

SUMMARY : Allows a "grants and annuities society" (charity) to invest 50% of its reserve assets in the stock market, or 100% of the society's net worth, whichever is less.

EXISTING LAW :

- 1) Permits charities to offer **charitable gift annuities**. The annuities offer a donor a charitable tax deduction equal to a portion of the original investment, and partially tax-free income over life. The surplus and residual go to the charity.
- 2) Requires that a portion of the reserve funds be held in trust and that the charity receives the permission of the Department of Insurance (DOI) prior to offering a **charitable gift annuity**.
- 3) Permits investment of reserve trust assets in common stock up to [10%] 50% of the reserve trust investments or 100% of the society's net worth, whichever is less.
- 4) Requires that DOI regulate these investments through, in part, formulas that help to determine if the annuities are sound investments over the lifetime of investors.

FISCAL EFFECT : Unknown, however this bill is keyed non-fiscal.

KEY: Note: [remove words] new additional words

COMMENTS : According to the sponsor, Northern California Planned Giving Council, this bill would allow charities that are issuing **charitable gift annuities** in California more flexibility to determine the proper asset allocation for their organization's California reserve assets. If this bill were enacted, charities would not be mandated to invest 50% of its reserve assets in stocks. Rather, these charities, after examining their own financial situation, including the make up of their gift annuity contracts and seeking professional investment advice, would be free to select an equity allocation below that ceiling. The increased ceiling will provide charities the opportunity to make a meaningful allocation to equities where appropriate, thereby increasing the opportunity to maximize the residuum that goes to charitable purposes.

The sponsor notes that other states have recently made similar changes to their **charitable gift annuity** laws, recognizing the advantages of providing charities more flexibility in the investment of their **charitable gift annuity** reserves. Finally, the sponsor points out that this bill is simple, revenue-neutral to the state, and will benefit California residents by increasing funds available for charitable work while still safeguarding payments to annuitants.

Comments: Existing law allows grants and annuities societies to receive

transfers of property, conditioned upon their agreement to pay an annuity to the transferor or the transferor's nominee, after obtaining a certificate of authority from the Insurance Commissioner. Existing law provides that the reserve required for each annuity contract issued by a grants and annuities society must be invested in certain investments, except that a society may invest in securities listed and traded on specified exchanges to the extent of the lesser of the society's net worth or 10% of its general investments.

This bill would allow a grants and annuities society to invest in these securities to the extent of the lesser of its net worth or 50% of its general investments.

Bill Text: THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Section 11521.2 of the Insurance Code is amended to read:

- 11521.2. (a) The reserve required by the table of commensurate values for each annuity contract issued must be invested in investments specified in Sections 1170 through 1182 except that a certificate holder may invest in securities listed and traded on the New York Stock Exchange, the American Stock Exchange or regional stock exchanges or the National Market System of the Nasdaq Stock Market or successors to such exchanges or market having the same qualifications, to the extent of the lesser of net worth (assets over liabilities and reserves) of the certificate holder or 50 percent of these general investments. This section does not permit investment in options or commodity exchanges.
- (b) The certificate holder may invest in other investments As permitted by and subject to the written consent of the commissioner.

Signed into Law: August 27, 2004