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One method of securing funds for religious and charitable organizations which seems to be growing in favor is that under which funds are received subject to the payment by the society of annuities at rates which vary according to the age of the annuitant at the date of the contract. This method appeals to people who have a certain amount of property from which they wish to secure a sufficient return for their needs during their lifetime and which they wish to be devoted to religious or charitable work at their decease. The annual amounts which they receive are usually larger than could be secured as income from a conservative investment of the funds, and this makes such an arrangement attractive to many, while others who have not had much experience in making investments are glad to be relieved of the responsibility involved in the care of property and of the possibility of their means of subsistence being dissipated through unwise investments.

On the part of the society it is felt that while the funds so secured are not available for the present use of the society, considerable amounts are received in this way for eventual use which might not otherwise be received.

In determining the method of applying and accounting for these annuity funds it should be borne in mind that there are two elements involved, namely, the sale of an annuity and the receipt of a donation for the carrying on of the regular work of the society. In the sale of annuities by a life insurance company, only the first element is considered and, on the average, the annuitants are expected to receive back in instalments all the amounts paid to the company, plus a certain rate of interest thereon, the difference between the interest received on the funds in the company's hands and the interest allowed to the annuitants constituting the company's share for its expenses and compen-

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sation. In the case of a philanthropic society, however, the rates paid annuitants are less than those paid by the life insurance companies, so that, assuming the same returns from the investment of the funds and a sufficient number of annuitants to secure a fair average, there should remain a portion of the principal for the use of the society after the contracts with the annuitants have been fulfilled.

If the fact of these two elements is clearly recognized it will go far toward determining the proper method of dealing with the funds received and the correct recording of them in the books. In many quarters, however, the whole amount received from the annuitant is regarded as a gift to the society and to be included in the principal of its endowment funds. Unless the rate of annuity is so low that the income received exceeds the annuities paid, this method results in the diversion of other funds from the specific work of the society.

As an illustration, let us assume that the society receives from A, aged 60 years, a sum of $10,000.00 under an agreement to pay him an annuity until his death of 7 per cent. or $700.00; also that B contributes the sum of $250.00 annually to be used for the regular work of the society; and that the society has no other sources of income. The society invests the annuity fund in good securities and receives a net return of, say 4½ per cent., or $450.00 per annum. It has to pay A $700.00, and as the principal of the annuity fund is to be kept intact, it becomes necessary to use for A's annuity the contribution which B has made for the regular work of the society. Assuming that A fulfills the average expectation of life, there will be no funds available for the legitimate work of the society for a period of something over fourteen years, although B has contributed during that time over $3,500.00 under the impression that it was being devoted to the regular work of the society. The books at the close of the period show a fund of $10,000.00 bearing A's name, while no memorial remains of generous B, whose gifts helped to keep the fund intact.

While the illustration used is an extreme one, it shows clearly the principle involved in treating annuity funds in the manner indicated. A life insurance company that diverted premiums received from its policyholders to the purpose of paying annuities would be subject to criticism, and the manager of a manufacturing company that kept his books in such a manner as to show earnings in one department which were really the results of another department's operations would not be in a good position properly to direct the company's affairs. The object of bookkeeping is to set forth the facts and in the case of a charitable or religious society there is a special reason why the system of accounts should be of the best. Contributors have a right to expect that the funds shall be carefully handled and wisely used for the particular purposes for which they are given, and the fact that contributions are often made at great personal sacrifice should furnish an added feeling of responsibility to account strictly for their use.

Before a society enters into annuity contracts, a careful study should be made of the tables of mortality among annuitants used by life insurance companies and the rates to be paid to annuitants entering at the various ages should be determined with a view of securing for the eventual use of the society a fair portion of the amounts received. A comparison of the rates offered in an advertisement which came to the writer's notice with the rates offered by a life insurance company showed that on the basis used by the company the society would have to set aside 93.4 per cent. of the amounts received from certain annuitants entering at the age of forty-six to fulfill its contract, leaving only 6.6 per cent. for the use of the society; while from certain annuitants entering at the age of eighty, approximately 53 per cent. would be realized. A calculation made on the basis of 4½ per cent. per annum being earned on the funds showed the portion available for the society as approximately 16 per cent. of the amounts received from annuitants entering at 46 years and 61 per cent. of the funds received from those entering at 80 years of age. It is evident that such an arrangement is not equitable in that the annuitants entering at the earlier age received a rate altogether out of proportion to that received by those entering later in life, while the society's responsibilities would be greater in the former than in the latter case.

The payment of annuities should not be undertaken by a society unless it is known that a sufficient number of annuitants can be secured to form an average group, as otherwise the ordinary experience tables would be of little value. Instances are not at all rare where annuitants receive amounts aggregating greatly in excess of the amounts they paid in, and the writer has been informed of a case where four times the cost of the annuity has been paid out to the annuitant. A case of this kind occurring in a small group might prove disastrous to the society. In the case of only a small number being secured it might be advisable to transfer them to a life insurance company.

In considering the rates to be paid to annuitants, especially in the absence of definite experience by the society itself, it would be well to bear in mind that the expectation of life may be longer among the class of annuitants which a religious society is likely to have than the general experience tables would indicate. Recent articles in a prominent magazine from the pen of a physician who was long connected with life insurance companies indicate that abstainers from the use of intoxicants have a better expectation of life than the average, and if, therefore, the annuitants are people who have been abstainers and who have lived the kind of life expected of people interested in religious work, the society is likely to have to pay out on the average for a greater length of time than would ordinarily be the case, with a correspondingly smaller amount left for the use of the society.

As to the treatment of funds in the books of account, two ways seem to be open. The annuity funds might be kept in one group, separate from the regular funds of the society, and out of the income thereon, supplemented by whatever portion of the principal is necessary, the annuities would be paid. When by reason of the decease of a number of the annuitants the income becomes greater than the annuity requirements, the excess income could be devoted to the use of the society. By this method the annuities would be met from the annuity funds without becoming a charge, even for the time being, on the other resources of the society.

Another plan, which might be pursued in cases where the conditions are such that the cost of carrying out the annuity contracts can be estimated with a fair degree of accuracy, would be to set aside from the amounts received from annuitants such amounts as are estimated to be necessary for annuity purposes and to devote the balance to the society's uses. The balances remaining after the annuities had been provided for would represent the real gifts made to the society.

With the accounts kept under either of the two methods suggested, a record of the society's experience in annuities could be compiled from year to year which should prove of great value in the conduct of such funds.

Another question with which the society has sometimes to deal is that of accepting real estate or other property in consideration of payment of an annuity. Quite often such property cannot readily be sold and is situated where its supervision and the collection of the income therefrom has to be committed to agents. Unless the average cost involved in paying the annuity is well known to the officers and kept in mind, there is a temptation to accept property of this kind as being an asset of some value, instead of making sure that there is a reasonable equity in the property above the cost of the annuity.