Give & Take

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Memorials—Bridging Current and Future Giving

Are you harnessing the full potential of memorial gifts?

Memorial gifts are certainly not the latest, hottest giving vehicle in the gift planning world. As a matter of fact, memorial gifts have been around since before the first millennium began. Plato left an endowment of land to perpetuate his school, the Academy, which was named in honor of the Attic hero Academus. Many churches and chapels in medieval times were built thanks to funds from wealthy parishioners as gifts in honor of themselves and loved ones.

Thus, memorial gifts have for many years represented a significant component of many of the most successful fund development efforts. They offer donors a special service—a way to express their feelings and/or establish a legacy in a charitable manner.

As the traditional season of memorial giving approaches (Mother's Day, Father's Day, Memorial Day, etc.), now may be an especially opportune time to examine how memorial gifts can build a bridge from current to deferred gifts.

Memorial for you, memorial for me

Today memorial gifts are generally made in one of two ways:

Gifts in memory of others—Memorials given in someone's name are often relatively small current gifts, sometimes gifts made in lieu of flowers after a loved one passes away. These types of memorial and honor gifts are what the majority of development officers and donors are most familiar with. In other cases, larger memorial gifts are made through the use of a planned giving vehicle, such as a charitable trust or gift annuity, or included in a donor's estate plans as a bequest. These larger gifts may be given in honor of the donor's parents, grandparents, or other loved ones and may provide an opportunity to name a program, building, or other edifice for the person being memorialized.

Gifts that honor the donor—Many donors find that making memorial gifts to charitable organizations that are important to them offers them the additional benefit of perpetuating their *own* memory. Self-memorializing, or making gifts in one's own honor, has long been a popular practice as part of "bricks and mortar" campaigns. While memorial gifts for capital projects like buildings are generally made as part of campaigns for current funding, most often gifts for scholarships and endowment funds for particular projects are completed as part of donors' estate plans. Because self-memorializing gifts are usually made to establish a donor's ultimate legacy, they are often the largest memorial gifts of all.

Whether a donor gives in honor of a loved one or in honor of himself/herself, it

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Join us in Washington, D.C., for the training seminar "Major Gift Planning II." See page 7.

Inside

Planning Matters

New estimates of size of wealth transfer.

In recent months, Boston College researchers Paul G. Schervish and John J. Havens released a comprehensive new study estimating that upwards of $41 trillion of wealth will be transferred through estates during the first half of the 21st Century. The new report suggests that America's charitable organizations and institutions will receive a growing share of the transfer ushering in what could be a new "golden age" of philanthropy.

The new study is based on a broad sampling of the population and includes projections for estate transfers between 1998 and 2052. Reflecting the tremendous growth in value of financial assets over the past decade, the $41 trillion estimate amounts to almost four times the $10.4 trillion estimated by the Cornell University study released in 1990.

Where do charities fit in?

A variety of other reports reveal that while only approximately 5% to 10% of the U.S. population as a whole include charitable provisions in the their estate plans, almost 50% of affluent Americans plan to include charities in their estate plans. Internal Revenue Service figures indicate that based on the most recent statistics available, just under 20% of Americans who die with taxable estates actually include charitable provisions in their final plans. The Boston College study projections indicate a tremendous growth in the wealth being transferred to charities as reflected by the report's formal title: "Millionaires in the Millennium: New Estimates of the Forthcoming Wealth Transfer and the Prospects for a Golden Age of Philanthropy."

Depending upon the assumptions made and time frame considered, charities might receive anywhere from $1.7 to $25 trillion over the next 20 to 55 years. For the very largest estates, the Boston College model estimates that 39% of the assets will go to philanthropic causes. For the estates of the moderately wealthy, valued at from $1 to $5 million, the study assumes that charities will receive 8%. In estates of less than $1 million, an amount between 5% and 6% should go to charity. Other studies of actual bequest programs at organizations with successful planned gift development efforts indicate that for childless persons, upwards of 50% to 60% of funds are left to charity on average, regardless of the size of the estate.

As important as these new projections are, it is essential to remember that 55 years is a very long time. The longer the period of time studied, the greater the effect of the compounding of whatever growth assumptions are used. Econometric models (even using conservative assumptions) are driven to very large numbers through the sheer power of compounding asset growth over time. Such models are typically more accurate and more reliable over a shorter time frame, during which they are less likely to become distorted by the underlying assumption. Gift planners must necessarily focus their efforts on a shorter time frame. Thus it is important to note that the Boston College study also included projections over a 20-year period predicting a minimum of $12 trillion transfer of wealth with $1.7 trillion of charitable bequests.

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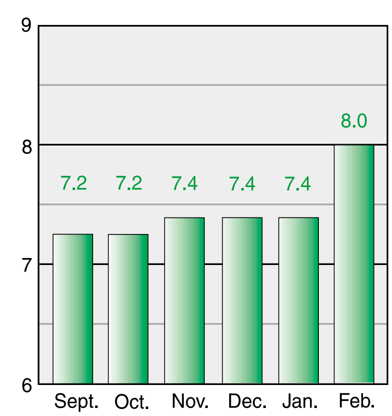
Discount Rates



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

Give & Take

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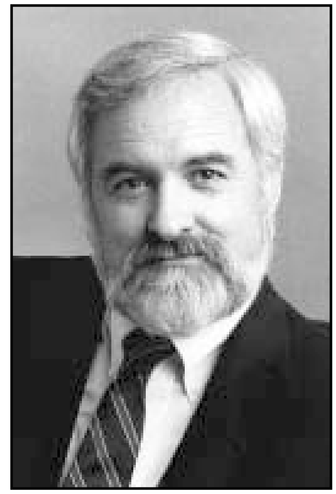
Former Fund Manager Now Committed Fundraiser

In this issue of Give & Take, *we talk with Fred Osborn, director of gift planning for The Episcopal Church Foundation in New York. As a former investment manager and business owner, Mr. Osborn brings a unique perspective to this month's "Gift Planner Profile."*



Fred Osborn

Give & Take: Why did you become involved in the field of fund development?

Osborn: I started with my work as a fund manager and investment advisor. I became very interested in what seems to make some people generous and others not so generous. I wondered what the emotional characteristics of a generous person were. In the late '70s I became a financial manager for an Episcopal diocese. That's how I got my start in what turned out to be a career in the Church. Today I am responsible for planned gift support at the national level.

Give & Take: What is the most rewarding part of your work?

Osborn: Meeting and working with genuinely nice people. People who have learned how to be generous and are acting on their generosity are wonderful people to spend time with. They are friendly, helpful, committed to the cause. That has been the greatest payoff for me. Even though I am at the national level, I make it a point at least once a month to get out and go on a donor visit or do a parish consultation. I want to be sure that I am out in the "trenches" as much as possible.

Give & Take: What characteristics are you looking for when you hire a gift planner?

Osborn: I look for a good listener and someone who has a demonstrated commitment to the faith so that he or she can believe in the causes for which we are raising money. I also think a successful person in this field should have a compassionate spirit. A gift planner should be someone who can care about the donors and appreciates who they are. Finally gift planners need a degree of technical expertise. This skill is not the most important attribute because persons who possess other skills necessary for success can over time learn the technical aspects of gift planning.

Gift planners must also be sensitive to different people's styles. For example, if you are talking with a retired accountant who is considering making a gift, he wants to know exactly what all the numbers are, what the payout will be, what the projections are that underlie the payouts, etc. On the other hand, if you are talking with an elderly widow who is an artist, she can be expected to care little about the technical aspects of a gift. She wants to know how funds she is considering donating will be used. The details of the plan are probably much less important to her than knowing how her gift will help people now and in the future.

Give & Take: What is the best advice you have ever been given regarding planned gift development work?

Osborn: One of my favorite quotes relates to this—"The best tool of evangelism is not the mouth, it is the ear." If you want to convince people of something, listen to them.

Give & Take: Do you think that philanthropy is something you learn as you get older, is innate, or is something one can be taught from childhood?

Osborn: Yes, yes, yes! For many people, giving is instilled in them from childhood by example by parents who regularly give. The children notice it and participate in it. People also learn generosity later in life when they discover that the pursuit of material wealth can leave them with a tremendous sense of emptiness. I think it is important for gift planners to believe in the basic goodness of people and that generosity is one of the innate traits of all human beings. Of course, in religious work it is easy to say that human beings are made in the image of God, and God is the ultimate giver. God gives everything. I have heard some say we reach our most fully human state by learning to give. G&T

Exploring the Educational FLIP Trust

See how a FLIP trust can be used to fund educational costs.

by Robert F. Sharpe, Jr.

Editor's note: The December 27, 1999 issue of Forbes *magazine featured a story on charitable gift planning entitled, "Trust Me." The article featured comments by Robert Sharpe, Jr., including an example of the creative use of a charitable remainder FLIP trust by a younger couple to fund college educational expenses for a young child. Many readers have since requested further details regarding this plan. In this article Mr. Sharpe shares additional information regarding this exciting planning opportunity.*

In early December 1998, the Internal Revenue Service released long-awaited final regulations that ushered in new planning opportunities utilizing the charitable remainder unitrust. In these regulations, the IRS approved the use of what had come to be known among charitable gift planners as the "FLIP unitrust."

Under the terms of a FLIP trust, a charitable remainder unitrust may be established as a net income trust that pays a specified percentage of the trust assets as valued annually, or the net income of the trust, whichever is less. Upon the occurrence of a specified event or at a particular time, the trust "flips" and becomes a straight unitrust that from that point forward pays the specified percentage of the asset value, regardless of the earnings of the trust.

Year	*Balance*	*Payment*
0	$100,000	Minimal net income
1	$108,000	
2	$116,640	
3	$125,971	
4	$136,049	
5	$146,933	
6	$158,687	
7	$171,382	
8	$185,093	
9	$199,900	
10	$215,892	
11	$233,164	
12	$251,817	
13	$271,962	
14	$293,719	
15	$317,217	
16	$342,594	

FLIP trusts had traditionally been employed when trusts were funded with real estate or other assets that were not readily marketable, in order to give the trustee sufficient time to sell the assets before being called upon to generate income.

The 1998 regulations broadened the conditions under which a net income trust may flip and become a straight unitrust to include other "trigger" events in addition to the sale of property, including births, marriage, the expiration of a time period, among other occurrences outside the donor's direct control. As in the case of other charitable remainder trusts, a FLIP trust may be created to exist for one or more lifetimes or for a specific period of time, not to exceed 20 years.

Educational planning

Among a variety of other uses, the FLIP trust for a term of years opens up interesting educational expense planning opportunities.

For example, assume that Mr. and Mrs. Martin, both age 38, have a two-year-old daughter and are interested in setting aside funds for higher education. They are also interested in participating in the endowment component of a campaign being conducted by one of their charitable interests.

The Martins own stock worth $100,000 in a high-tech company. The stock has a cost basis of $25,000 and pays no dividends. They believe the stock may have peaked in value, but are reluctant to sell it and generate $15,000 in capital gains taxes.

They might consider using the stock to establish a 10% net income FLIP unitrust for the benefit of their daughter for a term of 20 years. The trust is structured so that it will become a straight payout trust at the end of 16 years. It is anticipated that the trust will be invested for growth and thus generate little income for the first 16 years. In year 17, the trust begins paying 10% of the value of the trust to the daughter for the remainder of its 20-year term.

During the final four years of the trust, the daughter will be aged 18 to 22 and presumably pursuing higher education. If the trust grows at an annual rate of 8% during the first 16 years, it can be expected to contain assets worth approximately $342,000 at the end of that period of time. (See chart at left.)

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Memorials . . . *Continued from page 1*

is important to note that memorial givers as a group are special because:

• they attach special meaning to their gifts

• they are thoughtful

• they are often repetitive, loyal givers

• they have established an interest in the organizations to which they give.

Memorials in the new millennium

Memorial gifts will no doubt continue to be made for traditional bricks and mortar projects as well as for named endowment funds and other program-oriented projects. Gift planners need to plan for a new wave of donors who may be more interested in different types of memorial giving opportunities. Consider the fact that 70 million people will turn age 65 in the next 20 years and will be considering how best to make their ultimate gifts of a lifetime. Many will enjoy inheritances from parents and may be particularly interested in honoring their memory and that of other departed loved ones.

Now is a good time to reacquaint your donors with memorial giving opportunities. Remind your constituents that every gift can include a memorial aspect. For example, explain that annual and campaign pledges may be made in honor of a loved one, thereby allowing a donor's gift to do "double duty." Fund development programs should also continue to encourage memorial and honor gifts such as gifts in lieu of flowers and tributes to family and friends on special occasions.

Once you receive memorial gifts, be sure to acknowledge the gifts in a timely and sensitive manner. Respond to both the family of the honoree and those who donated, thanking them both for their generosity and interest in your organization. Some organizations present the family of the honoree with a certificate bearing all the names of those who donated on their loved one's behalf. Other gift planners make it a policy to personally call or visit with the honoree's family to explain how the memorial gifts will be used in their organizations.

However you decide to acknowledge your donors, remember that the thanks you give them today is just one step in the cultivation of long-term relationships that could lead to planned gifts in the future. As baby boomers replace their parents as planned givers, think of a well-executed memorial and honor gifts development effort as an opportunity to further demonstrate that your organization or institution is worthy of both their current and future gifts. Ultimately the goal of the memorial program is to promote a mutually beneficial alliance between the donors, the family of those honored, and your organization or institution. Once such an alliance is established, it is up to the gift planner to preserve and nurture that relationship so that it can become a bridge to future planned gifts. G&T

Remind your constituents that every gift can include a memorial aspect.

Planning Matters . . . *Continued from page 2*

Be prepared

Before budgeting for an unexpected windfall, note that it is likely that not all charities will share equally in this transfer. A relatively small number of organizations and institutions with active and well-organized gift planning efforts may be the primary beneficiaries. Others with less active programs may receive some of the benefits "over the transom" from time to time, but many may be left wondering what has happened to their share. Well-planned education and communication will make the difference. One thing is sure—charitable organizations that regularly inform their constituency about the best gift and estate planning methodologies are more likely to receive the full measure of the coming wealth transfer regardless of its total and the time period in which it is received. G&T

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**.

Encouraging memorial gifts

How much do friends of your organization or institution know about memorial and honor giving? Memorial gifts can be more than just another source of funds for your organization. They offer donors a service—a way to express sympathy at a time when words may seem inadequate, or a way to pay lasting tribute to someone who has touched their lives in a meaningful way.

While gifts in memory of or in tribute to others is the primary theme of the brochure, "Giving Through Living Memorials" also provides a convenient way for you to assist donors with valuable information about the best ways to make their memorial and honor gifts. This six-panel publication explains the various ways memorial gifts may be funded and which type of gift may be most practical for particular donors. The brochure also features a perforated response device that can be personalized for your donors to use to detach and request more information about topics of interest to them. The response device can also be an excellent way to discover those who have already or may be considering including your organization in their will or other long-range estate and financial plans.

"Giving Through Living Memorials" is available in three attractive designs. Please see the samples enclosed with this issue of *Give & Take*.

To reserve your copies, call 1-800-238-3253 or e-mail info@rfsco.com. G&T

FLIP Trust . . . *Continued from page 4*

Under the terms of the trust, in the seventeenth year the trust becomes a straight unitrust and pays 10% of the value of the trust to the daughter. Under these assumptions, the daughter and the charitable remainder can be expected to receive the following amounts:

Year	*Balance*	*Payment*
17	$370,002	$37,000
18	$366,302	$36,630
19	$362,639	$36,264
20	$359,012	$35,901

Final Remainder to Charity: $323,110

At the end of the 20-year term, the trust will terminate and distribute the balance of the trust, over $320,000 given the above assumptions, to the charitable beneficiary named at the outset. The donors could retain the right to change the ultimate beneficiary if they so desired.

Note that in addition to avoidance of $15,000 in capital gains taxes in the year they fund the trust, the Martins will be entitled to a charitable income tax deduction of some $13,400, well within the 10% minimum deduction requirements to qualify for favorable tax treatment. The remaining $86,600 will be considered a gift to their daughter for gift tax purposes. This amount could be offset against the $1,350,000 the Martins can between them give to their daughter tax free during their lifetime or at their deaths. The amount of the unified credit used in conjunction with the gift to their daughter will, in effect, be replaced by scheduled increases in the unified credit equivalent amount in coming years.

Conclusion

Through carefully planning their gift utilizing IRS-approved planning tech-

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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 in 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. G&T

***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**

Seminar Training Dates

Major Gift Planning I

Seattle
February 21-22

Chicago
April 13-14

Boston
May 8-9

Major Gift Planning II

Washington, D.C.
March 2-3

Tampa
May 31 - June 1

Planned Giving When That's Not All You Do

Chicago
March 6

San Francisco
April 7

Los Angeles
April 10

**Please see our Web site at www.rfsco.com for more information or to register.*

FLIP Trust . . . *Continued from page 6*

niques, the Martins have used an asset worth $100,000 to make a gift commitment that could after tax-free buildup within the trust be worth over $320,000 when received by their charitable interest, while enjoying beneficial tax savings and assuring a generous flow of income for educational purposes at a time when it could be a very valuable supplement to their daughter's income.

Note also that this gift, by virtue of its termination at the conclusion of a term of years, is not dependent on the age of the donor but rather the donors' wealth and life circumstances. A trust for a term of 20 years created by a 38-year-old couple will be expected to be received in the same time frame as a similar trust for the *lifetime* of a 68-year-old couple. Planning strategies such as the one described above can be expected to be of immense value as a younger generation replaces its parents and grandparents as the primary source of major funding for charitable organizations and institutions in America. G&T

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.