

Give & Take

VOL. 31 NO. 6 • JUNE 1999

NEWS AND IDEAS FOR DEVELOPMENT EXECUTIVES OF NONPROFIT ORGANIZATIONS

The Myths and Realities of Planned Giving

by Robert F. Sharpe, Jr.

Editor's Note: This article is the first in a series that will be featured over the next several months in Give & Take. It is the intention of the authors to distill over 100 years of combined experience of Sharpe consultants in working with planned gift development efforts of all types and sizes into a number of articles intended to help new and established programs avoid a number of pitfalls and roadblocks that are based on a collection of misconceptions that have over the years become part of "common knowledge" in the fund-raising arena.

Webster's dictionary defines Myth as "a traditional story of unknown authorship, ostensibly with an historical basis, but serving to explain some phenomenon of nature, the origin of man, or the customs, institutions, religious rites, etc. of a people."

Over the years, we have observed a number of organizations and institutions that have struggled year after year to enjoy the benefits that can be afforded by planned gifts while unfortunately achieving only intermittent success at best. What are the factors that seem to derail such programs? What sets programs that are consistently successful apart from those that fail or just "get by"? We have observed that many programs that find planned gifts a struggle tend to share some things in common. Their programs tend to be built around one or more common myths. These myths can be summarized as follows:

- Planned giving is a recent phenomenon on the fund-raising scene and not much can be learned from studying past trends in this area.
- Most persons who make planned gifts are wealthy.

• Planned gifts are primarily motivated by tax incentives and those who advise donors in these areas can be relied on to steer donors to waiting charities.

• Irrevocable trusts and other similar gifts are the key to success in planned giving and other types of gifts should be given lip service, but can't really be influenced or relied upon.

• Planned gifts take forever to yield benefits for charity.

• All planned gifts are valuable.

• Full-time staff devoted to planned giving is always necessary for success, regardless of the size of the organization or institution.

• Planned gift results are unpredictable, making expenses and income for all practical purposes impossible to project and budget for.

While there may be a grain of truth in each of the statements above, they are all for the most part false. Organizations that embrace these myths and use one or more combinations of them as the guide to planning and implementing their charitable gift

Continued on page 4

What do you "know" about gift planning that may not be true? Read the first of a Give & Take series focusing on gift planning fallacies.

Inside

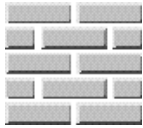
New rules make it easier for public to get nonprofits' tax returns Page 2

Gift planner in Hawaii shares her insights after 20 years of fundraising .. Page 3



Plan now to attend "Major Gift Planning I - Options and Opportunities" in San Francisco on September 9 -10. See page 7 for details.

News and notes
of interest to
gift planners.



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>.

The publisher of Give & Take is not engaged in rendering legal or tax advisory service. For advice and assistance in specific cases, the services of your own counsel should be obtained.

Articles in Give & Take may generally be reprinted for distribution to board members and staff of nonprofit institutions and other non-donor groups. Proper credit must be given. Call for details.

© 1999 Robert F. Sharpe and Co., Inc.

Editor:
Elizabeth H. Smithers

Assistant Editor:
Helen Anne DiMeglio

In the News . . .

Nonprofit tax returns now easier to obtain

New rules for making nonprofits' tax returns more accessible to the public will take effect on June 8, 1999. The new law requires charitable organizations and institutions to mail copies of their returns to anyone who submits a written request. In the past, copies only had to be made available to inquirers who requested them in person. The new rules allow organizations to charge a "reasonable fee" for copying and mailing their returns.

If an organization's return is posted on its official Web site, the organization may direct inquirers to their site for the information. Charitable organizations and institutions that believe a request is part of a "harassment campaign" must file an application for "harassment determination" within 10 business days of the request. If the request is deemed part of a campaign to "disrupt the operations of the tax-exempt organization," the organization does not have to fulfill that request.

Source: *The Chronicle of Higher Education*, April 23, 1999

Nonprofit assets growing

According to IRS's Statistics of Income Bulletin, the total assets for charitable orga-

nizations reached \$1.14 trillion in 1995—surpassing \$1 trillion for the first time. This number is up 15% from 1994.

Total revenues grew to \$663.4 billion—up 13%. Contributions, gifts, and grants rose 15% to \$127.7 billion, and investment income increased almost 21% to over \$31 billion.


Source: *The Wall Street Journal*, May 5, 1999

Penny-pinching doctor leaves millions to college

He wasn't an alumnus and he had visited the campus only once, but Dr. Joe McKibben bequeathed the bulk of his estate—now valued at \$12 million—to the College of the Ozarks.

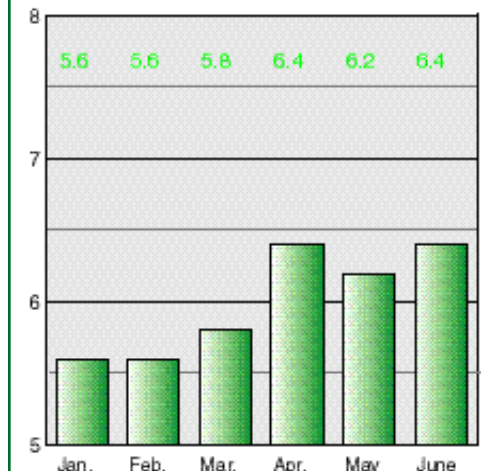
According to the college's president Dr. Jerry Davis, Dr. McKibben grew up in the Ozarks and had read about the college in a *Wall Street Journal* article in 1973. He was impressed by the strong work ethic cultivated by the school. Most of the 1,500 undergraduates pay their tuition by working in one of the school's various businesses, such as a jelly and fruitcake shop, stained-glass studio, and restaurant.

Though Dr. McKibben visited the campus only once in 1989, his relationship with the college continued throughout the rest of his life thanks to Dr. Davis. The college president visited Dr. McKibben at his home in California at least once every six months. During these visits Dr. Davis noted in amazement how Dr. McKibben lived in squalor and was so frugal that he would drink water with his K Mart submarine sandwich because he felt soft drinks were too expensive. Dr. McKibben abhorred wastefulness and often sifted through trash cans collecting items he believed were still useful.

Five years after his initial contact with the school, Dr. McKibben made his first annual gift of \$100,000 in 1994. He continued to make six-figure annual gifts until his death in May 1998. 

Source: *The Wall Street Journal*, May 19, 1999

Discount Rates



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

Hawaii Gift Planner Inspired by Donors' Generosity

In this month's Give & Take we talk with Susan Lampe, director of planned giving at the University of Hawaii Foundation. Having worked in various aspects of fund raising for 21 years both in the Continental United States as well as Hawaii, Ms. Lampe offers her philosophy on gift planning in this "Gift Planner Profile."

Give & Take. How did you get started in your planned giving career?

Lampe: My first career was as an instructor of Spanish at the City University of New York. I developed my interest in fund raising during that time when I helped raise money for student trips to Spain. From there I began working in the development field. I began with responsibilities for government and foundation grants for community-based youth programs, then I worked for Girls Scouts of the USA. From there I worked on the campaign to fund the renovation of the Statue of Liberty. I learned about corporate funding at the New York City Opera as director of corporate giving under Beverly Sills. So I had an across-the-board background when I moved to Hawaii nearly 11 years ago. In Hawaii, I was director of development for two organizations for eight years. Over time, I spent more and more time on planned giving, saw the enormous potential there, and discovered that I really enjoyed it. So when I was given the opportunity to take the director of planned giving position here at the University of Hawaii, I was very glad to have the opportunity to specialize in this area.

Give & Take. What do you think is your biggest challenge as a gift planner? Does your location offer specific challenges?

Lampe: One challenge in Hawaii is the enormous potential for philanthropy as yet unrealized. This is a very giving community with a rich mix of cultures. One result is the longer time needed for cultivation. So

our role is the same here as in other parts of the country—we must educate potential donors and current donors and show them what the opportunities are to help. In that way I think the challenges here are very similar to those anywhere else.

Give & Take. What characteristics do you think a gift planner should possess in order to be successful?

Lampe: A gift planner should be a good listener. Then based on what they have heard, they should be prepared to respond in a sincere and rational manner. I also think gift planners should enjoy people and like surprises. Planned gifts are like snowflakes—there is always something different about each one. It is fascinating.

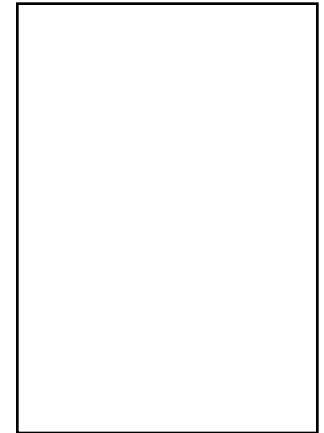
Give & Take. What keeps you inspired about your work?

Lampe: My inspiration comes from having contact with people with true charitable intent. It is an honor to be able to show these people how they can make a difference in a way they may have never thought of. When we work with people who have genuine donative intent, it is an uplifting experience.

Planned giving also satisfies both the emotional and intellectual needs of the gift planner. It is a constant challenge to listen to the information and think, "How can I help this person reach their goal in the best possible way?"

Give & Take. How do the gift planners in Hawaii, who must often be working with the same small pool of donors, manage to cooperate and work together?

Lampe: It goes back to the Aloha spirit. People treat each other well here and are very considerate of one another and especially considerate of donors and prospective donors. The key is to let the donor drive the situation. We must listen to what the



"Planned gifts are like snowflakes—there is always something different about each one."

—Susan Lampe

Myth. . . *Continued from page 1*

Planned gifts are demonstrably as old as Western civilization.

planning efforts will either never experience meaningful results, or will have sporadic or underperforming efforts.

In this and future articles, we will examine each myth, attempt to determine its origin, determine the extent to which it is based on truth, and then offer positive and realistic recommendations designed to help deal with the relevant issues.

Myth One—“Planned Giving Is New and There Is Not Much Guidance Available”

This myth finds much of its origin in the Tax Reform Act of 1969. As part of that comprehensive tax reform initiative, Congress included a number of very specific provisions that were designed to deal with what were perceived by legislators as abuses of legitimate incentives incorporated in the federal income, gift, and estate tax systems.

Planned giving in the mid-20th century

During 1950s and 60s a number of institutions were broadly marketing to persons outside their natural constituencies what could only be described as tax shelters. Generally the “donors” who availed themselves of these “gift plans” had little or no donative intent toward the institutions that promoted the plans.

These “tax shelter” plans primarily involved complex uses of charitable remainder trusts. They took advantage of the fact that there were no statutory, regulatory, and court determined guidelines governing payout rates, discount rates, how trusts could be invested, how the income would be taxed, how small the charitable benefit could actually be, etc.

In an attempt to limit the abuses it perceived without interfering with the positive uses of charitable estate planning tools, Congress gave us very strictly defined rules governing the pre-existing vehicles we now know as charitable remainder unitrusts, annuity trusts, pooled income funds, charitable lead trusts, and others.

New laws created new niche

It is true that the 1969 law and the myriad of regulations, rulings, and court decisions that interpret and now form the tax laws governing irrevocable trusts, gift annuities, and other so-called “split interest” gifts *are* relatively new. This complex patchwork of arcane laws made it necessary for a group of tax attorneys, many of whom are now well known gurus in planned giving, to “hit the road” beginning in the early 70s to teach the staff and volunteers serving America’s nonprofits the new rules that governed charitable estate planning.

As a result, many of the persons who entered the field of development in the 1970s would and naturally did assume that planned giving was something new, primarily based on tax law, and a technique that they may or may not wish to append to their programs. These managers often responded by hiring persons who were expected to specialize in understanding and applying the “new” plans put in place by the 1969 tax act. These persons were typically called “Directors of Deferred Giving.” There are still a small handful of persons in America who bear that title, as “Director of Planned Giving” or “Director of Gift Planning” has become more commonly used.

From the early 1970s to today, therefore, many among the leadership of America’s nonprofit community have seen “planned giving” as something new, optional, and in many cases not really a central component of the ongoing development effort.

A brief history of planned giving

The reality could not be further from the truth. Planned gifts are demonstrably as old as Western civilization, and in various forms have long been interwoven in its history. Ancient Greek and Roman philosophers, Aristotle chief among them, wrote extensively on various types of philanthropy. Citizens of Rome established perpetual family foundations that were

Continued on page 5

Myth. . . *Continued from page 4*

allowed to receive bequests by the first century A.D. Throughout the medieval period, most social services were performed by the proceeds of rents from land held in charitable trusts, and by the remainders from gift annuities that had been funded for the benefit of the Church.

By the mid-16th century, the Church had accumulated between one-third and one-half of the wealth of England through its fund-raising efforts, most of which were based on gifts via trusts, bequests, and annuities. As an early step in what we now know as the Reformation, Henry VIII enacted what have come to be known as "Mortmain Statutes" which forbade his subjects to leave any more land to the Church in perpetual charitable trusts. As a softening of these statutes, in 1531 a law was passed that allowed persons to place land in trust for the benefit of the Church but only for a maximum of 20 years, at the end of which time the land must return to the family. Then, as now, persons were allowed to voluntarily direct assets for charitable use for a period of time before returning the property to their family. Could this be the origin of what we know today as the charitable lead trust?

When American independence was declared in the late-18th century, our forefathers took the process another step further when they provided for total separation of Church and State, thereby assuring that American society would always include an independent nonprofit sector. From the early days of American society, persons like Harvard, Smithson, and others left generous bequests that built the educational, cultural, religious, and social service agencies that still form the bedrock of our country.

The earliest records of gift annuities in America date to contracts issued by the American Bible Society in 1843. There is evidence of very active planned gift development efforts including bequests, gift annuities, and charitable trusts in the early part of the century, predating the income, estate, and gift tax codes by decades. An article published in *The New York Times* in

1939 declared that the colleges and universities that raised more money during the Depression than in earlier years did so because of the "dramatic increase" in bequest income during the 1930s while outright gift sources declined. These gifts were the result of active planned gift development efforts in the early years of the century. For example, the American Council on Gift Annuities was founded in 1927 and began the process of recommending prudent gift annuity rate standards that continue to this day.

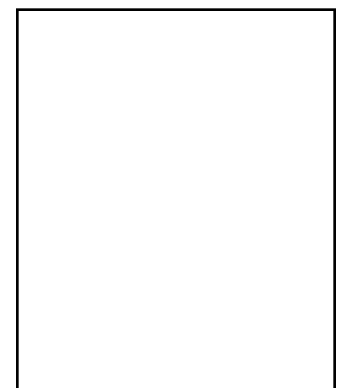
Planned giving in post war America

American society experienced tremendous upheavals during and in the wake of World War II. It was a time of rapid growth in our society when untold amounts of wealth were created. A new generation of management took the helm of a rapidly expanding nonprofit sector. The economic environment was booming with the majority of the wealth controlled by relatively young veterans who were amassing large amounts of capital. Campaigns for outright gifts to build American hospitals, classrooms, libraries, symphony halls, and other bricks-and-mortar projects became the dominant form of major gift development. In this environment, what we now know as "planned giving" became less central to the funding process and was largely abandoned as a funding source by many American philanthropic institutions.

As we enter a new century, however, new challenges that call for tried and true solutions are re-emerging. The heroic World War II generation, led to a large degree by beneficiaries of the G.I. Bill, is now moving into retirement years and beyond as the wealthiest group of seniors in American history. Their concerns are to assure economic security in later years and pass as much of their wealth as possible to their loved ones. These concerns naturally have an impact on, and can interfere with, the desire to make large outright gifts. Planned gifts hold the answers today, as they have for centuries, to

"To give away money is an easy matter and in any man's power. But to decide to whom to give it, and how large and when, and for what purpose and how, is neither in every man's power nor an easy matter."

—Aristotle



Robert F. Sharpe, Jr., is president of the Sharpe company. He advises a number of the nation's leading nonprofits in the design and implementation of their gift planning initiatives.

Continued on page 7

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.

Be ready for year-end 1999

While your donors are enjoying the early days of summer, it is time to begin planning ahead for the year-end giving season. Many organizations receive 40% or more of their annual gift income in the final quarter of the calendar year. It is not too soon to begin planning communications designed to encourage gifts at year-end. Robert F. Sharpe and Company can help.

This year Sharpe has created five year-end giving brochures that explain the benefits of giving before 1999 comes to a close. Each six-panel brochure is professionally written and designed with the year-end giving theme in mind.

- **"Giving at Year-End 1999."** This title opens with a brief reminder about the importance of reviewing charitable giving plans as the year 2000 approaches. The brochure then explores the various assets that can be used to fund charitable gifts, such as cash, appreciated property, and retirement accounts. Readers are also introduced to the concept of considering planned gifts as they review their financial plans. "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 piece revolves around the theme of Thanksgiving in both text and design. You may choose from two cover designs that each symbolize the abundance and harvest of the fall season. This brochure may be particularly appealing for religious organizations and their constituents.

- **"Giving Before December 31."** This brochure focuses more on the timing of charitable gifts and the tax advantages associated with them. An easy-to-read chart helps readers determine how much they can deduct by making gifts before the close of 1999. Planned gift ideas are also presented in a low-key manner.

Please see the sample brochures enclosed with this issue of *Give & Take*. To place your order, call 1-800-238-3253 or fax to (901) 761-4268.

Flexible billing alternatives

If your organization is approaching the close of its fiscal year, you may be working with limited funds until your new budget becomes available in July. Or perhaps you have excess funds in your current budget that will be lost if they are not used. Robert F. Sharpe and Company understands this dilemma and for many years has offered flexible billing options to customers.

With Sharpe flexible billing options, you can:


- divide your payments over two budget years,
- pay early while funds are still available in this fiscal year's budget,
- postpone billing for publications or services you need now until funds become available in the new fiscal year.

This fiscal year transitional period need not hamper your plans. Flexible billing options can help you keep your program on track with the professional products and services you count on from Sharpe. If you would like more information about flexible billing options, please call a Sharpe representative at 1-800-238-3253.

Gift Planner. . .

Continued from page 3

donor wants to do and let that carry us through the process. This especially helps here at the University where we have a fairly large operation with major gift officers, various units, deans, and directors of different programs. Some of the turf issues begin to melt away when we let the donor light the way concerning what he or she really wants to accomplish.

In addition, the fact that we live on an island makes us keenly aware of our neighbors. For example, the person who lives next door to you may be related to someone you work with. We have people who are on our board of directors who are also members of other boards in Hawaii. So we are very careful about how we treat one another. There is a natural cooperation here and our planned giving group also perpetuates that. 

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. 

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

Chicago
June 30

Washington, D.C.
July 16

New York
August 2

Miami
November 15

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.rfsc.com; E-mail seminars@rfsc.com

Myth . . . *Continued from page 5*


the many dilemmas of older donors as they offer an aging donor population the ability to make substantial gifts while retaining income and other financial benefits for themselves and others for whom they feel economic responsibility.

It is in this context that many are rediscovering "planned giving" as an answer to meeting campaign and other funding goals. While this method of giving may be new to many fundraisers, donors, and their advisors, its roots are old and deep and much can be learned from those who have gone before us.

Planning for success

The coming years will be ones of continued success for many organizations and

institutions that cost effectively incorporate gift planning tools as an integrated component in their comprehensive fund development programs. Indeed, all persons who successfully interact with middle-aged and older donors will need to have at least a conversational knowledge and basic understanding of the most popular gift planning vehicles.

For nonprofit entities who persist in regarding planned giving as a new, speculative, untried, optional program, the next two decades will be ones that may hold challenges in a world of mature donors who may be increasingly reluctant to make major philanthropic commitments without considering how they are related to their overall financial and estate plans. 

Next month's myth: "Planned Gift Donors are Usually Wealthy."