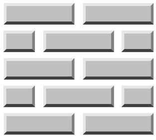

Vol. 34 No. 1
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Give & Take

News and Ideas for Development Executives of Nonprofit Organizations

Examining the Role of Planned Giving in Capital Campaigns

by Robert F. Sharpe, Jr.

Over the years, we have observed a wide range of approaches to the use of planned giving techniques in capital campaigns.

In some cases, for example, campaigns are conducted with well-defined goals for outright contributions over a specified period of time. In these instances, campaign guidelines have traditionally credited only outright gifts or near-term pledges received during the period of the campaign. On the other end of the spectrum, campaign totals sometimes include not only all outright contributions and pledges to the institution during the campaign, but also include all deferred gifts completed, bequests received from estates, and future bequest commitments made during the campaign.

Note the chart at right that depicts the outcome of three campaigns with very different policies regarding the role of planned giving.

	Campaign I	Campaign II	Campaign III
Cash Gifts	$15,000,000	$15,000,000	$15,000,000
Other Property	$10,000,000	$10,000,000	$10,000,000
Charitable Remainder Trusts	$5,000,000	$1,500,000	-0-
Gift Annuities	$5,000,000	$2,000,000	-0-
Life Insurance Policies	$5,000,000	$1,000,000	$1,000,000
Bequests Received	$10,000,000	$10,000,000	-0-
Bequest Commitments	$10,000,000		-0-
Total	$60,000,000	$39,500,000	$26,000,000

Broad crediting policies were adopted in Campaign I, with trusts and other deferred gifts counted toward the campaign goal at full value along with bequests received during the campaign and commitments for future bequests.

With somewhat more conservative policies in Campaign II, deferred gifts were counted at present value and estate distributions were counted at full value. No recognition was given for future bequest commitments.

Campaign III was the most traditional in its approach, with no credit for planned gifts with the exception of the cash surrender value of life insurance policies as of the end of the campaign, as those funds were vested and available to the institution at that time.

Which campaign raised the most money? From a long-term perspective, most would agree that Campaign I raised the most money. As far as spendable funds available during the campaign, however, there is really no difference in the three campaigns. All three received outright gifts of $25 million. All three received $10 million in bequest distributions. Two of the campaigns chose to count deferred gifts and bequest receipts, while the other did not credit deferred gifts and decided the bequest receipts had been influenced in previous years as a result of other fund developments, had already been recognized as part of donor stewardship efforts, and were thus not "new" funds raised as a result of the campaign. Campaign II decided to include realized bequests from earlier efforts, but decided not to count new bequest expectancies discovered during the campaign, as it was decided they were too uncertain to be credited to the campaign. The opposite approach would be to count new bequest commitments received during a campaign as new gifts, but not to count the bequest receipts that had already been credited to previous efforts, as it might be considered "double counting" to count them again when received. All three campaigns were entitled to $1 million in cash value in life insurance policies, but Campaign I chose to instead count the face value of the policies in order to reflect the full extent of the donor's commitment.

What is the lesson to be learned from these variations? First, this is one of the most complicat-

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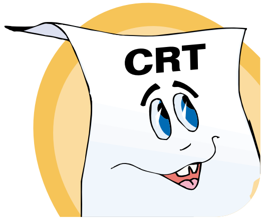
Inside:

- Why charitable remainder trusts may be especially attractive now. p.2
- How did January 1 affect your publications? p.6



CRT payments taxed more favorably in today's environment.

Planning Matters

Under federal income tax law and regulations, charitable remainder trusts are tax-exempt entities that are not generally liable for income or capital gain tax on the earnings of the trust — so long as the earnings stay in the trusts. Once payments are made to non-charitable beneficiaries, however, very different rules apply.

Donors, fiduciaries, and beneficiaries all share a keen interest in the way payments from charitable remainder trusts are taxed when received. The way such income is characterized is governed by what is known as the "tier structure" method of reporting income which is dictated by the Internal Revenue Code and Regulations.

The trustee of a charitable remainder trust is required to keep track of the types of income realized by the trust, even though the trust itself is not liable for tax. When payments are received by the trust beneficiary, they are reported as coming first from the highest tier possible for income tax purposes, so the income from a charitable remainder trust would generally be reported in the following order:

1. Ordinary income
2. Capital gain income
3. Tax-free income
4. Return of principal

Gift planners who understand this system and its implications are better able to serve donors and their charitable interests. In today's economic environment, it is helpful to examine the accompanying charts that are based on IRS studies of charitable remainder trust tax returns for 1998.

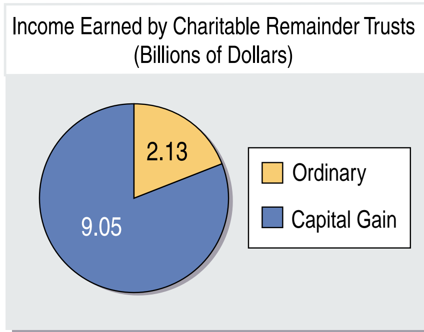


Figure 1

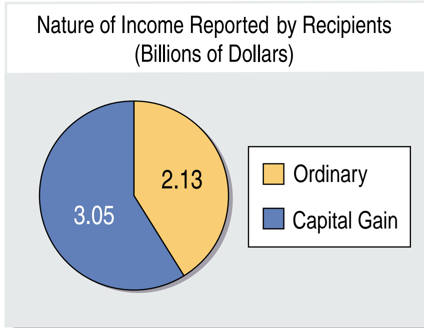
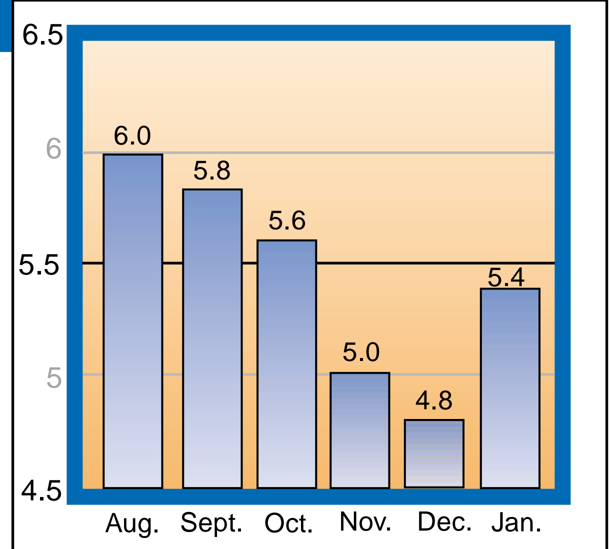


Figure 2

Discount Rates



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

According to the tax return data as depicted in Figure 1, some 20% of net income reported by charitable remainder trusts fell into Tier 1, or ordinary income.

As a percentage of payments made to beneficiaries under the terms of the charitable remainder trusts, on the other hand, Tier 1 income accounted for over 40% of the income distributed in 1998 (see Figure 2). The remaining 60% of the income distribution would have been reported by recipients under the remaining three tiers, with the greatest portion being taxed as capital gain.

One could reasonably assume that as interest and dividend rates decline, less of the earnings of charitable remainder trusts will be in the form of ordinary income and a greater portion of payments will thus be taxed more favorably by recipients as capital gain income. This serves to increase the attractiveness of charitable remainder trusts, particularly annuity trusts that pay fixed amounts each year, regardless of the value of the assets in the trust.

Thus, while lower interest rates may lead to a reduction in the amount of current income tax deductions for charitable remainder trusts and gift annuities, the fact that more of the income from the trusts will be taxed at capital gains rates should not be overlooked and should increasingly be a focal point in discussions with donors and their advisors.

The foregoing is based on the IRS study, "Charitable Remainder Trusts, 1998." See www.irs.gov.

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Editor:
Elizabeth H. Smithers

Art Director:
Kelley Carter

Planned Giving in Campaigns *...Continued from page 1*

ed areas of nonprofit fund development. There are any number of ways to count bequests and other planned gifts in a capital campaign and most would agree there is really no "right" or "wrong" way to do it. The Council for Advancement and Support of Education (CASE), the Association of Fundraising Professionals (AFP), the Internal Revenue Service (IRS), the Financial Accounting Standards Board (FASB), and other groups provide various guidelines and methodologies designed to provide answers to how planned gifts should be counted in campaigns. Because they all address the subject from different perspectives, however, there are considerable differences in their approaches.

First things first

It is important to realize at the outset the significant differences crediting policies can make in the amount reported in a campaign, and for that reason it is a good idea to determine gift crediting policies BEFORE setting the goal of a campaign. In today's environment, before taking the "anything they can do we can do better" approach to setting campaign goals, it may be wise to explore what "they" counted to make their goal!

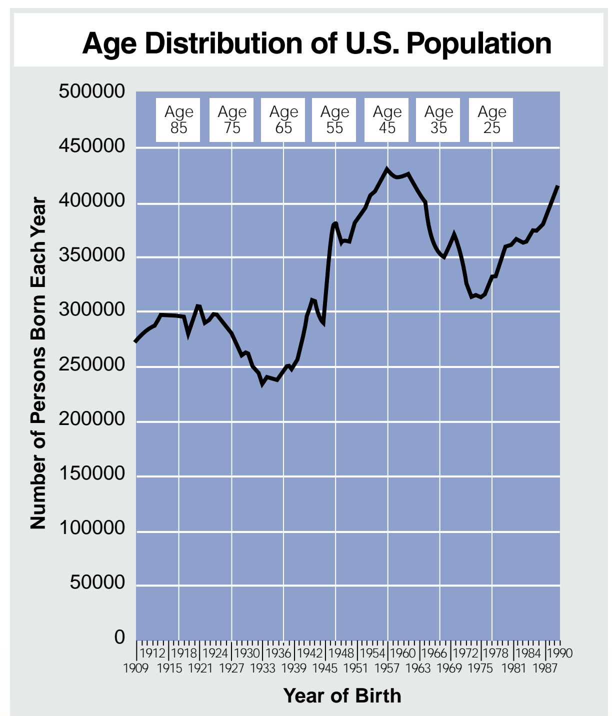
In our experience, competent campaign counsel are aware of the pros and cons of counting planned gifts toward goals and will consider this issue in depth when conducting a feasibility study and recommending goals. On the other hand, as we see more institutions attempting to conduct campaigns without the benefit of specialized counsel, the role of planned giving is an area that may not receive adequate attention until circumstances demand it, too often in the advanced stages of a campaign.

Why bother?

We sometimes hear development executives and volunteer leadership who are about to begin a capital fund development effort make statements like, "We don't need planned gift crediting policies because we would never count something like a bequest commitment toward a campaign goal." While many might agree with this statement at first, consider how you would respond to an 85-year-old former board chair when he hands you a binding testamentary pledge agreement prepared by his attorney along with a copy of a recently revised will that names your institution to receive $5 million, and it is clear that he expects this to be recognized as his gift to your campaign. Recall that over 70 million Americans will pass the age of 65 during the next 20 years, some 25% of the U.S. population. (See chart below).

Because of this demographic reality, the issue of crediting planned gifts in campaigns, especially those from older individuals, is not going away. It is only going to take on greater and greater importance.

The importance of terminology



The process of determining how planned gifts will be incorporated into a capital campaign can be simplified somewhat if one begins with definitions of terms. It is helpful at the outset to consider the meaning of the term "capital campaign." In the past, this term was used to describe periodic campaigns designed to raise outright gifts designated for buildings, equipment, and other capital needs. Annual giving and planned giving efforts were, of necessity, conducted simultaneously in order to meet other ongoing needs. The term "planned giving" can mean many things, but most would agree it is essentially a set of methodologies that can result in funds for current, capital, or endowment purposes.

In recent years, the term capital campaign has, in some cases, taken on a different meaning than in the past. "Comprehensive campaigns" have emerged that count dollars received from a variety of sources during a campaign in an effort to help counter unwanted "diversion" of gifts from current and future funding programs to capital needs. Once that concept is embraced, the "capital campaign" can quickly become an

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Planned Giving in Campaigns

…Continued from page 3

effort to enhance all funding efforts. In that case, it would then seem to make sense to set goals for the annual giving, planned giving, and capital giving components of the comprehensive campaign.

The issue of "crediting gifts" then becomes somewhat easier to deal with, as it is no longer necessary to try to "convert" a deferred gift to its "capital gift" equivalent value. That conversion is at the root of efforts to determine the "present value" of a gift to be received in the future, so there can be equivalence with current gift commitments to the campaign.

After it is decided there will be a goal determined for each funding unit that feeds into the totals of the comprehensive campaign, it becomes clear that the "campaign" in reality represents a general ramping up of overall development efforts for a period of time. The essence of the campaign then becomes an effort to encourage an environment that is conducive to better case development, while providing a sense of camaraderie and urgency that may be lacking during non-campaign periods. The end result is more gifts of all types and sizes and the achievement of a total fund-raising goal for a particular year.

If one thinks about it, once a program is "ramped up" and capable of generating more funds from annual commitments, capital fund transfers, and planned gifts each year, why would such a campaign ever end? The only component that might logically end would be the continual push for large outright commitments restricted to specific capital purposes. At that point, then, we would have come full circle back to the traditional definition of a "capital campaign" as a period of emphasis on capital fund commitments in the context of a professionally managed, productive, development effort. Some institutions have, in fact, decided to never end their "comprehensive campaign" efforts. They instead continue those efforts in the form of a well-managed development program. Shifts in emphasis and institutional funding priorities are then reflected in periodic capital fund-raising efforts, thereby preserving the benefits of the energy generated from greater focus and compression of effort during a campaign of relatively limited duration, without burning out staff, volunteers, and donors with perpetual campaigns.

Bequest Amounts

$18,001,414	$574,678
$7,674,736	$545,000
$3,375,503	$216,000
$3,174,256	$175,000
$3,109,349	$160,000
$2,444,867	$140,500
$2,297,685	$131,454
$2,101,549	$129,676
$1,867,153	$89,000
$1,257,800	$87,103
$1,185,000	$81,472
$920,868	$72,321
$871,616	$67,825
$857,309	$57,000
$840,904	$51,877
$838,647	$50,000
$685,397	$50,000
$611,139	$50,000
$600,843	$49,538
$600,000	$48,000

Where does planned giving fit?

If it is decided to include a goal for planned gifts as part of an overall campaign, regardless of its scope, here are some ideas to consider:

1. Focus on irrevocable gifts that provide useable resources in the shortest period of time. For gifts that last for the life of one or more persons, that might indicate an emphasis on gifts completed by the oldest persons among the constituency. The combined life expectancy of a 65-year-old couple is 25 years, so gifts for the lifetime of one or more donors will have little present value where younger persons are concerned.

2. For younger persons, focus on gifts that provide funds in the near term such as charitable lead trusts or charitable remainder trusts for a term of years. Special attention should also be given to younger persons who have accumulated large amounts of capital held in ways that require special planning to result in a viable campaign commitment.

3. It may not be wise to encourage bequests of particular amounts as gifts to a campaign. See the chart above that represents 60 recent bequests totaling over $80 million received by a client with a very effective planned gift development effort.

Note that few of the bequests appear to be of specific amounts. Only two bequests over $500,000 were for even amounts. The remainder were residuary bequests. Encouraging specific sums may simply serve to cause a donor to guess at an amount, and for a number of under-

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Planned Giving in Campaigns ...Continued from page 4

standable reasons many donors will arrive at a smaller amount. It is not surprising, therefore, that bequests of specific amounts received each year nationwide are usually for amounts less than $50,000.

4. At some point in the campaign, consider sweeping the entire constituency looking for those who have already, or indicate they would consider, leaving a bequest or other planned gift as part of their long-range planning. These persons must have significant donative intent in order to come to this decision, or even seriously consider it. The fact they have already made a bequest commitment, or are considering doing so, says volumes about donative intent. Carefully working with these persons may help discover viable prospective bequest donors, along with younger persons who are not necessarily prospects for bequests during the next few decades, but who may be giving at lower levels than they might be able to achieve and thus be prospects for significant outright gifts to a campaign. The latter group could also be a significant source of committed and effective volunteers.

5. When pursuing the strategy outlined in the previous paragraph, as well as other planned gift communications efforts during a capital campaign, it may be advisable to carefully target communications concerning deferred gifts, and intentionally omit persons who are scheduled to be solicited for major outright gifts. This is especially true during the early stages of a campaign. If information is available on Web sites, for example, be sensitive to ways to discourage younger persons from using interactive features to structure gifts of large amounts that may qualify for significant tax and other financial benefits while yielding no funds for charitable use for what may be many years.

6. When working with elderly donors making large outright commitments to a campaign, it may be advisable to encourage a bequest or other estate gift to back up the pledge in the event the donor should die before completing their gift. Where younger donors are concerned, some institutions will purchase term life insurance to insure the pledge.

7. Charitable trusts, bequests, and other planned gifts are rarely concluded solely as a result of the efforts of volunteers and advisors. Because bequests and similar expectancies may be legally and/or practically revocable, dedicated staff resources on an ongoing basis during and following the campaign are required to maintain the gift commitment.

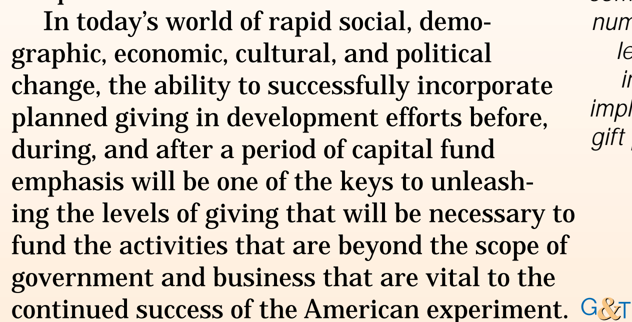
Planning is key

As we can see, there are many ways to effectively and productively include planned gifts in a capital campaign. The most important thing is to decide as part of the earliest planning stages whether the campaign is truly an effort in the spirit of a "barn raising" that is designed to quickly solicit funding for specific capital needs, or a more generalized ramping up of all development efforts for a period of time. Planned giving tools can serve both campaign types very well.

With planned gifts often accounting for 20% to 50% of major campaigns totaling upwards of a billion dollars or more, it is critical that this component be carefully considered and coordinated with other dimensions of the campaign. Careful attention by leadership to ways planned giving can be integrated in campaigns can help maximize results by providing valuable alternatives for those who say "yes, but" when asked for a gift.

Objections to making larger gifts from persons who enjoy significant assets can arise from natural financial considerations that compete with a heartfelt desire to give. Planned gift vehicles have been created over the centuries to help people resolve these conflicts, and will continue to be the key to helping some people make meaningful gift commitments during a campaign. Learning how to match the proper gift methodology with the right property in ways that fulfill the program interest of a particular donor will thus play an increasingly important role in fund development efforts in the future, as in the past.

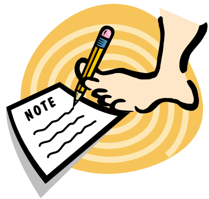
Robert F. Sharpe, Jr., is president of the Sharpe company. He advises a number of the nation's leading nonprofits in the design and implementation of their gift planning initiatives.



In today's world of rapid social, demographic, economic, cultural, and political change, the ability to successfully incorporate planned giving in development efforts before, during, and after a period of capital fund emphasis will be one of the keys to unleashing the levels of giving that will be necessary to fund the activities that are beyond the scope of government and business that are vital to the continued success of the American experiment. G&T

The preceding article is based on Session VII of the Sharpe seminar "Major Gift Planning I." See page 7 or www.rfsco.com for upcoming dates and locations.

Footnotes



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

New year brings important changes

Since last May when Congress enacted many of the most sweeping tax law changes in recent times, the media has featured information about the way these changes will impact estate and financial planning. Much of the press has been negative, suggesting that lower income, estate, and gift tax rates would lead to a reduction in charitable giving. The events of September 11 overshadowed these reports in ways that have resulted in even more negative reports concerning charitable giving.

What to do?

Now more than ever it is important to take a positive approach in communications with donors, especially with those who traditionally provide the bulk of support.

Important changes in our nation's tax laws took place on January 1, changes that will have a real and immediate impact on how many persons will arrange their financial affairs.

Make sure you are prepared to communicate to your constituents the positive aspects and important planning opportunities that exist as a result of the changes in the law. Robert F. Sharpe and Company's booklet "Charitable Giving After the 2001 Tax Act" is designed to do just that. Featuring details about the changes that took place on January 1, readers will learn how the estate tax has now been phased out for most (51% of estates that were subject to it last year will no longer be burdened by it), and how lower income tax rates and changes in the gift tax laws may affect their plans.

The booklet features easily understandable examples that illustrate some of the most effective ways to include charitable contributions in one's long-range planning in light of the new tax law.

You will want to send "Charitable Giving After the 2001 Tax Act" to all or a portion of your donors as early as possible this year. It is a helpful, low-key way to remind your donors of the importance of their support for your cause without directly asking for additional support.

Information for advisors

Most attorneys, accountants, and other advisors who do not often work in the charitable planning area may have only a basic knowledge of gift planning options. As a service to advisors, you may also wish to share a copy of the booklet with them along with a letter that explains you have sent this to your constituency and are sharing a "courtesy copy" with them. By now, advisors should be aware of the basic provisions of the act from other professional resources. Take the opportunity to share with them the message they may not have heard about positive charitable gift planning opportunities.

The booklet may be imprinted with your information on the front and/or back covers. Order your copies today by calling 1-800-238-3253, fax to (901) 761-4268, or visit our Web site at www.rfsco.com.

Review other publications

All other Sharpe publications that are affected by the phase-ins of the provisions of the 2001 tax law have now been fully revised. To ensure your existing publications are not out-of-date, you may want to check for references to the following:

- specific income tax rates, as the 39.6,%, 36%, 31%, and 28% rates no longer exist
- estate tax exemption of $675,000 and/or references to the phase-in schedule to $1 million in 2006 are no longer accurate, as that change was accelerated to January 1, 2002
- examples using 55% estate and gift tax rates are inaccurate as of January 1 when the maximum rate became 50%
- references to unified credits and being able to leave the same amount during lifetime as at death tax-free will no longer be accurate, as the estate tax exemptions will be rising in the future while gift tax exemptions will remain at $1 million
- references to generation skipping taxes, rates, and exemptions should be very carefully examined as the law has made significant changes in this area as well
- references to $10,000 annual exclusion amounts are no longer accurate as the exclusion was raised to $11,000 as of January 1

During 2001 and prior years, Sharpe editors have prepared publications in light of anticipated tax law changes. As a result, many Sharpe publications remain accurate despite the changes referred to above.

If content is not accurate in light of the above, materials may need to be replaced with updated publications. If you have questions regarding the use of particular publications, visit www.rfsco.com/replacement. G&T

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 program, 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 that 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 NEW

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.

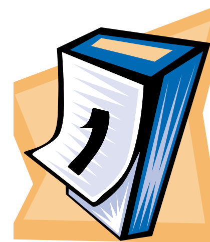
Also included is an exploration of various ways to work most effectively with donors' advisors to help complete planned gifts.

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
Memphis
January 28-30
Washington, D.C.
February 18-20
San Francisco
March 4-6
Chicago
April 22-24

Major Gift Planning I
Los Angeles
January 21-22
Chicago
March 11-12
Boston
April 18-19

Major Gift Planning II
Tampa
February 4-5

Managing Planned Giving Relationships
Washington, D.C.
February 20-21
Chicago
March 13-14

Preparing for Change...

Q. How much can an individual give to another person free of gift or estate tax?

A. Choose one.

- ☐ $10,000
- ☐ $675,000
- ☐ $1,000,000
- ☐ Unlimited

If you chose $1 million, you are correct. But only as of January 1, when the first steps in the planned phase out of estate and gift taxes began. The amount a married couple can transfer free of tax also increased from $1,350,000 to $2 million effective January 1.

Do your donors know this? Do they know how through creative gift planning techniques they can effectively increase the amount they can leave to heirs and make what may be the gift of a lifetime?

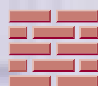
"Charitable Giving After the 2001 Tax Act" has been updated to reflect the changes that took place on the first day of 2002. Because of tax law changes and other factors at work today, news reports indicate this year may see more estate plans completed or revised than ever before.

Every estate plan, written or revised, represents an opportunity for charitable provisions to be added, increased, decreased, or removed. Other factors may affect the timing and form of a particular gift.

Use this piece as a service-oriented way to be in touch with your donors early in 2002 and help jump-start giving this year. Reserve your copies today.

Charitable Giving After the 2001 Tax Act

View brochures, including full text, at www.rfsco.com/taxlaw.



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