

Other companies, seeming to reply from the viewpoint of the consideration given competing investment outlets, gave the following answers:

Investment funds are allocated between (1) mortgages and (2) bonds as a whole on the basis of relative interest rates prevailing at the time. Municipal purchases must then be competitive in rate (on an after-tax basis) with other bond acquisitions currently being made.

Municipal securities are strictly competitive with mortgage loans on an equivalent taxed yield basis, with due regard for relative investment quality.

Mortgage loans are completely competitive with municipal securities in portfolio determination. We try to obtain the maximum after-tax yield (risk considered) for our policyholders.

All purchases, whether municipal, corporate, or mortgage loans, are competitive.

Municipal securities are always compared on a taxable equivalent basis with all securities before any investments are made.

Municipal securities are competitive with mortgage loans to the same extent that they would be competitive with any other investment we might make. We attempt to relate quality and yield after taxes.

3. LEVELS OF MUNICIPAL SECURITY YIELDS COMPARED TO OTHER YIELDS

Several of the replies here were in general terms but two-thirds of the surveyed companies gave specific replies. Most of these answers, which were prepared in April-May 1966, were in terms of interest rates then available on corporate direct placements and/or mortgage loans and assumed that obligations of substantially the same investment quality, maturity, and other terms were involved. Since the effective tax rate varies widely among life insurance companies, the interest rates necessary for municipal securities to be attractive also vary by company. As explained by one company:

The value of tax exemption computed as the differential in interest rate at which tax exempt yield is equivalent to fully taxable yield depends upon the specific characteristics of each individual mutual life insurance company and is uniquely determined for that company. If choice is to be made between fully taxable investment income and so-called tax exempt income, the calculation must show that yield at which additional exempt income, less the increased tax liability associated with receipt of such income, is equivalent to fully taxable income, after tax, at yields available in current markets. For [this company] based upon the present nature of our business and the composition of our assets and liabilities, exempt yields would have to be within 0.59 percent of the return currently available in the corporate sector on direct placements and mortgage loans.

Another company indicated that municipal securities would be competitive at yields 50 to 60 basis points below corporate yields of similar quality and terms. Several companies answered in terms of the proportion of taxable yield needed to make a municipal security attractive; two indicated that municipal yields must be about 88 percent of