

Letter to the Editor of Wall Street Journal
from Frank Minton, Senior Advisor, PG Calc

The article in the May 12 WSJ by Mike Spector and Shelly Banjo does a disservice to charities by greatly exaggerating the risk that donors might stop receiving payments from gift annuities. The authors discuss at length two organizations, neither of which is typical of charities and one of which (Mid-America Foundation) was a Ponzi scheme masquerading as a charity, and imply that many other charities, like them, might get in financial trouble and default on gift annuity payments. The fact is that, in over 100 years of issuing gift annuities, defaults on payments by charities have been exceedingly rare.

The authors also fail to distinguish the risk to the charity and the risk to the donor. Even if the contribution for a gift annuity should be exhausted while the beneficiary is still living, the beneficiary will still be paid unless the charity should become insolvent. The charity simply uses some of its unrestricted reserve or general funds to continue the payments.

It is not true that as many as eight out of ten annuity contracts are currently under water (reserves for the particular annuity are below state requirements). That could be the case for a particular charity but not for charities in general. When actual reserves dip below state-required reserves, a charity moves general funds into the reserve account to meet requirements and to assure continued payments. The fact that market values of reserves have declined during this financial downturn is no cause for beneficiaries to be alarmed about their payments. A gift annuity is a general obligation of the charity, so payments are backed not just by specifically-designated reserves but by all of the charity's assets.

It is true that a minority of charities reinsure some or all of their gift annuities by using a portion of the contribution to purchase a commercial annuity to cover the prescribed payments. Charities that do this can protect themselves by working with only highly-rated companies and limiting the reinsurance amount placed with any one company.

This could have been an opportunity for a balanced look at gift annuities in this economic climate, but unfortunately the authors, by sensationalizing their material and inaccurately reflecting the comments of interviewees (myself included), will unjustifiably frighten donors away from a gift instrument that has stood the test of time.