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By the Numbers, It's a Cinch!

Beginning or Augmenting a Planned Giving Program
Part I

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1. INTRODUCTION: Why Do Planned Giving?

The long term objective of any not-for-profit organization with a good cash flow and donor base should be to create an endowment.

David Odahowski, president of the Edyth Bush Charitable Foundation in Orlando, Florida, recently commented about the criteria for picking grant recipients. He said, "any organization over 10 years old better have some plan to build endowment or cash reserves."

The idea of endowment involves a perpetual fund that earns income and continually increases. The organization may use a portion of the income while reinvesting the balance and never invading corpus. This serves to enhance and secure the future of the organization.

Planned giving involves mostly deferred gifts and is excellent for building ultimate endowment. Ultimate endowment consists of future expectancies as contrasted with current endowment (cash in the bank). You can book current endowment as an asset on your financial statement. A footnote will reveal total future expectancies.

The best expectancies to develop are testamentary bequests, gift annuity residuum, life insurance face values, and charitable trust remainders. The goal is to pour these dollars over into the current endowment fund when the expectancies eventually mature.

2. WHAT TOOLS WORK BEST?

Various mechanisms are available to develop these expectancies. The most common tools include:

- wills and revocable living trusts
- gift annuities for one and two lives
- life insurance policies naming a charity
- charitable remainder trusts and lead trusts.

<u>Wills & Bequests</u>
Since death cuts across all age groups, every donor needs a will and many donors need a revocable living trust. However, all donors do not have wills. Of those who do, only a few have named a charity as a beneficiary. Yet anyone can become a major donor when they bequeath the balance of an estate after they no longer need it.

Statistics show that the best place for any organization to be is in the "rest, residue and remainder" clause of the final will of an older donor. Childless couples, widows and the never-married with property are the best prospects to cultivate for testamentary bequests.

Newsletters, brochures and seminars are useful techniques in reaching this group. People over age 70 are thinking about the disposition of their property. They want to learn more about making a will and get answers to their questions.

A response device offering a free brochure will help identify prospects on a newsletter mailing list. Seminars featuring prominent local estate planning professionals often bring out donors with taxable estates. "Soft asks" are key to success with wills.

Offering membership in an honorary recognition society will motivate many donors to let an organization know about a planned bequest. Annual dinners and periodic social events make membership attractive. Endless cultivation helps keep these revocable expectancies on the books. Providing get-togethers helps support this process.

Gift Annuities

Gift annuity donors are typically elderly individuals who are seeking the security of a fixed income that they cannot outlive. They are willing to irrevocably part with some of their accumulated assets if in return they can get cash flow plus an income tax deduction.

The motivation to make a gift greatly depends on how annuity rates compare with interest rates on CDs. For this reason, gift annuities have a strong appeal to donors in their late 70s and early 80s in the current low interest rate environment.

Straightforward solicitation works well with gift annuities. Visits, newsletter articles and periodic appeal letters to an age-screened prospect list are proven methods.

Recognition is an important factor, and many gift annuity donors will welcome membership in such a group.
Certain issues enter into the equation when considering the start-up of a new gift annuity program, such as:

- official notification
- illustration software
- rate-setting methods
- reserve requirements
- program administration
- investment management
- statutory and regulatory procedures

Life Insurance

Life insurance provides an opportunity for younger donors to leverage a major gift with smaller premium dollars. Although this means the maturity date usually will be in the distant future, the certainty and size of the projected return make life insurance appealing.

Older, contractually paid-up policies with substantial cash values make excellent gifts. Middle aged and elderly donors may no longer need the coverage. They like the idea of getting a large current income tax deduction for no current outlay of cash.

Almost everyone carries some amount of life insurance, and adding a charity as a contingent beneficiary costs nothing from the standpoint of the donor.

Simply by naming a qualified charity as sole beneficiary for face values over $50,000, an employee may escape paying income tax on group life insurance premiums paid by an employer. This can be a significant benefit for highly compensated executives and physicians in group practices.

Life insurance is typically "sold" and not "bought," so people will not ordinarily think of making life insurance gifts without direct solicitation. Newsletter articles and brochures on life insurance subjects may help this process, but rarely if ever will they lead directly to a gift.

When considering the start-up of a new life insurance program, issues to factor into the equation include:

- agent representation
- types of insurance
- company ratings
- policy design
- projections
- cash values
- crediting rates
- premium reserves
- withdrawal penalties
- program administration.

<u>Charitable Trusts</u>
Charitable remainder unitrusts and annuity trusts have become extremely valuable tools in the planned giving arsenal. While governed by a variety of complex legal, tax and regulatory provisions, qualified remainder trusts have soared in popularity among financial planners and attorneys since enactment of the Tax Reform Act of 1986.

On the other hand, the charitable lead trust has remained almost exclusively in the portfolio of estate planners. It is particularly useful as a family trust in generation-skipping transfer plans for very large estates as well as a grantor trust in pledge payment situations.

Facilitating remainder and lead trust gifts requires technical expertise. Trust gifts are irrevocable and efforts can result in severe income, estate and gift tax repercussions. So the ability to properly guide donors and professional advisors is of paramount importance.

Newsletters, brochures, estate planning seminars and focus groups for donors are essential in the development of charitable trust gifts. However, long-term cultivation of professional advisors is the key to success. Becoming known as a resource for careful research, wise counsel and accurate software illustrations is the objective.

Factors to consider in the start-up of a new charitable trust program include:

- fiduciary duties
- trustee capability
- trust administration
- software illustrations
- technical competence
- investment management
- environmental assessments
- property appraisal procedures
- tax forms and filing requirements.

CONCLUSION

It has often been said that planned giving (like many other worthy undertakings) is not for the faint of heart or short of wind. Citing another fundraising cliché, it is definitely a marathon, nor a sprint. However, with proper planning, wise use of volunteers (to include professional advisors), and good old-fashioned persistence, success can be achieved. Next month we will review the building of a supportive framework for an effective Planned Giving Program