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# Give & Take

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NEWS AND IDEAS FOR DEVELOPMENT EXECUTIVES OF NONPROFIT ORGANIZATIONS

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## Using the Charitable Lead Trust to Create a ‘Retirement Plan’ for Children

by Robert F. Sharpe, Jr.

Experienced development professionals will occasionally encounter wealthy donors whose first priority does not include making their children wealthy. In many cases, such persons are entrepreneurs who have accumulated wealth during their lifetime. In fact, as many as 85% of millionaires have created their wealth from their own endeavors and have not experienced the benefit of an inheritance. (See March *Give & Take*, page 1, for a review of *The Millionaire Next Door*.)

Many people who have been successful in life hope that their children will have the same pleasure of making their own way. They are parents concerned about their offspring and want to help them become financially responsible.

Given these facts, advisors often recommend a private foundation for the very wealthy, and perhaps, an advised fund at a community foundation for those with lesser means. This strategy offers a way to shield assets from estate taxes while giving their adult children the opportunity to make charitable gifts to organizations and institutions of their choosing.

### How one plan would work

Recently I met with a couple in their mid-70s who had amassed total wealth in the range of \$10 million. They were understandably unhappy to learn that they would ultimately pay \$5 million or more in estate taxes if they did not make plans to minimize or eliminate this tax. They had expressed a desire to “do something” for their

children (whose ages range from 35 to 42), but they didn’t want to give them “too much, too soon.”

An advisor recommended that they make gifts to their children in a trust totaling \$1.2 million using their combined unified credit equivalent amounts of \$600,000 each. They would then add amounts each year that they could give under their \$10,000 per donee annual exclusion amounts. This amount would be invested to grow over the years and would distribute to the children in 15 years when they reach ages 50 to 57.

With the balance, they were advised to fund a private foundation at their deaths, and thereby eliminate the taxes that would otherwise be due. Their children would be named as trustees of the foundation and be given the right to make gifts to the charities they choose as a group.

Neither parent was particularly happy with this plan because they felt they were substantially reducing their children’s inheritance in order to save taxes. Although this bothered them, they could see no other way out. Is there a better way?

### An alternative plan

Suppose instead they were to create a charitable lead annuity trust today, funding it with \$5 million? If the trust were established to pay 8.5%, or \$425,000 to charities of the donors’ choosing each year for 15 years, the donors would enjoy a gift tax deduction of some \$3.8 million, leaving a taxable gift of \$1.2 million in the year the trust is created.

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Innovative methods transfer wealth as “retirement plan” for children.

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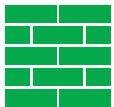
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## In the News . . .

News and notes  
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gift planners.



### Give & Take

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#### Stocks increase household wealth

The dramatic rise in the value of securities traded over the past few years has added more than \$3 trillion to household wealth since 1991, according to a Federal Reserve survey reported in *USA Today*. When securities held in other plans, such as pension, retirement, and life insurance, is added, the total climbs to \$4.5 trillion in household wealth.

The Federal Reserve reports that more than 41% of U.S. households held stocks in 1995—up from 37.2% in 1992 and 31.7% in 1989. The middle class has experienced an even more dramatic rise in stock ownership since 1989. Ownership of stocks by households in the \$10,000 to \$25,000 income range has nearly doubled, while in the \$25,000 to \$50,000 range, stock ownership has increased 44%.

In 1995 stocks and mutual funds made up 13.8% of family assets, whereas in 1989 that figure was 7.3%.

These figures bode well for gift planners who can clearly benefit their organizations and donors by encouraging gifts of appreciated assets such as securities.

Source: *USA Today*, March 24, 1997, page 4B.

#### The most generous donors

*Fortune* magazine listed the most generous wealthy donors by what they gave away in 1996. The top three are George Soros, president of Soros Fund Management, who gave \$350 million; L.S. Skaggs, retired chairman of American Stores, who gave \$155 million; and Bill Gates, chairman of Microsoft, who gave \$135 million.

Source: *Fortune*, January 13, 1997, page 96.

#### A growing segment of the economy

Nonprofits are growing faster than either for-profit or government entities, a new study from Nonprofit World suggests. (Figures are based on information from 1994.)

- Nonprofits make up 4.2% of all U.S. institutions at 1.03 million—up from 739,000 20 years ago.


- Nonprofits' income has grown, on average, 3.7% per year for two decades.

- Nonprofits employ 6.7% of the U.S. workforce—that's 9,656,000 workers.

- Women make up 68% of those employees, whereas they comprise 44% of other sectors.

The report, *Nonprofit Almanac: Dimensions of the Independent Sector, 1996-1997*, can be ordered from Jossey-Bass Publishers, 350 Sansome Street, San Francisco, California 94104 (800-956-7739 or 415-433-1704) or from Independent Sector, 1828 L Street, N.W., Washington, DC 20036 (202-223-8100) for \$24.95 plus \$5 shipping.

#### Population estimates

As of July 1, 1996, the U.S. population hit 265.3 million according to the Census Bureau, an increase of 0.9% over the past year. This represents a slight decline over the same period measured the year before and reflects a continuing lower birth rate since 1990. The median age rose from 34.3 to 34.6 years. 

Source: *USA Today*, March 25, 1997, page 3A.


(Editor's note: Find helpful information from the Census Bureau on the web at [www.census.gov](http://www.census.gov).)

### How Time Flies!

Do you know how many hours were generally required by itemizers to complete form 1040 this year? According to IRS figures, itemizers average 10 hours and 53 minutes to prepare their returns.



An itemizer could conceivably begin at 12:00 noon on April 15 and finish at 10:53 p.m. with time to spare before the midnight deadline—if they are “average.”

Source: *USA Today*, March 24, 1997 from figures supplied by the Internal Revenue Service. 

## WETA-TV/FM Receives Largest Bequest Ever

A recent gift in the high six-figure range was unanticipated by WETA-TV/FM, Washington, DC, when it materialized in late 1996, but turned out to be the largest estate gift in the station's 35-year history.

### Bequest supports public affairs

In her will, drafted in 1989, Mrs. Rosalie Koch directed that her bequest to WETA be used for "television news and public affairs programs similar to *Washington Week in Review* and the Bill Moyers programs that promote peace through understanding."

### Chronology of a full life

A look at the life story of Mrs. Koch reveals a pattern familiar to those regularly engaged in planned gift cultivation. Mrs. Koch was born in 1908. A graduate of Radcliffe College, she earned her masters degree from the University of Chicago School of Drama. From 1931 until 1943, she headed the speech department at Lassalle Union College in Auburndale, Massachusetts, and served as a speech instructor at Boston University.

Mrs. Koch joined the Navy in 1943, then moved to the Washington, DC, area with her husband Herman in the 1950s. In 1958 she retired from the Naval Reserves as a Lt. Commander. From 1959 to 1973 she was the national director of women's affairs at the American Forest Institute.

### An extraordinary "regular" member

Like so many of those who remember charitable interests in their will or trust, Mrs. Koch was a modest contributor to WETA. In fact, she gave 15 gifts averaging just under \$30 each over approximately 7 years.

By making her ultimate gift from part of her "personal endowment" when she no longer needed the funds, she preserved her own economic freedom and well-being while enjoying the satisfaction of planning a wonderful legacy with her assets.

The size of her gift was in part due to its structure. Rather than a specific dollar amount, Mrs. Koch designated that three charities share equally the residue of her estate after all other bequests, including several small specific charitable bequests, had been distributed. Her bequest underscores the fact that residual bequests are predictably several times the size, on average, as bequests stating specific dollar amounts.

The profile of Mrs. Koch that emerges is typical of many other donors. She was a person who...

- cared deeply about the organizations she remembered in her plans
- lived modestly while managing and preserving a lifetime's assets

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Donor's life and gift demonstrate wisdom of cultivating friendships.




*Rosalie Koch (right) shown here with close friend, Rosalie Nahar.*

## Gift Opens Door to Reveal New Ideas

One idea that WETA plans to implement in the future is to have development department staff members give senior managers a short list of older, long-term donors who have demonstrated an affinity for the station's programs over the years. CEO Sharon Rockefeller and others have committed to personally call these special people to simply thank them for their years of support.

The phone calls represent one key to opening up enduring relationships with donors who may be capable of making major deferred gifts, but are only able to give modest current gifts.

Often when the CEO dons the fund-raising hat, activities focus on enhancing relationships with contributors of large, outright gifts, as well as with corporate, foundation, and political contacts. While this work is critical to the overall financial health of a nonprofit, chief executives are taking note that the average bequest in America ranges between \$25,000 and \$30,000; and that total bequest income from individuals to U.S. charities exceeds corporate contributions virtually every year.

With these facts in mind, it makes sense to direct more attention to unlikely "major donors" hidden among the regular contributors to many organizations. 

## 'Retirement Plan' for Children . . . *Continued from page 1*


Their unified credits could be used to offset this gift, resulting in a gift of \$5 million (more or less depending on the performance of the trust assets) to their children at a "cost" of their \$1.2 million unified credit equivalent amount.

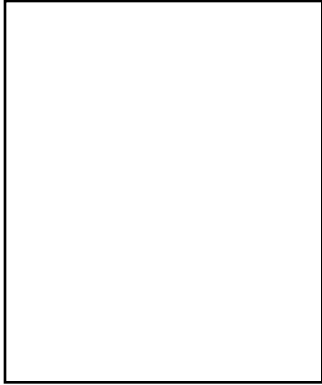
If they wished, the parents could direct that the lead trust payments be made to an advised fund at their local community foundation or elsewhere, and the children could make suggestions for the distribution of the funds from the advised fund.

The net result is to retain \$5 million the donors' may use for the remainder of their lives, provide an income stream of \$6,375,000 to charities of their choice, and provide a \$5 million tax-free "retirement account" for their children at a time when the parents initially wanted them to receive their inheritance. They have, in effect, tem-

porarily "disinherited" their children in a way that fulfills their charitable intentions and eliminates \$2.5 million or more in potential estate tax liability.

If they wish, they can continue their annual giving program to their children, and leave the remainder of their estate at death to a charitable foundation that the children will manage or to an advised fund, as the case may be. In that event, they will have totally eliminated tax on a \$10 million estate while leaving at least half of their assets to their children when they want them to have it.

This is only one example of how understanding the inter-relationship between donors' philanthropic and other motivations can lead to significant gifts that might not otherwise be possible. 



*Robert F. Sharpe, Jr., is president of the Sharpe company.*

## Public Station Receives Gift . . . *Continued from page 3*

- was widowed and without other living heirs
- gave modestly, but regularly.


### Importance of follow-through

WETA's senior development officer, JoAnn Azzarello, wanted a photograph of Mrs. Koch to run in the station's publications as well as more information about her. A brief request to contact the station was run in *The Washington Post* television column along with an announcement of the gift.

Immediately, a woman who was part of the same community group as Mrs. Koch contacted Ms. Azzarello and invited her to join the group of Mrs. Koch's closest friends for lunch. Ms. Azzarello came away from the luncheon with photographs, anecdotes, and a new circle of friends who expressed an interest in becoming more familiar with WETA.

WETA president, Sharon Percy Rockefeller, expressed regret at not being able to thank Mrs. Koch personally, but said the regret was mixed with joy, both for the programs the gift will bring to audiences and for confirmation that individuals in the DC area value WETA so highly.

In a follow-up discussion, Ms. Rockefeller expressed interest in helping nurture relationships with others who, like Mrs. Koch, often do not stand out from other donors, but who would undoubtedly enjoy words of appreciation from the CEO and others in the organization.

Mrs. Koch's gift provides a classic case study of a planned gift. It is at once both a surprise and a predictable capstone to a friendship between an individual and a nonprofit organization. The gift serves as a reminder of the simple, often humble, origins of a donor's ultimate gift. 

Gift sparks interest in cultivating other "regular" donors.

## Benefit from Inter-Departmental Cooperation

by Phillip B. Adcock

Much has been written recently about building relationships, working in teams, and cooperating between departments in the world of for-profit business. How important is cooperation between departments in the charitable setting?

My experience suggests that often in pursuit of an objective, we create an environment in which we operate autonomously. We often forget about the bigger picture when preoccupied with our own concerns.

What impression do we give donors who may be receiving our information? Do you know everything your donors receive from your organization? How are your donors acknowledged when they make gifts? If the business office handles stocks and/or certain types of gifts, how are they acknowledged? When do you learn that the gift has been received?

### Building a sense of teamwork

Working together in "teams" in the business world has, arguably, improved productivity and the "bottom line" of many for-profit corporations in America. Those who labor in the not-for-profit world may be able to learn from their experience.

**Cooperation between the business and development offices:** Suppose your institution receives a gift of appreciated stock. The business office will probably process the gift, assuring that stock is liquidated according to established policies, and then usually provide the donor with the appropriate documentation according to IRS regulations.

In the ideal situation, this donor would also receive an acknowledgment from the development department, the chief staff officer, the chief volunteer officer, or the person who directs the program the funds are used to support, as appropriate. A comprehensive record on your donor system

would also be established indicating the type of property the donor used to fund the gift and their program interest.

**Cooperation between the legal and development offices:** Often, a gift by will or trust is administered by outside legal counsel or the internal legal department. This is usually important to closely monitor executor fees, probate fees, and other administrative fees involved in settling an estate. In this case, the ideal situation involves the development office working closely with the family of the deceased to express appreciation, and to keep family members and other close friends informed about the value each individual's estate contributes to support programs.

Family members can sometimes feel as though they, too, are major donors when a spouse, parent, or other family member remembers your institution with a gift. These family members may themselves become prospects for current and deferred gifts.

**Cooperation between the development office and those who answer the phone:** Do you know everyone who answers the telephone in your institution? Do they know how to respond to donors? Do they know who you are and what your office does? The first impression many people have of your institution comes from the person who answers the phone. Overlooking details such as how the phone is answered occurs too often. Getting to know these persons and familiarizing them with the nature of your efforts can be well worth the time involved.

Simple instructions supported by a printed note pad or phone sticker with your legal name may be appropriate. Capturing the name, correct spelling, and phone number of the person calling is important so that you have an opportunity to follow up promptly and efficiently.

When special marketing efforts are in progress, consider including those who answer the phone in staff meetings and

Results of cooperation cannot be over-emphasized.



*Phillip Adcock, vice president and senior consultant with Robert F. Sharpe and Company, was formerly national director of major gifts and planned giving for the American Cancer Society National Center.*

## Footnotes for Gift Planners

News and ideas about Robert F. Sharpe and Company services and publications.



Increasingly, securities make up a growing portion of U.S. household wealth. (See page 2 of this issue of *Give & Take* for more on a recent survey.) Nonprofits can benefit from this increase in the value of securities owned by middle-class Americans by educating donors about the effectiveness of gifts of securities.


Our booklet "Taking Stock...and Giving It" addresses the most important aspects of giving appreciated securities as charitable gifts—both to the nonprofit and the donor.

For fastest service, fax your order for your supply of "Taking Stock . . . and Giving It" to (901) 761-4268, or call 1-800-238-3253 for more information.

### The Sharpe company "on line"

Our web site has been launched and will expand to supply fund development officers with the information needed to inform donors of innovative giving opportunities. Visit our site at [www.rfSCO.com](http://www.rfSCO.com) to explore our comprehensive gift planning services.

### Planning early

Newly revised, rewritten, and re-designed year-end giving publications will be introduced soon in *Give & Take*. It's not too early to plan marketing efforts you will undertake in the second half of 1997. 

## Cooperation . . . *Continued from page 5*

other activities in order to build and maintain open lines of communication.

**Cooperation with the program departments:** If you serve a hospital, do you receive a list of patients who are being treated in your facilities? If a major or long-term donor is among your patients, it may be appropriate to send flowers or magazines.


If surveys are used to monitor the programs your institution facilitates, it may be appropriate to seek demographic data, or determine if those who receive your services have charitable interests.

There are obvious ethical and public relations issues that must be considered. This level of cooperation sets up the opportunity to enhance the overall effectiveness of your institution by encouraging all departments to adhere to the same procedures when contacting donors.

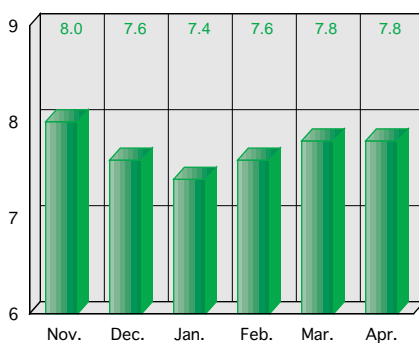
**Cooperation within the development department:** Different staff members

may be responsible for major, deferred, annual, special event, direct mail, and other gifts. Recently, we were working with the staff of an institution when they discovered that the direct mail managers were deleting donors who were no longer responding—at the very time their gift history indicated that these same donors were most likely to include the institution in their wills! Once the direct mail and gift planning staff began working in tandem, these problems were corrected with little or no additional cost to the direct mail effort.

### Lessons learned

The examples cited illustrate only a few of the many ways you can work together as a "team" in your institution to better serve your donors and those who benefit from your services. The goal in the nonprofit sector, just as with the for-profit world, should be to increase efficiency through cooperation to create an environment that benefits all. 

### Discount rates




*The trend in adjusted federal midterm rates (AFMRs), which are used in calculating the benefits of split-interest gifts.*

## Introduce Gift Planning to Your “Team”

Successful planned gift development officers know that they rely on others for help in fund raising. An informed and supportive CEO, board members, immediate supervisors, peers in other areas of development, program staff, finance and legal professionals, and support staff are all vital to their success.

The popular one-day seminar, “Planned Giving When That’s Not All You Do,” is designed to help widen the basic understanding of gift planning within your organization by offering accessible training to a broad range of individuals who are vital to the program.

Experience shows that many who are not fully engaged in gift planning are not able to take the time to travel or attend multi-day seminars. This seminar keeps their needs in mind.

Discounts are available for multiple registrations, so check the schedules of those whom you would like to introduce to planned giving and match them to the most convenient location and date listed to the right. Call 1-800-238-3253, extension 360, to register or to request additional information. 

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**Dates & Locations:**  
**Apr. 21 Washington**  
**May 9 Minneapolis**  
**May 16 Memphis**

## Begin/Refresh Gift Planning Training


While constantly updating the material taught at “Major Gift Planning—Options and Opportunities,” presenters Robert F. Sharpe, Jr., and Jonathan G. Tidd, Esq., make this two-day seminar a “standout in the crowd.” By combining their knowledge and years of experience, participants are exposed to the most comprehensive sessions available.

Highlights include:

- The role of gift planning within the fund development program.
- Current and deferred gift planning techniques.

- Deferred gifts in capital campaigns.
- Tax and other financial considerations in planning major gifts.
- Integrating charitable gifts in estate plans.
- Working successfully with donors’ advisors.

Registrations are always limited to allow for more interaction between participants and instructors.

For more details or to register, call 1-800-238-3253, extension 360. Reserve your space as early as possible. 

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**Dates & Locations:**  
**May 19-20 New York**  
**June 26-27 San Fran.**  
**Sept. 8-9 Phoenix**

## Advanced Training for the Experienced

“Major Gift Planning II” takes those more experienced in the field into a more in-depth exploration of issues related to major gift planning. A working knowledge of various gift planning vehicles is assumed.

This seminar focuses on how various planning tools can be used to help donors meet multiple planning goals while making significant charitable gifts. Special emphasis is on present value of gifts and the cost/benefit analysis process.

Robert F. Sharpe, Jr., and Jonathan G. Tidd, Esq., offer their extensive knowledge in a fast-paced, high-energy atmosphere paying special attention to practical challenges today’s fundraisers face. They offer solutions that can be implemented in a variety of fund-raising programs. Upcoming dates and locations are listed at right.

Call 1-800-238-3253, extension 360, or fax (901) 761-4268 the Sharpe company to register or request more information. 

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**Dates & Locations:**  
**July 10-11 Minneapolis**  
**Oct. 20-21 Pasadena**