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

Part 1 of a Series
By Ronald A. Brown

Introduction

Before the invention of personal computers and the creation of firms such as PhilanthroTec (founded in 1983), Crescendo (1984) and PG Calc (1985), people had to calculate the tax deduction for a charitable remainder trust or annuity gift by hand, using tables provided by the Committee on Gift Annuities and the Internal Revenue Service. Calculations would take hours; mistakes could easily creep in.

Today of course we can type basic information into our tablets or laptops and receive answers about the charitable remainder value of a life-income gift without paying much attention to the complex calculations underlying the process.¹

We have confidence in certain statistical ideas and methods for valuing life-income gifts, such as the average length of a person's life. These ideas and methods are

¹ For the mathematical formulas on charitable remainder unitrusts see: **Actuarial Valuations, Version 3B: Unitrust Remainder and Life Estate Examples For One Life, Two Lives, and Terms Certain For Use in Income, Estate, and Gift Tax Purposes**, IRS Publication 1458 (Rev. 5-2009) at <http://www.irs.gov/pub/irs-pdf/p1458.pdf>. The Committee on Gift Annuities began publishing **Tax Implications of an Annuity Gift** (the "Green Book") following a resolution at its 10th Conference on Gift Annuities in 1959.

enshrined in Federal tax policy as the only acceptable rules for calculating the present value of a gift to charity that provides payments for the uncertain term of a beneficiary's life.²

This series of essays intends to provide a deeper understanding of life-income gifts to charity by addressing questions such as:

What did charities do before an agreed-upon method for valuing life-income gifts was invented?

Why was a science-based³ method for gift valuation needed?

What data had to be gathered and mathematical tools invented before a scientific gift valuation method became possible?

Whose idea was it to create a scientific method for valuing life-income gifts to charity, and when was that method developed?

The fundamental importance of a scientific method for valuing life-income gifts to charity is clear from a short list of what science makes possible. Once enough people make the same kinds of life-income gifts to charity, reliable statistical averages can be derived from those experiences. With the knowledge of charitable gift averages, or norms, people can apply the wisdom of actual experience to the structure of current life-income gifts, assign a present value to proposed or existing gifts, maintain adequate reserve funds, adjust payment rates for new gifts, promote life-income gifts to the right audiences, monitor the financial health of a life-income gift program, and assess the results. Appropriate and effective charitable

² Charitable gift planning is one of many aspects of modern life regulated by statistical thinking: "Statistics has become known in the twentieth century as the mathematical tool for analyzing experimental and observational data [such as observing the average length of American annuitant lives]. Enshrined by public policy as the only reliable basis for judgments as to the efficacy of medical procedures or the safety of chemicals, and adopted by business for such uses as industrial quality control, it is evidently among the products of science whose influence on public and private life has been most pervasive." Theodore M. Porter, **The Rise of Statistical Thinking, 1820-1900** (Princeton: Princeton University Press, 1986), page 3.

³ When it was founded in 1889 the Actuarial Society of America used this quote as its banner: "The work of science is to substitute facts for appearances and demonstrations for impressions." John Ruskin, **The Stones of Venice, Volume III** (1853).

legislation and regulations can be adopted, and a voluntary set of best practices can be developed, encouraged, and modified as needed to achieve successful results.

Up to a certain date, charities had little interest in gathering data from one another on the lives of their life-income gift donors and the residua remaining for their missions. There were no standardized models that enabled a charitable organization to compare its life-income gift practices against those of other charities. Federal and state legislators, judges, and regulators struggled to understand the differences and similarities between gift annuities and commercial investments like bonds. There was little or no public policy guidance for valuing the charitable interests of life-income gifts or protecting the financial interests of charities and their income beneficiaries.

Until quite recently, charitable organizations relied on intuition and informed guesswork to assign gift values, design marketing and gift administration systems, maintain reserve accounts, and evaluate the success or failure of life-income gift programs.

There came a time when unscientific approaches were no longer acceptable.

The Day Everything Changed

We know the precise point in time when the rationale for a scientific gift valuation process, and its fundamental components, were first proposed.

On the morning of April 29, 1927, 48 people representing ten national Protestant Christian denominations (Baptists, Congregationalists, Methodists, Presbyterians, and others), six Bible and tract societies, three colleges, the YMCA and YWCA, two actuaries, a management consultant, and the Bank of New York and Trust Company gathered in the modest board room of the Federal Council of the Churches of Christ in America at 105 East 22nd Street in New York City.

Invited to this emergency meeting only a month earlier, they came together to head off an impending financial crisis: charitable gift annuities were a major source of their revenues, and that revenue was threatened. The convener of the meeting warned that charities issuing annuities needed to change their ways of doing

business “lest financial weaknesses develop, disaster follow and heavy reproach ensue, damaging to all parties concerned and to the interests which they represented.”⁴ Those interests were, of course, extremely important: educating young scholars, providing a safe haven from tough streets, saving souls in the U.S. and abroad, and more. The quality of many people’s lives was at stake.

A large man, who “would be viewed as a candidate for an offensive tackle spot on the football team”⁵ if he were an undergraduate, took the stage for the opening presentation. Born in Nevis, British West Indies, where he lived until the age of 12, the speaker’s formal style evidenced his English roots even after 35 years in the United States.

For many people in the room, George Augustus Huggins needed no introduction: he was the nation’s leading consulting actuary for clergy pension plans. After working in the actuarial department of the Fidelity Mutual Life Insurance Company of Philadelphia from 1902-1911, he founded his own actuarial firm of Huggins and Company⁶ in Philadelphia and assisted in establishing actuarially sound retirement plans for businesses, states, cities, professional associations, religious denominations and colleges nationwide.

⁴ Alfred Williams Anthony, “Preface” to the conference report: **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. The 30 conference reports for the years 1927-2012 are now available online at no charge at the ACGA website: www.acga-web.org/resources-top/surveys-reports-conference-papers-and-brochures.

⁵ Charles W. Baas, **Committee on Gift Annuities: A History** (Committee on Gift Annuities, 1991), page 71.

⁶ From the website of Huggins Actuarial Services, Inc.: “Huggins & Company was originally formed in 1911 and, in the 1970’s, became part of the Hay Group, a leading international employee benefits consulting firm . . . In 1987, Ernst & Young LLP purchased Huggins’ insurance actuarial consulting practice. Ernst & Young continued to use the Huggins name for the actuarial services group within their insurance industry practice. [In 2003, Ronald T. Kuehn] acquired the Huggins actuarial practice from Ernst & Young, along with several key employees, and re-established Huggins as an independent actuarial consulting firm.” See www.hugginsactuarial.com/about-us/history-of-huggins.

Three Huggins actuaries have been members of the Committee on Gift Annuities and the ACGA Board from its founding in 1927 to the present day: George A. Huggins (1927-1959), Charles L. Burrall, Jr. (1961-1984), and Michael Mudry (1978-present).

Huggins began his presentation:

As a basis for the consideration of the subject of annuities, offered to donors by the various organizations, **we show schedules illustrating the fundamental principles that underlie the whole subject** [my emphasis].

After a very brief review of these extraordinary schedules, Huggins expressed his major theme:

It must distinctly be kept in mind that these organizations are not selling annuities as they are commonly sold by commercial insurance companies. They are simply offering to their constituents a means by which gifts may be made to the organizations, retaining for the donors a life interest in the funds to the extent that they shall receive income throughout life somewhat greater than could be normally obtained through purely interest earnings.

It is definitely contemplated that at least the major portion of the principal and interest earnings will ultimately be released for the purposes of the organization.

Putting it another way, while the income [paid to an annuitant] is expected to exceed the interest earnings, and therefore cut into the principal, it must not cut in very deeply.

Designed to consume a substantial part (but not too much) of a donor's original principal while making the required payments back, gift annuities introduced financial risks for the issuing charity as well as for annuitants expecting payments they would not outlive. Unlike the charitable life-income trusts offered at the time⁷, which today would be called net income trusts, gift annuities might be

⁷ A person creating a trust “may provide that during his life, or for a definite period of years during his life, he himself shall receive the income in its entirety or in part as he may select, together with all extraordinary dividends . . . In his trust agreement he may designate a charitable corporation as the final destination of the trust funds . . . To the trustor, who is in effect an annuitant, it yields the entire income. To the ultimate beneficiary it yields the entire principal . . . When the income in its entirety is paid to him, then his gift in its final form is exactly 100% of its original amount.” **Living Trusts: What They Are, What They Serve, Their Advantages** (NY: Committee on Financial and Fiduciary Matters of the Federal Council of the Churches of Christ in America, 1927), Wise Public Giving Series No. 15, pages 4-9.

5 Reference: Ronald A. Brown, www.GiftPlanningHistory.org, Calculating Gifts: Introduction, retrieved on [insert date]

consumed by the required payments, or even cause the charity to suffer financial losses.

The number of charities of every kind offering gift annuities grew rapidly in the 1920s, to an extent that many modern readers will find surprising:

Today [i.e. 1927] there are very few missionary societies, hospitals and other charitable organizations, colleges and theological seminaries, that are not active in securing sums of money on which annuities are paid.⁸

Huggins and a few other leading experts saw a train wreck in the works. Out of enthusiasm, inexperience, or greed, a considerable number of young charitable annuity programs lacked a sound business concept and effective methods for avoiding unnecessary risks, and managing necessary risks related to the length of annuitants' lives and long-term investment performance. Contemporary reports refer to avoidable errors, including:

1. Charities agreed to provide annuity payments at a rate that was far too high for the number of people covered by an annuity contract (which could include as many as five lives).
2. Charities issued annuities to people who were much too young, such as the infant grandchildren of a donor.
3. Charities invested the original principal in illiquid investments; in assets that did not produce sufficient current income; or concentrated their investments in an asset that suffered from a predictable market downturn.
4. Charities set aside insufficient annuity reserves or no reserves at all, financing annuity payments from their operating budgets.

⁸ Charles L. White, "Annuities" in **Financial and Fiduciary Matters: Report of Committee on Findings** (NY: Committee on Financial and Fiduciary Matters of the Federal Council of the Churches of Christ in America, March, 1927), Wise Public Giving Series No. 13, page 86.

6 Reference: Ronald A. Brown, www.GiftPlanningHistory.org, Calculating Gifts: Introduction, retrieved on [insert date]

5. Charities promoted gift annuities using terminology that implied they were selling commercial investment bonds. State insurance regulators and tax courts were struggling to understand the differences.
6. Charities issuing annuities rarely involved an actuary to review the soundness of their rates and reserves. Financial losses might not become apparent for many years, when corrective action was difficult.
7. Most disturbing, many charities competed for gifts by negotiating with prospective donors to provide annuity payment rates that were a bit higher than those offered by another charity. Competition among charities in the form of raising payment rates to attract donors, Huggins warned, “might well bring about the end of the whole [gift annuity] movement.”⁹

Reliable data is not available on the number of charitable annuity program payment defaults and bankruptcies, but they were not uncommon.¹⁰

Actuarial science provided the solutions George Huggins recommended to assure the leaders of cash-poor and risk-averse charitable organizations of the wisdom of launching and maintaining a complex and risky gift annuity program.

In his presentation that April morning, entitled “Actuarial Basis of Rates,” Huggins succinctly explained the importance of gathering data on American mortality experience, the idea of present value, similarities and differences between life-income gifts to charity and commercial investments, the process of developing investment projections, the rationale for setting a target for the charitable residuum, the importance and limitations of statistical norms, and the probabilistic reasoning behind his recommended national schedule of annuity payment rates.

⁹ Huggins, “Uniform Rates: Agreements and Terminology: Reserves and Accounting,” **Methods and Plans in Using Annuity Agreements** (NY: The Sub-committee on Annuities, 1931), Wise Public Giving Series No. 34, page 12.

¹⁰ “Not long ago a certain small college went bankrupt and was unable to continue paying its annuitants . . . Of course, no organization expects to fail, but failure is a possibility, and the protection of annuitants in case of failure should be very carefully considered in advance.” Ernest F. Hall, “The Place and Use of Annuities,” **Philanthropy for the Future: A Long-Range Look at Economic Policies in the Field of Charity** (NY: Committee on Financial and Fiduciary Matters, 1931), pages 35-38.

The world of life-income gifts to charity would never be the same.

Organizing for Action: The Subcommittee on Annuities

In March of 1927, just a month before he presented his scientific methods and recommended payment rates, Huggins had alarmed a much larger national audience of charities, bankers, insurance executives, attorneys, and other leaders in the booming field of personal financial services.¹¹

Speaking on “Proper Handling of Annuities and Creation of Committee on Annuities,” he reported the results of his research on the annuity practices of 16 national charities: “in the matter of rates the situation borders on chaos.” Annuity rates offered to people at the age of 80 ranged from 6% to 10%. Many charities paid the same high rates whether one, two, or more lives were covered.¹²

Participants at the March conference, entitled “Cooperation in Fiduciary Service,” were generally sympathetic to charities raising money through gift annuities and willing to help improve their standards of practice.¹³ Many of the businessmen were volunteer leaders of their own churches, colleges, and other philanthropic organizations. Cooperation with charitable organizations to raise their standards

¹¹ Founding members of the Committee on Financial and Fiduciary Matters, which convened the conferences in March and April of 1927, included Everett M. Ensign, Executive Secretary of the National Association of Life Underwriters; Leroy A. Mershon, Secretary of the Trust Division of the American Bankers Association; Frank H. Mann, President of Union Guarantee and Mortgage Company and Treasurer of the Federal Council of the Churches of Christ in America; and seven other representatives of national charitable organizations. Roster published in **Wise Public Benefactions and their Creation under The Uniform Trust for Public Uses** (NY: Federal Council of the Churches of Christ in America, 1923), Wise Public Giving Series #4.

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 “We regard this second conference, like its predecessor [held in 1925], of striking significance for it has brought together men and women of such diverse occupations who have demonstrated their unity of interests, bankers, trust officers, lawyers, life insurance representatives, college presidents, officers of social, educational, philanthropic and religious organizations, denominational and interdenominational. We have counselled together as to how we might further the interests of humanity, by our common service.” “Report of the Committee on Findings,” **Cooperation in Fiduciary Service**, page 150.

served the broader interests of the financial community. Moreover the success of charities issuing annuities would create new business opportunities in providing financial services to those charities. This enlightened spirit of cooperation set the stage for a like spirit among participants at the Conference on Annuities the following month.

Thanks to the farsighted vision of Dr. Alfred Williams Anthony, organizer of the conference and chairman of the Committee on Financial and Fiduciary Matters, the consensus among business and professional participants was that the threat demanding attention was not a marginal loss of market share to charitable donors, but the real possibility that unsafe fiduciary practices by charities issuing annuities could lead to highly-publicized defaults or bankruptcies. These would reduce or eliminate highly valued charitable services; they might even shake consumer confidence in the much larger market for annuity investments.

George Huggins proposed forming a “strong committee” that would “prepare what might be called an ideal plan of conducting the annuity business, including a proposed set of ideal rates.” Leaders of the Committee on Financial and Fiduciary Matters agreed, and set up a Subcommittee with the following charge:

On Annuities, to study and recommend the proper range of rates, the form of contracts, the amount and type of reserve funds and the nomenclature to be used, to ascertain and advise as to the legislation in the United States and the various states regarding annuities, their taxability, etc. **This committee is requested to make an immediate study of the matter of rates and to call a conference of interested parties on this matter at the earliest possible date** [my emphasis]. This committee should be guided in its study by an early determination as to what is the primary motive in the writing of annuity contracts.¹⁴

A Subcommittee on Annuities was formed, composed of two actuaries and highly-experienced leaders from five charitable organizations:

Chairman – Dr. Charles L. White, Executive Secretary, American Baptist Home Mission Society. White was a graduate of Brown University (Class

¹⁴ “Report of the Committee on Findings,” **Cooperation in Fiduciary Service**, page 152.

9 | Reference: Ronald A. Brown, www.GiftPlanningHistory.org, Calculating Gifts: Introduction, retrieved on [insert date]

of 1887) and Bowdoin College (D.D. 1902) who had served as President of Colby College in Maine from 1901-1908. The Home Mission Society was founded in 1832 and had issued charitable annuities since 1861.

Secretary – Alfred Williams Anthony, Chairman, The Committee on Financial and Fiduciary Matters of the Federal Council of the Churches of Christ in America. A descendant of Roger Williams, founder of Rhode Island, Anthony was a graduate of Brown University (BA 1883, AM 1886) and Cobb Divinity School (1885), and a Professor of Divinity at Bates College. Dr. Anthony made the Subcommittee on Annuities possible, as shown in subsequent essays in this series.

Ernest F. Hall, Secretary, Department of Annuities, Board of Missions, Presbyterian Church in the USA. Hall served as a member of the Subcommittee from 1927-1941 and as Chairman from 1930-39.

George A. Huggins, Consulting Actuary. A graduate of Bethel Military Academy, Virginia (1897) and the University of Pennsylvania (1902), Huggins later became Chair of the Committee on Financial and Fiduciary Matters. There will be much more about George Huggins in this series of essays.

Edward W. Marshall, Associate Actuary, Provident Mutual Life Insurance Company of Philadelphia. Marshall became a Fellow of the Actuarial Society of America in 1914 at the age of 25, and later served as the Society's President. Marshall joined Provident in 1911, the year Huggins left to start his own actuarial firm, and had a very distinguished professional career.

Arthur C. Ryan, General Secretary, American Bible Society. Ryan was a graduate of Iowa College (1908) and Oberlin Theological Seminary (1911). The American Bible Society he led was founded in 1816 and issued its first gift annuity in 1843. Its well-publicized and highly successful national gift annuity campaign, which began in 1919, encouraged many other charitable organizations to offer gift annuities in the 1920s and helped to provide a statistical basis for Huggins' actuarial plans.

George F. Sutherland, Treasurer, Board of Foreign Missions, Methodist Episcopal Church. Dr. Sutherland served as a Subcommittee member from 1927-1952.

Members of the Subcommittee met soon after the March conference, debated and prepared a program, and (through the Federal Council of the Churches of Christ in America) issued an invitation to charities interested in gift annuities to attend the aforementioned Conference on Annuities on April 29, 1927 in New York City.

No one at the time could have known that the Subcommittee on Annuities would evolve into the first national professional association of charitable gift planners. This small group of volunteers would be the public policy voice of charities promoting and administering gifts through charitable annuities, charitable remainder trusts, and pooled income funds over the next 60 years.¹⁵ In 1955 the Subcommittee became independent of the Council of Churches and re-organized as the Committee on Annuities. The Committee first incorporated as a nonprofit charitable organization in 1993 under the name it is known by in 2014: the American Council on Gift Annuities.

For 32 years, George A. Huggins provided the intellectual backbone of the Subcommittee on Annuities: a financial security system for gift annuities that became the foundation of public policy and charitable practices for all life-income gifts. At each of ten Conferences on Annuities held between 1927 and his death in 1959, Huggins educated the leaders of national charities and allied professionals on the fundamentals of life-income gifts, their complexity, identification of risks and why a risk-management system is necessary, how and especially why a voluntary national system of best practices is essential to ensure public confidence, and of course, he developed and recommended a series of maximum gift annuity payment rates. Huggins was the only speaker who presented at all ten conferences.

There are many unsung heroes in the story of life-income gifts to American charities, including the attorney Peter Augustus Jay, Judge Luther Bradish, and Dr. Alfred Williams Anthony. The remarkable actuary Elizur Wright, often called the “father of life insurance,” and the billionaire entrepreneur, insurance magnate, and

¹⁵ The National Committee on Planned Giving held its first organizational conference in 1986 and was incorporated in 1988.

philanthropist Stephen Girard are hardly unsung, but their importance to the practice of charitable gift planning has not been fully acknowledged. This series of essays will touch briefly on the contributions made by each of them in order to provide some of the context needed to understand and appreciate events at the Conferences on Annuities.

Another outstanding volunteer deserves special notice. The Subcommittee on Annuities was blessed with strong leadership from Dr. Gilbert Darlington of the American Bible Society. For 52 years, Darlington expertly tracked and reported on Federal and state attempts to understand and regulate gifts to charity that provide payments back for the life of a person.¹⁶

Huggins, Darlington, and other leaders of the Subcommittee on Annuities built America's robust system of scientifically-determined annuity payment rates, life-income gift research (gathering data on donors, annuitants, charitable organizations, and the gifts themselves), administrative practices, investment management, professional training and networking, principles for ethical marketing, income and estate tax implications, and public regulatory policies.

Their financial security system for charitable gift annuities was not widely embraced immediately upon its introduction. The application of probability theory to charitable life annuities involved profound changes in worldview, as well as substantially increased burdens of gift administration. Change is hard.

This series of essays will show how dedicated leadership, expert counsel, heated debates, economic crises of the Great Depression and a second World War, painful defaults in gift annuity programs, and the threat of heavy-handed governmental controls finally resulted in widespread, voluntary compliance with the "ideal plan" first proposed by George A. Huggins on the morning of April 29, 1927.

¹⁶ Rev. Gilbert S.B. Darlington was a graduate of Columbia University (BA 1912; his Ph.D. studies were interrupted by service as a Navy chaplain during WWI) and General Theological Seminary (1914); honorary D.D. from Dickinson College (1945). Darlington was Treasurer of the American Bible Society from 1920-1957. He was president and chairman of the board of Harbor State Bank, Chaplain General of the Naval Order of the U.S., and an Episcopal priest. Darlington served as a volunteer member of the Committee on Gift Annuities from 1928-1972, Chairman of the Committee from 1939-1959, and Honorary Chairman from 1960-1980.

Disclaimer: This essay does not represent the views of the American Council on Gift Annuities. While I have been a Board member of ACGA and chair of its Research Committee since 2008, the opinions expressed are my own.