Give & Take

VOL. 31 NO. 7 • JULY 1999

NEWS AND IDEAS FOR DEVELOPMENT EXECUTIVES OF NONPROFIT ORGANIZATIONS

Do Most Deferred Gifts Come From the Wealthy?

If you think planned gifts are made only by the very rich, think again.

Inside

by Timothy Sharpe

Editor's Note: Last month Give & Take *brought you the first in a series highlighting common misconceptions in the gift planning field. This month we are pleased to continue our discussion on the fallacies of planned giving with our second myth: "Most persons who make planned gifts are wealthy."*

A major misconception that sometimes leads to poor performance in gift planning programs is the belief that most large planned gifts are made by people of great wealth. While stories abound of six- and seven-figure bequests coming from the estates of persons who had made very modest, even tiny, gifts during life, these cases are often treated as amazing exceptions. As it turns out, these gifts are more the rule than the exception.

Sources of the myth

There are several reasons for the belief that larger bequests and deferred gifts come from obviously wealthy people. First, there has been more prominent media coverage of very large bequests and other deferred gifts from the very wealthy. They are well known by many and make for interesting coverage. On the other hand, when a little-known widow with no living heirs passes away leaving the bulk of what might be a quite substantial estate to a small number of charities, there is very often no one to interview about the thoughtful and generous benefactor. Story elements like photos and details are hard to find, so, even if one wanted to publicize such gifts more broadly, it seems there is often not much to say.

Another factor contributing to the abiding strength of this myth is related to major donor research. Much of the research capability in the major gifts area has been honed in the context of capital campaigns and other efforts designed to raise major dollars in a relatively short time frame. Of necessity, this research focuses on identifying those individuals with obvious liquid wealth, high incomes, etc. Research tends to look for ownership of securities, closely held businesses, expensive homes and automobiles, evidence of other philanthropic giving, and other such indicators of capacity to make large outright gifts.

Because realized deferred gifts do tend to be large gifts, planned giving is rightly considered part of the major gift development tool kit. Major donors giving on an outright basis are usually affluent, so major deferred givers must be persons of wealth as well, it is thought. After all, as the thinking goes, a person must have the means to make a five- to seven-figure gift even if he or she is going to make such a gift on a deferred basis.

Stage of life is critical

Assuming a strong belief in the mission and desire to make larger gifts, the fact of the matter is that how much a person owns is not nearly as strong a predictor of the likelihood of either a major outright or deferred gift as are the person's stage of life, debt level, and deployment of assets.

Donors of large outright giftsMajor outright gifts typically come from donors who are between 50 and 70 years old. This is a time of high disposable income generally

Continued on page 5

In the News . . .

News and notes of interest to gift planners.

Gates family gives $5 billion in stock

Bill and Melinda Gates gave $5 billion worth of Microsoft stock to their private foundation, the William H. Gates Foundation, in June. This gift doubled the size of their foundation to just over $10 billion, making it fourth in the country's top philanthropies in terms of asset holdings.

Bill Gates' father, William H. Gates, Sr., runs the Gates Foundation. Mr. Gates, Sr., said the reason for the large donation was simple—his son wanted to give away more money to continue the Foundation's work. The Foundation plans to increase the number of grants it awards in order to put the extra funds to good use.

In addition, the Foundation office is moving to new office space in Seattle. Until now, the Foundation has been operating out of the basement of the home of Mr. Gates, Sr.

Source: *The Chronicle of Philanthropy*, June 17, 1999

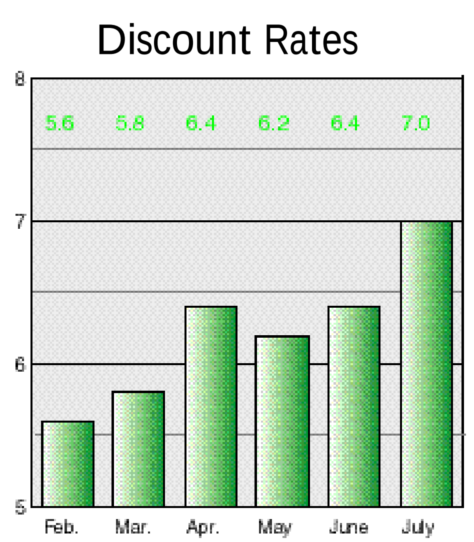
IRA stats reflect growing retirement assets

According to statistics from the Employee Benefits Research Institute, IRA assets totaled $2.1 trillion in 1998. That figure represents over a three-fold increase from $636 billion in 1990.

Mutual funds accounted for the largest portion of this total—growing from $140 billion in 1990 to $934 billion last year. Brokerage accounts came in second with IRA holdings of $724 billion. Bank and thrift deposits fell from $266 billion in 1990 to $249 billion in 1998, while life insurance companies grew from $53 billion to $196 billion respectively.

For gift planners, the news here is that it will be increasingly important to emphasize the importance of providing for charitable remainders from retirement plans in addition to traditional emphasis on bequests by will and other means of distributing assets to charitable interests at death.

Source: *USA TODAY*, June 11, 1999



The trend in applicable federal mid-term rates (AFMRs), which are used in calculating the benefits of split-interest gifts.

Two Training Opportunities Left

Looking for a way to increase your awareness of gift planning strategies that could benefit your organization now and for years to come? Then plan to attend the two-day workshop "Major Gift Planning I—Options and Opportunities."

"Major Gift Planning I" will be offered only two more times this year in:

- San Francisco on September 9-10
- Washington, D.C. on October 28-29.

Whether you are on the east coast or west coast, or somewhere in between, make your plans now to join presenters Robert F. Sharpe, Jr., and Jonathan G. Tidd, Esq., for this comprehensive, insightful learning experience. See page 7 for more details. Call 1-800-238-3253, ext. 360 for more information or to reserve your place.

Give & Take

A client service publication published monthly since 1968 by Robert F. Sharpe and Company, 5050 Poplar Avenue, Suite 700, Memphis, TN 38157, (901) 680-5300. Fax (901) 761-4268. E-mail info@rfsco.com or through our Web site at http://www.rfsco.com.

Editor:
Elizabeth H. Smithers

Assistant Editor:
Helen Anne DiMeglio

Gift Planner Finds Satisfaction in Work

In this month's "Gift Planner Profile," we talk with Wayne Lynch, executive director of The Regency Foundation in Philadelphia. The Foundation, spearheaded by Mr. Lynch just over four years ago, provides support primarily for Philadelphia College of Bible. With 25 years of experience in fund development, Mr. Lynch shares his views on the gift planning field in this issue of Give & Take.

Give & Take: How did you come to work in the field of fund raising?

Lynch: I have been in fund raising for 25 years, but I started in mortgage banking work. My degree is in marketing and finance. Over time I grew dissatisfied with the feeling that what I was accomplishing did not really have any lasting, spiritual value. Out of the blue I felt like I was called to work at a local school that had only 65 students and it was struggling. I went to meet the headmaster and I said, "What can I do at your school?" He said they needed someone who could raise funds, teach, and coach. I told him I didn't know how to do any of those things but I could learn! I was there 11 years and we grew to 650 students and expanded five times during that period. I gravitated toward the fund raising aspect of my job while I was there. I came to Philadelphia College of Bible in 1986 as Vice President for Development. We started The Regency Foundation four and half years ago.

Give & Take: What changes have you observed in the gift planning profession over the years?

Lynch: I think there is much more of an emphasis now on building relationships with donors, building integrity, and on really sharing the vision and mission of your organization. When I first got into the field in the '70s, it was heavily geared toward emergency appeals and appeals based almost purely on uninformed emotion. People were worn out from all the emphasis on crises, inflation, etc. Now there is much more of a focus on cultivating donors. Boards also recognize that there are costs involved in raising money. On the planning side, a number of giving vehicles, like gift annuities and charitable trusts, have become much more popular over the years.

Give & Take: Do you have a personal motto regarding how donors should be treated in the gift planning process?

Lynch: You need to help them accomplish their goals with all factors considered—their family, their financial situation, and their future. You want to help them by showing them opportunities and possibilities that they can avail themselves of. With our institution, I want to show donors our mission and vision. I want to build a relationship over time so they can better see how they can help us achieve our goals. We hope that their goals in the future will be to help us do the Lord's work. We can help them accomplish that in a satisfying, rewarding, and financially efficient way.

Give & Take: What is your favorite aspect of your job?

Lynch: My favorite part of my job is finding the millionaire next door—the person who didn't realize how much they had. To take these people through the process of creating charitable giving vehicles is the most fun of all. Helping them to realize the full potential of the resources they have been entrusted with is extremely gratifying. We promote good stewardship, which means taking care of your resources while making appropriate charitable gifts at the right times in life. America enjoys a rich spiritual heritage that is based in large part on encouraging us to be generous and give liberally. Giving and stewardship of our resources naturally involve planning. As Bob Sharpe has said many times, "Show me someone who plans and they are going to be the one who gives the most." I am glad to have the opportunity to work with such generous planners every day.

Wayne Lynch

Study Indicates Record Gifts to Charities in 1998

Statistics show healthy increase in charitable giving last year.

The American Association of Fund Raising Counsel (AAFRC) Trust for Philanthropy has recently issued new estimates and figures of charitable gifts made in America in 1998. The statistics compiled in *Giving USA 1999* indicate that charitable giving reached a record-breaking $175 billion last year.

Giving from all four categories studied (individuals, bequests, foundations, and corporations) showed healthy increases. Charitable gifts from individuals and their bequests accounted for about 85% of total charitable dollars given. Foundation and corporation giving accounted for the remaining 15%.

Year	Bequests*
1989	6.97
1990	7.64
1991	7.78
1992	8.15
1993	8.54
1994	10.01
1995	10.73
1996	11.48
1997	12.63
1998	13.62

* in billions

Estimated charitable gifts increased from a revised figure of approximately $158 billion to $175 billion between 1997 and 1998. This increase represents a double-digit increase of 10%. Total giving accounted for over 2% of the gross domestic product in 1998 for the first time since 1971.

Reasons behind the numbers

A number of factors helped drive last year's record figures including low inflation, a good economy, high employment, and a surging stock market, along with more sophisticated fund-raising efforts and increased generosity from individuals, foundations, and corporations.

America's charitable organizations also appear to be sharing in the massive intergenerational transfer of wealth predicted by Cornell economists Robert Avery and Michael Rendall. The table above indicates the steady growth of bequests from individuals over the last 10 years.

If overall giving had kept pace with the increases reflected among bequests over the past decade, this year's overall figures would have almost doubled since 1989 to over $200 billion!

What the numbers may mean

A continuing robust economy will help fuel the assets of America's foundations and profitability of America's corporate citizens, and thus the likelihood of increased giving from those sources. The ongoing transfer of wealth from senior generations continues to benefit family, friends, and charities they wish to support.

The steady upward trend of the stock market should also continue to boost individual giving this year. As Nancye Raybin, chair of the AAFRC Trust for Philanthropy, noted in a prepared statement, a drop in the market does not necessarily slow charitable giving. "Even autumn's dip in the stock market did not level philanthropic growth," Raybin pointed out. "Some people may have been more cautious than they would have been otherwise, but the gains of the preceding years still left many Americans with vastly increased wealth, even viewed in the relatively short run." [Editor's note: For more information on educating donors about gifts of securities, please see page 6.]

Those persons whose economic fortunes have improved with the burgeoning economy are now proving more willing to give even more generously than in prior years. It is also reasonable to expect that in addition to gifts from income, an increasing number of gifts of assets will be particularly attractive among persons who enjoy the tax benefits of charitable giving, with those gifts taking the form of gifts of appreciated securities during the remainder of the year.

Wealthy . . .

Continued from page 1

coupled with diminished obligations to educate children or make mortgage payments. Many people in this group are still working and still receiving the largest paychecks of their lives. The reality of living on fixed income from assets for many years of retirement has not yet arrived. Income is high, debt is low, and assets are available. Major outright contributions are both economically and psychologically feasible. While they may have a will or trust and other plans, most members of this group are many years away from making their final estate plans, the plans that might include the charitable designations that will result in gifts in the reasonably near term.

Deferred gift donors: Most deferred gifts in the form of trusts, gift annuities, and other similar vehicles are completed by people aged 65 to 80. At this point in life almost all are retired, and, even if well-fixed financially, people in this age group have very legitimate concerns about possibly outliving resources that could potentially be eroded by inflation or other factors beyond their control. They are likely to deploy their assets in their own "personal endowments" designed to maximize income while preserving the value of principal. As a result, most in this group are not the best prospects for major outright gifts no matter how wealthy they appear to be. Many will, however, consider a deferred gift as a kind of "testamentary rollover" from their own personal endowment funds to the charitable purposes they support.

Examining available data

The myth that larger deferred gifts come from persons of great wealth also persists because we have much more information about large estates than we do about smaller estates.

Of approximately 2.4 million U.S. deaths in 1997, only about 60,000 (or 2.5%) estates were required to file estate tax returns. Of these large estates (over about $600,000), only 19%, or less than 12,000, made use of the charitable estate tax deduction.

Compare the fact that fewer than 12,000 wealthy persons with taxable estates died leaving gifts to charity with *Giving USA's* 1997 figure of $12.6 billion coming from bequests. If those persons accounted for all of the charitable bequests in America, the bequests would have to amount to over $1,000,000 per estate! As the average bequest in this country is in the range of $30,000, and the average will contains approximately five bequests, it would take 80,000 persons to account for $12.6 billion dollars. While exact figures on the number of non-taxable estate gifts and their total value is not available, it is clear from even a rudimentary analysis that the vast majority of charitable bequests are coming from persons who die with less than $650,000, and could only be described as middle-income Americans. The same can be said for most gift annuitants.

Charitable remainder trusts average somewhere in the range of $400,000 nationwide. In our experience the total wealth of persons who enter into such trusts tends to be somewhat higher than bequests and gift annuities, perhaps in the $1,000,000 to $3,000,000 total asset range. Such persons are definitely comfortable but not among the ranks of America's typical major outright donor. The wealthiest persons in our society simply have less need for the additional income and asset management afforded by such vehicles and increasingly see capital gains income taxed at 20% as the preferred form of taxation when compared to ordinary tax rates of 40% or more.

"Old" vs. "new" money

Based on many years of anecdotal experience of our staff members and clients, it seems that people who inherited their wealth tend to be quite generous during life, but less so in their estate plans at death. Arguably, this group of donors thinks of their wealth as being their own only in trust, if you will. They did not earn it and may not feel it is really "theirs," and they may thus

Continued on page 6

> It is clear from even a rudimentary analysis that the vast majority of charitable bequests are coming from persons who die with less than $650,000.

Timothy Sharpe, based in the Washington, D.C., area office, is executive vice president of the Sharpe company.

Footnotes for Gift Planners

News and ideas about Robert F. Sharpe and Company's services. For more information, join us on the Web at www.rfsco.com .

The choice is yours

At Robert F. Sharpe and Company, we know that all donors and constituencies are not alike. That's why we offer five different year-end giving brochures to complement your end of the year appeals.

Each six-panel year-end giving brochure explains the benefits of charitable giving before the end of 1999.

• "Giving at Year-End 1999." This brochure begins by reminding readers about the importance of reviewing charitable giving plans, especially at the dawn of the new millennium. The brochure then explains the various assets that can be used to fund charitable gifts, such as cash, appreciated property, and retirement accounts. Finally, the concept of considering planned gifts is presented briefly as part of the year-end planning process. "Giving at Year-End 1999" is available in two cover designs and may be imprinted on the front and/or back cover(s).

• "Giving Thanks at Year-End." This title is offered in two cover designs that each conveys the theme of Thanksgiving. This brochure may be especially attractive to religious organizations and institutions.

• "Giving Before December 31." This brochure puts more emphasis on the importance of timing of charitable gifts and the tax benefits that donors can take advantage of by acting before the end of the year. Planned gifts are also mentioned as something to consider during long-range financial planning.

To see sample brochures, please visit our Web site at www.rfsco.com. If you order before July 31, you will receive a 10% discount on your order. To place your order, call 1-800-238-3253 or fax to (901) 761-4268.

Now is good time for "Taking Stock"

With the stock market at record highs and year-end fast approaching, individuals may now be considering ways they can fulfill their giving plans in the most tax-wise manner. Providing donors with the booklet "Taking Stock...and Giving It" could prove helpful to them and, in turn, could benefit your organization.

To order "Taking Stock," call 1-800-238-3253 or fax to (901) 761-4268.

Wealthy . . .

Continued from page 5

feel a strong obligation to pass it on to future generations of their family. Meanwhile, outright major giving during life is just one of the social expectations that goes along with inherited wealth.

On the other hand, the experience of many in this area of development indicates that those who start out with very little and build great wealth through their own labor, ingenuity, investment skills, etc., are often less likely to be major current contributors and more likely to leave large bequests and other deferred gifts. They are likely to hold onto assets until death because they remember times in their own lives (perhaps during a Depression-era childhood) when they did not have enough, and they fear that such times could recur, particularly if they live a long time on a fixed income.

Differing choices

While the holder/"trustee" of great inherited wealth has a choice to make as to whether to preserve the family's wealth or give it all away to charity, the owner of self-made wealth has to decide whether to begin a cycle of inheritance that may continue for generations or to disperse his or her wealth back to the society via large charitable bequests, thereby affording younger generations the great pleasure of building their own fortunes!

The conclusion is that the very wealthy persons who do leave significant amounts to charity at death tend to be self-made persons who live beneath their means during their lifetime and are more difficult to uncover utilizing traditional research techniques designed to aid success in major outright giving. These persons are more likely to "self identify" through marketing efforts aimed at long-term older donors making current gifts of any size.

No where else to go

The discussion above assumes the holder of wealth—old or new—has living heirs who may or may not receive inheritances. By far the greatest number of large bequests come from widowed or never-married persons (mostly women) who have no other living heirs. Their choice when drawing up their final estate plans becomes whether to benefit those

Continued on page 7

Training Update

Major Gift Planning I - Options and Opportunities

In two concentrated, information-packed days, presenters Robert F. Sharpe, Jr., and Jonathan G. Tidd, Esq., discuss the most important facts gift planners need to know to successfully guide their organizations into the 21st century. By linking their knowledge and over 40 years of combined experience, Sharpe and Tidd lead participants through a comprehensive training experience.

Make sure you are prepared to meet your donors' needs in the future by attending this popular seminar. Registration is always limited to allow for more interaction among participants and instructors.

Major Gift Planning II

For the more experienced gift planner there is "Major Gift Planning II," which focuses on applying various planning tools to help donors meet multiple goals while making significant gifts. A working knowledge of various gift planning vehicles is assumed. Special emphasis is placed on the impact of recent tax legislation and investment market conditions.

Instructors Robert F. Sharpe, Jr., and Jonathan G. Tidd, Esq., pay particular attention to the practical challenges facing today's fund gatherers.

Planned Giving When That's Not All You Do

If you're responsible for more than planned giving, this one-day seminar will help you focus your efforts. "Planned Giving When That's Not All You Do" is designed to broaden the knowledge of gift planning throughout your organization, from the CEO or president to the support staff who may be first on the phone with donors. Your staff can become some of your best planned giving advocates once they understand its benefits for your donors and your institution.

Multiple registration discounts are available. For more information or to register, please contact the Sharpe company. Phone 1-800-238-3253, ext. 360; Fax (901) 761-4268; Web site www.rfsco.com; E-mail seminars@rfsco.com

Seminar Training Dates

Major Gift Planning I

San Francisco
September 9-10

Washington, D.C.
October 28-29

Major Gift Planning II

Chicago
December 13-14

Planned Giving When That's Not All You Do

Washington, D.C.
July 16

New York
August 2

Miami
November 15

Wealthy . . .

Continued from page 6

charitable institutions and organizations in which they believe deeply, or federal and state governments and/or relatives to whom they may not be close. Most people in this situation will choose charity. Indeed, a study by Dartmouth College in the early '90s indicated that 14 of 15 bequests over $100,000 came from donors with no living heirs. All but one had a modest lifetime giving record and would not be considered "wealthy" by most person's standards.

Conclusion

The damage done by this second myth in our series has been incalculable over the years. This results from the fact that undue attention is paid to persons holding great obvious wealth while loyal donors of lesser amounts—some of whom may be "millionaires next door"*—are overlooked. Especially in larger organizations managing large donor files on computer data bases, loyal smaller donors are allowed to lapse when their regular giving ceases. This is precisely the time that those donors may be planning for the ultimate distribution of the accumulated assets of a lifetime. Meanwhile, inordinate amounts of time are spent trying to encourage large deferred gifts from persons who may not have the practical ability or the psychological or spiritual inclination to make such gifts.

Next month's myth: "Planned gifts are primarily motivated by tax incentives."

* A reference to the best seller, "The Millionaire Next Door," by Thomas Stanley and William Danko, published in 1996 by Longstreet Press, Atlanta.