

Give & Take

VOL. 31 NO. 3 • MARCH 1999

NEWS AND IDEAS FOR DEVELOPMENT EXECUTIVES OF NONPROFIT ORGANIZATIONS

Flip Trust Offers New Planning Opportunities

by Robert F. Sharpe, Jr.

Do you know how new IRS regulations for flip trusts could benefit your donors?

In December of last year, the IRS issued long-awaited regulations that clarify situations in which charitable remainder trusts may be structured in the form of “flip” trusts. A flip trust is a charitable remainder trust which begins as a net income or net income with makeup unitrust and then “flips” to a straight payout trust upon the occurrence of a particular “triggering” event. See *Give & Take*, February 1998 for additional information regarding flip trusts and the IRS regulations.

Of particular interest to planners is the fact that the so-called triggering event that causes a net income trust to become a straight unitrust may be something other than the sale of hard to market assets. Any number of events including a specific date, a marriage, death, divorce, or birth may trigger the flip. The only restriction the IRS mentions in the regulations is that the triggering event must be one that is not in control of the donor, trustee, or other interested party.

The following example illustrates the flexibility of the new flip trust provisions and how they open opportunities for unitrusts to be used in innovative ways that were heretofore not possible.

Funding education

Charles and Martha Clore, ages 65 and 62, are interested in making a significant gift to a charitable interest to endow a long-term project. They are concerned, however, that they may need to put off making this gift for some period of time,

as they promised their son that they would help educate their granddaughter Louise, who is now 12 years of age. They are also concerned that they may need all of their assets to assure a comfortable retirement because they have been self-employed and do not have significant retirement assets in the form of qualified retirement plans.

The Clores own a piece of land worth \$1 million which they purchased for \$100,000 as a long-term investment in the 1970s. They are paying taxes on the land each year and it is becoming somewhat of a burden. Developers make them offers frequently, but they hesitate to sell on account of a capital gains tax bill of up to \$180,000 in the event of a sale.

It is suggested to them that they might want to consider a new type of charitable remainder trust known as a flip trust. In fact, they are advised to consider two such trusts.

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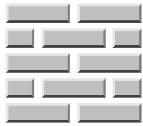
Learn from one gift planner who worked her way up to executive vice president *Page 3*

Have you visited a donor lately? Here are some tips for your next donor meeting *Page 5*

Need to brush up on the basics of gift planning? Join us for “Major Gift Planning I” in Chicago on April 8-9. See page 7 for details.

In the News . . .

News and notes
of interest to
gift planners.



Give & Take

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Millions "going to the dogs"—and cats!

Billionaire software CEO David Duffield has given \$200 million to help stray dogs and cats find homes. Duffield and his wife, Cheryl, have created the Duffield Family Foundation to distribute the funds to animal shelters across the country.

The Duffields' love for their own dog, Maddie, was reportedly a motivating factor behind the gift. Duffield said that Maddie gave him "unconditional love" during the difficult times he experienced as he built his company, PeopleSoft.


Duffield has also promised a \$1 million bonus to shelters and other animal agencies that eliminate animal euthanasia within their organizations in a four-year period.

Source: Philanthropy Journal Alert, January 6, 1999

Out with the old, in with the older

According to statistics from the American Association of Retired Persons, older Americans are continuing to live longer than their ancestors at the beginning of the century. An AARP report shows that in 1997 the 65-74 age group (consisting of

18.5 million people) was eight times larger than in 1900. Even more dramatic are the data for the older age groups: the 75-84 age group (11.7 million) was 16 times larger in 1997 than at the turn of the century, and the 85 and older group (3.9 million) was an astounding 31 times larger.

The sharp increase in the older population is attributed to lower infant and young adult mortality over the years. The report also predicts future growth in the number of older Americans as the baby boomers reach age 65. By the year 2030, there may be 70 million Americans age 65 and older, more than twice the number reported in 1997 (34.1 million). These figures point out the need for America's nonprofit organizations and institutions to be prepared to serve an increasingly older donor population as they form a critical core of support in the future. Institutions of higher learning are already beginning to see large increases in the number of alumni over the age of 65 as the World War II generation, the first to benefit in large numbers from higher education, retires. 

Source: "A Profile of Older Americans: 1998," a publication of AARP

Discount Rates

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

*This issue of
Give & Take
is dedicated
to the memory of*

*Vickey Galyon Harget
(1961-1999)*

*We will miss our friend and
co-worker very much.*

Learning Gift Planning on the Job

In this month's issue "Gift Planner Profile" we talk with Ms. Marty Matula, CFP, CFRE, executive vice president of Morton Plant Mease Hospital Foundation. Ms. Matula has played a key role in establishing and advancing the Foundation's gift planning program during her 13-year tenure.

Give & Take: How did you come to work in the gift planning arena?

Matula: My background is in sociology and marketing. When I came here in 1986 as assistant to the president, I was asked to look at the development program but had no intention of becoming directly involved in fund raising because I didn't know anything about it. But I soon realized there was a real need for a structured planned giving program. As the program was established over time, I became manager of planned giving, then director of planned giving, then vice president of the Foundation, and I now serve as executive vice president. So I was really fortunate to be able to help build the planned giving program from the very beginning.

Give & Take: Much has been said about the importance of institutional teamwork in development. As the executive vice president, what do you feel is your role in the development process?

Matula: A planned gift is very much a team effort, and each team member has a particular role to play. We have a staff of six and we each have a specific area of concentration. At this point I concentrate on the million dollar and up donors. We try to secure at least one million-dollar donor gift every year. We have a director of planned giving who focuses mainly on building relationships with donors and assuring we are responsive to professional advisors in the community. Good relations with advisors is especially important when, as in our case, nearly all of our donors reside in our local community. We also have a planned giving manager who focuses primarily on preparing illustrations and communicating

with advisors about what is going on at the hospital. Another team member focuses on the care and needs of our donors. She is very effective at raising donors' sights and is instrumental in the completion of many of our largest gifts.

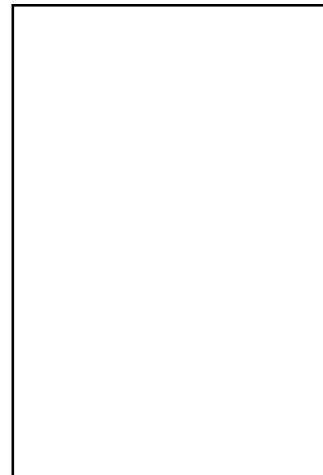
Give & Take: Can you tell us about a particularly memorable gift that you have been involved with recently?

Matula: In 1992 a donor's attorney contacted us. The attorney told us his client had the capacity and desire to do a million-dollar gift with us. We never knew the donor's name. Later on we were working directly with a gentleman who wanted to make a significant gift and it turned out to be the same donor. We really had no idea that they were the same person until about two years ago. The donor eventually gave us one million dollars to name the new lobby in the hospital. The gift was a planned gift—a gift annuity—that he funded with property that he owned. The whole process involved several Foundation team members, board members, professional advisors, and hospital team members. The donor is extremely happy and may do more because of his satisfaction with the handling of this gift.

We also have a donor who had only given a total of about \$100 over the years. After some personal one-on-one cultivation, all of a sudden she funded a \$200,000 gift annuity. And now she has done seven gift annuities, each at the \$200,000 level.

Give & Take: What do you think sets planned gift donors apart from other types of donors?

Matula: Planned gift donors are special because they are not just writing us a check, they are oftentimes giving us their assets. This is a big difference. In planned giving, you really have to build the relationship with a donor over a period of time. You have to have a lot of meetings, a lot of talk, a lot of education, and a lot of

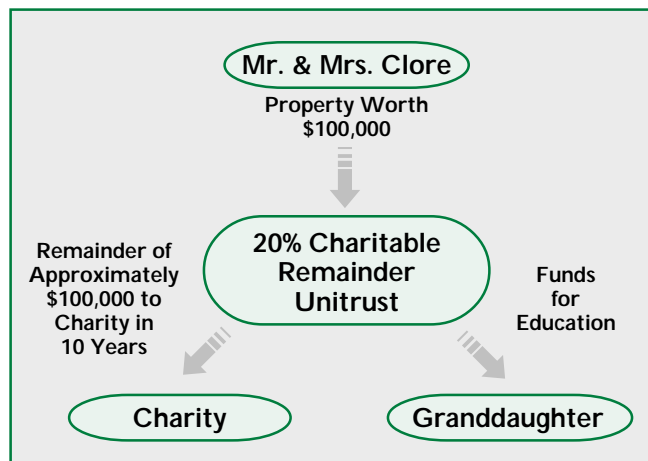


Marty Matula

Flip Trust . . . *Continued from page 1*

The first trust would be a 20% net income unitrust that would last for a period of 10 years. Their granddaughter Louise would be the income beneficiary of the trust. The trust would be funded with a one-tenth undivided interest in the land worth \$100,000. After the sale of the land, the capital gains tax-free proceeds would be invested aggressively for a total return projected to be about 10% per year. There would presumably be a small amount of income paid out of the trust each year for Louise's benefit which would be invested for her account. In six years, when Louise is 18 years of age, the trust would flip and become a straight payout unitrust for the remaining four years.

This trust might be depicted as follows:



The tax deduction for this trust would be 11%, just over the minimum permissible level of 10% under the terms of the 1997 tax act. If the trust earns a total return of 10% and pays out 2% before the flip, there should be approximately \$160,000 in the trust at the time of the flip as a result of a net growth of 8% per year. The first year payment, which would be timed to coincide with Louise's first year in college, would be approximately \$32,000, with a gradual reduction to \$23,000 in the fourth year after the flip, which is also the tenth and final year of the trust.

When the trust terminates, there should be a balance in the trust for chari-

table purposes of just over \$100,000, despite the fact that the trust would have made payments equal to 20% of the value of the trust corpus for the final four years it was in existence. The ability to grow the corpus for a period of time before switching to relatively high payouts helps assure a generous income stream, while providing a charitable remainder approximately equal to the amount originally used to fund the trust.

The charitable remainder unitrust structured as a flip trust thus becomes an attractive new way to provide for educational expenses while making a meaningful charitable gift.

Funding retirement

The Clores' second trust would be funded with the remaining 90% of the value of the land, or approximately \$900,000, and would last for the remainder of their lives. The second trust would also be a net income trust intended to be invested for growth until a flip-triggering event occurs. The rate on this trust would be 7%. The triggering event would be the conclusion of a period of 10 years or the death of one of the Clores, whichever occurred first. At that time, the trust would begin paying the full 7% amount regardless of the net earnings of the trust. If the trust earns a total return of 10% and pays out 2% income during the growth phase, at the end of ten years, the value of the trust corpus should be approximately \$1,900,000 and the Clores' payment would be in the range of \$136,000 the first year after the flip occurs. The Clores' tax deduction in the year of the trust would be \$210,000.

The property used to fund both trusts would effectively be removed from their estates, saving as much as \$550,000 in estate taxes. The capital gains tax avoided would be as much as \$180,000, and the income tax savings would be over \$84,000 in their bracket. They are pleased with this

Continued on page 5

Five Tips for a Successful Donor Visit


1. Listen to your donor. This may sound like an obvious suggestion, but it is one that successful gift planners stress time and time again. Instead of focusing on “selling” your organization to a donor during a visit, let the donor tell you what is important to him or her. Listen carefully for hints about what really interests the donor and then you will be able to offer ideas and information that may be appealing.

2. Determine a donor’s motivations. As you listen to a donor talk about potential gifts, try to ascertain the donor’s deeper charitable motivations. Does the donor want to pay tribute to a special loved one who has recently passed away? Or would the donor like to leave a lasting legacy by having a building or a program named for him or her? Look for what will often be an emotional impetus behind your donor’s interest in making a gift and then proceed to recommend giving opportunities that are appropriate in light of his or her wishes.

3. Treat the donor with sensitivity. As you meet with a donor interested in making a major or planned gift to your organization, you will often learn much about his or her assets and personal financial history. Consider this as extremely private information and even where there are obviously tremendous resources, never push a donor to give

more than he or she is comfortable giving. It is not unusual for donors to give more than was initially planned because of a gift planner’s sensitivity and unaggressive approach to the gift planning process.

4. Involve the donor’s advisors. If one of the donor’s professional advisors accompanies the donor, engage the advisor in the conversation. It is never too early to begin cultivating a good relationship with the advisor. After all, you may find yourself coordinating a planned gift with this donor and advisor in the future, so establishing good relations and trust with the donor’s advisor from the beginning could help smooth the way for completion of the gift.

5. Record your impressions quickly. It is important to write down your thoughts about the meeting as soon as possible. It is not necessary for you to take detailed notes during the meeting and doing so, in fact, may make a donor feel uncomfortable and could inhibit your ability to listen effectively. However, as soon as you can after the meeting, jot down any important facts or information that you discovered during your discussion and put it in the donor’s file. Such information may be invaluable in the future if and when the donor decides to complete a gift to your organization. 


Advice on how to make the most of your meetings with donors.

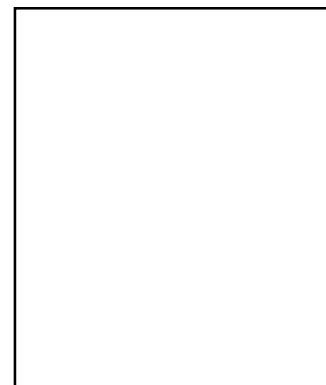
Flip Trust . . . *Continued from page 4*

prospect, with the fact that the property in the trust for Louise would provide what is expected to be a \$100,000 gift in just 10 years, and with knowing that the property in the second trust for their benefit would also be used for charitable purposes at the death of the survivor.

Exciting new opportunities

Neither one of these trusts would have been possible prior to the December 1998 regulations. The best that might have been

accomplished would have been a flip on the sale of the land. The ability to aggressively invest assets for a high total return for a period of time before making payments that may include distributions of corpus (taxed at capital gains rates in many cases) at a time chosen, but not influenced, by the donor will usher in a new era in charitable trust planning that should result in more and larger gifts due to the unexpected benefits of unusually favorable new IRS regulations. 



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.

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.

New memorial giving brochures and booklet now available

While every season is an appropriate time to pay tribute to special loved ones, spring offers so many opportunities to make memorial gifts that gift planners often refer to it as the "memorial giving season." Mother's Day, Father's Day, Memorial Day, and many religious holidays inspire donors to remember family and friends with special memorial or honor gifts to their favorite charitable organizations and institutions.

Robert F. Sharpe and Company has two newly updated publications available that are specifically designed to educate

your donors on memorial giving opportunities.

"Giving Through Living Memorials"

This six-panel brochure features information about how to best make gifts that provide for charitable causes in a loved one's name. "Giving Through Living Memorials" also contains a new feature—a detachable reply device. The reply device can be personalized with your organization's logo and imprint information.


"Giving Through Living Memorials" is available in four unique cover designs (see the samples enclosed in this issue of *Give & Take*). You may want to use these brochures in a mailing to a broad section of donors, as an insert in gift acknowledgments, or as a handout during seminars and other donor gatherings.

"Reflecting on Tomorrow"

This Sharpe booklet explains a variety of gift plans that can also be used to memorialize someone in a special way. Helpful examples accompany the descriptions of each gift plan so readers can understand the benefits available to them.

Like all Sharpe booklets, "Reflecting on Tomorrow" has recently received a new look. The new design is clean and classic, featuring an attractive blue color scheme on the front cover and inside accents. Your organization's identification information may be imprinted on the front and/or back cover.

This booklet is an excellent follow-up piece to memorial giving mailings for donors who request more information. You may also want to send the booklet to those who may be considering naming your organization in their estate plans or those who have already done so.

The Sharpe company also offers a memorial giving newsletter to those who communicate with their donors in a larger format. For more information or to place an order for memorial giving publications, please call 1-800-238-3253. 


Learning . . . *Continued from page 3*

training. In planned giving, meeting the donors' needs comes first. Once you do that, donors will trust you and listen to your ideas.

***Give & Take:* What advice do you have for those in the nonprofit world who may aspire to an executive level position?**

Matula: I would tell them that success doesn't happen overnight. It is a step-by-step process. I would tell them not to get overwhelmed about knowing everything about the technical aspects of gift planning. It is good to have a broad overview of the technical information, but always remember there are others to ultimately handle the structure. Your job is primarily to educate and cultivate the people who may ultimately make a critical difference in the financial health of your institution.

***Give & Take:* What aspect of your job gives you the most personal and professional satisfaction?**

Matula: I believe the best part of my job is meeting with donors and prospective donors and telling them about the wonderful things that our hospital is doing to improve the health of individuals in the community. The joy of gift planning is working with people and helping them accomplish something they never thought they could possibly do. It is a great thing to know you are helping people do things that last forever. I also see my role in teaching and encouraging up and coming fundraisers to aspire to a higher personal and professional level of gift planning. 

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

New York
March 15-16

Chicago
April 8-9

Tampa
June 2-3

San Francisco
September 9-10

Major Gift Planning II

Phoenix
May 10-11

Chicago
December 13-14

Planned Giving When That's Not All You Do

Los Angeles
March 29

Chicago
June 30

Washington, D.C.
July 16

New York
August 2

Sharpe Web Site New and Improved

When was the last time you logged on to the Robert F. Sharpe and Company Web site? If you haven't visited the Sharpe site lately, you are in for a treat on your next visit. Sharpe has revamped its Web site to include several new and exciting options for visitors. When you visit www.rfSCO.com, now you can:

- **Register** for upcoming Sharpe seminars in seconds
- **Request** samples of Sharpe publications and seminar agendas
- **Search** the entire Web site, including back issues of *Give & Take*, by key word or phrase
- **Request** that your name be added to the Sharpe mailing list

The graphic design of the Web site has also been updated, making it easier than ever to find exactly what you need every time you visit.

We invite you to visit www.rfSCO.com and experience the new site for yourself. We think you will find the upgrades make each visit more efficient, informative, and enjoyable. 