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Calculating Gifts: George A. Huggins and the Conferences on Annuities, 1927-1959

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Part 2: Gift Annuities on the Brink

Note: Part 1 of this series tells of an emergency Conference on Annuities convened on April 29, 1927 to address a looming crisis: too many charitable organizations were issuing gift annuity contracts with too little understanding of long-term financial and reputational risks. Part 2 describes gift annuity activity in the U.S. in the 1920s, and shows why the financial security system created by George Huggins filled a profound need.

Just as the Roaring Twenties began, Frank H. Mann, Secretary of the American Bible Society (ABS), caught a wave of "phenomenal"[1] success: from 1920 through 1930, ABS issued 4,615 gift annuity contracts with a face value exceeding $4.3 million.[2]

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[1] Charles Lincoln White, Executive Secretary of the American Baptist Home Mission Society, announced at a March, 1927 conference of financial professionals that "The American Bible Society has had a phenomenal call for its annuity bonds and in seven years has increased its funds from this source from practically nothing to in one year more than $600,000." "Annuities," in **Cooperation in Fiduciary Service** (NY: Abbott Press & Mortimer-Walling, Inc., 1927), Wise Public Giving Series No. 14, page 87.

[2] See the chart on page 10. The Bible Society's gift annuity campaign will be discussed in full in the next part of this essay.

In 1925, Mann was serving as volunteer Treasurer of the Committee on Financial and Fiduciary Matters of the Federal Council of Churches.[3] The committee asked him to address a national gathering of "Treasurers, Financial Secretaries, and Others Intimately Connected with the Administration of Funds" on the subject of "The Issuing of Annuities. At What Rates? Under What Contracts?"[4]

Mann offered his fellow Treasurers, many of whom were professional bankers, trust officers, and life insurance brokers, the wisdom of shared experience on investing, accounting for, and promoting gift annuities; but in describing the most important element of a gift annuity program -- how charities should set their payment rates -- he found no agreement on methods:

> When it comes to matters of rates, no fixed program can be offered. Rates not only vary as between the boards of various [religious] denominations but they even vary as between the boards of the same denomination.

Mann reported that an odd decimal method was used most frequently for setting annuity payment rates:

> Perhaps the most commonly employed rate for single life annuity and one which might be considered as the average is arrived at by placing a decimal point between the two figures of the age. For instance, a man of 65 years of age would be given 6.5 – in other words, the rate is stated by taking 10 per cent of the age of the individual.

Understandably, Mann was at a loss to explain the reasoning behind the decimal method: "How these figures were originally arrived at I have never been able to learn." Understandable, because the decimal method is not a rationale, but a simple-minded solution to a very complicated challenge for every charity that

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[3]Mann stepped down as Secretary of the Bible Society in 1924 to become President of Union Guaranty Mortgage Company, which was "organized under the Insurance Law of the state of New York . . . to make loans secured by mortgages on real property which it sold to its customers with a guaranty." See https://casetext.com/case/in-re-union-guarantee-mortgage-co-2 downloaded October 20, 2014.

[4] Frank H. Mann, "Annuities," in **Safeguarding Funds: Financial and Fiduciary Matters** (New York and Baltimore: J.E. Stohlmann, 1925), pages 21-27. In 1929 Mann succeeded Alfred Williams Anthony as Chairman of the Committee on Financial and Fiduciary Matters of the Federal Council of the Churches of Christ in America, parent organization of the Committee on Annuities.

issues life annuities: what is the proper balance between attracting financial support for an important charitable mission, and the expectations of annuitants for personal financial benefits?

If payment rates are too low, few people will enter into gift annuity contracts; too high, and the charity must continue to make payments even if the original face value is exhausted. A gift annuity contract is a legally-binding general obligation of the issuing charity.

In the short run, offering an 80-year-old woman an 8.0% annuity for the duration of her life is easy. In the long run, the decimal method is extremely dangerous. The decimal method does not account for changes in American mortality rates, which were improving dramatically in the first half of the 20th century. It makes no distinction between male and female annuitants. It cannot be applied comfortably to a two-life annuity contract. It cannot be adjusted in response to economic changes that are reflected in interest rates and investment experience; these were rocked by the Great Depression, the New Deal, and World War II.

Most importantly, the decimal method applies only to the payment rate at the time of a gift; it provides no opportunity for balancing the long-term rewards for a charity against the financial risks of a life annuity contract.

Surprisingly, many colleges and universities continued to use the decimal method for setting gift annuity payment rates well into the 1930s. A survey of 91 colleges and universities conducted in 1929 by Paul C. Cassatt, Comptroller of Vassar College found that “The decimal plan of providing 10% of the age as an annual payment, i.e., 6.3% at age 63, seems a popular plan.”[5] A more in-depth survey in 1933 of 70 colleges issuing annuities reported that 22 were using the “Decimal Plan” to set annuity rates, while 39 said “Each case treated separately."[6]

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[5] Cassatt, “Annuity Agreement Business: Extent and Characteristics,” **Methods and Plans in Using Annuity Agreements**, ed. Alfred Williams Anthony (NY: The Sub-Committee on Annuities of the Committee on Financial and Fiduciary Matters, 1931), Wise Public Giving Series No. 34, page 37.

[6] “Table 10. Bases Used by 70 Colleges and Universities in Determining Their Schedule of Annuity Rates” in **The Annuity Agreements of Colleges and Universities** by Arthur Albert Wellck (New York: A.A. Wellck, 1933). Major findings of the Wellck and Cassatt surveys will be discussed in detail in Part 3 of this essay.

The persistence of the decimal method is surprising, because in 1927, as more and more charities were issuing annuities with little regard for the economic realities of making fixed payments to people for their lives, some leaders of national charities were alarmed. Charities blindly following the decimal method have no rational defense when prospective donors demand higher rates.[7] Donors soon found they could control gift annuity pricing by negotiating among charities for higher annuity payments.

Charles L. White, Executive Secretary of the American Baptist Home Mission Society, warned of the consequences of irresponsible annuity payment rates at a second gathering of financial professionals in March of 1927, one month before the first Conference on Annuities:

> The rates vary, and some of them are probably dangerously near to those paid by insurance companies. I fear there may be a rude awakening by some organizations, if they continue to pay the rates now in vogue, which are sometimes increased in order to attract certain sums of money. Very careful consideration should be given to this question of rates, for if some conspicuous agency granting annuities should fail to keep its contracts, the conservative annuity contracts of other groups [including his own Baptist Home Mission Society, which had issued annuities for many decades] would be called in question and confidence would be quickly destroyed . . . Some agencies . . . it is feared, have sown to the wind and may reap the whirlwind, if not the desert.[8]

George A. Huggins reviewed an ominous line-up of threats from high gift annuity payment rates:

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[7] Paul Cassatt noted that almost one-third of colleges he surveyed did not report their maximum gift annuity payment rates: "it is likely that in several of these instances much higher rates are granted under pressure, and covered by some such remark as 'No definite schedule published,' or 'Each case treated on its merits.'" A new member of the Committee on Annuities, Cassatt expressed the hope that "as time goes on, we will see much less of this sort of thing. We can all help the annuity cause by rapping hard this unfair competition in rates." "Annuity Agreement Business," page 37.

[8] Charles L. White, "Annuities," **Cooperation in Fiduciary Service,** pages 87-88. White became a founding member of the Committee on Annuities.

1. Competition for gifts by offering higher payment rates today will have a direct, adverse impact on the amount of financial support left over for charities tomorrow.
2. Overly high charitable annuity rates will encroach on the market for commercially-sold annuity investments, leading to conflict with financial firms.
3. Conflict with financial firms will create a backlash in public policy against charitable gift annuities: "Destructive legislation would probably result instead of healthy, regulatory legislation."
4. Encouraging prospective donors to shop for competitive rates of return as they would shop for an investment will undercut the philanthropic motivations of people who want to provide financial support for a charitable cause that is close to their hearts.[9]

Realizing the need for a voluntary financial security system to professionalize the behavior of charities nationwide, Huggins recommended a system of best practices in a brief paper entitled "Actuarial Basis of Annuities."[10]

Huggins' presentation of this paper in April of 1927 is a pivotal event in the history of American philanthropy. His powerfully articulated rationale remains the intellectual foundation for how charitable gift annuities are priced, valued, regulated, and managed. One of the nation's leading actuarial consultants for commercial annuities, pension plans, and life insurance, Huggins created a plan for gift annuities consistent with commercial standards and practices that had already become the basis for regulation of annuities by New York and California, always keeping in mind that gift annuities are gifts, not investments.

After 1927, specialists responsible for understanding, marketing and managing gift annuities need advanced training. By introducing complex ideas and business

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[9] Huggins, "Uniform Rates, Agreements and Terminology" in **Methods and Plans in Using Annuity Agreements** (NY: The Sub-Committee on Annuities of the Federal Council of the Churches of Christ in America, 1931), Wise Public Giving Series No. 34, page 12.

[10] The report from the first Conference on Annuities is entitled **Annuity Agreements of Charitable Organizations: Papers, Findings and Conclusions of a Conference on Annuities, Held in New York, April 29, 1927** (NY: Abbott Press & Mortimer-Walling, Inc., 1927), Wise Public Giving Series No. 18; Huggins' paper is on pages 7-17. The 30 conference reports for the years 1927-2012 are available online at no charge at the ACGA website: **www.acga-web.org/resources-top/surveys-reports-conference-papers-and-brochures**.

methods such as statistical analysis of mortality tables and annual actuarial audits of gift annuity reserve accounts, Huggins elevated the professional qualifications needed to practice philanthropic planning.

To translate and adapt the methods of commercial businesses, Huggins needed to understand the spirit as well as the administrative practices of charities issuing annuities. I discovered in the minutes of the American Bible Society that in 1925, the Society hired George Huggins to audit the national gift annuity campaign that Frank Mann had launched in 1919.[11] The phenomenal success of its annuity campaign raised the Bible Society to highly visible national leadership, and provided Huggins with a model for his system of best practices.

In the course of his ABS audit, Huggins surveyed the practices of 16 of the nation's largest gift annuity programs. With respect to the fundamentals of risk management, he found the results alarming: "in the matter of [gift annuity] rates, the current situation borders on chaos."[12] Schedule D of his paper shows that one national denomination capped its rates at 6% for annuitants age 50 and older, while two others offered 10% to annuitants age 80 and older.

Such huge differences in rates have huge consequences for annuitants and for charities. An 80-year old woman making a gift of $25,000 to Charity #1 at 10% will receive a $2,500 annuity for life, while the same gift to Charity #2 at 6% provides a $1,500 annuity. Over ten years she will receive $10,000 less from her gift to Charity #2.[13] It is likely that Charity #1 will attract a greater number of gifts, while Charity #2 will realize a larger residual amount from each gift.

Huggins realized that by focusing on the rates a charity is willing to pay rather than the long-term outcomes, charities were putting the cart before the horse: since gift

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[11] The minutes of the Ways and Means Committee of ABS for May 19, 1927 report that at a "special conference on annuities" on April 29 "a detailed report on annuity rates as determined by objective was made by Mr. George A. Huggins of Philadelphia, the actuary who made the detailed study of the American Bible Society's annuities about a year ago."

[12] **Cooperation in Fiduciary Service: Papers Presented at a Conference on Financial and Fiduciary Matters, Hotel Chalfonte, Atlantic City, N.J., March 22-24, 1927,** edited by Alfred Williams Anthony (NY: The Abbott Press & Mortimer-Walling, Inc.), Wise Public Giving Series No. 14, pages 97-99.

[13] In the 1920s there was little or no tax advantage to accepting a lower gift annuity payment. Tax implications of gift annuities will be discussed in a later part of this essay.

annuities are a gift, payment rates should be derived from an average amount left over for use toward the charities' missions. He introduced the idea of a targeted charitable residuum, and a process for working backwards from that target to create the first American annuity payment rate table.

Each major element of Huggins' "ideal plan for conducting the annuity business" is explored below in its historical context:

> The use and the life cycle of mortality tables, resulting in a conservative setback in ages to account for future improvements in longevity
>
> A process for developing long-term investment assumptions
>
> Inventing a horse to put before the cart: the 70% charitable residuum target
>
> The charitable gift annuity maximum payment rate recommendations, based on the above elements plus an entire system of administrative practices (such as maintaining 100% of the amount transferred in reserve funds until the end of an annuity contract, a limit of two lives per contract, and unit accounting of individual annuities) and rate caps.

The implications of Huggins' plan were profound. They were also completely foreign to most charities' practices. Annuity donors were showering charities with money. The decimal method, with exceptions for higher rates if demanded, appeared easy, inexpensive, and very successful. How does a small new Sub-Committee on Annuities with no paid staff and virtually no budget encourage charities across the entire United States to discard their current practices in order to accept a voluntary, actuarially-sound, and technically-complex system for gift annuities?

Within a few years, Huggins' voluntary system of best practices provided professional credibility for charities that followed his recommendations. Also driving acceptance of his system was the increasingly critical opposition to the common strategy of marketing gift annuities as "bonds." Gilbert Darlington and the Committee on Annuities depended upon Huggins' financial security system to assure public officials of the integrity of charitable gift annuity programs during a time of rapidly-evolving state and Federal tax legislation and regulatory policies.

Participants at the 1927 conference voted to return the next year. Eight more conferences on gift annuities were held at irregular intervals through 1959, and after each conference a report on proceedings was published in the Wise Public Giving series. The number of participants grew, and the range of charitable organizations broadened well beyond the original base of Protestant Christian charities.[14]

The Conferences on Annuities represent many "firsts" in the world of philanthropic planning:

- First opportunities for specialized, high-level professional training and networking
- First ethical principles for philanthropic marketing, balancing philanthropic and financial motivations
- First in-depth analyses of Federal and state legislation, taxation, and regulation affecting life-income gifts, and first organized lobbying by charities on those topics
- First national research on life-income gifts to charity
- First presentations on American economic and investment trends applied to charitable giving

Huggins made keynote presentations at each of the ten conferences, and served as Consulting Actuary for the Committee on Annuities from 1927 until his death in 1959. He continuously refined his recommended maximum annuity rates in recognition of changing economic forces, Federal and state legislation, and steadily improving information about American gift annuity experiences.

In order to understand the elements of George Huggins' financial security system in their appropriate contexts, topics explored in Part 3 of this essay will include:

Data on charitable gift annuities from 1831 to 1933

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[14] Charles White testified to the broad appeal of gift annuity programs in his conference presentation of March 1927: "The writer of this paper has shared in the experience that probably many others have had, of being requested to send information and whatever literature he had bearing on the subject, to representatives of organizations widely scattered, including Roman Catholic and Jewish groups." I have not found records of the early history of gift annuities issued by those groups.

Why America fell in love with gift annuities during the Roaring Twenties

Anatomy of the American Bible Society gift annuity campaign of 1919

Major elements of the "Actuarial Basis of Annuities"

American Bible Society Annuity Income Statistics, 1920-1930					
Year	**Total # New Inquiries**	**Total # Annuity Bond Issues**	**Total Amount Received**	**Average Amount Per Annuity Bond**	**Annuity Bonds of $20,000 or more**
1920		72	$ 158,995.57		
1921		207	$ 268,856.56	$ 1,298.82	1 for $50,000
1922	1,712	218	$ 189,590.00	$ 869.67	
1923	1,000	309	$ 321,021.38	$ 1,038.90	
1924	2,564	385	$ 438,624.25	$ 1,139.28	2 for $30,000
1925	2,033	577	$ 566,111.00	$ 981.13	3 for $20,000 1 for $40,000
1926	2,116	585	$ 520,053.00	$ 888.98	1 for $33,000
1927	2,107	610	$ 560,884.15	$ 919.48	1 for $100,000
1928	1,948	647	$ 533,938.14	$ 825.25	
1929	1,564	534	$ 444,312.57	$ 832.05	
1930	1,265	471	$ 436,817.68	$ 927.43	
Totals	16,309	4,615	$ 4,439,204.30		9 for $343,000

John H. Zimmerman, American Bible Society Essay #17, Part V: **Public Relations, Financial Promotion and Support, 1901-1930** (NY: American Bible Society, 1967), page 94.