

Give & Take

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Do 'Planned Gifts' Take a Long Time to Produce Funds?

by Robert F. Sharpe, Jr.

The fifth in our series of common misconceptions in gift planning examines the belief that planned gifts typically take long periods of time to yield results.

Until the early 1970s, the term "planned giving" was rarely if ever used to describe gifts made as part of a donor's estate and financial planning process. The expression "deferred giving" was the preferred term to describe the activities inherent in the process of encouraging such gifts. This was because for the most part "deferred gift" programs at that time emphasized irrevocable trust agreements, gift annuities, and similar gifts that were completed in the present but did not provide funds for charitable use until the death of one or more persons, or the expiration of what was typically a long term of years. Bequests via will were seen as "over-the-transom" gifts that were an unreliable and unpredictable source of income.

While many nonprofits had departments dedicated to "deferred giving," and "directors of deferred giving," these efforts rarely received much attention or support because they were, after all, dedicated to producing future funds, while the management of most institutions wanted funds that could be expended immediately on operational needs or near-term capital projects. Deferred gifts were especially downplayed during capital campaigns because of an understandable fear on the part of leadership that outright gifts would be "diverted" into plans that would "defer" the benefit to the recipient institution for too long a period of time.

"Planned giving" is born

In the early 1970s Sharpe consultants and others began to encourage charitable organizations and institutions to think more broadly, and realize that the planning process underlying "deferred giving" could also produce gifts in the short term. The term "planned giving" was adopted in an attempt to encourage a paradigm shift that would refocus thinking in this important area of fund development activity.

Note this excerpt from the August 1972 issue of *Give & Take*: "A donor usually considers a current gift to your institution as a cash outlay now. To make a deferred gift, a person decides to give at some future date, either a number of years from now or at death. A deferred gift is a present decision to make a future gift, evidenced by a legal contract. While the name, 'deferred giving,' is the best known to professionals in the field, it is not a

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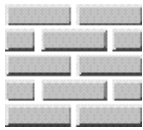
Looking for new ways to thank your donors? Turn to Page 6



Come to Miami to learn more about the benefits of gift planning in the one-day seminar "Planned Giving When That's Not All You Do." See page 7 for details.

In the News . . .

News and notes
of interest to
gift planners.



Give & Take

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Examining America's most generous

Which Americans have given the most money to charity in their lifetimes? This is the question *Worth* magazine attempted to answer earlier this year in its April 1999 issue. And though several names we have heard in the news before such as Bill Gates and Ted Turner were listed among the top 100 American philanthropists, perhaps the most important information gleaned from the *Worth* research was the statistical makeup of the group as a whole.

For example, of the 100 people ranked in the study, 71 created the fortunes from which they gave while 24 inherited their wealth. Five others said their wealth was a mixture of both inherited assets and their own ventures. Therefore, over two-thirds of the most generous donors in America are entrepreneurs. (Keep in mind this study only examined completed lifetime gifts—no pledges or estate gifts were included.)

Another interesting demographic is the breakdown of the mega-givers by age. Only one person was age 100, eight were in their 90s, twenty-five were in their 80s, twenty-six were in their 70s, seventeen were in their 60s, twenty were in their 50s, and

three were in their 40s. Note that fully 60% of these donors were age 70 or older and over 75% were in their 60s or older.

For more information on *Worth* magazine, call 1-800-777-1851 for subscriptions or see the Web at www.worth.com.

Recent article a must-read for gift planners


Certain charitable gift planning techniques and some of those who help plan them are put under the microscope in the September 20, 1999 issue of *Forbes* magazine. The article, entitled "The New Giving Game," explores several giving plans and the complex relationship between the tax advantages associated with these plans and the charitable intent of donors engaging in them.

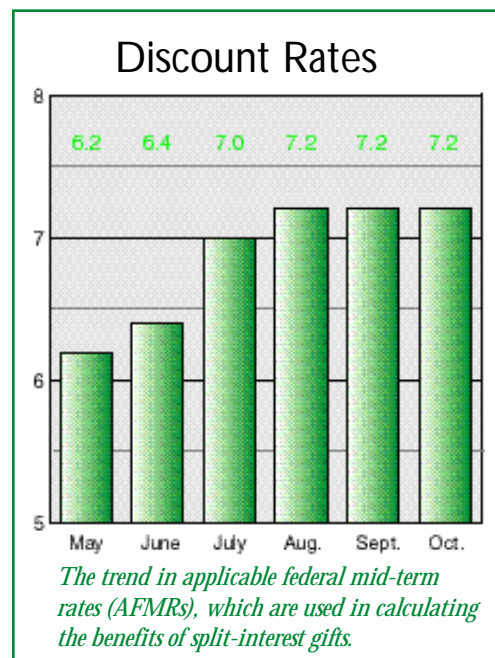
As this potentially controversial article may be read by donors, board members, fellow staff members, and others, all persons involved in charitable gift planning efforts should examine this article and be prepared to discuss its content with interested parties.

CAE does homework on gifts to schools

The Council for Aid to Education has recently released its annual compilation of data on giving to education. Entitled *1998 Voluntary Support of Education*, the CAE's report provides statistics on institutions of higher learning as well as private elementary and secondary schools.

There is a special section providing data on bequests and deferred gifts to higher education institutions over the past 20 years. In addition, comprehensive giving statistics such as appreciated property gifts and corporate gifts are conveniently listed by institution in the second half of the report.

If you would like more information about this report, or reports from past years, please see the Voluntary Support of Education home page on the CAE Web site at www.cae.org/VSE/vseindex.htm. 



Taking Stock at Year-End

In recent months, discussions of tax reduction legislation and the Dow Jones Industrial Average continuing to hover at record levels have created unique gift opportunities for gift planners and donors.

In May of this year, the Dow eclipsed the 10,000 mark and has risen even higher in recent months. With the dramatic increase in investment markets, many of your donors likely own securities that have greatly increased in value. As a result, now may be an excellent time to examine your donor records to identify those who may be interested in major current gifts and/or life income gifts before the close of 1999.

Act now

No one can predict how long the market will continue to trade at current levels. In addition, if tax rates are reduced in the future, that could mean charitable gifts made this year will offer more favorable tax benefits than those made in coming years.

Individuals who enjoy giving to charitable organizations and institutions may find that making a gift of appreciated securities can enhance their overall financial situation. Those donors who give before December 31, 1999 can take advantage of giving securities that have greatly appreciated in recent months and enjoy the knowledge that their deductions may never be "worth" more to them than on their 1999 tax returns.

Cases to consider

Here are two examples that illustrate the benefits to donors who may be considering a current or deferred gift of securities at year-end:

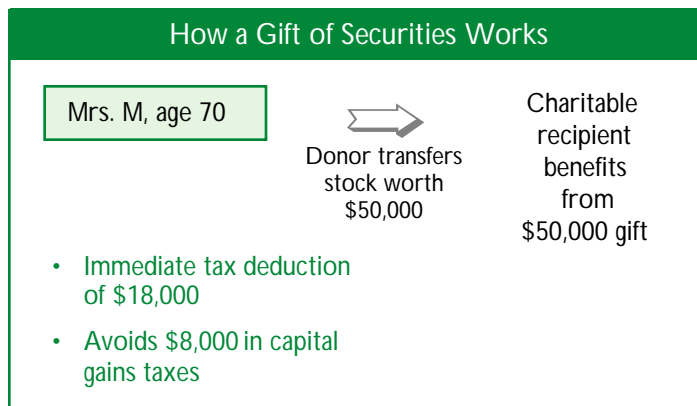
1. Mrs. M, age 70, bought 100 shares of XYZ Corporation stock ten years ago for \$10,000. The fair market value of her shares has risen to \$50,000 and the paper profit is \$40,000.

If Mrs. M sells the stock and gives the proceeds to your organization, she will be


exposed to a capital gains tax liability of approximately \$8,000, based on a 20% capital gains tax rate. If she transfers the stock directly to your organization, she makes the same \$50,000 gift and avoids the capital gains tax altogether.

Mrs. M will thus enjoy tax savings of \$18,000 (based on a \$50,000 charitable gift for an individual in the 36% income bracket) plus \$8,000 in capital gains tax savings, all for an original investment of \$10,000. (See the chart below.)

Are you ready to help your donors make the most of stock gifts this year?



2. Suppose Mrs. M has recently retired and feels that it just is not possible for her to make an outright gift of \$50,000 at this time. She may be interested in one or more life income gift arrangements.

In this case, Mrs. M can transfer the XYZ stock or other appreciated securities to your organization through a charitable remainder trust, pooled income fund, or charitable gift annuity. In the case of a gift annuity funded with her \$50,000 in XYZ securities, for example, she would receive fixed payments of 7.5% for life. Half of her payments will be received free of tax or taxed at a favorable capital gains tax rate for a number of years. She will also enjoy an immediate income tax deduction of just under \$20,000. 

'Planned Gifts' . . .

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Timing of gifts is only one element of the gift planning process.

term that communicates very much to the average donor. Therefore, we suggest the term 'planned giving.' When a person makes a planned gift, it suggests forethought."

During the period from the early 1970s to late 1980s, the term "planned giving" largely supplanted "deferred giving." For many organizations and institutions, however, the activities of the programs that had implemented a name change from "deferred" to "planned" giving remained largely the same, with "planned giving" simply becoming a substitute in many cases for the term "deferred giving." The history of terminology in this field is, thus, to a large extent at the base of the myth that "planned giving" is an activity that primarily focuses on gifts that take many years to come to fruition. That need not be the case and is not the case for many of the nation's leading nonprofits.

Defining a process

Consider our definition of "planned giving" as we prefer to describe this process today: *"A planned gift is any gift of any kind for any amount given for any purpose—operations, capital expansion, or endowment—whether given currently or deferred if the assistance of a professional staff person, qualified volunteer, or the donor's advisors is necessary to complete the gift. In addition, it includes any gift which is carefully considered by a donor in light of estate and financial plans."*

Let's break this definition down to its component parts and see if we can get to the root of the confusion surrounding the timing of planned gifts.

First, notice that timing is only one element in the process, although a vitally important one. Various gift planning tools produce funds in different periods of time. There is actually a continuum between current and deferred giving with some gifts made on an immediate basis and others over very long periods of time, with most somewhere in between.

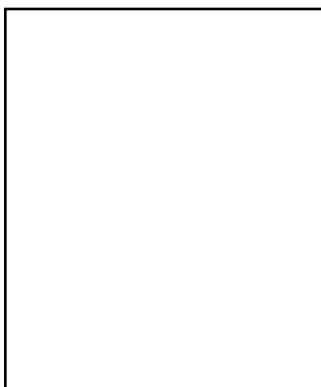
In the remainder of this article, we will examine the typical time periods in which various gifts provide their charitable benefits. In our experience, the most successful gift planning programs are based on the reality of timing of gifts with integrated programs built around which gifts are appropriate to fund which mission element at various stages of a donor's life cycle.

Outright gifts

Outright gifts of cash are the most common and the simplest gift to make and, in terms of volume, make up the vast majority of charitable gifts in America today. Outright gifts of property are also of vital importance, with gifts in the form of securities, real estate, and other property comprising the bulk of the total value of many institution's gifts each year. Gifts of property (and even large gifts of cash) can often require very careful planning, the involvement of one or more advisors, and can be extraordinarily complex. That is why they are typically handled by gift planning specialists. They are not properly referred to as deferred gifts, but they are, in fact, planned gifts. This is one area where terminology based on *size*, such as "major gifts," overlaps with terminology based on *process* and is at the root of unnecessary internal friction in some organizations.

Lead trusts and pledges

Pledges are "deferred gifts" in the sense that they involve irrevocable commitments to make future gifts. But pledges are not usually thought of as planned gifts although they typically involve gifts made over a period of time. Charitable lead trusts, like pledges, are typically used to fund gifts over a period of time. Is a lead trust, then, a current gift or is it a deferred gift? It is, in a sense, both, and points up the fallacy in considering planned gifts as just another term for deferred gifts.



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.

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Bequests

Charitable bequests often require less time to come to fruition than do pledges to a five-year-long campaign. Time after time, studies have shown that the average time period from making a final will that includes a charitable bequest until the death of the benefactor is five years or less. The median time period is typically three to four years. Thus, when experts refer to a planned giving program taking three to five years to produce usable funds, they are referring primarily to programs designed to encourage charitable bequests.

Gift annuities

The average age of gift annuitants today is approximately age 78, with 90% falling between the ages of 70 and 85. At 78 a woman has a life expectancy of about nine years. Hence the gift annuity is positioned on the continuum in the time slot just beyond the charitable bequest.

Charitable trusts for term of years

Charitable remainder trusts can last for the life of one or more persons or for a period of time not to exceed 20 years. The typical term of years trust is established to accomplish an economic objective of the donor that requires an income stream over a period of time. Such objectives include funding education, income in pre-retirement years, etc.

For example, consider a \$1 million charitable remainder annuity trust that pays a donor 20% or \$200,000 per year for five years from age 65 to 70, from which point in time the donor will rely on retirement funds to "replace" the income previously received from the charitable remainder trust. The donor is entitled to a \$162,000 tax deduction at the time of the gift, and would avoid capital gains tax at the time of the gift if low-basis appreciated securities were used to fund the trust. If funded with such assets, much of the donor's annual payments of \$200,000 will be received tax-free or as capital gains taxed at a favorable

rate. If the trust earns 8% total return per year, it will be worth about \$300,000 at its termination. This is the amount of the gift credited to a campaign the donors wish to support, as the \$300,000 will be received at end of the campaign's maximum five-year pledge period.

Do we classify this as a deferred gift? Current gift? Planned gift? Term of years trusts are perhaps best thought of as ways the donor can either delay for a few years an outright gift or accelerate a gift that would otherwise be deferred until the end of life!

Life income gifts for life of older loved one

Younger donors are often surprised to learn they can fund "deferred gifts" with the measuring life being that of an older person, typically a parent. Increasingly, wealthy baby boomers will create gift annuities and charitable remainder trusts for the lifetime of their elderly parents. This is a way to use a younger donor's money and an older person's life expectancy to bring "deferred gifts" to a younger constituency, while producing funds for charity in a shorter period of time. In most cases, such gifts will come to fruition in a period of between five and fifteen years.

Life income gifts for life of younger donor

Finally we come to the traditional "deferred gift," and the one that gives rise to the prevailing attitudes regarding the timing of the receipt of funds from planned gifts. Life income gifts in the form of pooled income funds and charitable remainder unitrusts for life are typically entered into by donors in their late 60s to early 70s. A 68-year-old couple has a life expectancy of some 22 years. A 60-year-old couple has a life expectancy of 30 years.

Many charitable causes have urgent needs for program funding and endowment today. Fund development efforts that pro-

Fund development efforts that produce usable funds in a quarter of a century or more will rarely rise to the highest priority level.

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.

Time to say 'thanks'


The last few months of the year are upon us. Now is the time when many organizations and institutions receive the bulk of their gifts. In fact, many charities enjoy 50% or more of their annual gift income in the final quarter of the year.

Are you prepared to acknowledge your donors' gifts during this special year-end season? Let Robert F. Sharpe and Company's "Thanks for Giving" brochures help enhance your efforts to express gratitude to donors and friends who have made charitable gifts.

"Thanks for Giving" is specifically written and designed to assist you in the gift acknowledgment process. Not only does it help you thank your donors, but the brochure also explains a variety of other giving options and mentions planned

gift opportunities in a low-key way. This can be a way to stretch your development budget by letting your gift acknowledgments do "double duty."

The brochure is available in four attractive cover designs (see the back page of this issue of *Give & Take* for illustrations) and contains a perforated response panel that allows your donors to request more information on giving plans that interest them. Representative samples of "Thanks for Giving" brochures are enclosed with this issue of *Give & Take*. Note that the text of all four brochures is identical.

Let "Thanks for Giving" help you build stronger relationships with donors this year-end and plant the seeds for future gifts. To place an order or for more information, please call 1-800-238-3253. 

'Planned Gifts' . . .

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We must free ourselves from thinking exclusively in terms of long-term funding.

duce usable funds in a quarter of a century or more will, for that reason, rarely rise to the highest priority level. These are precisely the gifts, however, that are often given the greatest amount of attention by gift planners, as these are the gifts that typically provide the greatest benefits for the donor and the greatest reward for financial services providers who are increasingly central to the planning process underlying planned gifts. The longer time frames allow for more time for insurance premiums to be paid to make the gift "work," for instance, from the standpoint of many commercially-based gift planners.

There is of course nothing wrong with encouraging charitable remainder trusts for life among your mix of gifts. Use caution, however, that these long-term gifts do not take up the lion's share of your time and marketing activity when the other gift planning options outlined above are likely to produce usable dollars faster—in some cases many times faster. The question becomes one of how time and resources are

best allocated. Remember that many of the nation's leading financial services providers are now devoting tremendous resources to marketing charitable remainder trusts and similar gifts. For this reason, charitable recipients should be sure that they place priority on bequests and similar gifts which redound more quickly to the benefit of charitable beneficiaries.

Return to basics

As we can see, planned gifts can be "deferred" for longer or shorter periods of time. Let's step back and return to basics. What is essentially happening is a process where money or other assets are moved from point "A", the donor, to point "B", a charitable recipient, as quickly and cost effectively as possible in light of the economic priorities of the donor and the mission-driven needs of the charitable recipient.

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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. 5360; Fax (901) 761-4268; Web site www.rfsco.com; E-mail seminars@rfsco.com

'Planned Gifts' . . .

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Many forward-looking programs are now bringing the nomenclature describing their programs into line with activities variously referred to in the past as "deferred giving" and "planned giving" by utilizing the term "gift planning" to describe their activities. We believe the term "gift planning" is more descriptive of the process that results in assets being directed to charitable purposes in ways that can result in current or deferred gifts that can then be used when received to fund operations, capital and/or endowment needs as determined by the recipient in consultation with the donor.

Charitable gift planning efforts engaged in by nonprofits in close cooperation

with donors and their advisors will increasingly form the bedrock of financial support of religious, educational, social service, cultural, and other activities that underlie much of our culture as it exists today. To maximize funding from these activities it is imperative that we free ourselves from the constraints of thinking exclusively in terms of long-term funding and include in our tool boxes the many ways that gift planning vehicles can provide a tremendous source of near-term financial support. 

Next month's myth: All planned gifts are valuable.

Seminar Training Dates

Major Gift Planning I

Washington, D.C.
October 28-29, 1999

Memphis
January 10-11, 2000

Seattle
February 21-22, 2000

Chicago
April 2000*

Boston
May 2000*

New York
August 2000*

Washington, D.C.
October 2000*

Pasadena
November 2000*

Major Gift Planning II

Chicago
December 13-14, 1999

Washington, D.C.
March 2000*

Tampa
May 31 - June 1, 2000

San Francisco
September 2000*

Planned Giving When That's Not All You Do

Miami
November 15, 1999

Chicago
March 2000*

San Francisco
April 2000*

Los Angeles
April 2000*

St. Louis
June 2000*

Washington, D.C.
July 2000*

Boston
August 2000*

* Call for final dates or e-mail info@rfsco.com.