Give & Take

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Are Irrevocable Gifts Always the Key to Success in Planned Giving?

Continuing our series on facts and fallacies in gift planning, we explore the significance of irrevocable gifts.

by Phillip Adcock

A common belief in many gift planning programs today is that the majority of planned gifts should be irrevocable; in other words, gifts that the donor would be unable to change or terminate once they are established.

While irrevocable gifts are indeed of vital importance to many programs and are typically very large gifts when they are completed, they have, in total, historically accounted for the smallest portion of realized planned gift income, even in the oldest, largest, and most successful programs.

The reality is that most of the funds given to charity through donors' long-range financial plans are realized as bequests through wills and revocable living trusts, with remainders from life insurance, retirement plans, and similar sources gaining in importance in recent years.

These "revocable" plans are popular for many reasons, chief among them that they make it possible for donors to maintain control by enabling them to change their minds during life, guarantee that other heirs are provided for first, and serve to distribute funds to their charitable beneficiaries only at such time when they no longer need them.

Common reasons for this myth

There are a number of reasons why many organizations and institutions believe success in gift planning is largely centered around irrevocable gifts.

Based on our experience, the primary reason is that many programs are under constant pressure to show tangible results within a relatively short time frame.

Most nonprofit boards and management are interested in assuring that investments being made in any fund development program are producing tangible results quickly—results that can be counted on to actually "mature." As a result, many programs have traditionally begun by promoting irrevocable charitable remainder trusts, pooled income funds, and charitable gift annuities.

With these plans, marketing efforts can be directed to a select group of people and within a matter of months a report can be delivered to management showing the amount expended and the actual "irrevocable gift dollars" raised as a result of the effort.

Another factor underlying overreliance on irrevocable gifts is that organizations are often involved in campaigns designed to reach specific goals, and have wanted to have strong guarantees before counting a gift or providing public recognition in such campaigns. This naturally leads to a focus on irrevocable gifts, as they are contracts, trusts, and vested remainders in real property, and thus provide greater certainty that funds will be available to the program at a future date.

Finally, tax considerations also come into play. That is because tax benefits are only allowed if a gift is outright or made in the form of an irrevocable deferred gift. Therefore, many come to conclude that most prospective donors will wish to make a planned gift in the form of an irrevocable commitment in order to take maximum advantage of all possible tax savings.

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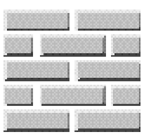
News and notes of interest to gift planners.



Church receives $7 million bequest

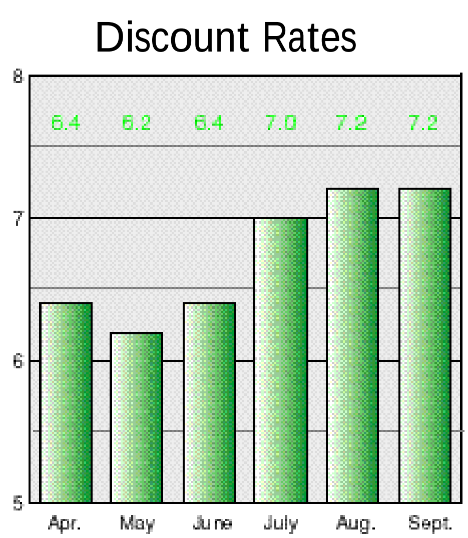
Maggie Sue Goodwin was a retired schoolteacher and principal. When this 89-year-old passed away in January, she bequeathed her estate—an estimated $7 million—to the First Baptist Church in Marion, Arkansas.

Mrs. Goodwin devoted her time and money to the 600-member church during her lifetime as well. She was the church's treasurer for 50 years and often made $50,000 gifts to the church for various projects and needs. She had hinted to church officials when she made cash gifts over the years that there was more to come.

Mrs. Goodwin lived frugally and modestly. Her husband, Cecil Goodwin, died in 1963. He and his family had farming interests in the area. The couple had no children.

Many organizations have found that donors such as Mrs. Goodwin, who are often hidden among the ranks of long-term, frequent donors, are often the mainstay of endowment development efforts.

Source: *The Commercial Appeal*, Memphis, TN, August 19, 1999



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

NCPG continues Legacy programs

The National Committee on Planned Giving continues to encourage its member councils to encourage people in council communities to consider establishing charitable bequests and other planned gifts in their estate plans. The initiative, entitled "Leave A Legacy," is being made available to all NCPG councils and is intended to serve the entire local nonprofit community wherever it is established.

Many Leave A Legacy programs are already established. To find out if your area has a Leave A Legacy program in place, you can check the NCPG Web site at www.ncpg.org. If you would like to help implement the effort in your local community, NCPG can provide you with a Leave A Legacy kit for $35 that can help get you started. For more information, contact NCPG at (317) 269-6274 or e-mail to ncpg@iupui.edu.

LEAVE A LEGACY™

Give & Take

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Retired PBS Gift Planner Reflects on 30-Year Career

In this month's *Give & Take*, we talk with Ed Moreno, who recently retired as Senior Gift Planning Officer for KCET public television in Los Angeles. After beginning his media career in 1939 and working his way around the world, Mr. Moreno found his true home in California in the late '40s. He joined KCET in 1967. It was there that his role gradually shifted over time from program producer to gift planner. With over 30 years experience at one organization, Mr. Moreno brings sage advice and keen insight to this "Gift Planner Profile."

Give & Take: How did you get started in your long career with KCET?

Moreno: I was the news and public relations director for a Los Angeles radio station. In 1967, about 2½ years after KCET went on the air, the station invited me to host and produce a program in East Los Angeles. I did the program and about a year later KCET invited me to become a permanent staff member to produce programming and assume responsibility for community relations.

In a way, I've been in fund raising from the beginning. From day one it was not just a question of hosting and producing, but also of seeking funding for programs. When you work in public television, if you are not alert to the funding needs, and opportunities, you may have the greatest ideas but may never be able to produce them.

Give & Take: Why did you happen to gravitate to fund raising?

Moreno: After several years in producing, I decided to focus exclusively on community work, which included fund raising both on and off the air. And then I was invited to join Senior Management where one of my main duties was to encourage government funding. That gave me another view of public television economics. I also enjoyed trying to balance the voices and agendas of the various supporters of public television, such as universities and school districts and arts groups.

Give & Take: So at first your development experiences were not with individual gifts?

Moreno: While we depended heavily on government funds early on, we also had to obtain matching funds from the community. That meant we had to be prepared to determine exactly what sources were most appropriate for funding certain programs, whether that source was a corporation, a foundation, or an individual. This was the early years in fund raising where we could wear many hats. We were doing everything and therefore, we learned many aspects of fund raising.

Ed Moreno with Tim Sharpe at Mr. Moreno's retirement party.

Give & Take: What would you say were the advantages of staying at one organization for so long?

Moreno: To be able to explore all the corners of the organization inside and out. It is not just a question of how you position your mission, but also how the public views your organization. I was very fortunate to be given the opportunity to learn from the public, constantly consulting public opinion. However far you want to go, you have to remember that you are *serving*, that your organization is a *community enterprise*. You cannot get too far out in front of your constituency. Fortunately for KCET, there has always been a good community sounding board. So, I think the greatest benefit of a long tenure is simply gaining a very strong knowledge of both the institution and the community it serves.

Give & Take: What has been your biggest challenge as a gift planning officer?

Moreno: I think the gift planner for public television has an added challenge because of the varied constituency. We serve many different groups with a variety of programming. We offer science programs,

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Irrevocable Gifts . . .

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Many donors prefer to be able to change their minds when making a major gift commitment.

What is the reality?

Many years ago, when being challenged by board members and staff leadership to develop a successful planned gift program, I began researching other institutions to see where the majority of their funds were derived, and also what marketing and staffing activities they were using to maximize their income. I found that the organizations I identified as a peer group were averaging 20 to 30 percent, and in some cases more, from activities that are traditionally referred to as "planned giving."

Note the following chart that illustrates bequests as a percentage of overall revenue for a number of health-related organizations.

	Bequests	*Deferred Gifts*	*Total*	*% Bequest*
Yale U.	$36,058,973	$19,713,763	$55,772,736	65%
U. of Michigan	18,033,960	5,918,433	23,952,393	75
Princeton U.	17,235,933	7,116,807	24,352,740	71
U. of Chicago	13,810,784	3,460,379	17,271,163	80
Columbia U.	13,144,125	8,537,341	21,681,466	61
Cal. Tech.	13,140,901	8,170,226	7,017,984	82
New York U.	10,686,283	1,680,390	12,366,673	86
Georgetown U.	6,894,149	1,211,838	8,105,987	85
Duke U.	5,866,704	946,108	6,812,812	86
Brown U.	5,749,282	1,268,702	7,017,984	82
TOTAL	140,621,094	58,023,987	198,645,081	71

Source: Council for Aid to Education

National Organizations' Bequest Income

Organization Name	*Total Gift Planning Income*	*Average Bequest*	*Bequests as a % of Gift $*
American Cancer Society	$159,000,000	$30,000	27%
American Diabetes Assoc.	17,000,000	41,000	20
American Heart Assoc.	75,000,000	37,000	25
Arthritis Foundation	39,000,000	79,000	11

After analyzing those numbers in greater detail, I was fascinated to discover that 80 to 90 percent of the realized or matured funds were generated from revocable instruments, primarily bequests via wills. Looking further, I discovered that this trend appeared to be prevalent across the nonprofit sector, including the nation's leading educational, cultural, religious, healthcare, and social service organizations.

Note the chart at the top of the page. As you can see from the list of many of the nation's leading educational institutions in recent years, a substantial percentage of revenue, averaging 71 percent of total planned giving income for this selected group, comes from bequests that are revocable prior to death.

Phillip Adcock is senior vice president with Robert F. Sharpe and Company,. Previously he served as national director of major gifts and planned giving for the American Cancer Society National Center.

Revocable gift donor profile

Why is it that despite the attractive benefits of irrevocable deferred gifts, most funding for most organizations continues to come from bequests and other revocable gifts?

Experience reveals that most donors and prospective donors, while they may be deeply committed to their charitable interests, are not likely to put themselves or their loved ones at financial risk during their later years in order to make a large charitable gift. For a number of reasons, many donors prefer to be able to change their mind when making a major gift commitment, in order to protect themselves and their loved ones during the remainder of their lifetime.

In addition, many persons who choose to make substantial charitable gifts as part of their long-term estate and financial planning desire to remain anonymous.

During a recent marketing focus group study for an environmental organization, several group members who were long-term donors revealed that they had included this organization in their will. When asked if they had told the institution of their gift decision, however, almost all of the donors said they had not informed the institution. When asked why, each had the same basic

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answer. While they knew they could always change their mind about the bequest, they felt that by telling the organization of their plans, the organization would come to rely on the funds. These donors indicated they didn't want to let the organization down if something happened to prevent them from making their gift.

Others wish to remain anonymous to maintain privacy regarding their gifts. For such persons, the recognition that they think may be associated with revealing their intentions is a negative factor.

Keep in mind, however, that a substantial number of persons who have made provisions in their wills and other long-term plans will, in fact, tell you. The psychology is totally different in these situations and a great deal of attention and recognition may be appropriate and without them an organization may actually lose an eventual bequest! For this reason, regular, appropriately managed attempts to discover bequests are a vital part of many successful planned gift development efforts.

Irrevocable gifts vital

There will, of course, always be exceptions to the "revocable gift" rule. Each year, billions of dollars are generated from charitable gift annuities, charitable remainder trusts, and other types of irrevocable gifts. These types of gifts should, if possible, always be a part of your overall gift planning program. Irrevocable gift planning can often lead to "gifts of a lifetime."

Keep in mind also that many donors who are initially attracted to the features of a trust or gift annuity, and afford you an opportunity to discuss their long-term plans in that context, will ultimately decide to make their gift in the form of a bequest or other revocable gift. The contact would have never come, however, if the organization had not offered irrevocable deferred gifts that afford a less personal context in which to discuss a donor's long-term plans.

Conclusion

When working in the area of planned gifts, you are involved with a special group of people who are motivated by your mission and many of the other factors that also tend to underlie the decision to make current, outright gifts. But it is important to be very careful in your approach when dealing with gifts that are made as part of the estate and financial planning process. We believe that in the future, as in the past, a large percentage of realized planned gifts, especially from the broad middle of our constituencies, will no doubt continue to come from gifts that enable our donors to control their assets and protect those who depend on them for financial support.

Irrevocable gift planning can often lead to "gifts of a lifetime."

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business programs, news, music, and other entertainment of all types. I think the challenge of defining your mission becomes a little more complicated in public TV than in a single purpose organization. Essentially, public television provides information, and information is the most intangible of all the community services you can offer.

Give & Take: Did it take a long time to establish the gift planning effort at KCET?

Moreno: Ironically, I was fortunate that the station only toyed with the idea of planned giving for a long time. For about 14 or 15 years my supervisor and I constantly pleaded for the opportunity to do planned giving. But it wasn't until 1990 that we were given the opportunity. We were initially very limited in what we could do. One administrative assistant and I were only working part time. We had to be sure that our efforts were very focused and efficient due to these constraints.

For five years I worked this way and it proved effective. People began to understand the message that we were an institution, not just an entertainment facility. Despite the fact that we were rich in music and art and science programs, people understood that KCET was uniquely rich in other things, such as community service. If you give people the right message, I think that you will succeed over time.

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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 .

Will gifts this year be worth more?

In recent months Washington has been buzzing with talk about tax reductions. Most of the discussion has focused on lower tax rates that would result in alleviating the tax burden for many individual taxpayers.

Legislation is still be being debated and many believe final action will likely be delayed until after next year's elections. This could mean that charitable gifts made before the close of 1999 will generate greater tax savings for donors than if they make the same gifts in the future under lower tax rates! Are you prepared to let your donors know that their gifts could be worth more to them this year than in future years?

Let Robert F. Sharpe and Company's year-end giving publications help explain the benefits of giving before the end of 1999. Sharpe understands the importance of reaching donors during one of the most important seasons of the year for charitable giving. That's why we offer five year-end giving brochures (see the sample copies enclosed with this issue of *Give & Take*) as well as a newsletter devoted to the best ways to structure gifts before the end of the year.

While tax legislation is up in the air, now is an opportune time to remind donors that their gifts this year may provide more tax benefits than in future years. For more information or to place an order, call 1-800-238-3253.

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"Know all the triumphs of your organization, and know all the failures—you will be called upon to address them both."

Give & Take: How have you been helped by the fact that you were a senior during your gift planning career?

Moreno: I think that age is quite a benefit for the person who goes into gift planning — especially if you have grown up as part of the institution. You understand the element of finality that is present in the mind of the person you are talking to. Younger people may feel that they are immortal, hence they are less likely to understand the issue of finality. Dealing with an older person like myself, donors can often joke about death. I might say, "My goodness I feel so bad today I could die—but not really!" My older friends of KCET and I could relate on this level.

Give & Take: What inspired you most about your work at KCET?

Moreno: The generosity of people. If you did something right, people lauded it, they applauded, they gave you pats on the back. People told me how wonderful KCET was. For many older people, this station was the only television they watched and they wouldn't watch anything else for all the money in the world. Even when we made mistakes, our friends were so tolerant. This wonderful loyalty and affection kept me going.

Give & Take: What personal qualities do you think a gift planning officer should possess?

Moreno: Patience. Patience is the most significant virtue you can have. You also need to become as knowledgeable about your institution as you can. Know all the triumphs of your organization, and know all the failures—you will be called upon to address them both.

Gift planning is not like sticking your arm out with a tin cup. It is an intense process of cultivating friends. And if you don't think of it that way, and you feel like you can bamboozle someone into giving up some of his or her life savings, then you are going to fail—and you probably should. You have to understand very intimately the psychology of the giver. Unfortunately there aren't many organizations or institutions that work this way. Understand the many reasons that motivate a person to give to an institution that

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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.

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

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

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gives them pleasure or meets a societal need and be ready to help these persons decide which needs they are compelled to meet and, finally, how to plan a gift.

Once you have learned the virtue of patience, learn the virtue of suffering. You cultivate a donor, and make friends; they may share intimate things that they wouldn't share even with some relatives. But you must remember that there is an invisible barrier that you cannot cross. Suppose you secure a gift from a donor after much discussion and cultivation. Six months later, you lose this donor. How bad it feels inside your heart! You think to yourself, "Was I sufficiently kind to this person to merit the kind of gift that elevates my institution to the level of a family member? Did my organization really deserve this gift?"

Some people say gift planners shouldn't worry like this and that it is just a rule of the game. Well, not in my book. You are dealing with fellow human beings, not a book of rules and procedures. And each individual donor has to be known in his or her own terms. Even though some donors can demand so much from you, you should always stick there with them. Remember what you are asking of them. You are not asking them to give $30 or $40; you are asking them to give a portion of what they cherish, what they treasure, what they feel they cannot live without. This requires much diplomacy and a constant review of ethics.