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August 2002

Give & Take

News and Ideas for Development Executives of Nonprofit Organizations

Where Do We Go From Here?

by Robert F. Sharpe, Jr.

The past year has been one of extraordinary change. Last September we witnessed events unprecedented in our nation's history. As of late July, over the past year the Dow Jones Industrial Average has fallen 22%. The value of stocks comprising the S&P 500 is off 31%, and the Nasdaq index has declined 40%. Accounting and leadership scandals have rocked U.S. corporations, and investors fear more may be on the way.

In spite of these events, recently released reports indicate that giving in America held steady in 2001 but declined in inflation-adjusted dollars last year for the first time in many years. Some are predicting a similar outcome for 2002.

What, then, are we to do? The temptation for some may be to batten down the hatches and try to "ride it out." Unfortunately, that is not a viable alternative for most, especially those who are involved in planned, major, and capital gift development. While capital campaigns now in the planning stages may in some cases be delayed or reconsidered, ongoing fund development efforts, including campaigns that are currently in "midstream," can and must be continued.

It cannot, however, be business as usual. It is time to work harder—and work smarter—in all aspects of funding programs. There are some things we can control, and some that we can't. The key is to know the difference and act quickly and decisively to make the greatest positive impact wherever possible.

Gaining perspective

The last ten years have been among the best ever for charitable giving. As with the broader economy, at some point a return to more normal conditions should not be surprising, and indeed is something that we should expect. But we have to look back a number of years to find an environment comparable to today's. Certainly the period following the 1987 stock market crash was challenging. Investment markets lost over 25% of their value in a matter of days in October of that year, and trading was suspended on stock exchanges in the midst of the busy year-end giving season. Giving overall dropped 4.7% in 1987, over twice the relatively modest 2.3% decline experienced in 2001. This proved to be only a temporary setback as the markets—and charitable giving—sprang back the next year.

The recession of the early 1990s ushered in another period of difficulty. Despite this downturn in the business cycle, there was not a significant impact on charitable giving, perhaps because securities continued to increase in value.

To find a period more similar to the one we face today, it may be helpful to look to the mid-1970s. At that time, America remained embroiled in the long-term conflict in Vietnam, and the Watergate scandal had precipitated a constitutional crisis ending with the termination of a Presidency in the summer of 1974. The economy was mired in "stagflation" as the effects of the oil embargo of 1973 crippled the economy, the "energy crisis" unfolded, and Americans shivered through cold winters and waited in long lines to purchase gasoline. Inflation was beginning to take a serious toll on the life savings of many. By December 1974, after adjusting for inflation, the Dow had fallen some 60% from its 1965 value. New York City, unable to issue bonds without federal guarantees, was teetering on bankruptcy as garbage piled up in the streets. Fundraising was indeed a challenge at that time, but inflation-adjusted giving in America only dropped 5.4% in 1974, a percentage drop that has not been equaled since that time.

What sets the current downturn apart, however, is the fact that it is coinciding with a period of correction of financial asset valuations that many economists have predicted and believed was long overdue. From a demographic perspective, it is also happening at a time when a generation of donors that has provided the backbone of support for many nonprofits for decades is retiring in large numbers and changing the amount and timing of their gifts, while the baby boomers have yet to "take up the slack."

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Substantial wealth remains

Major market indices have fallen dramatically over the past two years, and large sums have been lost by individual and institutional investors, including the endowments of many not-for-profit organizations and institutions. However, it is important to consider the fact that those who have invested for the long term have still experienced significant increases in their wealth. A person who invested in a Dow index fund five years ago may still have gain remaining. Looking at a ten-year time horizon, $1 million invested in a Dow index fund in 1992 would still be worth approximately $2.4 million, even after the corrections of the past two years. A $1 million investment in either an S&P 500 or a Nasdaq index fund ten years ago would be worth over $2 million today. Those who invested in the Dow ten years ago still have increases amounting to an average annual return of over 9% during the past decade. The S&P 500 and Nasdaq are still worth an amount representing average growth of 7.5% over the past decade. Note that these amounts are in the range that many asset managers typically project for total return on endowment investments over time.

Capability to give

What this all adds up to is that many Americans still possess significant amounts of wealth, and the most committed donors may be among that group. Government studies reveal that the wealthiest per capita households in America are headed by persons age 65 and older—a key group from a fund development perspective. The good news is that this is the age group that may actually have suffered the least during the current economic downturn. They are already retired in most cases, so they do not have to worry about losing their jobs. Older individuals do not tend to invest in highly speculative investments, and their portfolios typically contain higher percentages of bonds, cash, or cash equivalents. Many in this group are also just beginning to take required minimum distributions from retirement plans, further increasing their discretionary (and donatable) income.

Many seniors were driven to debt instruments by lower dividend yields on equity investments in recent years. Those who shifted assets to bonds in the late nineties to provide more spendable income may have seen the value of those bonds increase significantly as interest rates have declined over the past few years. An investment in a typical bond fund has increased in value over 10% in the past year alone, while providing income as well.

The last half of the 1990s has been described by Alan Greenspan as a period of "irrational exuberance." It was a time of speculation when many believed the old rules of business and finance no longer applied, and the sky was truly the limit. It was a time when the promise of unlimited returns clouded the judgment of some investors—especially the young and less experienced.

On the other hand, consider the characteristics of the "millionaire next door" as described in the best-selling book by that name authored by Thomas Stanley and William Danko (see *Give & Take*, June 2002). One might conclude that the best donors of all ages may be among the conservative investors who were less "exuberant" and as a result may have suffered less from recent market corrections. In fact, because of their investment decisions, they may have experienced a decline in their income, but they may actually have *more* assets than in the past.

Facing reality

What is called for now is resolute calm as we take a realistic and sober approach to the realities that confront us. Funding methods that worked well for the entire careers of some fundraisers may no longer be as effective. Extravagant events could increasingly be considered wasteful and in bad taste. Campaigns based on selling social recognition to those seeking to make a "statement" with their newfound wealth may no longer be as effective. High-level corporate executives who provided leadership in the past may now be more focused on struggling to maintain their position.

On the other hand, the past reveals that funding strategies rooted in helping committed persons support causes they believe in will continue to prosper.

Here are some steps we can all take today to help assure the best possible results for the remainder of this year and beyond:

- Strive to devote as much time *thanking* donors for gifts as you do *asking* for gifts. If you want to find the people who still have the resources to

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Give & Take:

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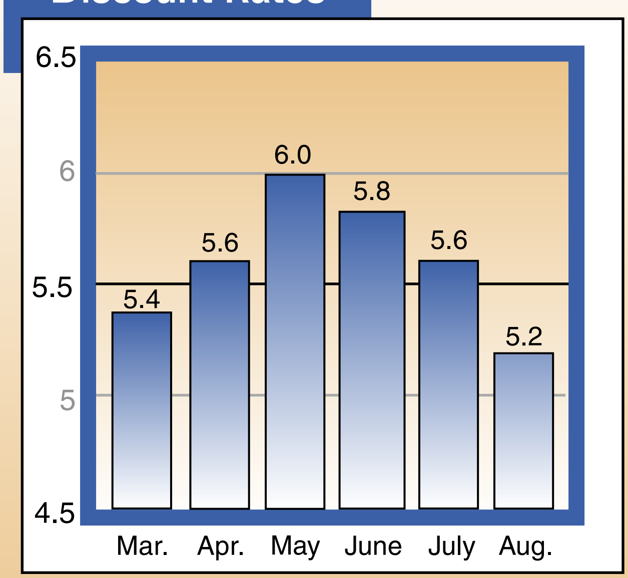
Persistence Pays Off

In this month's "Gift Planner Profile," Give and Take *speaks with Robert Wuillamey, Planned Giving and Major Gifts Officer for Catholic Medical Mission Board in New York City. Mr. Wuillamey has been involved in development for over 15 years.*

Give & Take: What is the mission of Catholic Medical Mission Board?

Wuillamey: Catholic Medical Mission Board (CMMB) is a Catholic leader in international healthcare. We provide healthcare services to the poor in developing countries around the world. We work closely with a number of domestic and overseas partners to provide services in four basic areas. We procure pharmaceutical and medical supplies for distribution to hospitals, clinics, and to support our healthcare initiatives overseas. CMMB also has a medical volunteer program which places doctors and nurses for long- and short-term volunteer service in developing countries. In addition we are committed to improving the technical skills of indigenous medical professionals and para-professionals through our training programs. Most recently, CMMB has made a major commitment to develop programs that combat critical healthcare crises such as the spread of TB and HIV/AIDS. As we move into the future, we will focus our efforts on initiating programs that provide primary health services throughout the world.

Discount Rates



Trend in applicable federal mid-term rates (AFMR's), which are used in calculating tax benefits of planned gifts.

Give & Take: What strategies have you found to be most successful in generating planned gifts?

Wuillamey: CMMB has a strong direct mail program and most of our planned gifts come about as a result of promoting giving opportunities through this fundraising vehicle. I attribute our success in generating planned gifts with our conscious decision to better show how giving impacts our mission.

There is a tendency for some gift planners to focus almost exclusively on the tax and financial benefits of a planned gift. While these benefits are certainly important, we have found that what primarily motivates a person to make a gift is the belief that he or she can actually make a difference to the organization and the people we serve. Through our planned giving newsletters, brochure mailings, and acknowledgment inserts, we always try to make people aware of how their gifts are going to impact our ability to plan for the future. Once a donor makes that connection, the gift comes naturally. When I came on board in 1998, our gift annuity program, for example, was averaging around $350,000 a year. Now, as a result of this new approach, we are on target to top $1,000,000 annually.

Robert Wuillamey

Give & Take: What sort of interaction do you have with your donor base outside of direct mail?

Wuillamey: We have a Legacy Society for donors who have established planned gifts, and we try whenever possible to meet with supporters face-to-face. However, most of our supporters have come to us through our direct mail program, and that tends to be a different kind of relationship from one that is developed as part of a major gift program. I have found that while donors cultivated through direct mail are very willing to support CMMB through outright and planned gifts, they can be reluctant to move that relationship to a more personal level. Cultivating that personal, more intimate relationship is our greatest challenge.

When I worked at a private secondary school it was very easy for me to know who our supporters were and what motivated their giving, because of their affiliation with the institution. My experience now is very different. Catholic Medical Mission Board has over 60,000 very diverse donors and their reasons for supporting us are equally diverse. Though we try to

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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.

make gifts, turn your attention to those who just made them! Think about it. They have just proven they have the resources to give in today's environment. You may also find that the positive feedback enjoyed in the process of thanking donors will energize you for more difficult tasks.

• Take care to serve those who have cared the most for the longest time, and do everything you can to build stronger relationships with them. In difficult times, your long-term donors will be those most likely to stay the course.

• Help donors understand how best to make their gifts today. Many donors now have large cash reserves after selling investments that were not performing well. Their natural inclination this fall may be to make gifts using a portion of that cash. But did they sell the investments that were still doing well and that they thought might continue to grow in value? No. They still own those investments. Instead of cash, those are the assets they should give to take maximum advantage of remaining appreciation. They should use their cash to purchase new investments, thereby diversifying their portfolio while they enjoy a new, higher cost basis. Most donors do not know how to properly balance the sale of some assets with the gift of others. Don't expect others to tell them. This can be a key to obtaining new campaign commitments and fulfilling others in this environment.

• Focus on older donors. As noted above, donors in the sixty-and-older age group are among the wealthiest generation in history. Remember that for every person who bought into the equity markets during the bubble years of the late nineties, someone else was selling. Many of the buyers were younger persons seeking to make a quick fortune and retire early. The sellers were often more disciplined, mature persons, many of whom were already retired. These persons are likely to still have the sale proceeds from stocks that have in many cases subsequently plummeted in value.

• Listen to your donors' expressed needs. Learn to interpret signals donors are giving you. They may express a desire to give more but feel hampered by lower investment returns. Or they could be concerned about providing an inheritance for their children. What they may really be telling you is that they could make a significant gift if it resulted in increased income or a tax-free inheritance for loved ones. Trusts, gift annuities, and other gift planning vehicles now more than ever may hold the key to securing major current and deferred gifts.

• Be flexible on the timing of gifts. Some donors have a tremendous desire to give, but their resources may be temporarily limited due to lower interest rates, a spouse's job loss, or other factors beyond their control. Remember that making a provision in their estate plans, regardless of their age, can be possible even if they cannot make a large gift today. Now is the time to let people know that you appreciate these types of gifts and will recognize them appropriately. What greater indication of donative intent could there be than the decision to elevate a charitable interest to the status of a close friend or family member by including it in a will or other estate plans? These persons may be your best major gift prospects when times of prosperity return.

• Look to the past for direction. Those who failed in the past are no longer here, so look to those who have succeeded over time for guidance, and follow their advice. Seek out someone who worked in fund development prior to 1985 and take him or her to lunch.

Don't just do the best you can "under the circumstances." Don't be content to work "around the circumstances." Instead, resolve to work "above the circumstances" that present you with difficulties. Many of those who have come of age in the past twenty years now face the first significant challenges of their careers. Each generation has its proving ground. Now is the time when proven leaders will once again excel and a new generation of managers will be tested.

These are not the best of times, nor are they the worst. The "wealth effect" of recent years may be over, but remember that significant wealth—and donor commitment—remain. We believe that charitable giving will continue—and perhaps even grow—in the current environment. That is because much of the remaining wealth is in the hands of those who did not buy into the ethos of the nineties. It is owned by those who understand the true nature of wealth—and respect it enough to guard and preserve it. The truly philanthropic have always been found among the ranks of such persons, and it remains a rewarding and noble vocation to serve them as they continue to provide much of the funding required to build and maintain our social infrastructure. G&T

Persistence Pays Off…*Continued from page 3*

deliver certain core messages, we are conscious of the fact that our donors may have very different expectations of us. Personal contact and phone calls are essential, because they allow us to get to know these individuals better and understand their motivations. These are critical ingredients in the process of completing a planned gift.

***Give & Take:* You have mentioned the success of your gift annuity program. How did you achieve that success?**

Wuillamey: When I came on board here, the average annuity gift was somewhere around $2,500, with a number of $1,000 gift annuities. Now, the average gift annuity is approximately $10,000, and $50,000 and $100,000 annuities are not unusual. We also have a number of annuitants establishing additional annuities each year.

In our literature, we try not to focus exclusively on the details of how a gift annuity works. What I have found to be successful are simpler marketing messages that keep our organization and our mission at the top of the donor's mind. For example, one thing that we have added to our marketing mix that has been successful in generating interest, inquiries, and even gifts, are annuity postcards. We send out simple postcards updating people about a change in gift annuity rates or tax changes that might affect them. People are already familiar with gift annuities and how they work as a result of our newsletter and other communications efforts. Sometimes they just need a simple reminder as to why this vehicle might be a good opportunity for them. We've had good response from these mailings because people take the time to read them. Sometimes less is better.

The important thing is to get a response. Look at what you're doing and determine if you're getting the kind of reaction you thought you were going to get. Don't be afraid to try different things.

I credit our success with the gift annuity program not only to what we have done here. We had a tremendous year this year partly because the market has been so volatile. People are looking for alternative ways to give that stabilize their income. And, I also credit the planned giving community as a whole for making people aware of various planned giving vehicles.

Most individuals are well educated about planned giving opportunities. Our challenge now is not so much one of education, but rather distinguishing our organization and mission from the countless others that are competing for the same supporter. The truth is that people are going to give to the organization with which they feel most closely associated, so the cultivation of individuals and the personalization that you give your program are critical.

***Give & Take:* What about other types of gifts besides the gift annuity?**

Wuillamey: CMMB has had a pretty good track record of promoting estate gifts and that has paid off with a steady stream of income from bequests and trust gifts. Though it can be difficult to measure the immediate impact of your marketing efforts, over the long haul, if an organization sticks with it, you can be assured of a solid return. I am certain that the income we are realizing now from estate gifts is the result of work done by my predecessors several years ago.

***Give & Take:* In your opinion, what attributes should a successful gift planner have?**

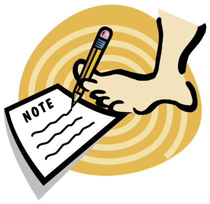
Wuillamey: First, it is important that your organization have a compelling mission and one that is clear and readily understandable by donors and prospective donors. Gift planners have to believe strongly in that mission and be able to articulate it clearly and passionately.

You also should have a genuine love for people. Development officers have to really like to meet with individuals and find out what motivates them, what their desires are, and what they're trying to accomplish. Then, they need to try to match those needs and desires with those of their organization using the most effective gift planning tools at their disposal. There has to be a willingness to work with people and to really listen to what donors are saying. Successful gift planners have to want to help donors meet their goals.

Patience is also an important attribute. It can be a long-term process—first articulating the mission and then learning the prospective donor's needs, finding what he or she is trying to accomplish, and finally matching the donor's desires with the organization's needs. If a gift planner starts out thinking that he is going to get a gift on the first visit or with his first mailing, he's going to burn out and become disappointed very quickly.

You never know when the right time will be for someone to make a planned gift. That's why it's so important to be patient. A prospective donor may not respond in the first month, six months, or a year, but being patient and continuing the relationship lets them know that they are important to you, and that makes a difference. G&T

Footnotes



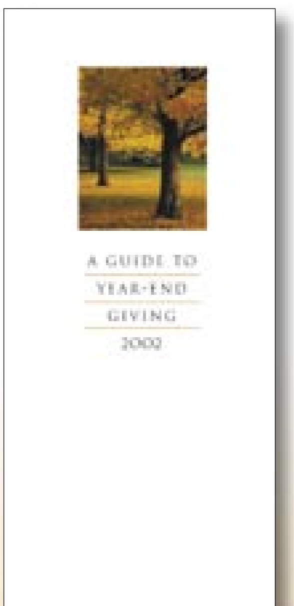
News and ideas about Robert F. Sharpe and Company's services.

Unlocking gifts this year-end

This fall, it may be especially important for those responsible for maximizing gifts to give their donors the information they need to make their gifts in the most effective ways possible. For the broader group of donors, Sharpe publishes an attractive selection of brochures designed to promote planned and major gifts as part of a broad appeal process. See www.rfsco.com for more details.

Getting to the top

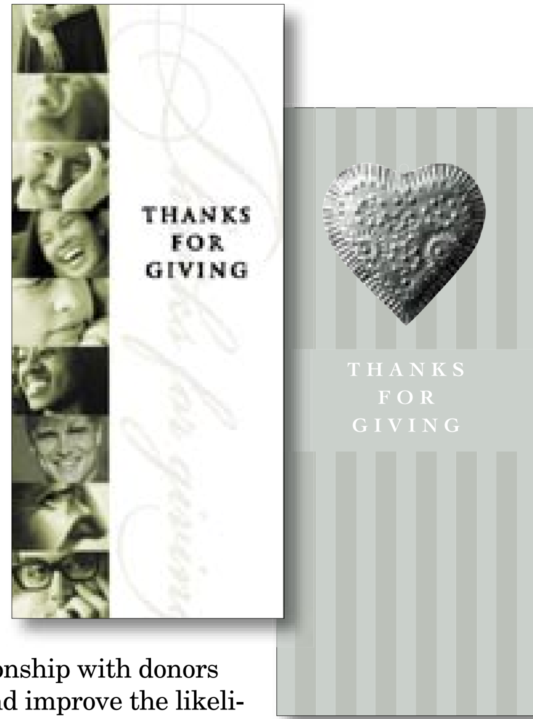
Top donors and prospects may benefit from more in-depth educational and motivational materials that highlight specific strategies for making larger gifts in today's unusual fundraising environment. "A Guide to Year-End Giving 2002" is designed for use with the most affluent members of your donor file. It describes a variety of sophisticated strategies for making gifts in ways that will maximize the tax and other benefits for all involved. Donors will find helpful examples in this booklet that illustrate gift planning ideas that are not widely communicated or understood. You may also want to share this piece with professional advisors who may be working with donors as they plan their gifts this fall.



Complete the cycle

Regardless of the size of a donation, all gifts are important and should be properly acknowledged. Experienced development executives know that the best prospects for future gifts are those that have recently made gifts, so maintaining positive relationships with donors by properly thanking them is key to future success.

Materials inserted along with acknowledgment letters can provide a convenient, timely, and economical marketing opportunity. Sharpe offers a number of special brochures that both thank donors for their support and feature information about other giving alternatives. These "Thanks for Giving" brochures include helpful tax planning tips and information about ways to make gifts as part of a donor's long-term financial planning. An attached response device enables donors to request additional information on any gift planning vehicle that interests them. Thanking donors and providing complimentary gift planning information can help to enhance your relationship with donors and improve the likelihood of future gifts.



This year, the key to a successful year-end may depend on developing and implementing a well-thought-out marketing program for regular contributors of both large and small amounts. Sharpe's specially designed support materials can help you build solid relationships with your donors, generate gifts, and make sure that all gifts are properly acknowledged. For more information, please visit www.rfsco.com or call 1-800-238-3253 to speak with a Sharpe representative. G&T

Articles and Speeches Available Online

On June 20, 2002, Robert Sharpe was the keynote luncheon speaker at the Tenth Annual Gift Planning Conference in San Francisco, sponsored by the Northern California Planned Giving Council. A summary of his remarks is now available online. Visit www.rfsco.com/current to view "The Changing Environment for Endowment and Major Gift Development: How to Succeed in It." Also available is a copy of an article by Mr. Sharpe published in the June issue of *Trusts & Estates* entitled "Competing or Completing?—Balancing the Roles of Gift Planning Professionals."

Training Update

An Introduction to Planned Giving

For a comprehensive, in-depth training experience, consider attending Sharpe's 3-day seminar "An Introduction to Planned Giving."

Presenters Timothy Sharpe, Barlow Mann, and Phillip Adcock combine their experience to guide participants through the basics of charitable gift planning, from detailed explanations of gift planning techniques, to organizing and implementing an effective gift planning pro-gram, to communicating benefits of more effective charitable gift planning in the most efficient manner for your constituency.

Empower yourself with a wealth of gift planning knowledge that your donors will appreciate and will help your organization or institution benefit from the unprecedented intergenerational wealth transfer that is now on the horizon. This seminar is especially helpful for those who are beginning their career in planned giving or have multiple responsibilities and are charged with incorporating gift planning capabilities into other development efforts.

Major Gift Planning I

In two concentrated, information-packed days, presenters Robert F. Sharpe, Jr., and Jonathan G. Tidd, Esq., address issues of vital importance to those charged with structuring major gifts to their organizations. By linking their knowledge and over 40 years of combined experience, Sharpe and Tidd lead participants who possess a basic understanding of gift planning tools through a comprehensive training experience designed to help them best utilize their skills in today's environment. Registration is limited to allow for more interaction among participants and instructors.

Major Gift Planning II

Designed with the more experienced gift planner in mind, "Major Gift Planning II" focuses on the skillful use of gift planning tools to help donors meet a variety of personal goals while making significant gifts. A working knowledge of various gift planning vehicles is assumed.

Instructors Robert F. Sharpe, Jr., and Jonathan G. Tidd, Esq., emphasize the impact of recent tax legislation and investment market conditions and ways to "salvage" gifts that might otherwise not be completed.

Managing Planned Giving Relationships

Someone has asked for information about a planned gift. What is the next step? How do you use the telephone, written correspondence, personal visits, and other communications in ways that are appropriate, tasteful, and effective?

These and other topics will be explored in a new seminar devoted to the process of developing and managing effective planned gift relationships. Beginning with how to handle initial requests for information, this seminar will also focus on what to do before, during, and after a personal visit.

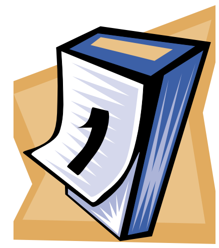
Also included is an exploration of various ways to work most effectively with donors' advisors to help complete planned gifts.

Special attention will also be given to the process of building and maintaining relationships with the heirs of benefactors after a legacy has been received.

Presenters with decades of combined experience will share their insights regarding ways to build meaningful relationships, including helpful case studies and demonstrations of successful techniques.

Designed to complement "An Introduction to Planned Giving" and "Major Gift Planning I," this one and one-half day session follows those seminars in selected cities. Special tuition rates are available for concurrent or previous attendees of Sharpe seminars. 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

An Introduction to Planned Giving
New York
August 19-21
Chicago
September 9-11
Washington, D.C.
December 9-11

Managing Planned Giving Relationships
New York
August 21-22
Chicago
September 11-12
Washington, D.C.
December 11-12

Major Gift Planning I
Phoenix
September 5-6
St. Petersburg, FL
October 21-22
Memphis
December 9-10

Where Solutions Begin

Now is a time when many Americans are reevaluating their personal, financial, and charitable priorities. This includes their charitable gift commitments. Are you prepared to help them make their gifts in today's environment in the most effective ways?

Sharpe seminars are designed to provide useful ideas and practical advice geared to help organizations and institutions assist donors, and in so doing reach their full potential in today's competitive environment.

Make plans today to attend "An Introduction to Planned Giving" and "Managing Planned Giving Relationships."

An Introduction to Planned Giving	Managing Planned Giving Relationships
New York August 19-21	New York August 21-22
Chicago September 9-11	Chicago September 11-12
Washington, D.C. December 9-11	Washington, D.C. December 11-12

In these complementary seminars, a team of experienced presenters will focus on the fundamentals of gift planning. Topics will include making initial contact with donors, helping to plan the gift, and maintaining relationships with donors, advisors, and other heirs after the gift is made. See page 7 for more information.

Enrollment is limited. Please call 1-800-238-3253 or visit us online at www.rfsco.com/seminars for more information or to reserve your place.

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