column (4) at end of payout
Column (7) = IRS factor from tables
Column (8) = Column (5) times Column (7)
Column (9) = Contribution minus Column (8)
Column (10) = Column (9) divided by contribution
Column (11) = Column (9) times combined (assumed) fed. & state tax rate
Column (12) = Contribution minus column (11)
Column (13) = Column (8), divided by the product of Column (5) times 4
Column (14) = After Tax Internal Rate of Return (avg. fed. & state tax = 15.00%)
Column (15) = Before Tax Internal Rate of Return

$10,000 CONTRIBUTION TO TUITION PLAN

SEC. 7520 INTEREST RATE = 8.4%

AGE OF CHILD (1)	YEAR 4 YR PAY BEGINS (2)	GROWTH RATE 10% (3)	PAYOUT RATE 6% (4)	PAYOUT AMOUNT/ YEAR (5)	REMAINDER TO CHARITY (6)	IRS FACTOR (7)	PRESENT VALUE ANNUITY (8)
0	18	$55,599	$28,543	$7,771	$37,936	0.751322	$5,839
1	17	$50,545	$26,928	$7,331	$33,251	0.824826	$6,047
2	16	$45,950	$25,404	$6,916	$29,061	0.894945	$6,190
3	15	$41,772	$23,966	$6,525	$25,318	0.970750	$6,334
4	14	$37,975	$22,609	$6,155	$21,977	1.052816	$6,481
5	13	$34,523	$21,329	$5,807	$18,999	1.141716	$6,630
6	12	$31,384	$20,122	$5,478	$16,348	1.238073	$6,783
7	11	$28,531	$18,983	$5,168	$13,989	1.342521	$6,938
8	10	$25,937	$17,908	$4,876	$11,895	1.455737	$7,098
9	9	$23,579	$16,895	$4,600	$10,037	1.578435	$7,260
10	8	$21,436	$15,938	$4,339	$8,392	1.711424	$7,426
11	7	$19,487	$15,036	$4,094	$6,938	1.855542	$7,596
12	6	$17,716	$14,185	$3,862	$5,656	2.011797	$7,770
13	5	$16,105	$13,382	$3,643	$4,527	2.181320	$7,947
14	4	$14,641	$12,625	$3,437	$3,535	2.365441	$8,130
15	3	$13,310	$11,910	$3,243	$2,667	2.565496	$8,319
16	2	$12,100	$11,236	$3,059	$1,908	2.782897	$8,513
17	1	$11,000	$10,600	$2,886	$1,247	3.019183	$8,713

EXHIBIT L.6 continued

CHAR. DEDUC. AMOUNT (9)	PERCENT TAX DEDUC. (10)	TAX SAVINGS 36% (11)	INVEST. AFTER TAX (12)	TAX-FREE AMT ON RECEIPT (13)	AFTER TAX IRR (14)	BEFORE TAX IRR (15)
$4,161	41.61%	$1,498	$8,502	18.78%	6.18%	7.27%
$3,953	39.53%	$1,423	$8,577	20.62%	6.15%	7.24%
$3,810	38.10%	$1,372	$8,628	23.37%	6.14%	7.23%
$3,666	36.66%	$1,320	$8,680	24.27%	6.14%	7.22%
$3,519	35.19%	$1,267	$8,733	26.32%	6.13%	7.21%
$3,370	33.70%	$1,213	$8,787	28.54%	6.12%	7.20%
$3,217	32.17%	$1,158	$8,842	30.95%	6.11%	7.19%
$3,062	30.62%	$1,102	$8,898	33.56%	6.10%	7.18%
$2,902	29.02%	$1,045	$8,955	36.39%	6.09%	7.17%
$2,740	27.40%	$986	$9,014	39.46%	6.09%	7.16%
$2,574	25.74%	$926	$9,074	42.79%	6.08%	7.16%
$2,404	24.04%	$865	$9,135	46.39%	6.08%	7.16%
$2,230	22.30%	$803	$9,197	50.29%	6.09%	7.16%
$2,053	20.53%	$739	$9,261	54.53%	6.10%	7.18%
$1,870	18.70%	$673	$9,327	59.14%	6.13%	7.21%
$1,681	16.81%	$605	$9,395	64.14%	6.17%	7.26%
$1,487	14.87%	$535	$9,465	69.57%	6.26%	7.36%
$1,287	12.87%	$463	$9,537	75.48%	6.44%	7.57%

Assumption: Child is only recipient of 4 year payout
Column (3) = Future value @ age 18 if College invests contribution at stated growth rate
Column (4) = Future value @ age 18 if College pays out at stated payout rate
Column (5) = Column (4), paid out over 4 years at stated payout rate (self-amortizing)
Column (6) = Future value at stated growth rate of difference between Column (3) & Column (4) at end of payout
Column (7) = IRS factor from tables
Column (8) = Column (5) times Column (7)
Column (9) = Contribution minus Column (8)
Column (10) = Column (9) divided by contribution
Column (11) = Column (9) times combined (assumed) fed. & state tax rate
Column (12) = Contribution minus column (11)
Column (13) = Column (8), divided by the product of Column (5) times 4
Column (14) = After Tax Internal Rate of Return (avg. fed. & state tax = 15.00%)
Column (15) = Before Tax Internal Rate of Return

PLANNED GIFTS IN THE UNITED STATES AND CANADA — A COMPARISON

Frank Minton, Ph.D.
President
Planned Giving Services

For many years the Canadian Association of Charitable Gift Annuities has been represented on the Board of the American Committee on Gift Annuities. We are pleased to welcome A. Gordon Nelson to this position. Later he will report on developments in Canada regarding gift annuities - the new rates that were adopted earlier this year, authorization to issue gift annuities in Canada, and the work of the Association.

I will be speaking more broadly on the tax aspects of charitable gifts in Canada. We will compare the Canadian and American tax rules and discuss a number of issues regarding cross-border gifts.

Before looking specifically at the tax rules governing charitable gifts, I would like to make a few observations about planned giving in Canada.

First, the tradition of private support is not as strong in Canada. Americans give away over 2 percent of their annual income, Canadians 0.8 percent. This is partly due to the fact that American law offers more tax incentives for giving, and partly because Canadians have a history of looking to their social welfare system to meet human needs (e.g., "My government should pay for this.").

A second observation is that the rules, particularly for life income gifts, are not so well developed in Canada. In a sense, planned giving in Canada is where we were prior to the landmark 1969 tax act. Charitable remainder trusts are not defined, actuarial tables for valuing remainder interests have not been issued, little case law exists. If charitable remainder trusts are established—and they rarely are—they are done on an ad hoc basis.

Most Canadian gifts are outright, usually in cash, bequests, some gift annuity activity primarily by religious organizations, life insurance, and cultural property to museums, galleries, and libraries.

This is likely to change because of the growing interest in planned giving in Canada. In the last two years a number of universities and other charities have started, or are in process of starting, planned giving programs. The Canadian Centre on Philanthropy, the association of universities, and AHP are all filling their seminars on the subject. In March a course on planned giving offered in Banff drew participants from Victoria to New Brunswick. Recently a Canadian equivalent to NCPG was formed, which held its first meeting last month. Kenneth Ramsay, Director of Planned Giving for the United Church of Canada, is the acting chair.

Now let's turn to tax aspects of charitable gifts in Canada. For the past three years a tax credit, rather than a deduction, has been allowed for contributions by individuals. I might note that Canadians also receive a credit for other items for which we would be entitled to a deduction or exemption. The credit system applies to individuals, not to corporations. Corporations still receive a deduction for contributions. Since in planned giving we deal mostly with individuals, I will focus on the credit.

The amount of the federal tax credit is 17 percent for the first $250 of gifts, and 29 percent for gifts beyond the $250 total. The purpose is to equalize the benefits low- and high-income people receive from modest size gifts. In the United States, one person might save $31 from a $100 gift, another person only $15 from the same $100 gift, depending on tax brackets. Not so in Canada.

Note how the credit is computed in the case of Janet Smith.

This is the credit on federal income tax only. Since the provincial tax is a percentage of the federal tax (in all provinces except Quebec), a reduction of the federal tax automatically reduces the provincial tax. Again, consider the total tax savings if Janet Smith lives in a province whose tax is 53 percent of the federal. We complain about the state income tax rate - maximum of 11 percent in California and 7.875 percent in New York - but they are paltry compared to provincial rates. Imagine paying state tax equal to 50-60 percent of your federal.

Note Janet Smith's combined tax savings if she contributes $10,000.

When you add federal and provincial, Canadians realize more tax savings than Americans for cash gifts. And, because of the credit, they don't have to be in high brackets to realize them.

One thing you might note is that husbands and wives don't file joint returns in Canada. Either may claim the credit, or they may divide it, depending on which comes out better.

The maximum contribution that can be reported in any one year is 20 percent of net income, with one important exception. If a gift is to the Crown or a Crown Foundation, the limit is 100 percent of net income. The three provincial universities in British Columbia and selected hospitals succeeded in getting legislation approving their Crown foundations. This gives them a decided edge, and not surprisingly other provinces are rushing to do the same. Time will tell how Revenue Canada reacts.

Unfortunately gifts to your American institutions come under the 20 percent limit. You are not a Crown agency, unless perchance you're from an eastern school that never broke from King George. Though the limit is 20 percent, the Canadian does have flexibility to use it in any of the carryover years, unlike here where you have to use it as quickly as possible.

The biggest difference between U.S. and Canadian law concerns gifts of appreciated property. A Canadian donor of appreciated property is deemed to have received proceeds equal to fair market value. Thus, there is no essential tax difference between contributing the property itself and selling it and contributing the proceeds.

Obviously, this is a disincentive for gifts of capital gain property, and understandably most gifts in Canada consist of cash. There's another reason, too. Canadians save more, interest rates are higher, and they are more liquid.

Although the gain is taxed, solutions are available that may still make gifts of appreciated property advantageous. (See Solutions.)

If the appreciated property can be certified as cultural property, the problem disappears, for the gain will not be taxed and the contribution limit is 100 percent of income. There's a process to be followed to get an object certified, and it's rigorous. But it doesn't concern you except to be aware that if your Canadian donor owns a masterwork, you're not likely to get it because you can't match the benefits of giving it in Canada.

The second major difference between U.S. and Canadian law relates to bequests. Canada does not have a gift or estate tax. Sam Walton could give his heirs $10,000,000,000 without paying a dime of tax if it's all cash. However, when you give appreciated property (during lifetime or at death), there is a deemed disposition of the capital gain. It is taxed on the final income tax return.

Thus, a bequest qualifies not for an estate tax deduction but for an income tax credit. If Sam Walton's estate was entirely cash, and he gave a $1 billion charitable bequest, he wouldn't save a nickel, because there would be no tax. But if his estate consisted of Walmart stock with a zero basis, his billion dollar bequest would save nearly $500,000,000.

Does the 20 percent apply to bequests? Yes, but you can carry back the unused contribution one year, refigure the previous year's tax, and get credit for the reduction.

If the bequest is itself capital gain property, again we have a deemed disposition. In that case the executor will very likely elect to value the bequest below fair market value in order to limit the recognized gain.

Considering the possibility of wasting the contribution when it's by bequest, the donor is advised to make lifetime gifts so that they can be reported over a longer time.

The one life income plan specifically addressed by Revenue Canada is the gift annuity. An interpretation bulletin, IT-111R, sets forth how to compute the contribution amount and taxation of payments, but the authority to issue them depends on provincial law. The Salvation Army, the United Church of Canada, and the Presbyterian Church all have statutory authority. It was written into their charters. Other charities have no such authority.

Nevertheless, some are proceeding to issue annuities, and we are not aware of any attempts to regulate them. They might argue, if questioned, that no law specifically prohibits the issuance of annuities, that Interpretation Bulletin IT-111R presupposes that charities do issue them, and that in issuing them the charity is not carrying on a business but providing a means of making a gift.

Others have contacted the Superintendent of Insurance in their province and sought authorization. This has been forthcoming in New Brunswick. Gordon Nelson may have information on initiatives in other provinces.

The safest alternative is for the charity to reinsure. This, however, must be done in such a way that the charity is not construed as offering the annuity. Explain.

Interpretation Bulletin IT-111R explains how to compute the tax credit and taxation of payments where the charity issues the annuity. (Explain process)

If the charity reinsures pursuant to an agreement calling for reinsurance with a particular company, the credit will be for the amount retained by the charity, and the payments taxed as if the person purchased a prescribed annuity with the balance from the insurance company. Essentially, the person would have simultaneously made an outright gift and purchased a commercial annuity.

Pooled income funds do not exist in Canada. However, Canadian law does provide for a gift of a residual interest. This is similar to our retained life estate, except that it is more inclusive. A person in Canada can give a residual interest in

real estate, such as a personal residence

an artwork, or

in an investment asset - elaborate on each.

The contribution is the present value of the residual interest, determined by taking into account the ages of the beneficiaries, mortality rates, and discount rates. Since no tables or instructions have been issued, you have to go to an actuary or accountant, and be prepared to defend the number if challenged.

Charitable remainder trusts are not specifically mentioned in Canadian law. However, last year Revenue Canada issued a revised and expanded Rev. Bulletin 226R that says a charitable remainder trust is a form of residual interest gift. We had assumed that to be the case, but this new bulletin specifically links them. I quote from paragraph 1 of the bulletin:

A gift of a residual interest in real property or an equitable interest in a trust to a registered charity or certain other organizations (described in subsection 110 1(1) or 118 1(1)) may qualify as a deduction in computing taxable income, if donated by a corporation, or as a non-refundable federal tax credit, if donated by an individual.

Later in paragraph 3 an "equitable interest in a trust" is said to be created "upon the transfer of any property (including real property) to a trust with the requirement that the property be distributed to a beneficiary at some future date...", e.g. at the end of the life of the person holding the income interest. The paragraph goes on to say that when the equitable interest is created for the benefit of a charity, the interest may qualify as a gift. This is true whether the trust is created during the lifetime of the donor or under a will.

Here, for the first time, is an explicit recognition of the charitable remainder trust, though that particular term is not used. This ruling could prove extremely important in stimulating more charities to mention this gift possibility to their donors. Up to this time the charitable remainder trust has been little used in Canada, though it is one of the most popular giving instruments in the United States.

Prior to the new Interpretation Bulletin it appeared that funding a charitable remainder trust with appreciated property would be a deemed disposition of all of the capital gain. The new bulletin, however, seems to represent a change in Revenue Canada's position. Only the gain attributable to the residual interest is recognized, and this could be eliminated by electing to value the residual interest at cost.

The rules pertaining to life insurance gifts are similar in the two countries. Credit is allowed for assignment of ownership and for premiums paid, no credit if the charity is merely the beneficiary. When the charity has been named as beneficiary only and receives the death proceeds, they are not taxed to the donor, nor is there a credit. Of course, you may receive gifts of life insurance.

Having this general overview of the tax rules, we address some common questions about cross-border gifts.

(Review Questions)

PLANNED GIFTS IN THE UNITED STATES AND CANADA — A COMPARISON

A. Gordon Nelson
Chairman, C.A.C.G.A.

THE CANADIAN ASSOCIATION ON CHARITABLE GIFT ANNUITIES (C.A.C.G.A.)

The C.A.C.G.A., which came into being in 1988, is the outgrowth of the Canadian Committee on Gift Annuities, a group of representatives of less than a dozen religious charities which had existed for seven years under the leadership of Jim Chisholm of the United Church of Canada.

The Constitution formalizing the Association as a not-for-profit organization was adopted in May, 1989 with a five person executive elected by its eleven members, Maj. Stan Ratcliffe of the Salvation Army Canada being elected the first Chairman.

By-laws were added in 1991, the year the organization grew to seventeen members. Additional organizations have added representative in the last year resulting in twenty-two full members representing both religious institutions, universities and one YMCA as of February, 1992. It is expected that one or two hospitals will be added in May, 1992. In addition there are four "associate" members, representing organizations which are interested in the issuance of charitable gift annuities in the future. Great interest has been shown in the area of charitable annuities and the Association anticipates rapid growth during the next few years.

It is hoped that the Standards which have been developed at the members' request will be fully adopted at the May, 1992 meeting. The Association is on the route to becoming a self-regulatory body and hopes to be recognized as such for the charitable gift annuity industry by the various governmental authorities.

Note:The Standards were adopted in May with one slight change. The following pages are the Standards as actually adopted by the C.A.C.G.A.

Canadian Association on Charitable Gift Annuities Standards for Member Organizations

I. Standards regarding rates recommended by Association

II. Standards regarding advertising/promotion by Members

III. Standards regarding agreements/contracts of Members

IV. Standards regarding reserves/safety of Members

I. Standards Regarding Rates Recommended by Association

A. Rates shall be calculated by qualified actuaries either under contract to the Association itself or to one or more of its members. Interest assumptions will be conservative but shall reflect both medium and long term interest rates which can be earned on minimal risk investments in Canada. No load for administrative expenses shall be included in the recommended rates.

B. The Association's recommended rates shall be computed to produce an average "gift" remainder or residue of approximately 50% of the amount originally donated under the agreement. (Consequently the rates are lower than and are not in competition with rates being offered by commercial annuity issuers.)

C. Mortality tables used in calculating the rates shall be conservative in nature, reflecting at a minimum the tables being currently used by commercial issuers for single (non-group) annuitants.

D. The rates published by the Association and recommended to its members are in no manner binding upon the charitable organizations represented by the members of the Association. However, members should be aware that offering gift annuities at rates higher than the recommended rates may jeopardize the gift that is available to the issuing charity.

E. If an organization chooses not to use the recommended rates, its own rates must comply with the criteria of Sections A, B and C above.

II. Standards Regarding Advertising/Promotion by Members

A. As donative intent (the desire of the donor to make a charitable gift and thereby support the work of the issuing organization) is an inherent concept in the Gift Annuity, all promotional advertising, whether verbal or in print, should clearly state that a gift element is included in the proposed agreement.

B. The Income Tax Act has indicated that Gift Annuity agreements are "prescribed annuities" having beneficial tax treatment. The emphasis on philanthropic motivation mentioned above does not minimize the appropriateness of explaining the beneficial tax implications.

C. Promotion of gift annuities as "planned giving" instruments shall be done with integrity, fairness, openness and honesty. Where rates are quoted, they shall be described as "current rates", "rates in use" or "rates subject to change". However when describing the level of income established at the time of the gift, the fact can be mentioned that the rate paid remains the same for the lifetime of the annuitant (or last surviving annuitant.)

D. Promotion of gift annuities should not discount or disparage other types of gifting or investing. Promotion should not discourage the donor from discussing the proposed gift with competent legal or tax advisors of the donor's choice. The use of an application form is recommended.

E. Full disclosure of any administrative charges shall be made before or during the application process.

III. Standards Regarding Agreements (Contracts) of Members

A. Any agreement described as either a "Gift Annuity" or "Life Income Agreement" shall not be issued by organizations represented by members of the CACGA unless and until the said organization has sought and received approval from its own legal solicitor to assure the proper wording of same.

B. The agreement shall clearly indicate that the arrangement is irrevocable and also indicate that any residue will be retained by the issuer upon the completion of the terms of the agreement (i.e. after the death of the last surviving annuitant thereunder) to be used for charitable purposes.

C. The agreement shall specifically include the monetary value of the principal sum, and the amount of the payments to the annuitant expressed in both annual and periodic (e.g. quarterly, semi-annual or monthly) figures. It shall also clearly state when these payments shall cease (e.g. with the last payment preceding the death of the annuitant [or last surviving annuitant in the case of a joint annuity]).

D. The agreement shall clearly indicate the effective date and provide places for signatures of the annuitant(s), witness, and the proper signing authority of the issuer.

E. Charities must provide a minimum ten day grace period from the date of completion of the agreement during which an annuitant may withdraw and receive a full refund of the capital.

F. The CACGA recommends the use of terminology such as "donor(s)", "annuitant(s)", "issuer", and "gift" rather than "purchaser(s)", and "investor(s)", "vendor", and "investment".

IV. Standards Regarding Reserves/Safety of Members

A. Issuers of gift annuities should require proof of age and the Social Insurance number of all annuitants.

B. An actuarial report should be required of each issuing organization at least every three years. The issuing organization's reserves must be sufficient to meet all future contractual payments as determined by these periodic assessments of the present value of future benefits payable under the Gift Annuity agreements.

C. Funds or other assets being held in trust to meet future obligations under gift annuity agreements shall be segregated from both the assets of the charity itself and the organization's operating income. This shall be done in such a manner as to protect them from the creditors of the issuing organization.

D. The trustees of the assets being held to meet future obligations under gift annuity agreements shall make appropriateness and prudence of the investment their major concern both as to principal and interest. In no manner shall investments be made other than those permitted under the terms of the trust as set up by the organization and by the terms of the law.

For further information, please contact:

Canadian Association on Charitable Gift Annuities
10 Carnforth Road
Toronto, Ontario, Canada M4A 2S4

ADMINISTERING YOUR GIFT ANNUITY FUND FROM "A" TO "Z"

James B. Potter
Consultant
Planned Giving Resources

Perhaps you have been told that you learn best from your mistakes rather than your successes. It would be my hope that I can share enough of what I have learned over the years, through both developing and administering annuity gifts and annuity funds of more than $10,500,000 in assets and 3,000 annuitants, that I can simplify your education in Gift Annuity Fund Administration, and save you from learning some important lessons the hard way.

Administering your gift annuity fund is not really difficult. While much of it is common sense, your lack of knowledge in some areas could cause pitfalls for your organization without your realizing their possible ramifications. Gift annuity funds are regulated by the Insurance Departments of at least nine states whose statutes require the charity to obtain a Permit or Certificate of Authority to offer gift annuity agreements to residents of their states. (See also the "Report On State Regulations", made to the 21st Conference on Gift Annuities.)

While time does not permit me to share with you everything you will need to know on this subject, I will attempt to cover enough subjects that, hopefully, every participant here will learn at least one new fact, regardless how much experience you may have with Gift Annuity Funds. If you are relatively new to the subject, or are just now considering starting a Gift Annuity Fund, this workshop should dramatically shorten your learning curve. I am unaware of any published source that covers many of these subjects. While we have listed almost 40 items in total, we have grouped most of them by subject categories and have labeled them from "A" to "Z" for easy reference. So, let's get started.

INVESTING THE ANNUITY GIFT

a) Invest the entire gift, not just the "Required Legal Reserve" Portion of it. The maximum suggested rates of the Committee on Gift Annuities assumes the investment of the entire gift. Even then, you should only expect to net 50% of the gift, on average, unless you can invest your fund to earn more than 6.5%. If you spend the Gift Portion before the demise of the last annuitant in the agreement, you run a real risk of having insufficient assets to make the required annuity payments. The income on the invested Gift Portion as well as the Reserve Portion is necessary to make the annuity payments.
b) No state regulations speak to investing the Gift Portion of your Annuity Fund. If you wish, you can be fairly aggressive with this

part (25-35%) of the Fund. But, you should know and follow the investment rules of the regulated states for the Reserve Portion of your Annuity Fund. Consider following those in the State of New York Insurance Law No. 1110 (the strictest state law that regulates Gift Annuity Funds by statute). To avoid the long list of investment restrictions in the NY State Insurance Law, invest the Reserve Portion of your Fund solely in Federal Government obligations (Treasury Bills, Notes, Bonds and federal government money market funds). Invest no more than 5% of your Annuity Fund in any one mutual fund, even money market funds. If you determine that, say, 15% of your Fund should be invested in money market funds, to provide sufficient cash flow for making annuity payments, etc., find three appropriate federal government money market funds and invest up to 5% of your Fund in each one. Avoid money market funds with "L.P." (Limited Partnership) in their name.

Making Annuity Payments

c) For ease of administration and eventual computerization, make every payment other than the first one, the same, even if rounding annual amount upwards by a few cents to accomplish this. Always round up, never down.

   ie: $5,000 x 9.1% = $455.00 a year, payable monthly = $ 37.917 a month.
   $37.92 x 12 = $455.04 a year. Write agreement for $455.04 a year.

d) Mail payments to ARRIVE on payment due date. Do NOT mail on payment date. Mail checks from 1 to 7 days prior to payment due date, depending on distance from your office to annuitant's address. This builds donor/annuitant good will and improves chances of obtaining another gift. Never miss a payment. Development Office should control payment handling, not the Business Office. Count each payment as an important opportunity for a donor cultivation contact. Use your organization's check forms, not those of your bank or insurance company. Send a personalized letter with each payment. Make it count as a development contact, not just a legal obligation. It will increase the number of your additional annuity gifts.

e) Date checks on payment due date, so they cannot be cashed sooner and advise annuitant of that fact when you start to send payments.

f) If annuitant dies on the payment date, the payment belongs to the annuitant.

g) If annuitant dies just prior to payment date, and annuity payment has been mailed, Insurance Commissioners of regulated states will require charity to make a "reasonable effort" to obtain a refund of the payment from the estate. It is a legitimate claim against the estate. Make no less than three (3) documented efforts to obtain refund from estate. If necessary, send executor copy of agreement and send final request by Certified Mail.

h) Make every effort to locate a lost or missing annuitant who moves and does not advise you of new address. If your checks/letters are returned, marked with "forwarding privileges expired" or "forwarding address unknown" etc., send a letter to Postmaster of last known town. Enclose check for $1.00, payable to Postmaster, with letter requesting new address under the Federal "Freedom of Information Act". If it is known, they must supply it to you.
If still unknown, you can write a letter to addressee (annuitant), advising that you need their new address to fulfill your annuity payer obligations. Place in outgoing envelope bearing only their name in address location. Do not seal envelope and send to Social Security Administration, Washington, D.C. with a letter providing Social Security Number of Payee and requesting that if annuitant is alive, that they forward your unaddressed/unsealed envelope to annuitant/addressee. Social Security Administration does not charge for this service.

Reporting Annuity Payments

i) Charity must report taxable annuity payment amounts (paid in prior calendar year) by January 31 each year to ALL annuitants, (using the 1099R Form, for 1991 and later payments; for 1990 and earlier, it was W2-P Form), regardless of amount paid (not just those receiving $600.00 or more annually). Report the same (using copy of 1099R Forms and cover Form 1096) to IRS through the Social Security Administration, by February 28 each year. Payment data to more than 250 persons, (total of annuitants and employees of charity), are to be reported electronically, not with the paper forms.

j) As a courtesy to the donor/annuitant, provide the annual Capital Gains reporting amount to donor/annuitant that may be reported ratably over donor's lifetime, using blank space on Form 1099R. While not mandatory, it is good donor relations to provide this data to them. Maintain ongoing records of all data you have reported annually to each annuitant. Also, maintain records of recurring multiple addresses, like a summer home, and know which annuity checks should be mailed to each. Be aware that a Post Office Notice of new address could be just a temporary one, not a permanent change. Consider establishing Direct Deposit for those annuitant's that want it, or offer to send checks direct to annuitant's bank for deposit in their account. Have annuitant's bank direct how the checks should be drawn. Send Notice of Deposit to the annuitant's home.

k) Provide donor and annuitant with appropriate tax reporting data (charitable deduction, capital gains, tax-free and taxable annuity payments for all years of their life expectancy at the time gift annuity agreement is established. Do it in chart form by groups of years, so annuitant may prepare their annual tax return without waiting to get your 1099R Form.

Drafting Agreements

l) Annuity Agreement does not legally have to be signed by donor, since it is issued by charity as a result of its receipt of annuity gift. While it can be signed only by charity, it is still a good donor relations approach to have donor approve and sign the agreement prior to charity signing it.

m) The gift annuity agreement may only say the gift is for "...the general use" of the charity. Do not describe any restrictions or designations for use of remainder (residuum) of the gift in the Gift Annuity Agreement.

n) If remainder of annuity gift is for a designated or restricted purpose of the charity, create a separate Special Agreement that takes effect at the death of the last annuitant (termination of the Gift Annuity Agreement). Describe any restrictions on the use of the residuum of the gift (including investment and use of only the income) in the Special Agreement. This could be done with a letter, but will mean more to a donor (because they perceive it as being more legally binding) if incorporated into a Special Agreement. Have donor sign (approve the terms of) the Special Agreement before charity's officers sign it. If charity executes agreement first, problems will develop if donor fails to return a signed copy to the charity promptly. Never start making payments until a signed agreement is in place.

o) Always provide secondary wording in Special Agreement to provide for final use of gift, if donor's first or other choices for designation cannot be met. If necessary, provide for several alternatives in sequence, but always end with a use that will permit gift or the income from its investment to be used as determined by the charity's Board. Never leave the final terms so restrictive, that gift or its income cannot be used, if the donor's designation is no longer part of the charity's program some 100 years from now.

p) Type multiple original copies of all Gift Annuity and Special Agreements for all donors, annuitants and charity. Include separate copies for annuitants who are not donors. Identify in body of agreements the number of original copies prepared, describing each as an original. Allow donors to decide if they wish to give other annuitants a copy of gift annuity agreement or let charity do it. Charity should NOT send copy of Gift Annuity agreement directly to a successor annuitant, if donor's "right to revoke" wording is included in agreements. Send copies of Special Agreements only to donors.

Withdrawing Gift from Fund

q) Determine your Gift Annuity Fund Withdrawal Policy before first termination (death of last annuitant to an agreement). Be sure your policy will withstand scrutiny for accuracy and appropriateness of amount to be withdrawn. State Insurance Laws only speak to amount of legal reserve required to be held to cover annuitants who are alive at end of each year. There is no guidance on deciding how much to withdraw from the fund at termination of an agreement. (See Exhibits 2 and 6.)

Reinsurance of Gift Annuity Obligations

r) Determine charity's policy on reinsurance of gift annuity payment obligations before embarking on Gift Annuity program. If charity is domiciled in New York or has annuitants residing in New York, and may opt someday to file for a Permit to write gift annuities in New York, be aware of New York State's Insurance Commissioner's view of what constitutes legal "reinsurance" of the annuity obligation in that state. Their view applies to total Annuity Fund, not just the NY state agreements. (See Exhibit 3.)

Filing for Permits in Regulated States

s) Be aware that if your charity is domiciled in or has offices in any of the nine states that regulate Gift Annuity Agreements and Gift Annuity Funds by State Statute (CA, FL, MD, NJ, NY, ND, OR, WA and WI), you should investigate the need for complying with those applicable statutes.

If you have annuitants living in any of those nine (9) states, it would be wise to administer your Fund as if you planned to file (even if you don't) in the strictest state (NY) tomorrow. This will help minimize the time you will need to make the changes necessary in your fund administration to comply with the appropriate state insurance statutes (if you later decide to file for a Permit) and will minimize the time your fund will be prevented from accepting new gifts while you get you fund into legal compliance. This could be a problem for 3-6 months or longer, during which time you will be prevented (by the regulating state) from accepting any new annuity gifts.

You should be aware that if you are dealing with NY, and if you reinsured any of your annuity obligations, you will not be able to comply with the NY law unless you add sufficient new assets to your Annuity Fund to cover the Required Legal Reserve amounts of the "reinsured" annuities (possibly from 60-75% of the face value of the reinsured agreements). Your non-treaty type reinsurance policies will not qualify as accepted assets in your Fund.

t) Whether you plan to file for a Permit or Certificate in any of the nine states regulated by statute or not (see list of states above), be aware of the rules for investing, wording in agreements, etc., in each state's Insurance Law. Without identifying your organization to the state regulators, have your legal counsel or planned giving consultant obtain a copy of the appropriate section of each state's Insurance Law, together with filing forms, etc., and become aware with what is involved in complying in each of those states. See also 21st Conference on Gift Annuities (1992) State Regulations Report, available to all members of the Conference on Gift Annuities in the printed proceedings of the 1992 Conference.

u) To register or not with any of the Insurance Commissioners of the nine (9) states that regulate annuities by statute, is a legal and ethical decision that each charity should make only after reviewing all of the facts on a state by state basis and obtaining advice from charity's own legal counsel. Rather than contacting regulators directly, network with other non-profits.

v) Before filing for a Permit, be sure your Fund will qualify to receive it.. Once you have filed, you will be advised of what (if anything) needs correction and at the same time, you may be told to stop accepting new annuity gifts until you have your permit in hand. This might take from 3-6 months or longer, so expect to be "out of business" to new gifts from any state for this period. Therefore, don't file for a permit with any state regulator until you are reasonably sure you will obtain it. Work with an attorney or advisor who has direct experience in this area (See Exhibit 4).

w) Most regulated states (not NY) allow the reinsurance of the annuity payment obligation that is above the initial \$100,000 Required Legal Reserve amount (about \$150,000 in face value annuity agreements). Since you must maintain the minimum \$100,000 Fund and file an annual report, it becomes a question of whether there is a benefit of reinsuring agreements above the minimum.

x) After you obtain your permit(s), be sure your administrative, legal and/or accounting staffs are prepared to handle the annual state reporting requirements or obtain help from qualified professionals who have experience in annual reporting to the Insurance Departments of these regulated states.

y) Be prepared to compute the actuarial value of each agreement annually, or obtain actuarial or other professional help in computing this data. Charity must report Required Legal Reserve data for all agreements in your Annuity Fund, based on formulas, annual annuity amounts, ages of annuitants, actuarial tables and interest rates approved by each regulated state in which you hold a permit or certificate. Each state's rules are different. (See Exhibit 5 for sample of NY State Report).

Gift Annuity Records

z) Maintain detailed records of each annuity agreement, each gift and ongoing data of your Annuity Fund, so that periodic analysis of both gifts and your fund can be made for your management staff, your Board and if necessary, the state regulators. Do not assume that your business office has this well in hand. Unless you specifically establish a means to track its changing value, each annuity gift loses its identity once it is admitted to your Fund. You will not know how much to withdraw when the agreement terminates.

Because your Annuity Fund is a dynamic, constantly moving target, with gifts moving in and out of the Fund, invested assets with changing market values, income being earned and expenses being incurred at differing rates, a withdrawal policy that removes an inappropriate fund balance at the termination of an agreement, etc., it is possible to be in trouble with the values in your Annuity Fund for a considerable time before you become aware of it. The bigger and more active the Fund, the more likely this will be.

It is important to establish a means to track each gift within your Fund early on, so you won't be caught unawares with problems that either you cause or inherit. Do not assume that others have established appropriate rules or policies under which your Gift Annuity Fund operates. Do not assume that your business or accounting office knows how to administer your annuity fund. It is unlike any other fund they handle.

Correctly handled, a Gift Annuity Fund can be an important vehicle for long range funds development for your charity's future programs. For both small and large donors alike, it can be a vital tool to provide high income to older donors that is not possible through other gift plans.

A Baker's Dozen of More Ideas

1) Be sure someone in your Development Office knows all about gift annuities and gift annuity funds, or that you have access to someone who does. Do not rely on your Business Office. Your organization is responsible once it starts to accept annuity gifts, even if it reinsures its annuity obligations with a commercial insurance company. Be aware that if the insurance company goes bankrupt, the charity that issued the agreement is still responsible for the payments.
2) Unlike separately invested charitable remainder annuity trusts or unitrusts, where the trust ceases once all the trust's principal assets have been expended, a gift annuity agreement is a contract, not dependent on the income earned by investment of the gift. All annuity payments must continue as long as the charity itself has any assets. Bankruptcy is the only way a charity can get out of its contractual obligation to make the annuity payments on the agreements it has issued.
3) When giving the donor the tax information about the annuity gift, also advise the annuity gift donor about the need to file a Federal Gift Tax Return (Form 709) as an informational return, for the charitable deduction amount is a reportable but not a taxable gift.
4) Advise donor to attach a photo copy of agreement and tax computation sheets to Gift Tax Return and attach a copy of the Form 709 and its attachments to his/her 1040 Federal Income Tax Return in the first year donor reports the gift. This identifies the donor as a "full disclosure" taxpayer and makes their tax return less likely to be audited, solely due to their reporting a large charitable deduction for the annuity gift.
5) Advise donor of need to also attach a statement to their Tax Return if the AFR (Applicable Federal Rate) or CMFR (Charitable Mid-term Federal Rate) they choose to use in the charitable deduction calculation for the gift annuity is from one or two months prior to the gift month, rather than the month of the gift. Also, advise them that failure to attach that statement, will disallow the use of the AFR rate for any month other than the current month of the gift. The higher the AFR rate, the larger the charitable deduction.
6) Be sure any additional wording required by state insurance statutes is placed in any gift annuity agreement where charity is domiciled in, and/or annuitant lives in any of the regulated states (CA, OR, WA) that require additional specialized wording, such as: agreement number, the actuarial age of the annuitant(s), reasonably commensurate value, etc.

7) Be sure that your Board and staff understands that the Suggested Maximum Annuity Rates of the Committee on Gift Annuities are based on the assumption that the charity will, on average, net only 50% of the gift, and that the Gift Annuity Fund need only earn a total return of 6.5% a year on average (See Exhibit 1).
8) For summary of the State Regulations on Gift Annuity Funds and contacts within the State Insurance Departments for the nine states that regulate annuities by statute, see Exhibits B through E of the State Regulations Report on the 21st Conference on Gift Annuities (1992) available to members in the printed proceedings of the 1992 Conference. For a copy, call the Committee on Gift Annuities in Dallas at (214) 720-4774.
9) The Contribution Deduction and the Investment-in-the-Contract are the federal calculation equivalents of the state calculations of the Gift Portion and the Reserve Portion of the gift. The state calculation for the Reserve Portion for any annuity gift is always LARGER than the federally computed Investment-in-the-Contract. The federal calculations for the Contribution Deduction are more liberal (larger) than the state computations for the Gift Portion, even though the same actuarial table (1983 "a" Table) is used in both computations, the formulas and interest rates used are different.
10) Use a "buy and hold" approach to investing the Reserve Portion of your Annuity Fund in Treasury Bills, Notes and Bonds. The maturity dates of the fixed income obligations should be chosen with some sensitivity to the life expectancy of the annuitant(s), the need to have some asset in the Fund mature every few months, and a portion of the Fund (say 15-20%) invested in Federal Government Money Market Funds (a maximum of 5% of the Fund in any one mutual fund). Arrange for each mutual fund to have its income reinvested back into itself.
11) Establish a separate checking account just for your Gift Annuity Fund. The checking account, the mutual funds and other investments constitute your Segregated Gift Annuity Fund. Obtain check writing privileges for each Money Market Mutual Fund, so you can write check(s) for the amounts needed to cover the annuity payments for the month. Deposit the checks into the Gift Annuity checking account to cover the annuity checks issued that month. Deposit the interest and dividend income checks from the invested assets in the checking account.
12) As each new gift is received or as each fixed income obligation matures, make a decision on how much should be invested in the

money market funds and how much in longer term fixed income obligations. You want to avoid having to sell a bond, bill or note before it matures. Therefore, review the maturity dates of the investments in your gift annuity fund every time you have proceeds to invest and you need to make a new investment decision.

13) And finally, join the Conference on Gift Annuities. As a supporter of the Committee on Gift Annuities, you or your organization will have access to information on the Gift Annuity, Deferred Payment Gift Annuity and Pooled Income Fund, including manuals on computing the tax implications of each plan.

Information about all the commercially available Planned Giving computer software and discounts on same is available to only to Conference members. In addition you get a copy of the 350 plus page printed proceedings of the most recent Conference and the ability to network with other Conference members who might help you resolve any planned giving problem you may have. All this and the largest triennial planned giving conference in the nation, for just $75.00 a year!

Exhibit 1

Gift Annuity Defined... and Gift Annuity Rates

A Gift Annuity is...

1) ...NOT a Trust from which payments are made.
2) ...a legally binding contract between charity and annuitant(s).
3) ...a promise to pay a fixed and guaranteed amount to 1 or 2 persons for their lifetime, consecutively or concurrently and consecutively.
4) ...payments may start now or be deferred for years as donor decides.
5) ...paid from separately invested , segregated Annuity Fund that holds all annuity gifts of the charity.
6) ...maintained in a segregated fund that is regulated by the Insurance Commissioners of those states that have laws governing charitable Gift Annuity Agreements (CA,FL,MD,NJ,NY,ND,OR,WA,WI and others).

Gift Annuity Rates are...

1) ...based on actuarial age (age to nearest birthday) on the gift date.
2) ...suggested by Committee on Gift Annuities (are MAXIMUM suggested rates).
3) ...fixed and guaranteed for life, not dependent on earnings of Annuity Fund.
4) ...presently range from 5.5% (age 20 and under) to 12% (age 90 and over).**
5) ...payments are partly federally tax-free for life expectancy of annuitants.
6) ...determined actuarially by Committee on Gift Annuities using 6 assumptions.
   a. Mortality rates in future years.
   b. Investment yield rate to be earned in future on the invested principal of the total annuity gift. (6.5% annually)
   c. The residuum (remainder) of gift available to charity at death of last annuitant in the agreement. (50% of gift, on average)
   d. The loading (amount) needed for administrative expenses. (5% of gift)
   e. The frequency of the annuity payments. (assumes semi-annual payments)
   f. Adjustments in rates made at younger and older ages. (reduced)

Exhibit 2

Determining Remainder Amount at Death of Annuitant

An Annuity Gift loses its identity upon its admission to a Gift Annuity Fund. There are at least two ways that charities determine how much to withdraw from the Annuity Fund at the termination of any particular contract.

1. Charity could administer the Annuity Fund as if it were a Pooled Income Fund, by unitizing the fund and assigning units (shares) to each gift based on the units in the fund and the market value of the fund on the date each gift is admitted to the Fund. This method costs more than other methods administratively, but is extremely accurate.
2. The charity would maintain fund records by determining the net income of the fund each year as a percent of the total face (book) value of the annuity agreements in the Fund (see Exhibit 6).
   Then at the death of the annuitant, make the following calculations:
   1) Start with market value of gift (net proceeds) of gift.
   2) Add income for the number of days gift was in Fund for first year.
   3) Subtract annuity payments for first partial year.
   4) Determine book value balance of gift in fund.
   5) Add income and subtract payments for each full year gift is in Fund.
   6) Follow steps 2 and 3 for final partial year.
   7) Adjust new balance by percentage of face (book) value of agreements in Fund to its market value and remove only the revised adjusted book value which is adjusted to its proportionate share of market value

Example of Terminated Gift Annuity using Method No. 2

Gift:	$ 10,000	Income Rate:	1988 = 6.75%
Annuity Rate:	8.5%		1989 = 7.10
Gift Date:	6-30-88		1990 = 7.25
Date Died:	3-30-91		1991 = 6.50

Steps			**Balance Totals**
1	Original Gift	10,000	10,000
2	Income 1st Yr	+ 337	
3-4	Less Payments	- 425	9,912
5	1989 Income	+ 704	
5-4	1989 Payments	- 850	9,766
5	1990 Income	+ 708	
5-4	1990 Payments	- 850	9,624
6	1991 Income	+ 156	
6-4	1991 Payments	- 212	9,568
7	72% of 9,568 =		6,889 (Market Value to be Withdrawn)

Adjustment of Book to Market	
Fund Book Value:	**1,250,000**
Fund Market Value:	**900,000**
Market to Book	**72%**

Exhibit 3

Reinsurance of Gift Annuity Agreements

Many conservative Boards of non-profits assume that by reinsuring their annuity agreements with annuity contracts issued by commercial insurance companies licensed to do business in the domiciled state of the charity, they are protected them from any future liability. This is simply not true.

1. If the charity purchases a single premium "refund type" policy, it pays a single premium [generally from 60-75% of the total gift, depending on the age(s) of the annuitant(s)] and receives periodic annuity payments from the insurance company for the life of the annuitant(s).
2. At the end of the life expectancy of the annuitant(s), the single premium amount paid by the charity will have been returned to the charity in the form of annuity payments. Further payments will be the insurance company's money.
3. If annuitant dies before his/her normal life expectancy, insurance company will either refund the balance of the premium paid, or, more likely, will continue to make the annuity payments to the charity until the premium amount paid has been returned to the charity.
4. The charity loses its use of the income of the investment of the premium paid, but it gains the payments above and beyond the premium paid if annuitant lives that long.
5. If insurance company goes bankrupt, the charity stills owes annuity payments.
6. Reinsurance of annuity agreements by charity with commercial insurance company in New York State is acceptable (to NY State Dept. of Insurance) only if using a "treaty agreement" (terms negotiated between charity and insurance company). See the State Regulations Report in the printed proceedings of 20th Conference on Gift Annuities (1989), Toronto, Canada. Obtain from CGA office, Dallas, TX.
7. Charity can realize more money from annuity program by being a "self insurer", investing the entire annuity gift for life of the annuitant(s) and investing the assets of their Gift Annuity Fund conservatively in assets acceptable to the Insurance Commissioners of the regulated states. Maintain the Required Legal Reserve portion of Fund in U.S. Government obligations (Treasury Bills, Notes and Bonds), and no more than 5% of the Fund in any one mutual fund. Follow investment rules found in New York Insurance (most restrictive) Law. Fund need only earn 6.5% of book (total gifts) value of fund to net 50% of the amount of the gifts received for the benefit of the charity.

Exhibit 4

Sample Gift Annuity Agreements for Regulated States Requiring Permits

List of six (6) sample gift annuity agreements to be filed with Insurance Commissioner's Office when filing for a Special Permit or Certificate of Authority, to write gift annuity agreements in the states of CA, FL, MD, NJ, NY, OR, WA or WI.

1. One Life, Immediate Payment
2. Two Lives, Immediate Payment, Successive Annuitants
3. Two Lives, Immediate Payment, Joint and Survivor Annuitants
4. One Life, Deferred Payment
5. Two Lives, Deferred Payment, Successive Annuitants
6. Two Lives, Deferred Payment, Joint and Survivor Annuitants

Variable Wording or Special Information to be included:

1. Two lives: The Right of Donor to Revoke by Will, the right of survivor annuitant to receive payments after death of donor.
2. Payments are non-assignable if gift funded with appreciated property.
3. Market value of gift, if funded with other than cash.
4. Agreement governed by laws of (state of domicile of charity).
5. Each agreement numbered for control (required in state of Washington).
6. Commensurate/Reasonable Value written into Agreement (CA, OR and WA).

Exhibit 5

Annual Required Legal Reserve Computations for Gift Annuity Fund
(for filing with Insurance Commissioner of States requiring Permits)
Note: Method of computation, actuarial tables and interest rates may differ with each state

XYZ Charity
Address, City, State

Report as of: 12-31-91

XYZ GIFT ANNUITY FUND REQUIRED LEGAL RESERVE

Gift Date	Name of Annuitant(s)	M/F O/y	Birthdate(s) MM-DD-YYYY	Ages*	Original Gift Amount	Actu. Table	Int. Rate	Value of $1.00	Annual Annuity	Legal Reserve Amount	10% of Legal Reserve	Required Legal Reserve
10-23-1979	Axxxx	M	02-02-1923	69	1,000.00	71 IAM	7.50%	8.08	57.00	460.56	46.06	506.62
11-28-1979	Bxxxx	F	07-15-1909	82	1,000.00	71 IAM	7.50%	5.40	68.00	367.20	36.72	403.92
01-21-1980	Cxxxx	Fm	09-29-1910/ 07-30-1908	82-80	10,000.00	71 IAM	7.50%	7.02	610.00	4,282.20	428.22	4,710.42
					Data Printout Continuation							
12-13-1989	Xxxxx	M	08-05-1910	81	59,939.28	83"a"	8.25%	5.46	5,634.32	30,763.39	3,076.34	33,839.73
09-22-1990	Yxxxx	F	06-27-1905	86	10,000.00	83"a"	8.00%	4.95	1,140.00	5,643.00	564.30	6,207.30
11-19-1991	Zxxxx	Mf	09-12-1913/ 05-26-1917	78-74	10,000.00	83"a"	8.00%	10.12	770.00	7,792.40	779.24	8,571.64
Total:					**524,091.41**				**47,933.58**	**285,780.78**	**28,578.08**	**314,358.85**

Count: 35

Report Computed: 01-25-92

* Note: Actuarial age(s) on anniversary date of gift as of year of report

Page 1 of 1

Computing Net Annual Income Rate of Gift Annuity Fund for Year (19xx)

XYZ Charity

Address, City, State, ZIP

1. MONTHLY NET INCOME COMPUTATION

(a)	(b)	(c)	(d)	(e)	(f)
	Expenses				Net
Month (19xx)	Administ Expenses	Misc Expenses	Total Expenses	Gross Income Earned	Income Earned (e)-(d)
Jan	$ 311.27	$ 0.00	$ 311.27	$ 3,995.64	$ 3,684.37
Feb		25.00	25.00	3,772.39	3,747.39
Mar		13.00	13.00	4,315.83	4,302.83
Apr	305.03	13.00	318.03	3,941.40	3,623.40
May		5.00	5.00	4,209.73	4,204.73
Jun		5.00	5.00	4,132.21	4,127.21
Jul	276.91	0.00	276.91	4,302.47	4,025.56
Aug		8.00	8.00	4,226.54	4,218.54
Sep		5.00	5.00	3,707.67	3,702.67
Oct	280.78	5.00	285.78	3,686.75	3,400.97
Nov		5.00	5.00	3,518.87	3,513.87
Dec		5.00	5.00	3,550.23	3,545.23

2. AVERAGE INCOME RATE

(g)	(h)	(i)	(j)	(k)	(l)	(m)
	Periodically Revised * Book (Original Gift) Values (NOT Fund Market Value)			Net Income Earned	Average Net Income Rate	
Month (19xx)	Start	End	Average	(f)	Monthly (k)/(j)	Annual (l)x12
Jan	615,615.06	619,850.73	617,732.90	3,684.37	.0059643	7.1572 %
Feb	619,850.73	660,388.15	640,119.44	3,747.39	.0058542	7.0251
Mar	660,850.73	662,552.64	661,470.40	4,302.83	.0065049	7.8059
Apr	662,552.64	660,866.49	661,694.57	3,623.40	.0054759	6.5711
May	660,866.49	661,904.47	661,385.48	4,204.73	.0063575	7.6289
Jun	661,904.47	674,760.66	668,332.57	4,127.21	.0061754	7.4105
Jul	674,760.66	673,263.70	674,012.18	4,025.56	.0059725	7.1670
Aug	673,263.70	669,885.72	671,574.24	4,218.54	.0062816	7.5379
Sep	669,885.72	580,360.76	625,123.24	3,702.67	.0059231	7.1077
Oct	580,360.76	584,580.87	582,470.82	3,400.97	.0058389	7.0066
Nov	584,580.87	592,671.32	588,626.10	3,513.87	.0059696	7.1635
Dec	592,671.32	611,832.56	602,251.94	3,545.23	.0058866	7.0640
		Average:	637,899.49			7.2263 %
		Total:		46,096.77		

Notes: * Monthly changing Fund Book Value: Total invested proceeds of gifts, plus income, less expenses, payments and withdrawn principal = net book value.

** Total Net Income divided by Average Monthly Book Value = Average Annual Income Rate ($46,096.77 / 637,899.49 = .072263).

MINUTES

Twenty-First Conference on Gift Annuities
April 28-30, 1992
Hyatt Regency Hotel, Dallas, Texas

Tuesday, April 28, 1992

Pre-Conference Sessions

A special session was held at 5:15 p.m. in the Reunion Ballroom providing an "Orientation for New Sponsors and First Time Attendees."

At 6:00 p.m. the delegates were treated to a "Welcome to Texas Buffet" in the Grand Hall at Union Station.

An optional workshop followed at 8:00 p.m. in the Cascade Ballroom on the subject "The 'College Tuition' Annuity and Other Deferred Gift Annuity Opportunities" led by Emanuel J. Kallina, II, Esq. and Marc Carmichael, Esq.

Wednesday, April 29, 1992

First Plenary Session

The Conference was called to order at 9:00 a.m. in the Reunion Ballroom by Chairman Tal Roberts.

The invocation was delivered by James G. Marshall, Jr. FAHP, of Designs in Planned Giving and the Chairman of the Conference Program Committee.

Words of welcome and comments on the State of the Conference by Chairman Roberts followed. See page 5.

Lawrence Lindsey, Governor - Federal Reserve System, was then introduced to give the Keynote Address. Dr. Lindsey's comments were extremely well received, following which was a lively question period curtailed by the time allotted.

A break in the program labeled "Coffee with Exhibitors" took place from 10:15 to 10:45 a.m.

When the Conference reconvened, Michael Mudry, Senior Vice President, Hay/Huggins Company, Inc., was called upon to present the report of the Actuary and discuss the "Actuarial Basis for Annuities." His paper and supporting schedules are set forth in this booklet on page 8.

James B. Potter of Planned Giving Resources and Chairman of the Subcommittee on State Regulations, presented a report on the present status of state regulation, including two documents summarizing state regulation of charitable gift annuities. The full text of Mr. Potter's remarks is on page 17.

The Chairman introduced Frank Minton, President, Planned Giving Services, to report on "Model Standards of Practice of the Charitable Gift Planner." Dr. Minton's report appears on page 41.

Chairman Roberts stated that the Committee on Gift Annuities has proposed the following persons to constitute the Resolutions Committee:

Chairman: ROGER K. PAROLINI, Aurora University

CHARLES E. LAING, Texas Methodist Foundation

DAVID J. HIMES, The Salvation Army

CHARLES W. BAAS, Committee Secretary

ELIZABETH A. S. BROWN, Committee Member

MICHAEL MUDRY, Actuary

RICHARD A. JAMES, Committee Member

TAL ROBERTS, Ex Officio

The Conference accepted the above persons as the Resolutions Committee.

The first plenary session was declared in recess at 11:50 a.m. to resume at 12:15 p.m. for luncheon.

Luncheon Session

Grace was offered by Mr. Marshall.

Workshop Sessions

The Conference recessed from luncheon to designated locations to participate in workshop sessions selected by the delegates.

The following workshops convened at 2:00 p.m.

New Concepts for Planned Giving

Robert F. Sharpe, Jr., Esq

A Primer on Unitrust and Annuity Trust

Ellen G. Estes, Esq

and

Douglas White

A Charitable Trust for All Seasons - Including Retirement

Terry L. Simmons, Esq

and

Winton C. Smith, Jr., Esq

A Primer on Gift Annuity and Pooled Income Fund

Elizabeth A. S. Brown, Esq

and

Clinton A. Schroeder, Esq

Advanced Pooled Income Fund

Lynda Moerschbaecher, Esq

and

Debra Ashton

Advanced Unitrust and Annuity Trust

Marc Carmichael, Esq

and

Douglas K. Freeman, Esq

Marketing Planned Gifts
"Methods of Identifying Your Best Prospects"
Frank Minton, Ph.D
and
"Increasing Productivity in a Downsizing Decade"
John Ryan
Financial Office and Financial Reports in Planned Giving
Louis R. Morrell
The Needs of Older Adults - Financial and Psychological
Laura Hansen Dean, Esq
and
Pamela Jones Davidson, Esq
Institutional Readiness for Planned Giving - Your Case
Robert E. Fogal, Ph.D
and
Kay Sprinkel Grace

The first workshops (Session "A") concluded about 3:15 p.m. for a coffee break with the exhibitors. Workshops (Session "B") followed at 3:45 p.m. At their conclusion, about 5:00 p.m., the Conference recessed for dinner.

Optional Evening Sessions

The following optional sessions convened at 7:30 p.m.

Planned Gifts in the United States and Canada - A Comparison
Frank Minton, Ph.D
and
A. Gordon Nelson
Administering Your Gift Annuity Fund from A to Z
James B. Potter

Thursday, April 30, 1992

Second Plenary Session

Chairman Roberts reconvened the Conference at 8:30 a.m. in the Reunion Ballroom.

Mr. Parolini, Chairman of the Resolutions Committee, submitted the following resolutions:

1) BE IT RESOLVED, that the present maximum immediate gift annuity rates, as adopted by the Eighteenth Conference on Gift Annuities on May 5, 1983; reaffirmed by the Nineteenth Conference on Gift Annuities on May 1, 1986 and the Twentieth Conference on Gift Annuities on April 6, 1989 be continued as the Uniform Gift Annuity Rates recommended by the Twenty-First Conference on Gift Annuities, amended by a reduction in rates below age 33 and above age 81, as reflected on the schedules distrubuted to the

Conference on April 29, 1992, with July 1, 1992 as the recommended effective date.

BE IT FURTHER RESOLVED, that the maximum interest rates used to calculate interest factors for Deferred Gift Annuities, as adopted by the Twentieth Conference on Gift Annuities on April 6, 1989, be increased by one percentage point, as follows:

From 5% to 6% for the first 10 years of deferred period;
From 4 1/2% to 5 1/2% for the next 10 years;
From 4% to 5% for the next 10 years;
From 3 1/2% to 4 1/2% for the remaining deferred period, with July 1, 1992 as the recommended effective date.

2) BE IT RESOLVED, that in no event should a gift annuity, immediate or deferred, be written unless the charitable gift portion - using applicable Treasury tables - exceeds 10% of the money or value of property transferred in exchange for the gift annuity.

Mr. Parolini moved adoption of these resolutions which were seconded and unanimously ADOPTED.

Workshop Sessions

The Conference recessed at approximately 9:00 a.m. to previously designated locations to resume participation in Workshop Session "C".

At 10:15 a.m. the delegates enjoyed another coffee break with the exhibitors.

Workshop Session "D" commenced at 10:45 a.m., concluding at approximately 12:00 noon.

Luncheon

Following these workshop sessions luncheon was served at 12:15 p.m. in the Grand Hall at Union Station. Grace was again offered by Mr. Marshall.

Third Plenary Session

The Conference reconvened at 1:30 p.m. in the Reunion Ballroom. Chairman Parolini of the Resolutions Committee presented the remainder of the report of that committee. The full text of the Resolutions Committee Report is printed beginning on page 335. Mr. Parolini reviewed the entire report and moved its adoption. It was seconded and ADOPTED unanimously.

Vice Chairman Schroeder introduced the speaker for the final session of the Conference, Conrad Teitell, Esq., Partner, Prerau & Teitell, and Editor of Taxwise Giving. The presentation was labeled "Remarks by the Committee's Bald Legal Eagle." He informed and entertained the audience, as usual, and received an enthusiastic ovation at the conclusion of his presentation.

Following an announcement that the next (22nd) Conference would convene on May 3, 1995 at the Hyatt Regency Embarcadero in San Francisco, the Conference adjourned at 2:30 p.m. with the benediction given by Mr. Marshall.

Respectfully submitted,
Charles W. Baas, Secretary

REPORT OF THE RESOLUTIONS COMMITTEE

1) BE IT RESOLVED, that the present maximum immediate gift annuity rates, as adopted by the Eighteenth Conference on Gift Annuities on May 5, 1983; reaffirmed by the Nineteenth Conference on Gift Annuities on May 1, 1986 and the Twentieth Conference on Gift Annuities on April 6, 1989 be continued as the Uniform Gift Annuity Rates recommended by the Twenty-First Conference on Gift Annuities, amended by a reduction in rates below age 33 and above age 81, as reflected on the schedules distrubuted to the Conference on April 29, 1992, with July 1, 1992 as the recommended effective date.

BE IT FURTHER RESOLVED, that the maximum interest rates used to calculate interest factors for Deferred Gift Annuities, as adopted by the Twentieth Conference on Gift Annuities, be increased by one percentage point, as follows:

From 5% to 6% for the first 10 years of deferred period;
From 4 1/2% to 5 1/2% for the next 10 years;
From 4% to 5% for the next 10 years;
From 3 1/2% to 4 1/2% for the remaining deferred period, with July 1, 1992 as the recommended effective date.

2) BE IT RESOLVED, that in no event should a gift annuity, immediate or deferred, be written unless the charitable gift portion - using applicable Treasury tables - exceeds 10% of the money or value of property transferred in exchange for the gift annuity.

3) BE IT RESOLVED, that the Twenty-First Conference on Gift Annuities note with special interest and appreciation the information set forth in Chairman Roberts' opening comments on the "State of the Conference."

4) BE IT RESOLVED, that the Twenty-First Conference on Gift Annuities express its sincere appreciation to Dr. Lawrence Lindsey, Governor - Federal Reserve System, for his timely and authoritative keynote address.

5) BE IT RESOLVED, that the Twenty-First Conference on Gift Annuities express appreciation to Mr. Michael Mudry, Actuary, Senior Vice President of Hay/Huggins Company, Inc., for his study on the rate structure for both immediate and deferred gift annuities.

6) BE IT RESOLVED, that the Twenty-First Conference on Gift Annuities express deep appreciation to those persons who made plenary session presentations on matters of continuing concern, namely:

Mr. James B. Potter, Planned Giving Resources
"Report on State Regulations"

Dr. Frank Minton, President, Planned Giving Services
"Report on Model Standards of Practice for the Charitable Gift Planner"

Conrad Teitell, Esq., Prerau & Teitell,of Counsel: Perkins Coie
"Remarks by the Committee's Counsel"

7) BE IT RESOLVED, that the Twenty-First 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:

Robert F. Sharpe, Jr.,Esq., Vice President,
Robert F. Sharpe Company

Ellen G. Estes, Esq., Planned Giving Consultant

Mr. Douglas White, Director of Development,
Holderness School

Terry L. Simmons, Esq., Vice President and Trust Counsel,
Baptist Foundation of Texas

Winton C. Smith, Jr., Esq., Winton Smith & Associates

Elizabeth A. S. Brown, Esq., Vice President and Treasurer, Moody Bible Institute

Clinton A. Schroeder, Esq., Principal, Gray, Plant, Mooty, Mooty and Bennett

Lynda Moerschbaecher, Esq., Partner, Moerschbaecher, Wahrhaftig & Dryburgh

Ms. Debra Ashton, Director of Gift and Estate Planning, Boston University

Marc Carmichael, Esq., R & R Newkirk Company

Douglas K. Freeman, Esq., Freeman, Freeman & Smiley

Dr. Frank Minton, President, Planned Giving Services

Mr. John Ryan, President, Major Gifts, Inc.

Mr. Louis R. Morrell, Vice President and Treasurer, Rollins College

Laura Hansen Dean, Esq., Charitable Gift Planner and Consultant,
Laura Hansen Dean & Associates

Pamela Jones Davidson, Esq., Associate Counsel and Director of Planned Giving, Indiana University Foundation

Dr. Robert E. Fogal, Director of the Fund Raising School,
Indiana University, Center for Philanthropy

Ms. Kay Sprinkel Grace, Special Projects Advisor, Fund Raising School, Indiana University for Philanthropy

8) BE IT RESOLVED, that the Twenty-First Conference on Gift Annuities express appreciation to those persons conducting optional sessions, namely:

Emanuel J. Kallina II, Esq., Kallina & Associates
Marc Carmichael, Esq., R & R Newkirk Company
Dr. Frank Minton, President, Planned Giving Services
Rev. A. Gordon Nelson, Canadian Association on Charitable Gift Annuities
Mr. James B. Potter, Planned Giving Resources

9) BE IT RESOLVED, that the Twenty-First Conference on Gift Annuities recommend to the various societies, agencies, boards, institutions, colleges, universities, homes and hospitals, that for the purpose of uniformity and a better understanding of gift annuity agreements:
   a) the agreement between the donor and the issuing agency be referred to as a "gift annuity agreement";
   b) the periodic payment under gift annuity agreements be referred to as "annuity payments"; and
   c) in discussing, promoting or advertising gift annuity agreements, such terminology as "bonds," "interest," "investment," "principal", "sale" or "purchase" which apply to other forms of financial transactions, be carefully avoided.

10) BE IT RESOLVED, that the Twenty-First 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.

11) BE IT RESOLVED, that the Twenty-First Conference on Gift Annuities recommend that religious, educational, health, and charitable groups which cooperate with the Committee on Gift Annuities be requested to send to the Chairman of the Committee copies of new rulings by Federal or State authorities dealing with gift annuities or life income agreements.

12) BE IT RESOLVED, that the Twenty-First Conference on Gift Annuities strongly urge and encourage all organizations issuing gift annuity agreements to adopt the Uniform Gift Annuity Rates as maximum rates.

13) BE IT RESOLVED, that the Twenty-First Conference on Gift Annuities go on record as adopting the "Model Standards of Practice for the Charitable Gift Planner" and strongly urge its sponsors to likewise adopt and subscribe to the "Model Standards".

14) BE IT RESOLVED, that the Twenty-First Conference on Gift Annuities send greetings to Mr. Forrest Smith, Honorary Treasurer; and to Mr. Charles L. Burrall, Jr., Mr. John M. Deschere, Mr. William E. Jarvis, Mr. David E. Johnson, Dr. J. Homer Magee, Dr.

Roland C. Matthies, Dr. Darold H. Morgan and Dr. Chester A. Myrom, Honorary Members, remembering their many contributions to the work of the Committee.

15)BE IT RESOLVED, that the Twenty-First Conference on Gift Annuities express its appreciation for the special helpfulness extended to Conference delegates in connection with all arrangements for the Conference by Miss Ileen Bray of the Annuity Board of the Southern Baptist Convention, Miss Mary Lou Ruegg of the American Bible Society and the staff and management of the Hyatt Regency at Reunion.

16)BE IT RESOLVED, that the Twenty-First Conference on Gift Annuities express its deep appreciation to the Annuity Board of the Southern Baptist Convention, host organization to the Committee on Gift Annuities, for its generous support through the provision of facilities and personnel which undergird the day-to-day operation of the Committee.

17)BE IT RESOLVED, that the Twenty-First Conference on Gift Annuities express its warm thanks and hearty commendation to Dr. Gerry C. Gunnin and Mr. James G. Marshall, Jr., for their excellent leadership as conveners of the Arrangements Committee and Program Committee, respectively, for this Conference.

18)BE IT RESOLVED, that the Twenty-First Conference on Gift Annuities express to Tal Roberts, Esq., Chairman; Clinton A. Schroeder, Esq. and Miss Jane Stuber, Vice Chairmen; Dr. Charles W. Baas, Secretary; Dr. John D. Ordway, Treasurer, and to the other members of the Committee on Gift Annuities, its appreciation for this outstanding Conference and their many services since the last Conference.

Resolutions Committee
Roger K. Parolini, Chairman
Michael Mudry
Charles E. Laing
Elizabeth A. S. Brown
David J. Himes
Richard A. James
Charles W. Baas
Tal Roberts, Ex Officio

REPRESENTATIVES TO THE TWENTY-FIRST CONFERENCE

ORGANIZATION	REPRESENTED BY
Aaron & Associates, Inc. Arnold, MO	James L. Nicolls, CFRE Juanita Nicolls
Abilene Christian University Abilene, TX	Billy J. Spann Joe L. Cope
ACLU Foundation New York, NY	Eve M. Bigelow Baxley
Advent Christian Village, Inc. Dowling Park, FL	J. Pomeroy Carter
Adventist Media Center Thousand Oaks, CA	Ronald A. Lindsey Marian Reiber
Africa Inland Mission Windsor, CT	John A. Barney
All Children's Hospital Foundation, Inc. St Petersburg, FL	Curtis D. Thomas
Alpha Chi Omega Foundation Indianapolis, IN	Maureen Shelly
Alsac/St Jude Children's Research Hosp. Memphis, TN	Jacqueline W. Franey Susan Dame Greene
Alton Ochsner Medical Foundation Metairie, LA	Carolyn Chassee
Alzheimer's Association Chicago, IL	Kelly McDowell
Amazing Facts, Inc. Frederick, MD	Allen Hrenyk
American Baptist Churches M&M Benefit Bd. New York, NY	Catherine S. Jones
American Baptist Foundation Valley Forge, PA	John B. Jacobs
American Baptist Homes of the Midwest Eden Prairie, MN	Malcolm L. Kindig
American Baptist Homes of the West Oakland, CA	A. Keith Hiner, CFRE
American Bible Society New York, NY	Daniel K. Scarberry Arthur C. Borden David L. Gowan J. Milton Bell Kenneth E. Gooden Meta M. Donovan
American Cancer Society Atlanta, GA	Phillip B. Adcock
American Cancer Society-Florida Div, Inc. Tampa, FL	Peter A. Witherell
American Foundation for the Blind New York, NY	Doris Dieter
American Friends Service Committee Philadelphia, PA	Miriam Schaefer
American Heart Association, Inc. Dallas, TX	Steven J. Strucely
American Leprosy Missions Intl. Greenville, SC	Richard Bayard
American Lung Assoc. of Los Angeles County Los Angeles, CA	Gene Brueland
American Lung Association of SW Florida Sarasota, FL	Alice Davis Sharon Chappell
American Missionary Fellowship Villanova, PA	Laurence L. Bazar

ORGANIZATION	REPRESENTED BY
American Red Cross Minneapolis, MN	Douglas A. Peterson
American Red Cross-Greater Kansas City Chapter Kansas City, MO	Nan Kaudle
American Society for Technion New York, NY	Stanley J. Abrams, Esq.
American Tract Society Garland, TX	Pamela J. Friedman
Andrews University Berrien Springs, MI	W. Robert Daum
Anne Carlsen School Jamestown, ND	Roger Swenson
Appalachia Service Project, Inc. Johnson City, TN	Brian J. Rosecrance
Arkansas Baptist Foundation Little Rock, AR	George Sims
	Jack Nicholas
	Larry L. Page
	Steve Reed
Arthritis Foundation Atlanta, GA	Essil T. Washington
	Lynn E. Archer, CFRE
	William P. Demoranville
Chicago, IL	Patricia F. Sternberg
Glendale, CA	David Treadwell
Los Angeles, CA	Ed Ostermeyer
Richmond, IN	Michael Johnson
Ringoes, NJ	David L. Bearchell
San Antonio, TX	R. Jay Ribble
Asbury Methodist Village Gaithersburg, MD	Ernest E. Bortner
Asbury Theological Seminary Wilmore, KY	Robert T. Bridges
Asbury-Salina Regional Medical Ctr. Foundation Salina, KS	Thomas P. Martin
Association of Graduates West Point, NY	Thomas B. Russell
Augsburg College Minneapolis, MN	Thomas I. Benson
Aurora University Aurora, IL	Roger K. Parolini
	Thomas H. Zarle
Austin College Sherman, TX	David J. Fraboni, II
Back to God Hour Palos Heights, IL	Donald Dykstra
Back to the Bible Lincoln, NE	Bryon L. Swanson
	Lee G. Jantzen
Bacone College Muskogee, OK	Connie S. Hampton
Banccorp Systems, Inc.	Elizabeth Cummings
	Haskell Morrison
	Phillip E. Sorrell
	Ronald B. Leonard
Baptist Foundation of Arizona Phoenix, AZ	James B. Thweatt, Ed.D.
	William P. Crotts
Baptist Foundation of Texas Dallas, TX	Ellen Eisenlohr
	J. C. Milstead
	Jeff Smith
	Karen Smith
	Tal Roberts
	Terry L. Simmons, Esq.
Baptist General Conference Arlington Heights, IL	Dennis R. Smith
	Richard K. Bloom

ORGANIZATION	REPRESENTED BY
Baptist General Convention of Texas Dallas, TX	Bill Arnold
Baptist Memorial Health Care System Memphis, TN	Robert D. Mitchell, III
Baptist Memorial Hospital System Foundation San Antonio, TX	Clyde J. Childers
Baptist Mid-Missions Cleveland, OH	Glenn R. Rohrback
Barber Shop Harmony Society Edina, MN	Charles H. Green
Barnabas Foundation Orland Park, IL	Dennis Hoekstra
Bay Medical Center Foundation Bay City, MI	Keith D. Markstrom Richard J. Van Akker
Baylor University Medical Center Foundation Dallas, TX	Marianne B. Piepenburg Cynthia J. Wilson Dan T. Garrett David E. Krause David M. Slover David W. Burgher Don Thompson Gordon M. Caswell Randall W. Truxal
Beech Acres Cincinnati, OH	Wayne Burton
Bellarmine College Louisville, KY	Joan Riggert
Berea College Berea, KY	Lou S. Lakes Ted Jennings
Berry College Mt Berry, GA	Carolyn Smith
Bethany Theological Seminary Oak Brook, IL	Duane L. Steiner
Bethel College N. Newton, KS	Lawrence Voth Burt Sanders
Bethesda Lutheran Home Watertown, WI	John B. Nickels
Bible Impact Ministries Salina, KS	Bob Clark Terry E. Ullum
Biblical Theological Seminary Hatfield, PA	Thomas D. Skinner
Billy Graham Evangelistic Association Minneapolis, MN	Jack Richardson Stephen G. Scholle
Blackbaud Micro Systems, Inc. Mt Pleasant, SC	Jeff Taylor
Boston University Boston, MA	Debra Ashton
Bowling Green State University Bowling Green, OH	John H. Fogel
Bradley University Peoria, IL	Lois K. Williamson
Brennan Analytical Spring Lake, NJ	Michael J. Brennan
Brethren Foundation, Inc. Elgin, IL.	Jerry D. Rodeffer Wilfred E. Nolen
Browning Associates, Inc. Leesburg, VA	Cecile D. Banner
Bryn Mawr College Bryn Mawr, PA	Jane Rae Bradford

ORGANIZATION	REPRESENTED BY
Buckner Baptist Benevolences	Bruce Burnett
Amarillo, TX	
Austin, TX	Nadine Francis
Dallas, TX	Don Garrett
Houston, TX	Terry Jackson
San Antonio, TX	Tony Watkins
Buena Vista College Storm Lake, IA	Thomas J. Ruddy
Cal Farley's Boys Ranch & Girlstown USA Amarillo, TX	Gene Hayman Don Abston Jack Quackenbush Mary E. King
Cal Poly State University Foundation San Luis Obispo, CA	Charles R. Allen Kandy K. Hart
California Baptist Foundation Sacramento, CA	Philip Kell
California Lutheran University Thousand Oaks, CA	Kenneth Siegele
Calvary Bible College Kansas City, MO	Douglas C. Langmade
Canisius College Buffalo, NY	Richard W. Cole
Capital University Columbus, OH	Thomas E. Rehl
Cardinal Glennon Children's Hospital St Louis, MO	Roya A. Bromell, CFRE
CARE New York, NY	Charles E. Molloy Leslie Shad Marianne Landrigan Sarita Gupta
Carleton College Northfield, MN	Christine K. Solso
Carnegie Mellon University Pittsburgh, PA	Gordon Gordon
Carthage College Kenosha, WI	Bradley Reiners
Casa Colina Foundation, Inc. Pomona, CA	Beth Hall James S. Williams
Caswell & Associates Dallas, TX	Eric R. Fletcher
Catholic Charaities - Diocese St. Paul & Minn. Minneapolis, MN	Robert Dunhom Lawson
Catholic Church Extension Society of the USA Chicago, IL	Georgia Ann Anderson, CFRE Patricia Rawa
Catholic Diocese of Evansville Evansville, IN	C. Justin Clements Robert Scheitlin
Catholic Diocese of Wichita Wichita, KS	Louis N. Basso
Catholic Foundation for Archdiocese of NO New Orleans, LA	Stacey C. Ervin
Catholic Near East Welfare Association New York, NY	Morfia Sokolic
Catholic Relief Services Baltimore, MD	Laurence J. Bourassa
Central Baptist Theological Seminary Kansas City, KS	Douglas H. Scott
Central College McPherson, KS	John W. Ferrell
Central College Pella, IA	Lyle W. Borg
Centre College Danville, KY	William H. Breeze

ORGANIZATION	REPRESENTED BY
Children's Hospital Foundation Omaha, NE	Eugene L. Meyer, FAHP
Children's Hospital of Los Angeles Los Angeles, CA	Vincent J. Fraumeni
Children's Medical Foundation of Texas Dallas, TX	Gary Martin Gerry C. Gunnin
Children's Square USA Omaha, NE	John L. Rinde
Christian Aid Mission Charlottesville, VA	Bobbie Josephson
Christian Appalachian Project, Inc. Lancaster, KY	Barry E. Leonard
Christian Blind Mission Int'l. Stouffville, Ontario, Canada	A. Gordon Nelson
Christian Church Foundation Indianapolis, IN	Nancy J. Pickell Virginia G. Spradlin
Christian Homes, Inc. Lincoln, IL	Daniel Stewart George Gahr Kevin Crawford Larry Simonson
Christian Medical & Dental Society Richardson, TX	Judith Kovacs
Christian Ministries Foundation Brunswick, CA	David H. Wills Gregory L. Sperry, Esq.
Christian Theological Seminary Indianapolis, IN	Harry H. Graham
Church of God-Bd Church Ext/Home Miss Anderson, IN	David H. Fortune Marilyn K. Bruce Wesley D. Schrock
Church of the Brethren General Board Harrisonburg, VA	Ronald E. Wyrick
Church of the United Brethren in Christ Huntington, IN	E. Carlson Becker
Citizens' Scholarship Foundation St Peter, MN	Fred Vogel Stephen E. Cramer
Claremont McKenna College Claremont, CA	Joseph C. Schreiber, II
Clarke School for the Deaf Northampton, MA	Sharianne Walker Susan Frost
Cleveland Hearing and Speech Ctr Cleveland, OH	Bernard P. Henri, Ph.D. Denixe Grcevich
Coe College Cedar Rapids, IA	David Ostrander
College for Financial Planning Highlands Ranch, CO	Paul J. Lochray, JD
College of Saint Benedict St Joseph, MN	Dwight W. Hendricks
College of William and Mary Williamsburg, VA	Lee G. Walsh
College of Wooster Wooster, OH	Grace M. Tompos
Colonial Williamsburg Foundation Williamsburg, VA	Kenneth M. Wolfe
Colorado Episcopal Foundation Denver, CO	Rev William E. Crews
Comboni Mission Center Cincinnati, OH	Mark J. McLaughlin
Comdel, Inc. Camarillo, CA	Carol John Charles Schultz Lou Dufek
Committee Secretary Salem, SC	Charles W. Baas, Sr.

ORGANIZATION	REPRESENTED BY
Compassion International, Inc. Colorado Springs, CO	Jeff Wood
Concordia College Corporation Moorhead, MN	David M. Benson
Connie Maxwell Children's Home Greenwood, SC	Miller B. Murphy
Conrad R. Sump & Co. Hauppauge, NY	Robert R. Craig, CPA
Conservative Baptist Foreign Mission Soc West Kingston, RI	Herb Rambikur
Aptos, CA	Harry D. Pittman
Cornell University Ithaca, NY	Beverly J. Restey
Cornerstone Trust Management Atlanta, GA	C. Ray Tyler, Jr.
Council on Foundations Washington, DC	Christopher Hoyt Jeff Shields
Covenant House New York, NY	Norman Lotz
Covenant Trust Management Atlanta, GA	Ellen A. Reese Tamara Richwine
CRISTA Ministries Seattle, WA	Patricia Dixon
Culver Educational Foundation Culver, IN	J. Frederick Lintner
Cumberland Presbyterian Church Memphis, TN	J. Richard Magrill, Jr.
Dallas Symphony Assn., Inc. Dallas, TX	Jack Walton
Dallas Theological Seminary Dallas, TX	Bryant M. Black Jim Hughey Tommy Maxwell
Dallas Theological Seminary Foundation Dallas, TX	Dale Darnell Douglas P. Mackinnon Gregory A. Ring Jerry B. Reeves
Davidson College Davidson, NC	Julius Melton
Deaconess Development Foundation Billings, MT	Michael W. Skaggs
Denison University Granville, OH	Seth H. Patton
Denton Good Samaritan Village Denton, TX	Diana Britt Kathryn Stanley
Deseret Trust Company Salt Lake City ,UT	Bruce Haws Carol Olson L Conrad Bryner
Designs in Planned Giving Madison,, WI	James C. Marshall, Jr., FNAHD
Detroit Institute of Arts Detroit, MI	John G. Fike, CFRE
Drake University Des Moines, IA	Jerry Chiaramonte
Earlham College Richmond, IN	John E. Owen
Eastern Baptist Theological Seminary Philadelphia, PA	Harold R. Blatt
Eastern College St Davids, PA	James G. Rogers
Eastern Mennonite College & Seminary Harrisonburg, VA	Phillip N. Helmuth Samuel O. Weaver

ORGANIZATION	REPRESENTED BY
Eden Theological Seminary St Louis, MO	James A. Freeman, Jr.
El Camino Hospital Foundation Mountain View, CA	Sharlene P. Hirsch, CFRE
Ellen G. Estes Woodbridge, CT	Ellen G. Estes, LLB
Endow America Sacramento, CA	James P. Keating Richard Sazonoff
Endowment Board/Conference Claimants Oakland, CA	Thomas C. Rieke
Endowment Found. of Thomas More Prep-Marian Hays, KS	Jack Schramm Tom Dreiling
Evangelical Alliance Mission Wheaton, IL	Kenneth Flanigan, Jr.
Evangelical Free Church of America Minneapolis, MN	Gene Jones
Evangelical Luth Good Samaritan Society Sioux Falls, SD	Raymond L. Mehl
Evangelical Lutheran Church in America Chicago, IL	Kathleen M. Hale James A. Jenson
Fairview Foundation Minneapolis, MN	Jon M. Young
Far East Broadcasting Company La Mirada, CA	Ken Brouwer
Father Flanagan's Boys' Home Boys Town, NE	Donald Novicoff
Federal Reserve System Washington, DC	Lawrence Lindsey, Ph.D.
Fidelity Investments Boston, MA	Pam Hill
Fiduciary Trust International New York, NY	John W. Dixon
First Christian Church Amarillo, TX	Marvin D. James
First Christian Church Foundation, Inc. Lincoln, NE	Eugene W. Brockemeyer
First Church of Christ Scientist Boston, MA	Barbara F. Burley C. Alan Korthals Judson W. Potter Sandra L. Clarke
First United Methodist Church Tulsa, OK	Philard L. Rounds Wish Lemons
Fleet Investment Services Hartford, CT	Mark P. Gadson
Florida Baptist Foundation Jacksonville, FL	Eddie L. McClelland
Florida Hospital Foundation Orlando, FL	Donald D. Wildman
Florida State University Foundation, Inc. Tallahassee, FL	Paula S. Fortunas
Foundation for Chiropractic Education & Research Gahanna, OH	Kathleen M. Rehl, Ph,D.
Fox Chase Cancer Center Philadelphia, PA	Linda M. Fischler
Fredonia College Foundation Fredonia, NY	Jean M. Malinoski
Free Methodist Foundation Mcpherson, KS	David M. Samuelson
Freeman Freeman & Smiley Los Angeles, CA	Douglas K. Freeman, Esq.

ORGANIZATION	REPRESENTED BY
Friars of the Atonement Garrison, NY	Andy Ferullo John F. Kiesling, S. A. Walter P. Gagne
Friends of Mercy Springfield, OH	C. David Welsheimer
Friends University Wichita, KS	Ed Roberts Eva Brightup Hervey W. Wright, III Sherri Dalbom
Gardner & Preston Moss Boston, MA	Pamela N. Czekanski
General Conference Mennonite Church Newton, KS	Gary Franz
General Council of the Assemblies of God Springfield, MO	Mel J. Devries
George Washington University Washington, DC	Jerry R. Anderson
Georgia Baptist Foundation, Inc. Atlanta, GA	Dewitt T. Cox
Georgia Sheriffs Youth Homes, Inc. Dalton, GA	Hartis P. Hamlin
Gettysburg College Gettysburg, PA	Constance Heiland Gary D. Ragnow
Glenmary Home Missioners Cincinnati, OH	Charles T. E. Lester William J. Welch
Glenwood School for Boys Glenwood, IL	Fred W. Bezanson Kay Ekstrom
Good Samaritan Foundation Portland, OR	Barbara S. Miller
Good Samaritan Hospital Foundation Kearney, NE	John F. Boomer
Good Shepherd Home Foundation Allentown, PA	Kenneth C. Feinour, Jr.
Good Shepherd-Fairview Foundation Binghamton, NY	Nancy F. Marshall
Grace Brethren Financial Planning Serv Winona Lake, IN	Russel H. Dunlap
Gray, Plant, Mooty, Mooty & Bennett Minneapolis, MN	Clinton A. Schroeder, Esq.
Greater Tacoma Community Foundation Tacoma, WA	Jean Mccord, CFRE
Grinnell College Grinnell, IA	Thomas K. Marshall
Gronlund Sayther & Associates Brandon, SD Burnsville, MN W Palm Beach, FL	David C. Brunkow Richard G. Sayther, CFRE J, Scott Simmons Robert B. Gronlund
Hardin-Simmons University Abilene, TX	Glen D. Merriman
Harding University, Inc. Searcy, AR	Donald E. Kee
Harris Methodist Health Foundation Fort Worth, TX	John N. Flynn
Haverford College Haverford, PA	Steven Kavanaugh
Hay/Huggins Company, Inc. Philadelphia, PA	Michael Mudry
Hazelden Foundation Center City, MN	David Ollman
Heath Village Hackettstown, NJ	Patrick E. Brady

ORGANIZATION	REPRESENTED BY
Heifer International Foundation	Jerry Bedford
Little Rock, AR	Jim Wilmot
Hemmenway & Reinhardt, Inc.	Edith A. Reinhardt
Swarthmore, PA.	Peter W. Hemmenway
Hendrick Medical Center Foundation	Winston C. Beard
Abilene, TX	
Hennix Philanthropic Service	Kenneth L. Hennix
Colorado Springs, CO	
Hoag Hospital Foundation	Amanda J. Ferrari, JD
Newport Beach, CA	
Holderness School	Douglas E. White
Plymouth, NH	
Hollins College	Thimothy G. Corvin
Roanoke, VA	
Holston Valley Health Care Foundation, Inc.	James C. Helton
Kingsport, TN	William L. Doyle
Hospital Sisters of St. Francis Foundation	Rob Lavin
Springfield, IL	
Houghton College	Ralph C. Young
Houghton, NY	Wayne MacBeth
Hoyleton Children's Home Foundation	Deborah A. Kleiboeker, CFRE
Hoyleton, IL	
Illinois Wesleyan University	Benjamin J. Rhodes
Bloomington, IL	
In Touch Ministries	Harvey C. Warner
Atlanta, GA	Thomas Wood
Incarnate Word College	Dick McCracken
San Antonio, TX	Thomas K. Plofchan
Indiana State University Foundation	Dale F. McKee
Terre Haute, IN	
Indiana Univ. Center for Philanthropy	Robert E. Fogal
Indianapolis, IN	
San Frnacisco, CA	Kay Sprinkel Grace, CFRE
Indiana University Foundation	Pamela Jones Davidson
Bloomington, IN	
Inter-Varsity Christian Fellowship	Yvonne Vinkemulder
Madison, WI	
International Bible Society	Wayne C. Reinauer
Colorado Springs, CO	
Irving Healthcare System Foundation	W. R. Bozeman
Irving, TX	
Jesuit College Preparatory School	Jim Walsh
Dallas, TX	
Jesuit Development Office	Mary F. McIntyre
Baltimore, MD	T. Donald Rinfret, S.J.
Jesuit Seminary & Mission Bureau	Brian P. Berrigan
New Orleans, LA	
Jesuits of the Missouri Province	Raymond W. Markham, CFRE
St Louis, MO	
Kallina & Associates, P.C.	Emanuel J. Kallina, II, Esq.
Baltimore, MD	
Kansas Wesleyan University	Brad Botz
Salina, KS	Tim Chapman
Kentucky Baptist Foundation	D. Randall Gibson
Louisville, KY	Richard G. Carnes
Kenyon College	Albert C. Weidenbusch
Gambier, OH	
Lancaster General Hospital	Robert E. Crosby
Lancaster, PA	
Laura Hansen Dean & Associates	Laura Hansen Dean
Indianapolis, IN	

ORGANIZATION	REPRESENTED BY
Lee Bernard & Company Palm Springs, CA	David H. Olson
Legion of Christ Woodbridge, CT	John Heinin Patrick Langen
Lehigh University Bethlehem, PA	Denise M. Blew Ferdinand Thun
Leonard, Street & Deinard Prof. Association Minneapolis, MN	Lowell V. Stortz
LeTourneau University Longview, TX	John F. Martin
Lindsey Wilson College Columbia, KY	Bill L. Squires
Loma Linda University Loma Linda, CA	Richard A. James Roy E. Brooks W. Ronald Watson
Louisianna Baptist Foundation Alexandria, LA	Joe Rosier
Louisiana College Pineville, LA	Bonnie J. Lynn
Loyola Marymount University Los Angeles, CA	Janice Burrill, JD
Loyola University New Orleans, LA	Clarence Guillory
Lubbock Christian University Lubbock, TX	Dale Simpson
Luther College Decorah, IA	Keith J. Christensen, CFP
Lutheran Church-Missouri Synod Foundation St Louis, MO	Robert Knehans
Lutheran Foundation of the Southwest Austin, TX	Leighton D. Erickson, CFRE
Lutheran Planned Giving Consortium Falls Church, VA	Nancy V. Brown
Lyngblomsten Foundation St Paul, MN	David H. Rokke
Major Gifts, Inc. Minneapolis, MN	John S. Ryan
Mankato State University Victoria, MN	Bob E. Goldberg, CFRE
March of Dimes Birth Defects Foundation Dallas, TX	Robert E. Gartman
Marianist Mission Dayton, OH	James Brown, SM
Maryknoll Fathers and Brothers Maryknoll, NY	David W. Loretan
Maryknoll Sisters of St. Dominic, Inc. Maryknoll, NY	Bernadine Remedios Sister Rose Guercio
Massachusetts Institute of Technology Cambridge, MA	Kevin Larkin
Mayo Foundation Rochester, MN	J. Lance Jacobson
McKee Medical Center Foundation Loveland, CO	Laurence H. Stone
McPherson College McPherson, KS	Stephen O. Mason
Medical College of VA Foundation Richmond, VA	David E. Bagby, Jr.
Medical University of SC Charleston, SC	Anne Lee
Mennonite Brethren Foundation Hillsboro, KS	Dale Regier John Griffin, Jr.

ORGANIZATION	REPRESENTED BY
Mennonite Foundation, Inc. Goshen, IN	Randall Miller Jacobs
Mercer University Macon, GA	Emily P. Myers Thomas Estes
Mercy Home for Boys and Girls Chicago, IL	John P. Connolly
Messiah College Grantham, PA	Charles W. Phillips Glenn A. Ganoe
Messiah Village Mechanicsburg, PA	Keith D. Ulery Robert J. Finley
Methodist Home Waco, TX	Bill Lux Kirsten Vardaman Merilyn Massey Tyrone Herring
Michigan State University Foundation E. Lansing, MI	Dan Chegwidden Mark H. Richter
Michigan Tech Fund Houghton, MI	Dale Zschoche
Millsaps College Jackson, MS	W. Scott Rawles
Missionaries of Africa Washington, DC	Roger L. Bisson
Missouri Baptist Foundation Jefferson City, MO	Gary D. Collins
Missouri United Methodist Foundation, Inc. Chesterfield, MO	Keith R. Maxwell
Moerschbaecher & Dryburgh San Francisco, CA	Lynda S. Moerschbaecher, Esq.
Moody Bible Institute Chicago, IL	Elizabeth A. S. Brown, Esq. Glenn A. Smith
Moral Re-Armament, Inc. Fort Myers Beach, FL	Erik H. Petersen
Mount Marty College Yankton, SD	Sister Martin Mergen Tom R. Roberts
Multnomah School of the Bible Portland, OR	Verne A. Davis
Muskingum College New Concord, OH	Charles A. Walker
National Benevolent Association St Louis, MO	Ben J. Mehringer Edwin R. Allen, Jr. Jim West Michael Jacobs Rebecca S. Zimmer Stanley D. Brown
National Committee on Planned Giving Indianapolis, IN	Tanya Howe Johnson
National Wildlife Federation Washington, DC	Blanche D. McCloskey
Nebraska Children's Home Society Omaha, NE	Timothy R. Neal
Nebraska Christian College Norfolk, NE	Dick Bruner Ray Stites
Nebraska Methodist Hospital Foundation Omaha, NE	Walter E. Bailey
Nebraska United Methodist Foundation Lincoln, NE	Fred E. Loder
New England Deaconess Association Acton, MA	Gilbert S. Osborn
Concord, MA	Guy S. Morrison
New Mexico Baptist Foundation Albuquerque, NM	B. Lee Black

ORGANIZATION	REPRESENTED BY
New Mexico Boys & Girls Ranch Found., Inc. Albuquerque, NM	Patrick A. Fort
Newton Medical Center Newton, KS	Art Dehoogh
North American Baptist Seminary Sioux Falls, SD	Ben H. Engbrecht
North Carolina Baptist Foundation, Inc. Cary, NC	Bill Overby Edwin S. Coates Mary Ann Sloan
North Central College Naperville, IL	Bruce Nortell
Northeastern University Boston, MA	Christopher Mosher Royal K. Toebes
Northern Baptist Theological Seminary Lombard, IL	Theodore Y. Rodgers, IV
Northwest Baptist Foundation Portland, OR	W. L. (Bo) Childs, Jr.
Northwestern College St Paul, MN	Gifford G. Myers
Northwestern Memorial Foundation Chicago, IL	H. Kenwood Lewis
Northwestern University Evanston, IL	Dorothy J. Speidel
NY/CT Foundation of United Methodist Church White Plains, NY	Douglas F. Verdin
Oakwood College Huntsville, AL	Beverly A. Johnson Dennis C. Keith, Sr. Winton Forde
Oberlin College Oberlin, OH	Jane R. Jonesco Ronald D. Huiatt
Occupational Center of Central KS, Inc. Salina, KS	James R. Attleson
Ohio Presbyterian Retirement Serv. Foundation Columbus, OH	Harold P. Hamilton
Ohio State University Columbus, OH	Ernest A. Holladay
Ohio Wesleyan University Delaware, OH	Laurie McGregor Connor
Oklahoma Baptist University Shawnee, OK	Don B. Jones
Oklahoma Christian University Oklahoma City, OK	Kevin E. Jacobs
Oklahoma United Methodist Foundation, Inc. Oklahoma City, OK	Douglas Fleming Joe D. Reed John Crooch
Omaha Community Foundation Omaha, NE	W. Earl Taylor
OMS International, Inc. Greenwood, IN	Wayne A. King
Oral Roberts Evangelistic Assn., Inc. Tulsa, OK	John D. Cherry Robert J. Mills
Otterbein Homes Lebanon, OH	Donald E. Patterson
Our Lady of Victory Homes of Charity Lackawanna, NY	Andrew Rivers
Overseas Council, Inc. Greenwood, IN	Bruce A. Richardson
Ozanam Home for Boys, Inc. Kansas City, MO	Robert E. Maxwell, Jr.
Peale Center for Christian Living Orange Park FL	Don Grant

ORGANIZATION	REPRESENTED BY
Pennsylvania State University University Park, PA	James A. Rhodes Leslie S. Saftig
Pension Fund of the Christian Church Indianapolis, IN	Rex L. Horne
PG Calc, Inc. Cambridge, MA	Bill Laskin Ellen Rakatansky Gary M. Pforzheimer
Philanthrotec Charlotte, NC	Lee Hoffman Shelly Danyluk
Philip Converse & Associates Memphis, TN	Bo McElroy Philip Converse
Pillar of Fire Denver, CO	Donald J. Wolfram Phillip J. Wolfram
Pinellas Association for Retarded Children St Petersburg, FL	Michelle Muller
Pioneer Clubs Wheaton, IL	Sara Robertson
Planned Giving Foundation San Jose, CA	Carl Mehl
Planned Giving Resource Center Nashville, TN	Donald W. Joiner
Planned Giving Resources Montvale, NJ	James B. Potter
Planned Giving Services Seattle, WA	Frank D. Minton, Ph.D.
Planned Giving Today Seattle, WA	A. Roger Schoenhals
Plymouth Place, Inc. La Grange Park, IL	Donald E. Clawson Lowell Mark
Pomona College-Annuity & Trust Dept. Claremont, CA	Michael S. McCormack
Precept Ministries of Reach Out, Inc. Chattanooga, TN	Rayburn Cliff Stovall
Prerau & Teitell White Plains, NY	Conrad Teitell, Esq.
Presbyterian Church (USA) Foundation Jeffersonville, IN	James Aboud Julianne B. Singh Marilyn Jones Pat Ohlmann
Presbyterian Homes of NJ Foundation Princeton, NJ	Malcolm B. Wernik, CFRE
Princeton Theological Seminary Princeton, NJ	Chase S. Hunt
Prison Fellowship Ministries Washington, DC	Melissa Fichthorn
Purdue University W. Lafayette, IN	Charles E. Sage
R & R. Newkirk Chicago, IL	Marc Carmichael Doug Stutesman
Reformed Church in America Schenectady, NY	Norman J. Tellier
Reformed Theological Seminary Jackson, MS Maitland, FL	Doyle Moorhead Wyatt H. Folds, Jr.
Rescue Mission Alliance Syracuse, NY	Clarence L. Jordon
Resource Development, Inc. Springfield, MO	Greg W. Lober Janis Cable
Rickey E. Richardson, PC Corpus Christi, TX	Rickey E. Richardson

ORGANIZATION	REPRESENTED BY
Robert F. Sharpe & Co, Inc.	Brent Blanner
Memphis, TN	Nancy Jeffers
	Robert F. Sharpe, Jr.
	Sally Jones
	Tim Sharpe
Rogue Valley Manor Foundation	Richard K. McLaughlin
Medford, OR	
Rollins College	Louis R. Morrell
Winter Park, FL	M. Elizabeth Brothers
Rutgers University Foundation	Michael W. Anderson
New Brunswick, NJ	
Samford University	Michael Duduit
Birmingham, AL	
San Diego State University	Patricia N. Moulton
San Diego, CA	
San Marcos Baptist Academy	Bobby D. Dupree
San Marcos, TX	
School of Theology at Claremont	David Nienas
Claremont, CA	
Scripps Memorial Hospitals Foundation	Richard Heinrich, CAHP, CFRE
La Jolla, CA	
Seventh-day Adventists Alaska Conference	David D. Freedman
Anchorage, AK	
Seventh-day Adventists AR/LA Conference.	Douglas L. Ayers
Shreveport, LA	
Seventh-day Adventists Col Union Conference	Jerry Lastine
Columbia, MD	Russell J. Jensen
Seventh-day Adventists General Conference	Alan William White
Beltsville, MD	
Berrien Springs, MI	Vickie D. Soper
Boonsboro, MD	Robert F. Cooke
Columbia, MD	Robyn W. Kajiura
Detroit, MI	DeWitt S. Goulbourne
Lawrenceville, GA	James S. Caskey
Lincoln, NE	Jerry Wiggle
S. Lancaster, MA	Loreal R. Condon
Silver Spring, MD	David E. Johnston
	Ellen C. Nixon
	G. Tom Carter, Esq.
	O. Richard Caldwell
	Robert I. Gainer
	Rowena R. Rick
Westlake Village, CA	Cecil Hazzard
Winter Park, FL	Anita F. Orquia
Seventh-day Adventists Idaho Conference	Ed Scheresky
Boise, ID	
Seventh-day Adventists Iowa-Missouri Con	G. Thomas Evans
W. Des Moines, IA	Harvey J. Byram
	Merle Barker
Seventh-day Adventists KS/NE Association	Nancy Forrester
Denver, CO	
Seventh-day Adventists KY/TN Conference	Eugene Remmers
Madison, TN	
Seventh-day Adventists Lake Union Conference	Vernon L. Alger
Berrien Springs, MI	
Seventh-day Adventists Michigan Conference	Floyd L. Costerisan
Lansing, MI	
Seventh-day Adventists Mid-America Union	Robert McCumber
Denver, CO	Barry Burton
	Duane Rollins
	Todd Mekelburg
Lincoln, NE	D. P. Huey

ORGANIZATION	REPRESENTED BY
Maple Grove, MN	Don Burgeson
	Raymond R. Rouse
Pierre, SD	Donald Kellogg
Topeka, KS	N. K. Harvey
Seventh-day Adventists N. CA Conference Pleasant Hill, CA	Cecil Jim Owens
Seventh-day Adventists N. Pac. Union Conference Portland, OR	Dale R. Beaulieu Leonard L. Ayers Leroy F. Rieley
Seventh-day Adventists New York Conference Syracuse, NY	Eckhard Hubin
Seventh-day Adventists Oklahoma Conference Oklahoma City, OK	Alfred C. Schnell
Seventh-day Adventists Ontario Conf. Corp. Oshawa, Ontario, Canada	Karnik Doukmetzian
Seventh-day Adventists Pacific Union Conference Westlake Village, CA	Elizabeth E. Matthews
Seventh-day Adventists S. Union Conference Decatur, GA	Larry L. Davis Ardith Ann Beers Richard Center Stewart J. Crook
Seventh-day Adventists SE Calif. Association Riverside, CA	Alfred Kromminga Roger W. Heinrich
Seventh-day Adventists So. Atlantic Conference Atlanta, GA	Ralph Franklin
Seventh-day Adventists SW Union Conference Burleson, TX	Doris L. May Douglas D. Reeves Kenneth Rasmussen Linda Galland Theron Collins William C. Jones W. R. May
Seventh-day Adventists Texas Conference Alvarado, TX	Cecil May Ernest Dobkins Frank Moore Jeanne Barron Joe Ray Ramon Chow
Seventh-day Adventists Texico Conf. Assoc. Amarillo, TX	Melvin D. Weber
Seventh-day Adventists - The Quiet Hour Redlands, CA	Oliver L. Johnston
Seventh-day Adventists Upper Columbia Conf. Spokane, WA	George Carambot Neil E. Humphries
Seventh-day Adventists W. Oregon Conf. Assoc. Clackamas, OR	Allen J. Iseminger George Ulloa Herald Follett Kimberly Schroeder Ronald M. Smith
Seventh-day Adventists WA Conference Bothell, WA	Keith O. Boyd Roy A. Wesson
Shawnee Mission Medical Center Foundation Shawnee Mission, KS	Willard W. Grosz
Shearin Consulting Services Irvine, CA	Sidney J. Shearin
SIM, USA, Inc. Charlotte, NC	Fred C. Ely
Sioux Falls College Sioux Falls, SD	Leon Bill
Sisters of Notre Dame de Namur Cincinnati, OH	Carol Diemunsch, SND Patty Butler

ORGANIZATION	REPRESENTED BY
Sisters of Providence Seattle, WA	Marite M. Butners
Sisters of Providence St Mary of Wd, IN	Sister Anne Krause
Smith College Northampton, MA	Cam Morin Kelly Jane Stuber
Society for the Propagation of the Faith New York, NY	David J. Iommarini
Southern Baptist Conv-Foreign Miss. Bd. Richmond, VA	David M. Coleman
Southern Baptist Convention-Annuity Board Dallas, TX	Darold H. Morgan George L. Shearin Harold D. Richardson Joe McIntosh M. Ross Taylor Terry R. Wade
Southern Baptist Foundation Nashville, TN	Faye S. Albright Judy Lynn Garner Peggy M. Armstrong
Southern College Seventh-day Adventists Collegedale, TN	Paul G. Smith, Jr.
Southern Methodist University Dallas, TX	Randal L. Daugherty
Southern Nazarene University Bethany, OK	J. Michael Crabtree Lecil Brown
Southwest Baptist University Estate Plng. Bolivar, MO	Robert G. Ingold Stephen Whisler
Southwestern Adventist College Keene, TX	Charles F. O'Dell, Jr.
Southwestern Baptist Theological Sem. Fort Worth, TX	Stanton H. Nash
Southwestern University Georgetown, TX	Kristine Christlieb
St. Francis Hospital Evanston, IL	Alexander G. Macnab
St. Joseph's Hospital & Medical Ctr. Phoenix, AZ	Walter Reed
St. Jude League/Claretian Missionaries Chicago, IL	Barbara Mack Vicki A. Annicella
St. Labre Indian School Educational Association Ashland, MT	Emmet Hoffmann Francis C. Gillette
St. Lawrence Seminary Mt Calvary, WI	Kenan Siegel, ofm Cap Harlan D. Swift
St. Luke's Episcopal Hospital Houston, TX	Ronald D. Guziak
St. Meinrad Archabbey & Seminary St Meinrad, IN	Alvin I. Cassidy
St. Olaf College Northfield, MN	Grace H. Schroeder Paul H. Schmitt
St. Paul Medical Center Foundation Dallas, TX	Jack Schwartz
St. Vincent Development Foundation Little Rock, AR	Carolyn Pharis
St. Vincent Medical Foundation Portland, OR	Bob Turner
Starr Commonwealth Schools Albion, MI	David Deshler Gary R. Faircloth
State Street Bank & Trust Co. Boston, MA	Cheryl M. Gerome Deborah A. Robbins Elaine B. Anderson Philip S. Field

ORGANIZATION	REPRESENTED BY
Steer, Inc. Bismarck, ND	Rick Johnson
Sunset Association Jenison, MI	Dan Swartz
Suomi College Au Train, MI	Leslie Niemi
Susan G. Komen Breast Cancer Foundation Dallas, TX	Beth S. Moore, CFRE
Swarthmore College Swarthmore, PA	Margaret W. Nikelly
Swiss Village, Inc. Berne, IN	Edward Stucky
Texas Methodist Foundation Austin, TX	Charles E. Laing Charles L. Smith, Jr. Cindy Davies Curtis Vick Diane Leach Harold Perdue James L. Tarr Thomas R. Locke
Texas Scottish Rite Hospital for Children Dallas, TX	Don Corben-Smith
The Augustinians Villanova, PA	Joseph K. Hoffman Thomas R. Cook, OSA
The Brethren Home Foundation New Oxford, PA	James M. Brinks, CFRE
The Catholic Foundation Dallas, TX	Bernard Difiore
The Children's Home of Lubbock Lubbock, TX	Billy Mize
The Christian and Missionary Alliance Colorado Springs, CO	Alfred N. Steele Jim Loscheider
The Elizabeth Gamble Deaconess Home Assoc. Cincinnati, OH	William R. Talbot, Jr.
The Henry E. Huntington Library San Marino, CA	Gene A. Ekenstam
The Humane Society of the US Bethesda, MD	Arthur T. Keefe, CFRE
The Lutheran Home at Topton Wescosville, PA	Wilson E. Touhsaent, DD
The Master's College & Seminary Santa Clarita, CA	Mark E. Kranich, CLU, CHFC
The Pocket Testament League Lititz, PA	Donna Jean Paganucci
The Salvation Army Alexandria, VA	Joseph B. Matthews
The Salvation Army Anchorage, AK	James P. Mallery
The Salvation Army Baltimore, MD	William A. Lapole
The Salvation Army Billings, MT	Richard Buckley
The Salvation Army Dallas, TX	Kay Simmons
The Salvation Army Denver, CO	George W. Buckley
The Salvation Army Des Plaines, IL	David J. Himes Lisa Jordan
The Salvation Army Grandview, WA	Dale H. Burgeson

ORGANIZATION	REPRESENTED BY
The Salvation Army Houston, TX	Joel Carroll
The Salvation Army Jackson, MS	Beth M. Berger Charles R. Andrews
The Salvation Army Lubbock, TX	Marvin T. Reynolds
The Salvation Army Omaha, NE	Carol Lewis David A. Lemen
The Salvation Army Phoenix, AZ	Greg Bodine Phil Dickinson
The Salvation Army Rancho Palos Verdes, CA	Sharon Bearchell Steve de Graaf
The Salvation Army San Antonio, TX	Gregory Weber
The Salvation Army St Louis, MO	J. Douglas McDaniel Jeffrey Randall Kathy Probst
The Salvation Army W. Nyack, NY	Barbara Wright Charles W. Baas Edward C. Knox Gregory J. Sullwold
The Salvation Army Florida Division Tampa, FL	Charles Custer David Birmingham Edward Bailey John Wall William Whitsitt
The Salvation Army Georgia Division Lilburn, GA	Ray Marchman
The Salvation Army Indiana Division Indianapolis, IN	Bill Haggstrom, CFRE
The Salvation Army KY and TN Division Louisville, KY	Arthur P. Fultz
The Salvation Army NC & SC Division Charlotte, NC	Charles L. Phelps Teresa Harris
The Salvation Army Nat'l. & VA Div. Washington, DC	Michael S. Welling
The Salvation Army OK/AR Division Tulsa, OK	Wes Sherrick
The Salvation Army So. Terr. Hdqtrs. Atlanta, GA	Lindsay L. Lapole, III
The Salvation Army TX Division Dallas, TX	Jimmy E. Hays
The Samaritan Charitable Trust Phoenix, AZ	Frank Donaldson
The Stelter Company Des Moines, IA	Steve R. Stelter David Mahoney
The Texas Presbyterian Foundation Dallas, TX	Kim E. Warner Sharon S. Nash
The Toledo Museum of Art Toledo, OH	Edward F. Weber
The University of Alabama Tuscaloosa, AL	Larry W. O'Neal
Touro Infirmary Foundation New Orleans, LA	Leslie A. Collins
Trenton State College Trenton, NJ	Anne E. Martens
Trinity Missions Silver Spring, MD	Ann M. Fisher
Tufts University Medford, MA	James W. Lambert Thomas B. Hunt, JD, CFP
Tulane University New Orleans, LA	Lizbeth A. Turner

ORGANIZATION	REPRESENTED BY
Twin Towers Retirement Community	David Schneider
Cincinnati, OH	
U.S. Trust Company	Mary S. Giard
New York, NY	Maureen Augusciak
	Rod Riggins
Union Theological Seminary in VA	John N. Causey
Richmond, VA	
United Catholic Social Services	John A. Hilgert
Omaha, NE	Scot L. Adams, Ph.D.
United Church Board for World Ministries	Myles H. Walburn
New York, NY	
United Church Homes, Inc.	Sharon K. Bacon
Dayton, OH	
United Church of Christ Comm. on Development	Audrey Boughman
Cleveland, OH	David Murton
	Dennis Streiff
	Donald G. Stoner
	Earl Mille
	James A. Langdoc
	Paul L. Aylward, Jr.
	Rufus Cushman
	Russell J. Becker
	Stella Schoen
United Church of Christ Pension Bds.	John D. Ordway
New York, NY	
United Meth Ch Preachers Aid Soc. S New Eng.Con.	Charles A. Fowlie
Northboro, MA	
United Methodist Charities of WV, Inc.	David R. Peters
Charleston, WV	
United Methodist Church Central PA Conference	Arthur E. Davis
Harrisburg, PA	
United Methodist Church Central TX Conf.	Patricia Sprayberry
Fort Worth, TX	
United Methodist Church Gen. Bd. Global Ministry	Doris L. Gidney
New York, NY	Lynette Rice
	Virginia M. Natera
United Methodist Church North Indiana Conf.	Richard L. Gongwer
Marion, IN	
United Methodist Church Rocky Mtn. Conference	Betty R. Lambert
Denver, CO	
United Methodist Found. Baltimore Annual Conf.	Jeffrey W. Billingslea
Linthicum Heights, MD	
United Methodist Foundation Kansas Area	Jack Harris
Wichita, KS	
United Methodist Foundation NC Conference	Douglas L. Byrd
Raleigh, NC	
United Methodist Foundation of Western PA	Frederick H. Leasure
Mars, PA	
United Methodist Foundation TX Ann. Conference	Faulk Landrum
Houston, TX	
	Guston H. Browning
United Methodist Foundation W. NC Conference	Cathy Baker
Charlotte, NC	Richard D. Bailey
United Methodist Homes Trust	David Fanning, CFRE
Johnson City, NY	
United Methodist Retirement Communities	Robert A. Alder
Chelsea, MI	
United Methodist Village, Inc.	Dowain V. McKiou
Lawrenceville, IL	Robert Lumbrix
United Negro College Fund, Inc.	Cynthia D. Hill
Columbus, OH	

ORGANIZATION	REPRESENTED BY
United Way of America Alexandria, VA	Kathryn E. Baerwald
University of Calif. San Francisco San Francisco, CA	Daniel E. Riley, Esq. Linda Keith
University of Chicago Chicago, IL	David L. Crabb
University of Colorado Foundation, Inc. Boulder, CO	Robert T. Spengler
University of Florida Foundation, Inc. Gainesville, FL	George E. Cawthon
University of Illinois Foundation Urbana, IL	Louis W. Rice, III
University of Maryland System Adelphi, MD	Leo E. Geier
University of Massachusetts Amherst, MA	Roger M. Hewett
University of New Mexico Foundation, Inc. Albuquerque, NM	T. Joseph McKay, JD, CPA
University of North Dakota Foundation Grand Forks, ND	David L. Miedema
University of North Texas Denton, TX	Douglas J. Chadwick
University of Richmond Richmond, VA	Paul F. Kling
University of St. Thomas St. Paul, MN	Scott D. Lothrop
University of Texas Foundation, Inc. Austin, TX	Paul J. Youngdale, Jr. John A. Anderson Wayne W. Archer
University of the South Sewanee, TN	Thomas P. Bonner
Utah Valley Community College Orem, UT	Alden B. Tueller
Valley Baptist Medical Center Foundation Harlingen, TX	F. Joe Snyder
Valparaiso University Valparaiso, IN	Buckley F. Watson
Vermont Health Foundation Burlington, VT	Arthur M. Brink, Jr.
Virginia Baptist Foundation, Inc. Richmond, VA	Robert L. Mobley
Virginia Polytechnic Inst. & State Univ. Blacksburg, VA	James J. Dawson
Walla Walla College College Place, WA	Allan D. Fisher
Washington State University Pullman, WA	Ed McBride
Washington University St Louis, MO	David Clithero
Wayne State Foundation-Wayne State College Wayne, NE	Mike Mattson
Wellesley College Wellesley, MA	Peter V. K. Doyle
WELS Foundation, Inc. Milwaukee, WI	Calvin A. Patterson Richard Boese
Wesley Retirement Services Des Moines, IA	Marvin D. Hoeksema, CFRE
Wesleyan Church Indianapolis, IN	Howard B. Castle
Wesleyan University Middletown, CT	Judith Pillon

ORGANIZATION	REPRESENTED BY
West Virginia University Morgantown, WV	Elizabeth M. Hoster
West Virginia Wesleyan College Buckhannon, WV	Herbert L. Sharp
Westark Community College Foundation Ft Smith, AR	Carolyn L. Branch
Wheaton College Norton, MA	Nancy J. Leanues
Wheaton College Wheaton, IL	Colin E. Jackson David A. Teune Kenneth C. Larson
Whitman College Walla Walla, WA	Michael E. Howell, CFP
Whitworth Foundation Spokane, WA	Edwin Hill
Willamette University Salem, OR	Michael W. Bennett
William Marsh Rice University Houston, TX	Susie Stalcup
Winton Smith & Associates Memphis, TN	Winton C. Smith, Jr., Esq.
Wisconsin Lutheran High School Milwaukee, WI	Ronald H. Meier
Wittenberg University Springfield, OH	Richard E. Meisterling
World Gospel Mission Marion, IN	Fred E. Reitz
World Neighbors, Inc. Okalhoma City, OK	Debbie Taylor Karla Ratchford
World Vision, Inc. Pittsburgh, PA	Daniel Rice
Wright State University Foundation Dayton, OH	James T. Harris Thomas B. Kinsey
Wycliffe Bible Translators, Inc. Huntington Beach, CA	Jo Anne Tell Rchard E. Wacek Robert W. Shelby
Yale University New Haven, CT	Henry W. Estabrook
Yellowstone Boys & Girls Ranch Foundation Billings, MT	James C. Soft
Young-Preston Associates, Inc. Roanoke, VA	Cynthia Layne Glenn Young-Preston

SPONSORING ORGANIZATIONS OF THE COMMITTEE ON GIFT ANNUITIES

Aaron & Associates Inc
Abilene Christian University
ACLU Fdn
Advent Christian Village Inc
Adventist Media Center
Africa Inland Mission
All Children's Hospital Fdn Inc
Allentown College of St Francis De Sales
Alma College
Alpha Chi Omega Foundation
Alsac/St Jude Children's Research Hosp
Alton Ochsner Medical Foundation
Alzheimer's Association
Amazing Facts Inc
American Academy of Pediatrics
American Baptist Churches M&M Benefit Bd
American Baptist Foreign Mission Society
American Baptist Foundation
American Baptist Homes of the Midwest
American Baptist Homes of the West
American Bible Society
American Cancer Society
American Cancer Society-Florida Div Inc
American Fdn for Surgery of the Hand
American Foundation for the Blind
American Friends Service Committee
American Heart Association Inc
American Institute for Cancer Research
American Leprosy Missions Intl
American Lung Assn of Los Angeles Co
American Lung Association of SW Florida
American Missionary Fellowship
American Red Cross
American Red Cross-Gr Kansas City Chap
American Society for Technion
American Tract Society
Andrews University
Anne Carlsen School
Appalachia Service Project Inc
Arkansas Baptist Fdn
Arkansas Children's Hospital Fdn Inc
Arthritis Foundation
Asbury College
Asbury Methodist Village
Asbury Theological Seminary
Asbury-Salina Regional Med Cntr Fdn
Association for Benevolent Care Inc
Association of Graduates
Association of Marian Helpers
Atherton Baptist Homes
Augsburg College
Augustana Home Fdn
Aurora University
Austin College
Back to God Hour
Back to the Bible
Bacone College
Banccorp Systems Inc
Baptist Foundation of Arizona
Baptist Foundation of Oklahoma
Baptist Foundation of Texas
Baptist General Conference
Baptist General Convention of Texas
Baptist Medical Ctr Fdn
Baptist Memorial Health Care System
Baptist Memorial Hospital System Fdn
Baptist Mid-Missions
Barber Shop Harmony Society
Barnabas Foundation
Bay Medical Center Foundation
Baylor University Medical Center Fdn
Beech Acres
Bellarmine College
Berea College
Berry College
Bethany Fellowship Inc
Bethany Home
Bethany Theological Seminary
Bethel College
Bethesda Lutheran Home
Bible Impact Ministries
Bibletown Community Church Inc
Biblical Theological Seminary

Billy Graham Evangelistic Assn
Blackbaud Micro Systems Inc
Boston University
Boulder Community Hospital Fdn
Bowling Green State University
Bradley University
Brennan Analytical
Brethren Foundation Inc
Brethren in Christ Ch Stewardship Serv
Brethren Village
Bridgewater College
Browning Associates Inc
Bryn Mawr College
Buckner Baptist Benevolences
Buena Vista College
Cadwalader Wickersham & Taft
Cal Farley's Boys Ranch & Girlstown USA
Cal Poly State University Fdn
California Baptist Foundation
California Lutheran University
Calvary Bible College
Calvary Fellowship Homes Inc
Canisius College
Capital University
Capstone Consultants Inc
Cardinal Glennon Children's Hospital
CARE
Carleton College
Carnegie Mellon University
Carthage College
Casa Colina Foundation Inc
Caswell & Associates
Catholic Char Arch St Paul & Minn
Catholic Charities
Catholic Church Extension Society of USA
Catholic Diocese of Evansville
Catholic Diocese of Fort Worth
Catholic Diocese of Lake Charles
Catholic Diocese of Wichita
Catholic Fdn Diocese of Tucson
Catholic Fdn for Archdiocese of NO
Catholic Fdn of Eastern Oklahoma Inc
Catholic Near East Welfare Association
Catholic Relief Services
Cedar Falls Lutheran Home for the Aged
Central Baptist Theological Seminary
Central Christian College of the Bible
Central College, IA
Central College, KS
Centre College
Chapman University
Children International
Children's Hospital Foundation
Children's Hospital of Los Angeles
Children's Medical Foundation of Texas
Children's Square USA
Choate Rosemary Hall
Christian Aid Mission
Christian Appalachian Project Inc
Christian Blind Mission Int'l.
Christian Church Foundation
Christian Homes Inc
Christian Light Publications Inc
Christian Medical & Dental Society
Christian Ministries Foundation
Christian Record Services
Christian Rescue Mission
Christian Theological Seminary
Church of God Inc Bd of Pensions
Church of God-Bd Church Ext/Home Miss
Church of the Brethren General Board
Church of the Nazarene
Church of the United Brethren in Christ
Cincinnati Country Day School
Citizens' Scholarship Foundation
Claremont McKenna College
Clark University
Clarke School for the Deaf
Cleveland Hearing and Speech Ctr
Coe College
Colgate Rochester Divinity School
College for Financial Planning
College of Saint Benedict
College of William and Mary
College of Wooster
Colonial Williamsburg Fdn
Colorado Episcopal Foundation
Columbia College
Comboni Mission Center
Comdel Inc
Community Health Fdn
Community Hospital Fdn
Compassion International Inc
Concordia College Corporation

Connie Maxwell Children's Home
Conrad R Sump & Co
Conservative Baptist Foreign Mission Soc
Convalescent Home for Children Fdn
Cornell University
Cornerstone Trust Management
Council on Dev W Ohio Conf Unit Meth Ch
Council on Foundations
Covenant House
Covenant Trust Management
CRISTA Ministries
Crosier Fathers of Onamia
Culver Educational Fdn
Cumberland Presbyterian Church
Dallas Symphony Assn Inc
Dallas Theological Seminary
Dana-Farber Cancer Institute
David Livingstone Missionary Fdn
Davidson College
Deaconess Development Fdn
Deaconess Foundation
Denison University
Denton Good Samaritan Village
Depaul University
Depauw University
Deseret Trust Company
Detroit Institute of Arts
Diocese of Crookston
Diocese of Green Bay
Diocese of Phoenix
Drake University
Earlham College
Eastern Baptist Theological Seminary
Eastern College
Eastern Mennonite College & Seminary
Eden Theological Seminary
El Camino Hospital Foundation
Ellen G Estes
Elmhurst College
Emporia State University
Endow America
Endowment Board/Conference Claimants
Endowment Fdn of Thomas More Prep-Marian
Evangelical Alliance Mission
Evangelical Covenant Church
Evangelical Free Church of America
Evangelical Luth Good Samaritan Society
Evangelical Lutheran Church in America
Evangelistic Faith Mission Inc
Fairview Foundation
Far East Broadcasting Company
Father Flanagan's Boys' Home
Fdn for Chiropractic Educ & Research
Fdn to Assist California Teachers
Feed the Children
Fidelity Investments
Fiduciary Trust International
First Christian Church
First Christian Church Fdn Inc
First Church of Christ Scientist
First United Methodist Church
Fleet Investment Services
Florida Baptist Foundation
Florida Hospital Fdn
Florida State University Fdn Inc
Food for the Hungry
Fox Chase Cancer Center
Franciscan Sisters of Little Falls
Franciscan Sisters of the Poor Fdn Inc
Franklin United Methodist Home
Fredonia College Fdn
Free Methodist Foundation
Freedom From Hunger Fdn
French Camp Academy
Friars of the Atonement
Friends of Mercy
Friends University
Furman University
Gardner & Preston Moss
Geisinger Foundation
General Conference Mennonite Church
General Council of the Assemblies of God
George Washington University
Georgia Baptist Foundation Inc
Georia Sheriffs Youth Homes Inc
Gettysburg College
Girl Scouts of the USA
Glenmary Home Missioners
Glenwood School for Boys
Gonser Gerber Tinker & Stuhr
Good Samaritan Foundation
Good Samaritan Hospital Fdn
Good Shepherd Home Fdn

Good Shepherd-Fairview Foundation
Governor Dummer Academy
Grace Bible College
Grace Brethren Financial Planning Serv
Grady Memorial Hospital
Grand View Hospital Foundation
Gray Cary Ames & Frye
Gray Plant Mooty Mooty & Bennett
Greater Europe Mission
Greater Tacoma Community Fdn
Grinnell College
Gronlund Sayther & Associates
Guideposts Associates Inc
Hamilton College
Hardin-Simmons University
Harding University Inc
Harris Methodist Health Foundation
Haverford College
Hay/Huggins Company Inc
Hazelden Foundation
Heath Village
Heifer International Foundation
Hemmenway & Reinhardt Inc
Hendrick Medical Center Foundation
Hennix Philanthropic Service
Hillcrest Educational Centers Inc
Hillsdale College
Hiram College
Hoag Hospital Foundation
Hollins College
Holston Valley Health Care Fdn Inc
Hospital Sisters of St Francis Fdn
Houghton College
Hoyleton Children's Home Foundation
Huntsville Hospital Foundation
Illinois Wesleyan University
In Touch Ministries
Incarnate Word College
Indiana State University Fdn
Indiana University Fdn
Inter-Varsity Christian Fellowship
International Bible Society
Irving Healthcare System Fdn
James Robison Evangelistic Association
Jane Addams Peace Assn Inc
Jerome F Seaman & Associates Inc
Jesuit College Preparatory School
Jesuit Development Office
Jesuit Seminary & Mission Bureau
Jesuits of the Missouri Province
Juniata College
Kansas Masonic Home
Kansas Wesleyan University
Kentucky Baptist Foundation
Kentucky Wesleyan College
Kenyon College
Kpmg Peat Marwick
Lancaster Bible College
Lancaster General Hospital
Laubach Literacy International
Laurel School
Lee Bernard & Company
Legion of Christ
Lehigh University
Leonard Street & Deinard Prof Assn
LeTourneau University
Lexington Theological Seminary
Limestone College
Lindsey Wilson College
Loma Linda University
Loras College
Louisiana Baptist Foundation
Louisiana College
Loyola Marymount University
Loyola University
Lubbock Christian University
Luther College
Lutheran Church-Missouri Synod Fdn
Lutheran Fdn of the Southwest
Lutheran Medical Center Fdn
Lutheran Planned Giving Consortium
Lutheran Welfare Concordia Home
Lyngblomsten Foundation
M J Clark Memorial Home
Major Gifts Inc
Malone College
Mankato State University
MAP International
March of Dimes Birth Defects Fdn
Marianist Mission
Marine Military Academy
Marquette University
Mary Washington College Fdn Inc
Maryknoll Fathers and Brothers
Maryknoll Sisters of St Dominic Inc
Masonic Charity Foundation of CT
Massachusetts Institute of Technology
Mayo Foundation
McCallum Theatre

McKee Medical Center Fdn
McPherson College
Medical College of Pennsylvania
Medical College of VA Foundation
Medical University of SC
Memorial Mission Foundation
Mennonite Brethren Foundation
Mennonite Foundation Inc
Mercer University
Mercy Home for Boys and Girls
Messiah College
Messiah Village
Methodist Home
Michigan Masonic Home
Michigan State University Foundation
Michigan Tech Fund
Millsaps College
Minnesota Orchestral Association
Minnesota Public Radio
Miriam Hospital
Missionaries of Africa
Missouri Baptist Foundation
Missouri United Methodist Fdn Inc
Moerschbaecher & Dryburgh
Moody Bible Institute
Moral Re-Armament Inc
Moravian Church Dept of Stewardship
Moravian Church in America
Morning Cheer Inc
Morningside College
Mount Holyoke College
Mount Marty College
Mt San Antonio Gardens
Muhlenberg College
Multnomah School of the Bible
Muskingum College
N Platte Catholic Schools Endowmnt-Trust
Na'amat USA
National Benevolent Association
National Church Residences
National Committee on Planned Giving
National Wildlife Federation
Natural Resources Defense Council Inc
Navy Marine Coast Guard Residence Fdn
Nebraska Children's Home Society
Nebraska Christian College
Nebraska Methodist Hospital Fdn
Nebraska United Methodist Fdn
New England Deaconess Association
New Mexico Baptist Foundation
New Mexico Boys & Girls Ranch Fdn Inc
New Tribes Mission Inc
Newton Medical Center
North American Baptist Seminary
North Carolina Baptist Fdn Inc
North Central College
North Dakota United Methodist Foundation
Northeast Missouri State University
Northeastern University
Northern Arizona University
Northern Baptist Theological Seminary
Northland College
Northwest Baptist Foundation
Northwestern College
Northwestern Memorial Foundation
Northwestern University
NY-CT Fdn. of United Methodist Church
Oakwood College
Oberlin College
Oblate Missions
Occupational Center of Central KS Inc
Ohio Presbyterian Retirement Serv Fdn
Ohio State University
Ohio Wesleyan University
Oklahoma Baptist University
Oklahoma Christian Foundation
Oklahoma Christian University
Oklahoma United Methodist Fdn Inc
Omaha Community Foundation
OMS International Inc
Oral Roberts Evangelistic Assn Inc
Oregon Health Sciences University Fdn
Orthodox Church in America
Otterbein Homes
Our Lady of Victory Homes of Charity
Overseas Council Inc
Ozanam Home for Boys Inc
Palmer Home for Children
Peabody and Brown

Peale Center for Christian Living
Pennsylvania State University
Pension Fund of the Christian Church
PG Calc Inc
Philadelphia College of Bible
Philanthrotec
Philip Converse & Associates
Pillar of Fire
Pinellas Assn for Retarded Children
Pioneer Clubs
Planned Giving Foundation
Planned Giving Resource Center
Planned Giving Resources
Planned Giving Systems Inc
Planned Giving Today
Planned Parenthood of Seattle King Co
Plymouth Place Inc
Pomona College-Annuity & Trust Dept
Precept Ministries of Reach Out Inc
Prerau & Teitell
Presbyterian Church (USA) Fdn
Presbyterian Homes of NJ Fdn
Princeton Theological Seminary
Prison Fellowship Ministries
Province of Our Lady of Consolation Inc
Purdue University
Point Loma Nazarene College
R & R Newkirk
Radio Bible Class Trust
Randolph-Macon College
Ravinia Festival
Redwood Christian Schools Inc
Reedsburg Memorial Hospital Foundation
Reformed Church in America
Reformed Theological Seminary
Rescue Mission Alliance
Resource Development Inc
Rickey E Richardson PC
Rio Grande Bible Institute Inc
Roanoke College
Robert F Sharpe & Co Inc
Rockefeller University
Rogue Valley Manor Foundation
Rollins College
Rutgers University Fdn
Sacred Heart League
Saint Francis College
Saint John's Hospital & Health Cntr Fdn
Saint Louis University
Saint Vincent College
Salesian Missions
Samford University
San Diego State University
San Marcos Baptist Academy
School of Theology at Claremont
Scottish Rite Children's Medical Ctr Fdn
Scripps Memorial Hospitals Fdn
Seventh-day Adventists-The Quiet Hour
Seventh-day Adventists Alaska Conference
Seventh-day Adventists AR/LA Conf.
Seventh-day Adventists Col Union Conf
Seventh-day Adventists Gen Conf
Seventh-day Adventists Idaho Conf
Seventh-day Adventists Iowa-Missouri Con
Seventh-day Adventists KS/NE Assoc
Seventh-day Adventists KY/TN Conf
Seventh-day Adventists Lake Union Conf
Seventh-day Adventists Michigan Conf
Seventh-day Adventists Mid-Amer Union
Seventh-day Adventists N CA Conf
Seventh-day Adventists N Pac Union Conf
Seventh-day Adventists NY Conf
Seventh-day Adventists Oklahoma Conf
Seventh-day Adventists Ont Conf Corp
Seventh-day Adventists Pac Union Conf
Seventh-day Adventists S Union Conf
Seventh-day Adventists SE CA Assn
Seventh-day Adventists So Atlantic Conf
Seventh-day Adventists So New Engl Conf
Seventh-day Adventists SW Union Conf
Seventh-day Adventists Texas Conf
Seventh-day Adventists Texico Conf

Assn
Seventh-day Adventists Upper Columbia Cn
Seventh-day Adventists W OR Conf Assn
Seventh-day Adventists Washington Conf
Shawnee Mission Medical Center Fdn
Shearin Consulting Services
Shippensburg University Foundation
Shodair Children's Hospital
Shriners Hospitals for Crippled Children
Sierra View Homes Inc
Silvermine Guild Arts Center
SIM USA Inc
Simmons College
Sioux Falls College
Sisters of Notre Dame de Namur
Sisters of Providence, IN
Sisters of Providence, WA
Smith College
Society for the Propagation of the Faith
South Dakota Children's Aid Fdn
South Dakota State University Foundation
Southern Arkansas University
Southern Baptist Conv-Foreign Miss Bd
Southern Baptist Convention-Annuity Bd
Southern Baptist Foundation
Southern College Seventh-day Adventists
Southern Methodist University
Southern Nazarene University
Southwest Baptist University Estate Plng
Southwestern Adventist College
Southwestern Baptist Theological Sem
Southwestern College in Kansas
Southwestern University
St Andrews School
St Cloud State University Fdn Inc
St Francis Hospital
St Joseph's Hospital & Medical Ctr
St Jude League/Claretian Missionaries
St Labre Indian School Educational Assn
St Lawrence Seminary
St Luke's Episcopal Hospital
St Luke's Hospital Foundation
St Marys Food Bank
St Meinrad Archabbey & Seminary
St Olaf College
St Paul Medical Center Fdn
St Thomas Theological Seminary
St Vincent Development Fdn
St Vincent Medical Foundation
Starr Commonwealth Schools
State Street Bank & Trust Co
Steer Inc
Stetson University
Sunset Association
Suomi College
Susan G Komen Breast Cancer Foundation
Swarthmore College
Swiss Village Inc
Teachers College Columbia University
Texas Methodist Fdn
Texas Scottish Rite Hospital for Children
The Augustinians
The Brethren Home Foundation
The Catholic Foundation
The Chambersburg Hospital
The Children's Home of Lubbock
The Christian and Missionary Alliance
The Elizabeth Gamble Deaconess Home Assn
The Fdn of Muhlenberg Hospital Center
The Greater Cedar Rapids Fdn
The Henry E Huntington Library
The Humane Society of the US
The Keefer Group
The Len Bucklin System
The Lutheran Home at Topton
The Master's College & Seminary
The Melanoma Foundation
The Milton Wright Memorial Home Inc
The Nature Conservancy
The Pingry School
The Pocket Testament League
The Redemptorists/St Louis Prov Fdn Off

The Roman Catholic Diocese of Syracuse
The S Indiana Fdn of United Meth Church
The Sage Colleges
The Saint Paul Foundation
The Salvation Army
The Salvation Army Florida Division
The Salvation Army Georgia Division
The Salvation Army Indiana Division
The Salvation Army KY & TN Division
The Salvation Army NC & SC Division
The Salvation Army Nat'l & VA Div
The Salvation Army OK/AR Division
The Salvation Army So Terr Hdqtrs
The Salvation Army TX Division
The Samaritan Charitable Trust
The Stelter Company
The Texas Presbyterian Foundation
The Toledo Museum of Art
The University of Alabama
The Woods Schools
Touro Infirmary Foundation
Trenton State College
Trinity Missions
Trinity University
Troy State University
Trustees Unit Meth Health & Welfare Serv
Tufts University
Tulane University
Twin Towers Retirement Community
U S Trust Company
Unca Foundation Inc
Union Theological Seminary in VA
United Bd for Christian Higher Eduction
United Catholic Social Services
United Church Board for World Ministries
United Church Homes Inc
United Church of Christ Comm on Dev
United Church of Christ Pension Bds
United Meth Ch Preachers Aid Soc — So New Eng Con
United Methodist Ch Gen Bd Globl Min
United Methodist Charities of WV Inc
United Methodist Church Central PA Conf
United Methodist Church Central TX Conf
United Methodist Church North IN Conf
United Methodist Church Rocky Mtn Conf
United Methodist Fdn Balt Annual Conf
United Methodist Fdn Kansas Area
United Methodist Fdn NC Conf
United Methodist Fdn of W Michigan
United Methodist Fdn of Western PA
United Methodist Fdn SC Conf
United Methodist Fdn TX Ann Conf
United Methodist Fdn W NC Conf
United Methodist Fdn-W NY Conf
United Methodist Homes Trust
United Methodist Retirement Communities
United Methodist Village Inc
United Negro College Fund Inc
United Way of America
United World Mission
University of Calif San Francisco
University of California San Diego
University of Chicago
University of Cincinnati Fdn
University of Colorado Fdn Inc
University of Dayton
University of Denver
University of Florida Fdn Inc
University of Illinois Foundation
University of Maryland System
University of Massachusetts
University of New Mexico Fdn Inc
University of No Colorado Fdn Inc
University of North Dakota Fdn
University of North Texas
University of Redlands
University of Richmond
University of St Thomas
University of Texas Foundation Inc
University of the South
Utah Valley Community College
Valdosta State College Fdn Inc
Valley Baptist Medical Center Fdn
Valparaiso University
Vermont Health Foundation
Viewplan Inc

Virginia Baptist Foundation Inc
Virginia Polytechnic Inst & State Univ
Walla Walla College
Walther Cancer Institute
Washington State University
Washington University
Wayland Academy
Wayne State Fdn-Wayne State College
Weber & Sterling
Wellesley College
WELS Foundation Inc
Wesley Hall Nursing Home
Wesley Retirement Services
Wesley Willows Corporations
Wesleyan Church
Wesleyan University
West Virginia University
West Virginia Wesleyan College
Westark Community College Fdn
Western Maryland College
Western Michigan Univ Fdn
Westtown School
Whalen Davey and Looney CPAs
Wheaton College, IL
Wheaton College, MA
Whitman College
Whitworth Foundation
Willamette University
William M Mercer Inc
William Marsh Rice University
William Penn College
Wisconsin Lutheran High School
Wittenberg University
Woodberry Forest School
Worcester Academy
World Gospel Mission
World Neighbors Inc
World Vision Inc
Wright State University Fdn
Wycliffe Bible Translators Inc
Yale University
Yellowstone Boys & Girls Ranch Fdn
York College of Pennsylvania
Young-Preston Associates Inc

CONSTITUTION OF THE COMMITTEE ON GIFT ANNUITIES

ARTICLE I

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

The Committee shall study and recommend the proper range of rates for charitable gift annuities and the accepted methods of yield computations for pooled income fund agreements.

The Committee may 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, pooled income fund agreements, and such other deferred gift agreements as the Committee shall decide.

The Committee may ascertain and report as to legislation, taxability, and related matters regarding charitable gift annuities, pooled income fund agreements, and such other deferred gift agreements as determined by the Committee.

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 21 persons. Members shall be elected to three-year terms and may succeed themselves if the Committee so desires. These members shall be chosen by a majority vote of the Committee from important religious, educational, charitable, and other organizations or from groups of such organizations issuing and experienced in gift annuities, life income agreements, and other types of charitable gifts. In electing members to the Committee, the Committee shall secure representation from the member groups, but such member is not the agent of the organization or group from which he or she comes, nor is the organization or group bound by any decisions reached by the Committee.

The Committee may add up to four non-voting advisory members, including a representative from the Canadian Association on Charitable Gift Annuities, to its roster. Advisory members shall be elected to three-year terms and may succeed themselves if the Committee so desires.

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

Membership on the Committee shall not continue beyond the time the member terminates service with the organization or group of organizations with which he or she was associated at the time of election to the Committee.

Persons who are not affiliated with organizations above defined may be elected by the Committee present and voting by unanimous vote only.

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 fees from those who make use of its findings and services. It may set a periodic membership fee and may request gifts from those groups that cooperate with it to cover the expenses of its various activities, such amounts 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 provided to every member of the Committee, prior to the meeting at which it shall be voted upon, and approval by two-thirds of the members present and voting shall be necessary for final approval.

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 and shall serve until the first meeting after the next such Conference or until their successors have been elected and installed. 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 of 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. A membership nominating committee shall be appointed by the Chairman. It may submit nominations for consideration at any meeting when the membership of the Committee consists of less than the maximum established in the Constitution. A vote of a majority of those present will elect as provided in the Constitution.

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

VIII. The Committee shall carry Directors and Officers liability insurance to protect its Members from any claims that might be filed against the Committee or against a Member in his or her capacity as Committee Member, and it shall provide indemnity to its

Members for any costs or other liability incurred with respect to such claims to the extent permitted by law.

IX. These By-Laws may be amended at any regularly called meeting of the Committee, provided the proposed changes are approved by a two-thirds vote of the Members present and voting.

PROFILE OF CONFERENCE ATTENDANCE

Schedule 1

SPONSORS AT CONFERENCE DATES — TYPE OF INSTITUTION

	Conference Date	Churches & Boards	Other Religious	Education	Foundations	Secular	Medical	Individual	Professional	Total
1	4/29/27	27	10	4	-	3	-	-	3	47
	*									
8	4/10/46	36	8	7	-	6	1	-	4	62
9	10/3/55	51	11	40	-	7	11	-	6	126
10	12/1/59	58	10	63	-	5	11	-	6	153
11	11/27/62	72	14	85	-	5	11	-	10	199
12	4/6/65	118	79	213	-	15	27	-	27	479
13	2/6/68	109	91	291	42	30	18	-	24	605
14	4/14/71	105	103	249	40	38	89	-	41	665
15	5/1/74	135	124	373	34	44	89	2	45	846
16	5/4/77	85	145	371	54	41	124	-	37	857
17	5/7/80	157	161	469	29	71	172	3	42	1104
18	5/3/83	135	169	426	132	107	162	8	35	1174
19	4/29/86	172	137	463	189	106	149	11	69	1296
20	4/5/89	206	143	448	233	115	155	15	81	1396
21	4/28/92	168	184	460	327	138	175	12	84	1548

* No record of Sponsors — Conferences 1928, 1930, 1931, 1934, 1939 and 1941

Schedule 2 SPONSORS AT CONFERENCE DATES — TYPE OF INSTITUTION BY PERCENTAGE

	Conference Date	Churches & Boards	Other Religious	Education	Foundations	Secular	Medical	Individual	Professional	Total
1	4/29/27	57.4	21.3	8.5	-	6.4	-	-	6.4	100.0
	*									
8	4/10/46	58.1	12.9	11.3	-	9.7	1.6	-	6.4	100.0
9	10/3/55	40.5	8.7	31.7	-	5.6	8.7	-	4.8	100.0
10	12/1/59	37.9	6.5	41.2	-	3.3	7.2	-	3.9	100.0
11	11/27/62	36.2	7.1	42.7	-	2.5	6.5	-	5.0	100.0
12	4/6/65	24.6	16.5	44.5	-	3.2	5.6	-	5.6	100.0
13	2/6/68	18.0	15.0	48.1	6.9	5.0	3.0	-	4.0	100.0
14	4/14/71	15.8	15.5	37.4	6.0	5.7	13.4	-	6.2	100.0
15	5/1/74	16.0	14.7	44.1	4.0	5.2	10.5	.2	5.3	100.0
16	5/4/77	9.9	16.9	43.3	6.3	4.8	14.5	-	4.3	100.0
17	5/7/80	14.2	14.6	42.5	2.6	6.4	15.6	.3	3.8	100.0
18	5/3/83	11.5	14.4	36.3	11.2	9.1	13.8	.7	3.0	100.0
19	4/27/86	13.3	10.6	35.7	14.6	8.2	11.5	.8	5.3	100.0
20	4/5/89	14.8	10.2	32.1	16.7	8.2	11.1	1.1	5.8	100.0
21	4/28/92	10.8	11.9	29.7	21.1	8.9	11.4	.8	5.4	100.0

* No record of Sponsors — Conferences 1928, 1930, 1931, 1934, 1939 and 1941

TWO LIVES — JOINT AND SURVIVOR

Younger Age	Older Ages	Rate
20 and under	All*	5.3%
21	All*	5.4
22	All*	5.4
23	All*	5.4
24	All*	5.5
25	All*	5.5
26	All*	5.5
27	All*	5.6
28	All*	5.6
29	All*	5.6
30	All*	5.7
31	All*	5.7
32	All*	5.7
33	All*	5.8
34	All*	5.8
35	All*	5.8
36	All*	5.9
37	All*	5.9
38	All*	5.9
39	All*	6.0
40	All*	6.0
41	All*	6.0
42	All*	6.1
43	All*	6.1
44	All*	6.1
45	All*	6.2
46	All*	6.2
47	All*	6.3
48	All*	6.3
49	All*	6.3
50	All*	6.3
51	All*	6.4
52	All*	6.4
53	All*	6.4
54	54-56	6.4
54	57+	6.5
55	55	6.4
55	56+	6.5
56	56-62	6.5

Younger Age	Older Ages	Rate
56	63+	6.6%
57	57-61	6.5
57	62+	6.6
58	58-59	6.5
58	60-67	6.6
58	68+	6.7
59	59-65	6.6
59	66+	6.7
60	60-63	6.6
60	64-70	6.7
60	71+	6.8
61	61-62	6.6
61	63-68	6.7
61	69+	6.8
62	62-66	6.7
62	67-71	6.8
62	72+	6.9
63	63-65	6.7
63	66-69	6.8
63	70+	6.9
64	64	6.7
64	65-68	6.8
64	69-73	6.9
64	74+	7.0
65	65-67	6.8
65	68-71	6.9
65	72-75	7.0
65	76+	7.1
66	66-69	6.9
66	70-73	7.0
66	74-78	7.1
66	79+	7.2
67	67-68	6.9
67	69-71	7.0
67	72-75	7.1
67	76-80	7.2
67	81+	7.3
68	68-70	7.0
68	71-73	7.1

Younger Age	Older Ages	Rate
68	74-77	7.2%
68	78-81	7.3
68	82+	7.4
69	69	7.0
69	70-72	7.1
69	73-75	7.2
69	76-78	7.3
69	79-82	7.4
69	83+	7.5
70	70-71	7.1
70	72-73	7.2
70	74-76	7.3
70	77-79	7.4
70	80-83	7.5
70	84+	7.6
71	71-72	7.2
71	73-75	7.3
71	76-77	7.4
71	78-80	7.5
71	81-84	7.6
71	85+	7.7
72	72-73	7.3
72	74-76	7.4
72	77-78	7.5
72	79-81	7.6
72	82-84	7.7
72	85+	7.8
73	73-74	7.4
73	75-76	7.5
73	77-79	7.6
73	80-81	7.7
73	82-84	7.8
73	85-87	7.9
73	88+	8.0
74	74-75	7.5
74	76-77	7.6
74	78-79	7.7
74	80-81	7.8
74	82-84	7.9

Younger Age	Older Ages	Rate
74	85-87	8.0%
74	88+	8.1
75	75-76	7.6
75	77-78	7.7
75	79	7.8
75	80-81	7.9
75	82-84	8.0
75	85-86	8.1
75	87-89	8.2
75	90+	8.3
76	76	7.7
76	77-78	7.8
76	79-80	7.9
76	81	8.0
76	82-83	8.1
76	84-85	8.2
76	86-88	8.3
76	89-91	8.4
76	92+	8.5
77	77	7.8
77	78	7.9
77	79-80	8.0
77	81	8.1
77	82-83	8.2
77	84-85	8.3
77	86-87	8.4
77	88-90	8.5
77	91-93	8.6
77	94+	8.7
78	78-79	8.0
78	80	8.1
78	81	8.2
78	82-83	8.3
78	84	8.4
78	85-86	8.5
78	87-88	8.6
78	89-91	8.7
78	92-94	8.8
78	95+	8.9

Younger Age	Older Ages	Rate
79	79	8.1%
79	80	8.2
79	81	8.3
79	82-83	8.4
79	84	8.5
79	85-86	8.6
79	87	8.7
79	88-89	8.8
79	90-91	8.9
79	92-94	9.0
79	95+	9.1
80	80	8.3
80	81	8.4
80	82	8.5
80	83-84	8.6
80	85	8.7
80	86	8.8
80	87-88	8.9
80	89-90	9.0
80	91	9.1
80	92-94	9.2
80	95+	9.3
81	81	8.5
81	82	8.6
81	83	8.7
81	84-85	8.8
81	86	8.9
81	87	9.0
81	88	9.1
81	89-90	9.2
81	91-92	9.3
81	93-94	9.4
81	95+	9.5
82	82	8.7
82	83	8.8
82	84	8.9
82	85	9.0
82	86	9.1
82	87	9.2

Younger Age	Older Ages	Rate
82	88-89	9.3%
82	90	9.4
82	91	9.5
82	92-93	9.6
82	94+	9.7
83	83	8.9
83	84	9.0
83	85	9.1
83	86	9.2
83	87	9.3
83	88	9.4
83	89	9.5
83	90	9.6
83	91	9.7
83	92-93	9.8
83	94	9.9
83	95+	10.0
84	84	9.1
84	85	9.3
84	86	9.4
84	87	9.5
84	88	9.6
84	89	9.7
84	90	9.8
84	91	9.9
84	92	10.0
84	93-94	10.1
84	95+	10.2
85	85	9.4
85	86	9.5
85	87	9.7
85	88	9.8
85	89	9.9
85	90	10.0
85	91	10.1
85	92	10.2
85	93	10.3
85	94	10.4
85	95+	10.5

Younger Age	Older Ages	Rate
86	86	9.7%
86	87	9.8
86	88	10.0
86	89	10.1
86	90	10.2
86	91	10.3
86	92	10.4
86	93	10.6
86	94+	10.7
87	87	10.0
87	88	10.1
87	89	10.3
87	90	10.4
87	91	10.6
87	92	10.7
87	93	10.8
87	94	10.9
87	95+	11.0
88	88	10.3
88	89	10.5
88	90	10.6
88	91	10.8
88	92	10.9
88	93	11.1
88	94	11.2
88	95+	11.3
89	89	10.6
89	90	10.8
89	91	11.0
89	92	11.2
89	93	11.4
89	94	11.5
89	95+	11.6
90+	90	11.1
90+	91	11.3
90+	92	11.5
90+	93	11.7
90+	94+	11.8

*Rate applies for all older ages when younger age is as shown.

SINGLE LIFE

Age	Rate
20 and under	5.5%
21	5.6
22	5.6
23	5.6
24	5.7
25	5.7
26	5.7
27	5.8
28	5.8
29	5.8
30	5.9
31	5.9
32	5.9
33	6.0
34	6.0
35	6.0
36	6.1
37	6.1
38	6.1
39	6.2
40	6.2
41	6.2
42	6.3
43	6.3
44	6.3
45	6.4
46	6.4
47	6.5
48	6.5
49	6.5
50	6.5
51	6.6
52	6.6
53	6.6
54	6.7
55	6.7

Age	Rate
56	6.8%
57	6.8
58	6.9
59	6.9
60	7.0
61	7.0
62	7.1
63	7.1
64	7.2
65	7.3
66	7.4
67	7.5
68	7.6
69	7.7
70	7.8
71	7.9
72	8.0
73	8.2
74	8.3
75	8.5
76	8.7
77	8.9
78	9.1
79	9.4
80	9.6
81	9.9
82	10.1
83	10.4
84	10.6
85	10.9
86	11.1
87	11.4
88	11.6
89	11.8
90 and over	12.0

UNIFORM GIFT ANNUITY RATES

Adopted by Conference on Gift Annuities, April 30, 1992
Effective July 1, 1992

Committee on Gift Annuities
2401 Cedar Springs
Dallas, TX 75201-1427
(214) 720-4774

COMMITTEE ON GIFT ANNUITIES

CHAIRMAN

Tal Roberts
Executive Vice President and Chief Operating Officer
Baptist Foundation of Texas

VICE CHAIRMEN

Clinton A. Schroeder, Esq.
Principal
Gray, Plant, Mooty, Mooty & Bennett

Jane Stuber
Former Director, Deferred Gifts and Bequests
Smith College

SECRETARY

Charles W. Baas
Former Treasurer
American Bible Society

TREASURER

John D. Ordway
Executive Vice President
The Pension Boards
United Church of Christ

OTHER MEMBERS

Kathryn E. Baerwald, Esq.
Senior Vice President and General Counsel
United Way of America

M. Elizabeth Brothers
Associate Vice President for Development
Rollins College

Elizabeth A. S. Brown, Esq.
Vice President and Treasurer
Moody Bible Institute

G. Tom Carter, Esq.
Director, Trust Services
General Conference of Seventh-day Adventists

Robert B. Gronlund
President
Gronlund, Sayther & Associates

Gerry C. Gunnin
President
Children's Medical Foundation of Texas

John B. Jacobs
President
American Baptist Foundation

Richard A. James, Esq
Legal Counsel
Loma Linda University

Joseph B. Matthews
National Business Administrator
The Salvation Army

Michael Mudry
Senior Vice President
Hay/Huggins Company, Inc

A. Gordon Nelson
Canadian Association on Charitable Gift Annuities

Harold D. Richardson
Executive Vice President and Treasurer
Annuity Board of the Southern Baptist Convention

Daniel K. Scarberry
Treasurer
American Bible Society

Eugene L. Wilson
Director of Program Finance
American Leprosy Missions, Inc

COUNSEL

Conrad Teitell, Esq.
Prerau & Teitell

CONFERENCE PROGRAM

COMMITTEE CHAIRMAN

James G. Marshall, Jr. FAHP
Designs in Planned Giving

STATE REGULATIONS CHAIRMAN

James B. Potter
Planned Giving Resources

HONORARY TREASURER

Forrest Smith
American Baptist Foreign Mission Society

HONORARY MEMBERS

Charles L. Burrall, Jr.
Hay/Huggins Company, Inc

John M. Deschere
Vassar College

William E. Jarvis
American Baptist Foreign Mission Society

David E. Johnson
St. Olaf College

J. Homer Magee
The United Methodist Church

Roland C. Matthies
Wittenberg University

Darold H. Morgan
Annuity Board of the Southern Baptist Convention

Chester A. Myrom
Evangelical Lutheran Church in America