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32 Years of American Annuity Experience

Part 5 of Calculating Gifts: George A. Huggins and the Conferences on Annuities, 1927-1959

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I. Introduction

When we measure a life with a mortality table, and use earnings assumptions to value a charitable annuity, we are following a course charted by George Augustus Huggins in 1927.

Why does it matter that actuarial science became fundamental to charitable gift planning; that Huggins' ideas and methods were refined in a crucible of harsh experience; and that they are now ingrained in the legal and policy framework for charitable giving in the United States?

The financial model created by George Huggins is part of the DNA of every philanthropic planner. His legacy is a robust system of charitable fundraising that demands timely analysis of economic trends and the best available American mortality data; national surveys to assess the experiences of programs grounded in a common set of professional practices; and continuous scrutiny of Federal and state policies; all to inform the judgment of people involved with gifts to charity that return a life income.

People who enjoy managing complexities, staying current with the best strategies, and engaging donors in thoughtful structuring of gifts that make a significant difference in people's lives, are the people who become professional philanthropic planners. Understanding the foundations of philanthropic planning sharpens the focus of our self-awareness, makes us better at what we do, and enables us to manage change.

To realize his "ideal plan of conducting the annuity business," nonprofits organized a national association for charitable gift planning, and met together for ten Conferences on Annuities during Huggins' lifetime. The years from 1927 to 1959 were the crucible in which his new gift annuity model was refined by an economic depression and a great surge in human longevity. Conference reports from this era are extremely important in the history of American nonprofit organizations.

Previous essays in this series show that in the 1920s, nonprofit organizations simply did not think of their gift annuity obligations in a businesslike way. Too often, payment rates were set using a decimal system (paying a 65-year-old a 6.5% annuity); three or more lives were covered by a single annuity contract; and reserve fund practices were either inadequate (pledging future revenue from a dormitory to safeguard annuity payments) or nonexistent (paying annuities from the annual operating budget). Nonprofits encouraged donors to invest in "Annuity Bonds" and competed with one another by negotiating higher payment rates.

Huggins realized that raising money for charitable purposes by issuing gift annuities required a new financial model, a model he could construct. On March 23, 1927 he called for a national committee to adopt "an ideal plan of conducting the annuity business."[1] On April 29, just five weeks later, Huggins outlined "the fundamental principles that underlie the whole subject" at a Conference on Annuities.[2] His short presentation provided America with its first actuarially-determined table of payment rates aimed at providing a specific amount of money for use by the charity issuing an annuity

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[1] **Cooperation in Fiduciary Service: Papers Presented at a Conference on Financial and Fiduciary Matters** (NY: The Abbott Press & Mortimer-Walling, Inc., 1927) edited by Alfred Williams Anthony, Wise Public Giving Series no. 14, page 97.

[2] A note on terminology: the volunteer group known in 1927 as the Sub-committee on Annuities became the Committee on Annuities in 1946 and the Committee on Gift Annuities in 1955. This body changed its name to the American Council on Gift Annuities and incorporated as a nonprofit charity in 1993. The Conference on Annuities changed its name to the Conference on Gift Annuities in 1955.

contract.[3] Having actuarial tools was only the start. Conference records show how nonprofit managers sustained their efforts over many years to realize the targeted charitable residuum.

What a time this was. The expansionary decade of the 1920s was shattered by the stock market crash and Great Depression. Not so well known to many people today, but bedeviling to annuity fund managers at the time, was the steady decline in interest rates from 1920-1946.[4]

The outbreak of the Second World War in 1939 made economic forecasting extremely challenging, as the Federal government exercised much greater control over inflation and interest rates than economists expected. The aftermath of war brought a tremendous surge of new capital, and fearful new threats: an aggressively Communist Soviet Union and "Red" China.

Concerns about the economy and political ideologies dominated the news, while a demographic reality quietly demanded more and more attention: an unprecedented lengthening of average American lives from 1900-1960.[5] That populations are aging is not news to us. What was surprising at the time was the scope of change and its speed.

Peter Laslett, a leading historian of mortality rates, observed that for all of recorded history, the average length of human lives was a gently sloping plateau, until a wrenching shift towards greater longevity began around the year 1900 in all industrialized countries.

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[3] The founding document introducing George Huggins's actuarial system is his presentation "Actuarial Basis of Rates" at the first Conference on Annuities. See **Annuity Agreements of Charitable Organizations**, ed. Alfred Williams Anthony (NY: Abbott Press & Mortimer-Walling, 1927), Wise Public Giving Series no. 18, pages 7-17.

[4] The yields of long-term high-grade American bonds turned down in 1920, "declined most of the time for twenty-six years, and reached their all-time lows in 1946." Sidney Homer and Richard Sylla, **A History of Interest Rates**, Fourth Edition (Hoboken, NJ: John Wiley & Sons, 2005), page 334. In a message to me in June 2015, Mr. Sylla noted that the economic crisis of 2007-2009 has resulted in even lower yields than in 1946.

[5] "From 1900 to 1960, the elderly [i.e., age 65+] increased 10-fold, while the population under age 65 was only 2.2 times larger." **Aging in the United States – Past, Present, and Future** (Wash DC: National Institute on Aging, 1997), page 6 (https://www.census.gov/population/international/files/97agewc.pdf), downloaded January 8, 2016. "In 1900 average life expectancy at birth for the world as a whole was only around 30 years, and in rich countries under 50. The figures are now 67 and 78 respectively, and still rising," though not nearly as rapidly. Special Report: Ageing Populations, **The Economist**, June 25, 2009; downloaded 1/19/2016.

Rapidly improving life expectancies curved sharply upward, resulting in the oldest human populations ever.[6]

George Huggins' great passion and professional expertise was the study of American mortality. At the beginning of his pioneering career, reliable data on mortality rates was scarce. When he presented his first gift annuity rate table in 1927, no one had collected national data on the lives of charitable gift annuitants. There were no databases other than those produced for life insurance and commercial annuities. What could nonprofits do?

> In the light of not having our own experience, we must turn to the experiences of others. Here we find that the experience of others has been studied, tabulated and put in shape for our use in the form of tables showing the rates of mortality among various groups according to the actual mortality experience among those groups.[7]

The standard table of mortality among American commercial annuitants was one based on experience before 1892, so that is what Huggins used to construct his rate table in 1927.[8]

Demand for actuarial information exploded as people began to realize the implications of a longer-lived American population for pension systems, life insurance, and annuities. The scientific understanding of annuitant mortality evolved rapidly between 1927 and 1959. Actuaries published a series of new U.S.-based mortality tables to keep up with "the steady lengthening of life among annuitants."[9]

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[6] "The populations of developed societies have grown old at an amazing pace. Within the last hundred years . . . the populations of Europe, North America, Australasia, and Japan have become far and away the oldest human populations of which we have knowledge . . . this represents a unique occurrence in human history." Peter Laslett, "Necessary Knowledge: Age and Aging in the Societies of the Past," **Aging in the Past** (Berkeley and Los Angeles: University of California Press, 1995), pages 3 and 27.
[7] Huggins, "Actuarial Basis of Rates," page 8.
[8] Huggins used the first American annuitant mortality table, which was published by Emory McClintock in 1899 "based on experience of fifteen American companies on their annuity policies before 1892." Edwin C. Hustead, "The History of Actuarial Mortality Tables in the United States," **Journal of Insurance Medicine**, Vol. 20, No. 4 (1988), page 14.
[9] "As mortality studies were made from time to time, the steady lengthening of life among annuitants was revealed. This caused the preparation of later tables of mortality." Huggins, "Gift Annuity Rates and Mortality Experience," **Gift Annuity Agreements of Charitable Organizations** (NY: The

It is a big deal and an enormous amount of work to throw out an experience-based mortality table and create an entirely new one, yet it happened quite often during these years. Huggins changed the mortality table at the heart of his gift annuity rate recommendations four times (in 1931, 1934, 1946 and 1959). He also surveyed nonprofits nationwide to compare their gift annuitant mortality experience. When he discovered that gift annuitants were living even longer than commercial annuitants, he made adjustments to the standard annuitant mortality tables by adding one or two years in his rate calculations.

Huggins knew as well as anyone in America that drastic increases in longevity meant greater risks for nonprofits issuing gift annuities, sharpening the possibility that annuitants would outlive their expected payments and exhaust the charitable residuum. For example: according to McClintock's Annuitant's Table (1899) a 60-year old male had an average life expectancy of 14.65 years. According to the American Annuitants Table (1955) a male age 60 had a life expectancy of 19.57 years.[10] That is a vast difference in longevity risk for a nonprofit issuing a life annuity, as can be illustrated by the first reported American gift annuity.

When the President of Yale College signed an annuity contract with John Trumbull in 1831, Yale expected Trumbull, then age 76, to live for six years, in which case Yale would send Trumbull 24 payments of $250 per quarter, a total of $6,000. Trumbull lived for more than eleven years; the college dutifully made 45 payments totaling $11,250.[11]

The choice of a mortality table matters: if the country's gift annuity rates in 1959 had been based on the average life expectancies in the McClintock Table, it is likely that the reserve funds of many nonprofit organizations would be exhausted.

The role of a professional actuary, Huggins wrote, is to measure longevity risk so the risk can be managed:

Committee on Gift Annuities, 1955), Wise Public Giving Guide No. 48, page 28. Mortality tables used for life insurance and for annuities during these years are summarized and described in **Principal Mortality Tables, Old and New** (St. Louis and Kansas City: Nelson and Warren Consulting Actuaries, (1961?)).

[10] **Principal Mortality Tables, Old and New**, pages 25 and 27.

[11] See "Benjamin Silliman: The Gift Planner Behind the First Modern Charitable Annuity" at http://www.giftplanninghistory.org

> It does not take an actuary or a statistician to tell us that in the general population there is a steady trend towards lengthening of life, but it does take the actuary or the statistician to make studies that aid us in **determining to what extent** the lives are being lengthened.[12] [my emphasis]

George Huggins devoted 32 years of his life to teaching nonprofits how to think about American annuitant lives, serving as the consulting actuary for the nation's charities. He passed away in 1959, less than a month after the 10th Conference.

There is ample evidence of what national charitable leaders were thinking and doing in Huggins' era, contained in reports that were published after each of the ten Conferences on Annuities between 1927 and 1959. At the conferences, economists and bankers would survey the current economy, provide investment advice for the country's annuity fund managers, and give earnings forecasts.[13] Huggins reported his earnings assumptions and current mortality data, and explained how he applied the facts in his new gift annuity rate recommendations.

Each of the conference reports will be analyzed in the next major part of this essay, focusing on the investment outlook and return assumptions from year to year, and equally important changes in annuitant mortality.

The reports are seasoned with emotionally fraught comments by national leaders struggling to act reasonably in the face of tremendous economic shocks. At the 4th Conference in 1931 a speaker remarked that "investment earnings have decreased to a serious degree, and no one dare foretell the date or extent of their restoration."[14]

Investment conditions worsened in 1934. The conference that year was convened in response to an "urgent request" for lower gift annuity payment rates:

> The task has become increasingly difficult in these days of exceedingly low interest rates . . . It seems impossible to be certain that bonds which are high-grade

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[12] Huggins, "Report on the Mortality Experience Studies," **Gift Annuity Agreements of Charitable Organizations** (1959), page 16.
[13] Other common conference topics included marketing, law, taxation, and accounting.
[14] Lewis T. Reed, "Uniform Annuity Rates," **Rules, Regulations and Reserves in Using Annuity Agreements** (NY: The Sub-Committee on Annuities, 1931), Wise Public Giving Series No. 38, page 20.

> today will continue to maintain that status. There appears to be an element of risk in every investment.[15]

1939 was a year of crisis. On September 1, a Blitzkrieg ignited World War II. When the Sixth Conference met on October 4, people knew that fundamental economic changes were likely, but no one could anticipate the horrors of the next six years. A speaker warned of the likely effects of war:

> All of you must be conscious of the very great change that has come about in recent weeks because of the belligerency abroad. You probably will agree that the frightfulness of it all will have a very definite effect upon not only our psychology, but very definitely upon our economy.[16]

Another marveled that "Bond yields reached a new all-time low this summer, and . . . yields are still so low, that a few years ago they would have been considered fantastic."[17]

Remarkably, interest rates continued to fall for seven more years. By 1941 the investment outlook for fixed annuity obligations was desperate. Explaining "Why the Conference Was Called," Gilbert Darlington said a main reason was "to consider the question of adopting a lower standard of uniform annuity rates," since "interest rates on all classes of securities have declined very substantially."[18]

The Allied victory in 1945 brought an unparalleled economic explosion and a resurgence in fixed-income yields and the values of common stocks. Happier days returned for America, as reported in 1955 at the 9th Conference by Dr. Marcus Nadler, Professor of Finance at New York University:

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[15] John H. Gross, "Investment of Funds for the Safeguarding of Annuities," **Annuity Agreements of Charitable Organizations** (NY: The Sub-Committee on Annuities, 1934), Wise Public Giving Series No. 43, page 22.
[16] Wilton A. Pierce, "Investment Planning Under Revised Insurance Law of the State of New York," **Annuity Agreements of Charitable Organizations** (NY: Federal Council of the Churches of Christ in America, 1939), Wise Public Giving Series No. 44, page 45.
[17] Richard P. Cromwell, "The Outlook for Interest Rates," **Annuity Agreements of Charitable Organizations (**1939), page 25.
[18] Darlington, **Annuity Agreements of Charitable Organizations** (NY: Federal Council of the Churches of Christ in America, 1941), Wise Public Giving Series No. 45, page 6.

> Right now we are in the midst of the greatest boom that we have ever had in peace time in our history. To prove my point, employment is over 65½ million people. The total number of unemployed is less than 2½ million. The demand for credit is very great. Building activity is at a high level. The demand for mortgages is very great. Business activity is in the midst of a boom.[19]

The process of gift annuity rate-setting demands careful judgments by national leaders who must weigh and consider projected improvements in annuitant longevity, future earnings, investment and administrative expenses, caps on payment rates at older ages, and whether donors will find payment rates attractive.

George Huggins identified the core elements of rate-setting, made nonprofits aware of the relationships among these elements, and demonstrated how to recognize and adapt to new experiences over time. His actions provide a window on a rapidly-changing America, crystallized in the **Gift Annuity Rates Chart, 1927-1959** (see Chart 1).

Huggins functioned as a one-person Rates Committee for 32 years, though participants in the Conferences on Annuities did not always adopt his recommendations. Prime examples are the rate cap imposed at the very first conference; delayed implementation of his substantially revised set of assumptions at the start of WWII (Huggins turned out to be right); and postponed action right after the war in case the economy improved faster than Huggins predicted (the optimism of conference participants was justified).

The rates recommendations that George Huggins presented for consideration at the Conferences on Gift Annuities are now worked out by eight volunteer members of the ACGA Rates Committee with professional services provided by the actuarial firm founded by Huggins, and approved by a 25-member ACGA Board.[20]

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[19] Nadler, "Interest Rates," **Gift Annuity Agreements of Charitable Organizations** (1955), page 11.

[20] The formal title of the current ACGA Rates Paper is: **Explanation of the ACGA Gift Annuity Rates Effective January 1, 2012** (Smyrna, GA: ACGA, updated June 2015). This and previous Rates Committee reports are available on the ACGA website at: http://www.acga-web.org/surveys-reports-conference-papers-and-brochures/76-suggested-maximum-rate-schedules

Contemporary managers of gift annuity programs realized the enduring practical value of the conference reports, which were "circulated quite widely."[21] They provided unique and accessible guidance for applying the new actuarial principles in the face of extremely challenging conditions. The reports show steady progress over time in constructing best professional practices for nonprofit organizations, thus documenting the historical development of a major source of funding for America's nonprofit sector.[22]

Many of the reports went out of print as long ago as 1952,[23] but in 2014 the American Council on Gift Annuities (ACGA) made the conference publications available online as a service to researchers.[24] They are an indispensable record of the world's oldest continuous series of charitable fundraising conferences.

We should keep in mind that a major part of the story is missing. What matters most about gift annuities is that they are used to serve people in need of help. Lives were

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[21] In his preface to the third conference report, Alfred Williams Anthony noted that after the first two conferences, "booklets containing the papers presented have been published and circulated quite widely, which have had an important effect upon standardizing and stabilizing policies and methods in harmony with sound principles of law and of ethics." Anthony pointed out that the third report "penetrates somewhat more fully into the principles and details of methods and plans than its predecessors have done." **Methods and Plans in Using Annuity Agreements** (NY: The Sub-committee on Annuities, 1931), page 4.

[22] At the second conference in 1928, Huggins noted that his presentation will "take up the discussion at the point where it was left off" in 1927. The preface to the fourth conference reported that "These conferences, while dealing with the same essential matters, are related to each other as a continuing, progressive series, and the booklets which follow, each its conference, are similarly related." Alfred Williams Anthony, "Preface" to **Rules, Regulations and Reserves in Using Annuity Agreements** (NY: The Sub-Committee on Annuities of the Committee on Financial and Fiduciary Matters, 1931), Wise Public Giving Series no. 38. The Foreword to the fifth conference report encouraged people to buy the whole series: "Previous conferences had considered various phases of the annuity business, the reports of which were printed and copies of which are still available. They constitute a valuable compendium of information on the annuity plan as used by religious, charitable and educational organizations and institutions for securing gifts." **Annuity Rates and Federal Taxation of Annuities** (1934).

[23] Gilbert Darlington described the first nine conference reports as "still authoritative" but noted that "Unfortunately, some of these Reports are out of print." "Taxation, Legislation, and Regulation," **Conference on Wills, Annuities, and Special Gifts** (NY: National Council of the Churches of Christ in the United States of America, 1952), page 110.

[24] See Conference Proceedings and Reports at http://www.acga-web.org/resources-top/surveys-reports-conference-and-brochures

saved or made more tolerable by nonprofit shelters and soup kitchens, churches and synagogues, hospitals and nurseries, private schools and colleges. Letters and diaries with stories of Depression-era families helped by gift annuities may never be found, because by design, annuities involve years of separation between an act of charity and the fruits of a gift. A life annuitant will not see a hungry child fed or taught, nor ever know the beneficiaries of her gift.

There is a more accessible set of untold stories relating to the annuitants themselves and annuity program managers. Safeguards introduced by George Huggins benefitted thousands of families whose regular annuity payments provided a financial lifeline amid bank failures, the loss of a job, or the death of a breadwinner. And wouldn't gift planners find it useful to uncover and share minutes and reports illuminating how the managers of nonprofit organizations grappled with the challenges of maintaining a healthy annuity program during the Depression and World War?

Although we can only imagine the impact gift annuities had at a personal level, what we know about national policy development is extraordinarily interesting. Our world of philanthropic planning is based on ideas introduced in the 1920s and refined during the Great Depression. The historical territory of the conference reports is virtually unexplored, though the Tax Reform Act of 1969 and the Philanthropy Protection Act of 1995 can be understood fully only by knowing what happened during the actuarial revolution in charitable gift planning guided by George Augustus Huggins.

II. Public Policies on Gift Annuities: The New York Insurance Law of 1925

Our national policies regarding the charitable nature of gift annuities were shaped by events in New York in 1925, the year that the American Bible Society hired George Huggins to conduct a general audit of its gift annuity program. Later that year, as the New York State legislature was amending its Insurance Law, Gilbert Darlington of the Bible Society invited Huggins to join a small coalition of nonprofit organizations to make the case that charitable gift annuities were essentially different from annuity investments sold by commercial firms.

Darlington opened his presentation at the first Conference on Annuities in 1927 by telling the story of nonprofits lobbying the New York legislature.[25] He told the story again in 1952 to make the point that the Committee on Gift Annuities was founded to defend the differences between charitable gifts that return a life annuity and commercial investments:

> By having this statement included in the Insurance Law of New York State, the right of religious and charitable organizations to issue annuities was recognized and approved.[26]

Concerned that this important historical context might be lost or forgotten, Darlington quoted the exemption statement for nonprofit organizations in the New York Insurance Law of 1925 so it would be preserved in the conference record:

> Annuity contracts issued by charitable, religious, missionary, educational or philanthropic non-stock corporations conducted without profit where such corporation maintains a reserve fund to carry out such contracts at least equal to its

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[25] Darlington, "Legislation and Taxation," **Annuity Agreements of Charitable Organizations** (1927), pages 27-28. Darlington also informed the 1927 conference that the State of California had enacted a law requiring charities issuing annuities to "establish and maintain a reserve fund based on McClintock's Table of Mortality among Annuitants with interest at 3½%" and to "show the reasonably commensurate value of the benefits created."

[26] Darlington, "Taxation, Legislation, and Regulation," **Conference on Wills, Annuities, and Special Gifts,** page 110.

> contract liabilities calculated in accordance with the provisions of Sections 84 and 85 of this Chapter.

The one requirement for nonprofits under the Insurance Law of 1925 – a very important requirement – was that they must comply with New York's actuarial methods for calculating the "contract liabilities" of their gift annuities. From 1925 on, nonprofits issuing gift annuities in New York have been required by law to apply standardized actuarial principles to measure the financial obligations involved with their payment rates and the average mortality of their annuitants, and to prove they are maintaining a reserve fund adequate to meet their obligations.

State regulation of gift annuities in New York was held up as a model by the Committee on Gift Annuities. The Principal Actuary from the Insurance Department of the State of New York made keynote presentations at the sixth Conference on Annuities in 1939, the seventh conference in 1941, and the tenth in 1959. New York was the only state invited to play a leading role on the conference agendas. In his report announcing a new actuarial basis for gift annuity rates in 1927, Huggins assumed a 4.5% rate of return, the return assumption mandated by New York to calculate the value of commercial annuity contracts. The mortality table he selected for the first gift annuity rate table was "the standard in the State of New York and many other states" for commercial annuities.

Why did New York become America's most influential regulator of charitable gift annuities? The American Bible Society was headquartered in lower Manhattan, the Committee on Gift Annuities was based there, and eight of the first ten Conferences on Annuities were held in New York City[27]; but location alone does not explain New York's leading role. Understanding why requires some historical context about America's financial services.

In the early 1900s, life insurance companies controlled far larger financial assets than did banks at the time, and they were exercising their economic power:

> At the beginning of the twentieth century, the largest American financial institutions were not banks, which today have aggregate assets far exceeding any other type of financial institution, but insurance companies. Insurers were larger

[27] The third and fourth conferences were held in Atlantic City, New Jersey.

> than banks by not just a hair; the largest insurance companies were twice as large and were already moving into adjacent financial areas. They were underwriting securities. They were buying bank stock and controlling large banks. They were assembling securities portfolios with the power to control other companies.[28]

The life insurance industry was heavily concentrated in New York City. In 1906, the admitted assets (i.e., legally required reserves) of life insurance companies domiciled in New York State represented 58.1% of all U.S. life insurance company reserve assets, but that understates the influence of New York. When one adds the assets of out-of-state life insurance companies licensed to do business in New York, and thus subject to New York laws, the total represented 97.5% of the assets of all U.S. legal reserve life insurance companies.[29] New York law required out-of-state insurance companies to comply with its investment restrictions:

> Since its investment laws have consistently been among the strictest in the United States, its laws have had a more important influence than the laws of any other state in marking out the areas in which life insurance funds may be invested.[30]

In the year 1905 the "Big Three" life insurance companies were all headquartered in New York City. The value of their admitted assets had grown by 500% in 20 years.[31] They dwarfed the assets of commercial banks[32]:

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[28] Mark J. Roe, "Foundations of Corporate Finance: The 1906 Pacification of the Insurance Industry," Columbia Law Review, Vol. 93, No. 3 (April 1993), page 639. See http://www.jstor.org/stable/1123112

[29] Haughton Bell and Harold G. Fraine, "Legal Framework, Trends, and Developments in Investment Practices of Life Insurance Companies," **Law and Contemporary Problems** (1952), page 46.

[30] Bell and Fraine, page 46.

[31] Adapted from Douglass C. North, "Life Insurance and Investment Banking at the Time of the Armstrong Investigation of 1905-1906," **Journal of Economic History** (Summer, 1954), page 211. Cited by David Moss and Eugene Kintgen, "The Armstrong Investigation," Harvard Business School Case 9-708-034, rev. January 14, 2009, Exhibit 3, page 16.

[32] The largest U.S. commercial bank (National City Bank, founded as the City Bank of New York and known today as Citibank) had $155 million in assets in 1900. Roe, page 659. National City Bank was a major supplier of cash for banks around the U.S. before the Federal Reserve was created in 1913. Roger Lowenstein, **America's Bank: The Epic Struggle to Create the Federal Reserve** (NY: Penguin Press, 2015), page 14.

Company Name	January 1, 1885	January 1, 1905
Mutual	$103,583,301	$440,978,371
Equitable	$ 57,548,716	$412,438,381
New York Life	$ 58,941,739	$390,660,260

Without disclosing their financial positions, some life insurance companies were secretly acquiring banks and other companies, actively managing them, and manipulating financial operations for their own self-interest. A series of sensational stories in the national media about "the manipulation of insurance company investment funds through subsidiary trust companies" by the Equitable, at the time "the most conspicuous institution in the whole world of insurance and finance,"[33] outraged many policy-owners and stockholders.

Widespread abuses of economic and political power by other large American life insurance companies were uncovered (and reported nationwide in newspapers and magazines) during the Armstrong investigation conducted by a New York committee in 1905. Reform-minded legislators were particularly focused on preventing life insurance firms from extending their control over other financial services.

New York enacted laws in 1906 that prohibited life insurance companies from investing in common stock[34], not because of investment risk, but because buying common stock had been the insurance industry's preferred means for acquiring and manipulating other businesses.[35] Legal sanctions against investing their reserve funds in common stocks had

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[33] R. Carlyle Buley, **The American Life Convention: A Study in the History of Life Insurance** (NY: Appleton-Century-Crofts, Inc., 1953), Volume I, pages 199-200.

[34] "While the regulation of insurance companies covered many important aspects of the business, the most important regulation covered policy reserves and investments of domestic [that is, in-state] companies." Robert E. Schultz and Raymond G. Schultz, "The Regulation of Life Insurance Company Investments," **The Journal of Insurance**, Vol. 27, No. 4 (December 1960), page 57.

[35] "Insurers were prohibited from making stock investments not so much because the investments were seen as too risky for them, but because the public feared the power and influence that insurers with such investments would have." Roe, "Foundations of Corporate Finance," page 640. The New York Insurance Code had been revised in 1892 to allow life insurance companies to invest in common stocks. Morton Keller, **The Life Insurance Enterprise** (Cambridge, MA: Belknap Press of Harvard University Press, 1963), page 130.

the unintentional but very welcome benefit of protecting the life insurance industry from the worst effects of the stock market crash in 1929 and the Great Depression.[36]

The threat of punitive legislation after the Armstrong investigation led to voluntary national reforms that restored consumer confidence in the business of insurance. Life insurance firms around the country came together in 1906 for self-regulation through the American Life Convention. Model legislation developed by the Convention was circulated among the states. The Armstrong hearings demanded the attention of all state insurance commissioners; there was a wide range of legislative responses.[37]

Restoration of public confidence in the conduct of companies issuing annuities enabled strong growth in the sale of commercial annuities during the Great Depression.[38] Life insurance company revenue from annuity premium payments rose from $92 million in 1929 to $491 million in 1935, as investors sought to protect their principal while receiving a steady income.[39] Today the sale of individual annuities by life insurance companies is a very big business: individual annuity premiums in 2013 totaled $180 billion and the value of reserve funds held by life insurance companies for their individual annuity contracts was $2 trillion.[40]

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[36] Ben S. Bernanke has written that a major component of the financial collapse in 1930-1933 was "the loss of confidence in financial institutions, primarily commercial banks," but that life insurance companies "managed to maintain something close to normal operations." "Nonmonetary Effects of the Financial Crisis in the Propagation of the Great Depression," **Essays on the Great Depression** (Princeton: Princeton University Press, 2000), page 43. "Only 20 out of 350 insurers (5.7 percent) went into receivership during the Great Depression. Of those that failed, virtually all of the policyholder claims were still honored from solvent reinsurers." Cited in "Executive Summary," **Historical Evolution of Life Insurance** (Center for Insurance Policy and Research, 2013), page 10.

[37] Buley reviews the states' legislative activity in detail in **The American Life Convention**, pages 279ff. Also see Bell and Fraine, "Legal Framework," pages 46-48.

[38] "Although sales plummeted for a time in response to the new regulations, investor confidence was once again restored, eventually leading insurers back into a growth cycle in the early 20th century." "Executive Summary," **Historical Evolution of Life Insurance,** page 9.

[39] Eugene N. White, Contributor, Table Cj727-732, "Life Insurance Company Income, by Type: 1854-1998," **Historical Statistics of the United States Millennial Edition Online**, © 2015 Cambridge University Press, accessed January 14, 2015. See: http://hsus.cambridge.org/HSUSWeb/table/printTable.do.

[40] The numbers cited for individual annuity contracts do not include the far larger market for group pension and retirement plans, most of which are also annuity contracts. **Life Insurers Fact Book, 2014**, American Council of Life Insurers, "Annuities" pages 74-75, accessed January 23, 2016. See:

The New York Insurance Law of 1925 formalized a legal distinction between commercial annuities and charitable gift annuities, but for the rest of the U.S. the law's initial direct impact was limited. Donors, their advisors, and charities issuing annuities in the 1920s had to make decisions in the face of important public policy uncertainties, such as whether and how a wide range of state and Federal laws, judicial rulings, and administrative regulations on commercial financial products applied to gift annuities issued by nonprofit organizations.

Huggins understood that his insurance business model for gift annuities had profound public policy implications that would have to be worked out. An effective national plan must provide a responsible, transparent process for rate-setting and consumer protection that public officials could use to address inevitable questions involving income and estate taxes, the adequacy and risk exposure of reserve accounts, the accuracy of marketing claims, the soundness of legal contracts, and other policy issues familiar to commercial insurance companies.

The first step was to scan the legal horizon to understand current policies. In his report to a Conference on Financial and Fiduciary Matters in March 1927, Huggins said "I would like to see this committee investigate the existing insurance laws and departmental rulings as to their bearing on the issuance of these annuities."[41]

Huggins recommended a wide-ranging survey of the public policy landscape: "the laws and rulings pertaining to the income and inheritance taxes – both Federal and State, as they may apply to the principal of the annuity gifts or to the income received by the beneficiaries." More importantly, he advocated raising the voluntary standards of gift annuity programs to protect the interests of all concerned:

> Personally, I favor constructive legislation, but I fear destructive legislation, and if we do not conduct the [annuity] business on the highest possible plane, with

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https://www.acli.com/Tools/Industry%20Facts/Life%20Insurers%20Fact%20Book/Pages/RP14-012.aspx

[41] The motion approved by the Conference on Financial and Fiduciary Matters instructed its new Sub-committee on Annuities "to ascertain and advise as to the legislation in the United States and the various states regarding annuities." From 1925 to 1959, the burden of discovering, reporting on, and lobbying to improve Federal and state laws, regulations, and legal rulings affecting charitable gift annuities was taken on by Gilbert Darlington of the American Bible Society. Darlington was a member of the Committee on Gift Annuities from 1928-1972, serving as its Chairman from 1939-1959 and as Honorary Chairman from 1960-1980.

> equitable returns to the donors and absolute protection as to their annuity payments, we are bound to have a reaction in the form of hostile and possibly destructive legislation.

No charitable organization whose success depends on appealing to donors for financial support would want its gift annuity program to be regulated as if their nonprofit was responsible for meeting the expectations of investors seeking to maximize their financial return. Investment vehicles such as commercial bonds and annuities meet consumer demand with products constructed around a single bottom line, with no consideration given to the love of a charitable mission.[42]

The State of New York opened the door for Huggins' actuarial solution to the central problem of gift annuity rate-setting. It did so indirectly by imposing regulations on reserve investments for existing gift annuity contracts. The New York Insurance Law of 1925 did not mandate a process for establishing gift annuity payment rates, but the higher the rates, the greater the amount that must be held in reserve.[43] To comply with the law on gift annuity reserves, nonprofits would need to apply actuarial principles in rate-setting.

There is another aspect of the New York Insurance Law of 1925 that is important in the early history of the Conferences on Annuities: a well-intentioned attempt to re-direct gift annuity reserve fund asset allocation by using the law to compel gift annuity fund managers to behave more like life insurance fund managers.

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[42] For-profit enterprises organized around social impact (a "double bottom line") appeared many years later. See **Investing for Social & Environmental Impact: A Design for Catalyzing an Emerging Industry** published by Monitor Institute in 2009 at http://monitorinstitute.com/downloads/what-we-think/impact-investing/Impact_Investing.pdf
downloaded January 9, 2016.

[43] New York's principal actuary made this point explicit in 1939: "The requirement that the [gift] annuity rates shall be noncompetitive with those of life companies, does not appear in these exact words in the law. What the statute does prescribe is that the rate of life income to be paid shall be so computed as to leave with the [charitable] corporation upon the annuitant's death at least one half of the purchase money." Charles C. Dubuar, "The Regulation and Supervision of the Issuance of Annuity Agreements by a Charitable Society," **Annuity Agreements of Charitable Organizations** (NY: Federal Council of the Churches of Christ in America, 1939), page 9.

There was good reason for concern. Freedom from legal and regulatory controls in the 1920s and 1930s let nonprofit organizations invest their gift annuity reserve accounts as they chose. Unfortunately, many chose unwisely.

Whether or not an investment strategy for charitable gift annuities is effective depends on what fund managers think they are investing, and why. The prevailing "Annuity Bond" business model contributed to some of the mistakes. Corporations issuing a bond will often pledge real estate or equipment as collateral to be liquidated in case of default.[44] Pledging a building as collateral, or promising to use the revenue from student dormitories, is inadequate for a gift annuity reserve fund: nonprofit organizations are extremely unlikely to sell their buildings to make up a deficiency in annuity payments.[45]

The new actuarial model for gift annuities forced nonprofit organizations to rethink the business they were in. Huggins and Darlington believed that charities had to stop acting as if gift annuities were like bonds that followed the rules of the credit investment markets, and start acting as if they were like life insurance, a highly-regulated consumer-based business with far different investment considerations.

Darlington asserted at the 1927 Conference on Annuities that compliance with the New York Insurance Law meant investing gift annuity reserve funds in "proper securities" approved for life insurance reserves, though the law applied only to the valuation of gift annuity reserves, not the nonprofits' choice of investments:

> As long, therefore, as such a reserve is maintained in securities suitable for the investment of funds of life insurance companies of the State of New York a certificate of the Superintendent of Insurance is not necessary . . . As long, therefore, as the groups mentioned [i.e., nonprofit charitable organizations]

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[44] For a list of physical assets that are pledgeable in support of corporate bonds, see **Fundamentals of Corporate Credit Analysis** by Blaise Ganguin and John Bilardello (NY: McGraw-Hill, 2005), Table 8-3: Types of Collateral, page 225.

[45] At the second conference in 1928, George Sutherland warned that it is unacceptable to finance annuity payments from current operations or from "income-producing dormitories." "Investments," **Conditional Gifts Annuity Agreements** (NY: Abbott Press & Mortimer-Walling, Inc., 1929), Wise Public Giving Series No. 31, page 37. At the fourth conference in 1931, Ernest F. Hall reported that "It has been discovered that some organizations do not have sufficient reserve funds, and that what they have are so tied up that it would be impossible to realize on them in case of necessity. Such is true of some colleges which have put their annuity gifts into campus buildings." Hall, "The Trend Toward Uniformity," **Rules, Regulations and Reserves in Using Annuity Agreements**, page 9.

> maintain their reserve funds in proper securities there is no fear of their being forced to submit to the full authority of the Superintendent of Insurance.[46]

Arthur Ryan, Darlington's colleague at the American Bible Society, extended this guidance, asserting that every charity issuing annuities should invest its annuity reserves as required for life insurance companies operating in the state in which the nonprofit organization is incorporated:

> It is the belief of your Committee that all funds received on the annuity basis should be invested in securities suitable for insurance companies operating in the state in which the institution is incorporated, and that the full 100% of these funds should be held in such investments until the death of the annuitant.[47]

Ryan and Darlington went a step too far. No one had identified a state with a legal requirement that nonprofit organizations must invest their gift annuity reserves as if they were life insurance reserves.[48] Unfortunately, it was also a fact that most leaders of nonprofits issuing gift annuities had no idea what their state laws and regulations said about life insurance reserves, or whether the laws of their home states affected charitable gift annuities in any way.[49]

At the second Conference on Annuities in 1928, George Sutherland walked back Ryan's and Darlington's investment advice, stating that "It is not necessary that these funds should be invested in securities which are legal for [life insurance] trustees in the states

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[46] Darlington, "Legislation and Taxation," **Annuity Agreements of Charitable Organizations** (1927), pages 27-28.

[47] Ryan, "Administrative Policy," **Annuity Agreements of Charitable Organizations**, page 26.

[48] Ryan himself admitted that "So far as the Committee was able to learn, no other states [other than New York and California] have legislation governing such annuities."

[49] A 1930 survey of charities issuing annuities reported that only 2 of 20 charities were following legislation in their home state regarding gift annuities. The Committee chair noted "The survey showed that a good many organizations are not familiar with the laws even of their own state governing reserves and the method by which those reserves must be determined." Ernest F. Hall, "Unfinished Tasks and Future Activities of the Committee," **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 103.

where such organization is incorporated." In fact, "a larger income can be secured if the [investment] committees do not limit themselves to legal investments."[50]

At the third Conference on Annuities in 1930, William T. Boult made a presentation entitled "Administration and Investment of Annuity Funds" that became very popular and was published as a separate issue in the Wise Public Giving series.[51] Boult argued that gift annuity reserve investments should be "so sound that leading financiers and business men would commend them," and "State Insurance Commissioners, who may possibly call upon us to submit lists of securities, will also be favorably impressed." After reciting the assets acceptable under the New York Insurance Law, Boult provides the prevailing wisdom of the Committee on Gift Annuities: "There can be no question that we are morally bound, **and may some day be legally bound** [my emphasis] in a similar way."

That day would arrive in June 1939 with the enactment of a new Insurance Law by the State of New York, which required nonprofit organizations that promoted gift annuities in the state to file annual reports on their segregated annuity reserve funds and to qualify for a certificate. The New York Insurance Law of 1939 imposed the same investment restrictions on admitted assets for gift annuity reserve funds as for life insurance reserves.[52] Charities issuing gift annuities in New York had a grace period until 1950 to conform their reserve fund investment strategies to the new actuarial business model.[53] Charities issuing annuities in unregulated states remained free to invest their annuity reserves as they chose.

Even within the regulatory constraints of New York, investment managers had considerable autonomy in asset selection. One could follow all the official rules and still make unfortunate investment choices. Asset selection and investment strategies for gift

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[50] George F. Sutherland, "Investments," **Conditional Gifts Annuity Agreements** (NY: Abbott Press & Mortimer-Walling, Inc., 1929), Wise Public Giving Series No. 31, pages 37-38.

[51] Originally published in **Methods and Plans in Using Annuity Agreements** (1930), Wise Public Giving Series No. 34, pages 81-100; quotes are from pages 81-82. Reissued as **Administration and Investment of Annuity Funds**, Wise Public Giving Series No. 35.

[52] "Annuity funds must be invested generally in the types of securities permitted domestic life companies . . . The law does not allow a domestic life company to purchase common stocks." Dubuar, "The Regulation and Supervision of the Issuance of Annuity Agreements by a Charitable Society," **Annuity Agreements of Charitable Organizations**, page 10.

[53] Charities issuing gift annuities in New York could maintain unqualified assets in their annuity reserve funds rather than sell them at a loss, but after January 1, 1940 they were not permitted to make new investments in assets that were not admitted in New York.

annuity reserve funds were prime topics at conferences held during the Depression, when the value of "safe" investments such as mortgages and railroad bonds plummeted.

Exemption from most provisions of the New York Insurance law of 1925 was a major victory in the battle to protect the soul of charitable gift annuities. Now that the leading regulator had recognized their special character, nonprofits had to behave accordingly, to distinguish their policies and practices from those of commercial annuity firms.

III. What Makes Annuities Charitable? A Residuum Target

Commercial annuity business models have no charitable component. Huggins directed America's attention to the fact that the charitable element is the whole point of gift annuities, which are gifts of a residual interest, not investments that maximize the return to a customer. Charities can and should know exactly how much a gift annuity means to them financially, and the money provided by donors for charitable purposes must be protected just as vigorously as corporate profits are sought through the sale of financial products.

In the 1920s, competing for donors by negotiating the annuity payment rate was all too common. Nonprofits willing to negotiate gift annuity rates were allowing self-interested investors to create a market, and losing sight of the charitable purpose. At the second Conference on Annuities in 1928, Huggins warned that offering higher payment rates as an incentive to attract gifts would bring charitable annuities into competition with commercial annuities:

> As we approach the condition, where the residuum is reduced and approaches the vanishing point, the organizations will find themselves encroaching upon the territory of the commercial insurance companies that sell annuities. Their rates are so calculated that the principal and interest will, on the average, and in the aggregate be exhausted in meeting the annuity payments.[54]

Huggins urged nonprofits to recognize that unjustifiably high rates are "disastrous." Charities "would be fortunate indeed to break even without taking into account administrative costs":

> In other words, they would be rendering a service to their annuitants without any compensation whatsoever.
>
> It is not the purpose of annuity agreements, issued by religious, charitable and educational organizations, to render annuity service free of cost – the purpose is to raise funds to carry on the work of the organization issuing the agreement. The

[54] Huggins, "Annuity Rates and Reserves," **Conditional Gifts: Annuity Agreements of Charitable Organizations**, (NY: The Sub-committee on Annuities of the Committee on Financial and Fiduciary Matters, 1929), Wise Public Giving Series No. 31, page 30.

> higher the annuity rates allowed, the less will be the gain to the organization; the lower the rates, the greater the gain.[55]

Huggins stressed the fundamental difference between charitable gift annuities and annuity investments:

> In determining the basis, we must keep in mind the object of issuing these annuity agreements. It must be distinctly 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 . . .[56]

Throughout his life, Huggins coached nonprofits to focus on the charitable purpose, noting in his last conference report in 1959 that "we must keep in mind that we are not in the gift annuity business just to sell annuities. We are in the business of getting gift money for the cause we represent."[57]

In time, having a broadly accepted national residuum target derived by standardized calculations eliminated competition among virtually all charities[58] that previously had been willing to attract donors by negotiating higher payment rates than those offered by other nonprofits. This is one of Huggins' most important contributions. Through his actuarially-determined charitable residuum target, he fulfilled America's need for a hybrid conceptual model of gifts clearly motivated by love for a charitable mission, bundled with a secure life annuity contract that protects the interests of annuitants as well as the issuing charities.

There was little room for doubt that his residuum target produced a charitable gift: on average, 70% of the original principal would be available to the issuing charity when an

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[55] Huggins, "Danger Points and Protective Essentials," **Annuity Agreements: Their Promotion and Management** (Chicago: Committee on Annuities of the World Service Commission of the Methodist Episcopal Church, 1931), pages 12-13.
[56] "Actuarial Basis" page 9.
[57] Huggins, "Report on the Mortality Experience Studies," **Gift Annuity Agreements of Charitable Organizations** (NY: The Committee on Gift Annuities, 1959), Wise Public Giving Series No. 49, page 16.
[58] "96% of the charities responding to the 2013 survey reported that they always or usually follow the ACGA rates, consistent with responses in previous surveys." **2013 Survey of Charitable Gift Annuities** (Smyrna, GA: American Council on Gift Annuities, 2014), second ed., page 13.

annuitant dies, which Huggins described in his 1927 report as "reasonable in its returns, both to the donors and the organizations, and at the same time consistent with the objects of the annuity gifts."

No one looking for a good financial deal would be attracted by an investment prospectus illustrating a life annuity in which 70% of the original principal is allocated to the issuing charity, rather than to the donor's payments. Only a donor intending to support the philanthropic mission of a charity would agree to such an arrangement.

Many years later in 1946, facing increased gift annuitant longevity and a steady decline in investment returns, Huggins recommended reducing the residuum target to 50%:

> In the rates proposed, it is our thought that the organizations should share some of the losses under these adverse conditions that have developed. We are, therefore, proposing a set of rates with a 50% residuum as contrasted with the 70% residuum which has been the basis of our rates to date.

Uncertainties over the postwar economy caused the Conference to take no action on rate-setting in 1946. Huggins' recommendation was adopted at the next conference in 1955, and the residuum target remains 50% today.

The legal responsibility to provide lifetime payments to annuitants is fundamentally important, and appropriately regulated by law, but that is just the start – a baseline requirement. If nonprofits want to be compensated for the time and expense involved in the professional management of a gift annuity program, they need to be efficient in controlling costs associated with marketing and administration, and they must find adequate investment returns to protect the value of the charitable residuum that will support their philanthropic missions.

IV. A Consultant's Plan for the Gift Annuity "Business"

In constructing a national plan for gift annuities issued by nonprofit organizations, Huggins did not work from whole cloth. The rapid design and construction of his rate table was possible because Huggins was a leading actuarial consultant for life insurance companies and pension plans. He could share his professional knowledge of mortality and investment return assumptions with confidence that they met generally accepted standards for the heavily-regulated American life insurance industry, whose business model employs actuarial risk management techniques developed in the 19th century.[59]

Given his record of leadership in the business world, it is not surprising that Huggins was a game-changer for nonprofits. He was a pioneer in alerting major U.S. corporations and national religious organizations to the need for actuarial audits of their pension funds.[60]

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[59] William Bard, founder of the New York Life Insurance and Trust Company (NYLIT) in 1830, was the first actuary to be president of an American financial services firm. Bard used mortality data aggressively to price and promote its life insurance policies, capturing a substantial share of the rapidly-growing market. He tried unsuccessfully for many years to encourage insurance companies to pool their mortality data for the general good. See Sharon Ann Murphy, "In Search of an American Mortality Table," **Investing in Life: Insurance in Antebellum America** (Baltimore: The Johns Hopkins University Press, 2010), pages 22-27.

[60] "The earliest defined-benefit pension plans were established on a pay-as-you-go basis without advance funding or the assistance of actuaries. Benefits were paid when they became due, and there were no actuarial calculations of currently accruing costs or of projected benefits and costs. George Huggins began pension actuarial calculations in America in 1904." Donald S. Grubbs, Jr., "The Public Responsibility of Actuaries in American Pensions," **North American Actuarial Journal**, Vol. 3, Issue 4 (1999), page 34. Huggins was "the ranking authority of his era on clergy pensions" according to the Society of Actuaries. See "Historical Background" at https://www.soa.org/About/History/about-historical-background.aspx

Analysis of employee pension costs was not a priority for companies in the 19th century because "pensions were generally gratuitous in nature and employers could, at their option, choose who was to receive a pension and the scope of the pension that would be made available . . . A second reason for the slow evolution of pension cost analysis was that early pensions generally were provided on a pay-as-you-go or assessmentism basis. Under this scheme the incidence of cost is negligible during the early years of the pension plan when there are only relatively few retired employees. It takes a number of years before the ultimate cost of the plan becomes apparent . . . Since no one was concerned that the cost of a pension plan could impose a serious financial problem, an analytical solution for this problem was not sought . . . Although the need for a detailed analysis of the implications of the accrued liability was firmly established by 1915, a considerable period of time elapsed before actuaries began to quantify systematically the approaches for dealing with this problem." Arnold F. Shapiro, "Contributions to the Evolution of Pension Cost Analysis," **The Journal of Risk and Insurance**, Vol. 52, No. 1 (March 1985), pages 82 and 86.

In 1927 he was a well-respected expert on determining the accrued costs and projected benefits of annuity obligations.[61] He developed a thriving professional career as an actuary, maintaining a detailed awareness of how major insurance firms and other businesses were managing longevity and financial risks in their pension and annuity programs.

As a consulting actuary on pensions, Huggins provided advice on all aspects of defined-benefit programs, including plan design, contracts, investments, participant communications, and administration. He guided insurance company clients in "the design, pricing, experience rating, valuation, administration, and communication" of life insurance and annuity programs.[62]

The business model for charitable gift planning followed the lead of financial services. A new order of complexity had been introduced into American fundraising in the 1830s and 1840s, when charities such as the American Bible Society and the American Baptist Home Mission Society began to issue annuity bonds like those offered by commercial firms. Nonprofit charities agreed to be legally bound by a written contract to make fixed payments for an unknowable number of years, based on the lives of one or more annuitants. These nonprofits accepted a general financial obligation to make annual payments that were more expensive than the original principal could earn, and continue making payments even if the issuing charity suffered unpredictable investment losses or if interest earnings fell below original assumptions.

Nonprofits imitated commercial annuity contracts without adopting business management ideas and techniques. It now seems an inevitable consequence of John Trumbull's annuity bond contract with Yale in 1831 that nonprofits intending to raise money through a gift annuity program would need a satisfactory measure of the average longevity of annuitants' lives. Precise data-gathering and scientific measurements became necessary in order to manage longevity and investment risks.

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[61] Huggins testified before the Senate Finance Committee in 1935 concerning the new Social Security Act on behalf of "22 denominational pension systems, including 110,000 ministers, serving 135,000 churches, and representing 25,000,000 church members." See https://www.ssa.gov/history/pdf/s35huggins.pdf

[62] See Grubbs' discussion of the actuary's role as pension consultant and in funding insurance company contracts in "The Public Responsibility of Actuaries in American Pensions," page 35.

Like the firms whose insurance, annuity, and pension products were based on financial commitments for a person's life, charities issuing gift annuities were slow to recognize the need for standards of practice based on statistical analysis of annuity experience. 96 years passed between John Trumbull's Annuity Bond with Yale in 1831 and the development of a national system of best practices grounded in actuarial science.

By 1927, a very small number of nonprofit organizations, notably the American Bible Society, collected data on the longevity of charitable gift annuitants. Huggins pioneered the use of national mortality tables for gift annuities, and was the first to survey nonprofit organizations on their gift annuitant mortality experience.

Today's philanthropic planners swim in a sea of actuarial science like fish in water, paying little or no critical attention to understanding life expectancy based on changing mortality rates. Very few planners have the mathematical skills to generate a mortality table showing the probability that people of a certain age will live for X more years. After George Huggins, we must trust the work of professional actuaries.

The next major part of this essay will examine each of the first ten Conferences on Gift Annuities in detail. As we turn to Huggins' reports, it is worth keeping in mind that he launched American fundraising on a path towards greater sophistication by way of his professional expertise as a consulting actuary. The seven annotated schedules Huggins included in his first report are typical for a technical paper prepared for a client's pension fund or life insurance program. He had done this sort of thing many times before.

Huggins stayed personally involved with the process he had started, helping the nonprofit sector think through the philosophy and structure of a national charitable gift annuity program over the next 32 years.

CHART 1: Gift Annuity Rates Chart, 1927-1959 (Single Life)

Conference #	Date	Rate Age 70	Rate Age 80	Assumed Interest	Mortality Table	Age Setback	Expense Load	Residuum Target	Historical Notes
1	April 29, 1927	7.6%	9.0% for age 76+ [10.5% for age 80+]	4.5%	McClintock Table of Mortality Among Male Annuitants (1899)	0	0	70%	George Huggins recommended a top rate of 10.5% for annuitants age 80+ [brackets] but Conference participants voted to cap the rate at 9% for annuitants age 76+. Huggins produced a revised rate table for the 2nd conference. From 1927-1931 the rates for a single life annuity were based on a male life, thereafter on a female life.
2	November 9, 1928	7.6%	9% for age 76+	4.5%	McClintock	0	0	70%	No substantial report on rates. Discussion of whether investing in common stocks is right for gift annuity reserve accounts if not OK for commercial annuities that are restricted by law.
3	November 17, 1930	7.6%	9% for age 76+	4.5%	McClintock	0	0	70%	Stock market crashed in October 1929 marking start of Great Depression, but bond yields remained high (temporarily). No substantial report on rates.
4	March 17, 1931	6.7%	8.0%	4.5%	American Annuitants Table (1927)	0	0 [0.5%]	70%	Three actuarial presentations on gift annuity rates and reserves. Huggins noted lower death rates among commercial annuitants. He presented rate calculations for male and female lives; Conference voted to keep a unisex table but change base to a female life, and to cap rates at 8%. No change to 4.5% return assumption. One presenter discussed but Huggins did not incorporate a 0.5% annual expense load.
5	November 30, 1934	6.2%	8.0%	4.0%	Combined Annuity Mortality Table, Female Lives (1934)	0	0	70%	Low interest rates led to an "urgent request" for a lower payment schedule. First report on a gift annuitant mortality study showed unfavorable mortality experience and a low residuum for 2-life CGAs due to "too liberal annuity rates." Adjusted CGA rates accordingly. Huggins noted that a 4-year setback for female lives was built into the Combined Annuity Table.
6	October 4-5, 1939	6.2% [5.5%]	8.0% [7.1%]	4.0% [3.5%]	Combined Annuity Mortality Table, Female Lives (1934)	0 [2]	0	70%	A year of crisis. War began in Europe a month before the conference. Bond yields at an "all-time low." Huggins notes lower returns and increasing annuitant longevity, recommending a 2-year setback. Illustrates rates with investment assumptions of 4%, 3.5% and 3%. Selects 3.5% return for safety and to attract new gifts. Huggins proposed lowering rates [brackets], Conference **deferred action** pending economic effects of the war.

7	April 29, 1941	5.5%	7% for age 80+	3.5%	Combined Annuity Mortality Table, Female Lives (1934)	2	0	70%	Conference adopted Huggins' conservative recommendations from 1939 because of lower interest rates, the results of gift annuitant actuarial surveys, and NY State Insurance Code mandates for gift annuities. U.S. entered WWII in December following attack on Pearl Harbor.
8	April 10, 1946	5.5% [5.1%]	7.0% [6.9%]	3.5% [2.5%]	Combined Annuity Mortality Table, Female Lives (1934) [Standard Annuity Table, 1937]	2 [1]	0 [5%]	70% [50%]	WWII ended in June 1945, followed by start of Cold War. Huggins recommended major changes: expense load, drop in investment assumption, new mortality table, and a 50% residuum. The Conference voted to make no changes because of uncertain postwar economy.
9	October 3-4, 1955	5.5%	7.4%	3.0%	Standard Annuity Table (1937)	1	5%	50%	Next Conference held ten years after the end of WWII. Huggins' longest, most detailed, and most philosophical report to date. Analyzes results of two recent gift annuitant mortality studies. Reserve funds were allocating significant amounts to common stocks. Committee on Gift Annuities becomes an independent body.
10	December 1-2, 1959	5.3%	7.2%	3.0%	American Annuity Table (1955)	0	5%	50%	Strong economic trends. First conference report since 1928 to encourage buying common stocks ("the outstanding investment medium in the post-war period") for **inflation protection of reserve accounts.** The last report by Huggins compares new gift annuitant mortality experience with survey results in 1952, finds favorable experience and good fit with new American Annuity Table. Investment experience had been more positive, but New York mandated a 3% return assumption so Huggins used that in his gift annuity rate calculations.