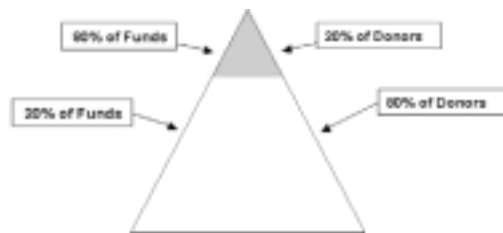


## The Planning Pyramid

by Robert F. Sharpe, Jr.

Those who have been involved in nonprofit fund development for a period of time may have seen a pyramid that is sometimes used to illustrate the distribution of gifts that might be expected as a result of a well-executed fund-raising effort. The premise is that the majority of *gifts* will primarily come from a broad base of donors, while the majority of *dollars* will usually come from a relatively small group of persons:



From that point, the discussion typically proceeds to address a number of important factors. How does one discover the handful of key donors? How do we motivate them to give? Who should ask them to give? How should they be recognized? How should their gifts be valued? In some cases, the pyramid will be capped off with planned gifts. All too often, however, little attention is paid to **what** donors should give, **when** they should give, and **how** they should effectuate the transfer of funds.

Over time we have observed that those who enjoy the greatest success in major gift development succeed in part because they spend the time necessary to learn and understand not only the “who” and “why” of the gift, but also the “what,” “when,” and “how” of the giving process.

### Inside:

- A tried and true gift plan may be especially appealing now. p.2
- Check out the latest Sharpe publications. p.6

This can sometimes be easier said than done, however. With all the elements that can converge in the process of effectively planning a charitable gift, even the most experienced fundraiser can easily become overwhelmed. This need not be the case. To help organize thinking about the gift planning process, we have proposed another way to consider the traditional funding pyramid. What we refer to as a “Planning Pyramid” provides a helpful framework from which to view the art of helping people give.

In today’s environment, when the need for planned giving may be greater than ever, it is important that we think of planned giving as a process that can be rationalized. While there are any number of ways to think about the process of planning a gift, we believe that the planning pyramid described here may be a useful place to begin when analyzing a particular situation. Every gift works its way through the pyramid. The most successful organizations and institutions are ones that are prepared to help a donor and their advisors work their way through the process.

### *Sizing up the gift*

Let us start with the premise that all gifts can be broken down into two broad categories—“major gifts” and “other gifts.” For most organizations and institutions, the vast majority of gifts will fall into the “other” category, with a relatively small number of major gifts each year comprising a relatively large percentage of overall funding.

The first step for a donor, after deciding to make a gift, is to consider whether he or she would like to make a large gift or a small gift. These terms are, of course, relative to the donor’s means, with some persons considering \$1,000 to be a “major” gift while others see that as a relatively modest, “token” gift.

### *The timing element*

The next step in the process is timing. Some persons who are capable of forming the donative intent to make a major gift are able to complete the gift

# The Gift for All Seasons



Now may be a good time to emphasize bequests.

Whether your goal is to focus donors' attention on ways to give through their long-range financial plans or to seek those who may have already made such plans or be interested in exploring such possibilities, a carefully planned bequest information program can form the basis of an effective gift planning effort.

## Replenish endowment

The press has recently reported that many nonprofits have suffered significant declines in the value of their endowments as a result of investment market fluctuations in recent months. As a result, while many hope for market rebounds that will restore their value, others are turning their attention to efforts to *replenish* these endowments. In that case, the place to begin is with the source of much of today's charitable endowment funds—the bequest. Many organizations can trace the bulk of their current endowment to bequests received over the years. One of the nation's largest endowments, in fact, began with a bequest from John Harvard to a local college in Massachusetts in 1637.

## What to do

Wills are written and revised every day. They are rarely prepared simply for the purpose of leaving a charitable bequest. Estate plans are made at different times and for different reasons depending on the individual involved, with events occurring in day-to-day life often serving as a catalyst for action.

Because different people are planning at different times, it is important to consistently let donors know you would like to receive charitable bequests. Experience indicates that those organizations that consistently inform and motivate their constituency are the ones that receive the most bequest revenue. And because studies show that wills that contain charitable bequests are completed on average from 6- to 48-months prior to death, efforts to encourage additional bequests can begin to show results within a relatively short time period.

## Increasing competition

As the average age of the donor population increases and lower interest rates and other factors impact the ability of some donors to make current gifts, we expect to see a greater emphasis on planned giving techniques, including the charitable bequest.

For that reason, in addition to motivating people to include charitable interests in their plans, now is the time to discover those who have already included your organization or institution in their plans, and take action to cement a relationship which could otherwise wane as time goes on. Discovery of bequests already planned is a welcome by-product of bequest communications programs. Remember also that substantial current gifts can sometimes also be developed as a result of discovering persons who possess the donative intent necessary to sustain a bequest and helping them carefully consider their charitable priorities.

A recent study by the National Committee on Planned Giving (NCPG) revealed that, of those who had included charitable gifts in their plans, more had learned of this method of giving from their charitable interests than from any other source. Only 12% said they were motivated by encouragement from legal or financial advisors. The nonprofit community may be

*Continued on page 3*

## Give & Take:

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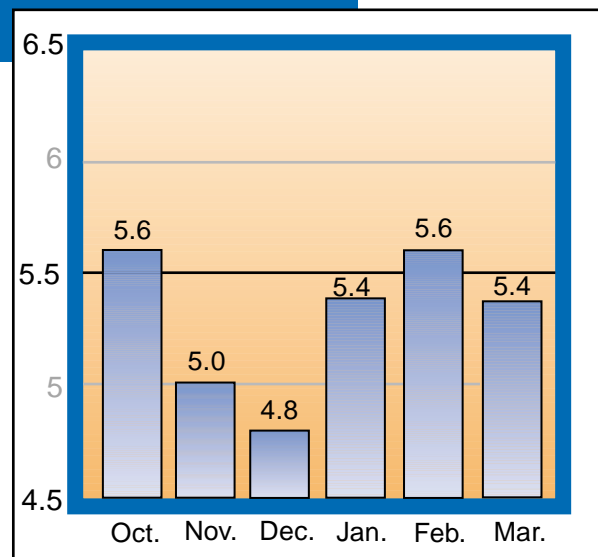
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## Discount Rates



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

# The Gift for All Seasons...Continued from page 2

the only one with an economic interest in informing donors about possibilities for giving through their wills and living trusts—the most common forms of planned gifts. There may be little or no economic incentive for professional trustees, asset managers, and others in the financial planning community to do so.

## Back to basics

In initial approaches to planned giving communication, stick to the basics. The goal is simply to find those who are willing to consider the possibility of including charitable interests as part of their long-range financial and estate plans. You and/or their advisors or other staff members can then inform those who indicate interest about other, more advanced planning techniques.

The subject of estate planning is now on the minds of more Americans than ever before. Since the tragic events of last fall, the press has reported that record numbers of persons are now making or revising estate plans. Tax law changes in 2001 and the fact that over 70 million Americans (25% of the overall population) will reach age 65 over the next 20 years are fueling unprecedented interest in estate planning as well. The President's call for more volunteerism and charitable giving may also have an impact on the numbers of persons who decide to include a charitable dimension in their planning.

## Prosper in any environment

Efforts expended in bequest and other planned gift development can pay big dividends in any environment. If investment markets renew their growth, many residuary or percentage-based bequests and remainders from trusts and other plans will be even larger. If we continue in a period of economic stagnation, bequests may hold the key to balanced budgets if the volume of larger current gifts falls off.

Evidence indicates, for example, that Americans shifted the ways they made their gifts during the Depression years. *The New York Times* reported on April 3, 1939, that giving to higher education, especially to the leading institutions of the time, held steady or actually increased during the Depression. Excerpts from *The Times* article entitled "Gifts to Colleges Hold During Slump" shed

light on the predominant form of gifts during that time period:

*"A survey of gifts and bequests to forty-nine American colleges and universities since 1930 indicated yesterday that gift receipts declined only 2.3 per cent for the nine years from 1930 to 1938, compared with the nine previous years of prosperity.*

*"The survey, made by the John Price Jones Corporation, showed a trend toward a concentration of gifts to fewer and larger institutions. Four of them received more money during the depression years than in the years of prosperity, while other colleges and universities received much less. Although [outright] gifts showed a decrease in depression years, the amount of bequests showed a sharp increase."*

• • • • •  
Estate planning is now on the minds of more Americans than ever before.  
• • • • •

## Communication the key

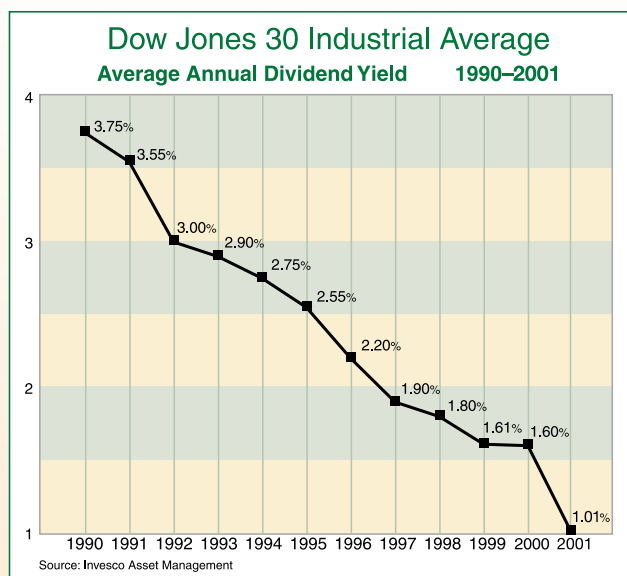
Ongoing communication is the key to reaching people as they make their plans. If your donors are more aware of the possibility of giving through bequests, they may be more likely to include you as a beneficiary when they revise their plans.

Mailings, articles in your donor communications, and informational meetings for people who give (where possible) are proven ways to build interest in gift planning.

If you have been consistent in promoting the message of bequest giving, keep it up. If you have been distracted by other priorities, consider a return to basics. If you have never had a

bequest emphasis program, there may never be a better time to begin.

See page 6 for more information on materials specifically designed to explain to donors the benefits of estate planning and charitable bequests.



Over time, the combined impact of lower dividend yields and market value fluctuations have placed increased pressure on the total return of nonprofit endowments.

## Planning Pyramid...Continued from page 1

right away. Others may wish to make a larger gift but, because of various financial circumstances, do not believe they are in a position to make the gift immediately. In that case a donor may decide to defer the gift for a period of time. The gift may be deferred for a short period of time (such as a pledge to a campaign over a number of years), or it may be deferred for a longer term of years or even for the lifetime of one or more persons (a bequest or gift with retained income).

Smaller gifts may also be made on a deferred basis. An example might be a donor who, when asked by their attorney if they have charitable interests, replies that they would like to divide the remainder of their estate, if any, among a number of charitable interests after first providing for a number of loved ones. In that case the donor may intend for a relatively small amount, if anything, to eventually be devoted to charitable use.

### Tax considerations

After deciding how much to give and when, it can be wise for a donor to consider the tax consequences of the gift.

Note that larger and smaller gifts, whether current or deferred, may or may not be made in light of tax considerations. Consider the case of a donor with assets of \$10 million and an adjusted gross income (AGI) of \$300,000 who made a \$250,000 gift of appreciated securities to a charitable interest last year. That donor would have been allowed to deduct just \$90,000 last year (due to the 30% of AGI limitation for gifts of appreciated property). The donor would be able to carry over and deduct another \$90,000 this year, leaving \$70,000 to carry over and deduct next year. Now suppose that this donor has also made cash gifts this year that bring him up to the total of 50% of AGI limitation.

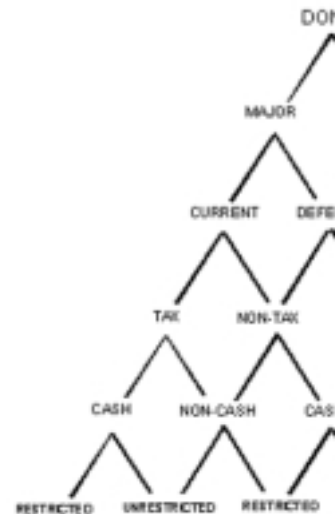
For him, if he were driven strictly by tax considerations when considering whether to make an additional gift of any size, he would not make it, for it would not be deductible and would have to be made from after-tax income.

Experienced fundraisers know that donors will sometimes make a gift regardless of their inability to deduct it. A wealthy donor may have a large amount of tax-exempt income that is not considered part of his or her AGI

and will use cash from this source to make a gift. Not reporting the income and giving it away with no tax deduction is equivalent for tax purposes of reporting the income and then taking a charitable deduction.

In the case of most donors of small amounts, their charitable gifts do not exceed the amount of the standard deduction and are thus not deductible for income tax purposes. This is the reason tax considerations do not come into play for many smaller gifts.

While it can be a serious mistake to over-emphasize tax savings to those who are not motivated by this aspect of charitable giving, it can be an equally damaging error to ignore tax considerations when dealing with donors or their advisors for whom this factor is crucial. In fact, after consideration of tax savings, some donors may actually decide to increase the size of the gift they originally planned to make. Maintaining perspective and balance is key when addressing the role of taxation in charitable giving.



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.

### What to give?

Tax and other financial considerations can also help a donor decide the type of property used to make the gift.

Once a donor has decided to make a large or small gift, whether current or deferred, the donor must decide if the gift should be made in the form of cash or other property.

The larger a gift, with or without tax considerations, the more likely it is that the gift will be made in a form of property other than cash. Where donors are in a position to take advantage of the capital gains tax savings inherent in gifts of appreciated assets, this form of property will often be the "gift of choice." In other cases, donors will sell assets that have declined in value, take a capital loss, and make their gift in the form of cash that is subject to the 50% of AGI limitation.

Avoid the common mistake of thinking that donors always make gifts of appreciated

## Planning Pyramid...Continued from page 4

property for tax savings purposes alone. Imagine that a donor owns 20 investment properties worth an average of \$500,000 each that in total are worth \$10 million. If the donor wanted to make a gift of \$500,000, with or without tax considerations, would the donor be more likely to give cash or one of the properties worth \$500,000? It would depend, but one can imagine a situation where the donor did not have \$500,000 in liquid assets readily available and decided to instead transfer one of the investment properties in satisfaction of a pledge. In our experience, donors sometimes give what they have, regardless of tax consequences. Most wealthy

donors do not become wealthy or stay wealthy by keeping hundreds of thousands of dollars in checking accounts. For this reason, asking for larger gifts is usually tantamount to asking for a non-cash gift.

### Why is the gift made?

Finally, we come to the “why” people give, i.e., for what purpose. Any of the previously described gifts can be for restricted or non-restricted purposes. The reason for the gift can sometimes affect the timing. For example, a donor who would like to make a large gift for endowment and long-term security

of the charitable recipient may be more likely to make a gift on a deferred basis than a donor interested in funding an immediate need. A donor interested in funding an urgent mission might also, on the other hand, consider a charitable lead trust as a way of funding a pledge of a “current” gift over time while “deferring” a gift to family members who may have longer term need for the funds. Avoid confusing the “why” with the “what,” “when,” and “how” of the gift.

### Using the pyramid

Most gifts in terms of sheer numbers will work their way down the right side of the planning pyramid. They are smaller, current, non-tax-oriented gifts of cash for unrestricted purposes. Contrast this with a larger, current, tax-oriented gift of cash that is restricted for a capital project. Most organizations are more familiar with and better able to work with gifts that travel down one slope of the pyramid or the other.

In an environment characterized in many cases by an aging donor base, investment uncertainty, and other challenges, the most successful development efforts in

coming years will be the ones that have developed the capability to navigate the various courses a gift can take through the *center* of the funding pyramid.

For instance, many organizations have well-honed annual or more frequent efforts to raise small, unrestricted, cash, non-tax-oriented gifts for immediate use. Others conduct periodic campaigns for larger, restricted gifts of cash or other property that come from persons who may be motivated to some extent by tax savings and are willing to defer the gift for no longer than a limited pledge period. Many organizations and institutions also conduct campaigns for gifts that are restricted for “endowment” and are expected to come in the form of larger tax-oriented trusts and other deferred gifts or from non-tax-oriented bequests from donors of more modest means.

Alongside all of these efforts we often find planned gift development efforts designed to help donors make all of the gifts described above more effectively.

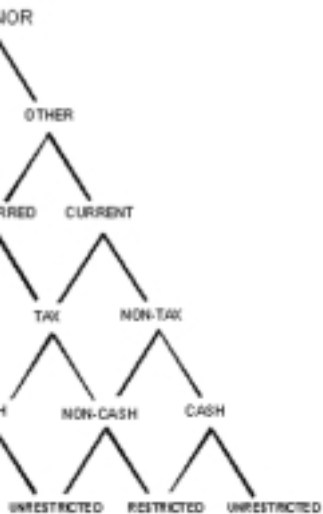
### Start at the top

It has been said that the only place one starts at the top is when they are digging a hole! An exception to this may be the planning pyramid.

Understandable confusion and overlap of efforts can result from starting at the bottom of the planning pyramid with outcomes and working upwards in an effort to find donors at the top of the pyramid who are willing to fund various types of gifts that are desirable from the perspective of the charitable recipient.

Note that the donor—not the institution—is at the top of the pyramid. It is important to have various types of programs that are designed to produce funds for different needs at different times and make services available to donors that help in the process of planning their gifts. The most successful programs, however, are those that do not lose sight of the process of making a gift from the *donor's* perspective. Imagine yourself at the top of the pyramid and the reactions you might have as you perceive numerous initiatives working their way up the pyramid toward you.

The planning pyramid is designed as a mental tool to help fundraisers organize their thinking in light of their donors' perspectives. The key is to make all the various means of making gifts available and work to the extent possible to help the donor choose the most appropriate way to make a gift in their season of life. It may thus be wrong to think of “planned gifts” as deferred gifts, as property gifts, as endowment gifts, as tax-oriented gifts, or as primarily taking on the characteristics of any of the numerous outcomes possible at various decision points in the planning process.



## Footnotes



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

### *Updated bequest series now available*

Should your organization or institution be doing more to encourage charitable bequests? If you answered yes, then look to Robert F. Sharpe and Company's newly designed brochures on wills and estate planning.

Even the most charitably minded individuals will rarely go through the process of revising their estate plans only for the purpose of including or changing a charitable bequest.

This series of brochures helps educate donors about the estate planning process while it motivates readers to create and/or update their plans to achieve personal and philanthropic goals. For a donor to mention your organization when their attorney asks, "Do you have any charitable wishes?" a donor must first be motivated to see their attorney.

The brochures touch on a variety of estate planning topics, such as:

- Events that may trigger a review of estate plans
- How to prepare in advance before visiting an attorney to discuss your will
- Special planning considerations for women

- Ways for donors to avoid relying on their state to decide what becomes of their property.

In times of lower interest rates, charitable gift annuities, lead trusts, and other plans come to the forefront (see page 2). During times when some donors may be taking a "wait and see" attitude toward some types of planned gifts, it may be a good time to revisit the subject of charitable bequests.

The discovery of those who have already or would consider making a gift through their will can mean a good prospect for a large current gift as well. Consider the level of donative intent necessary to sustain a bequest. This can be one of the hidden benefits of communicating with donors about bequests.

An example of the latest Sharpe wills and bequests brochures is enclosed with this issue of *Give & Take*. The complete series may be downloaded from:

[www.rfSCO.com/willseries](http://www.rfSCO.com/willseries)

To find out more about how to implement a wills education program or to incorporate this series of brochures into your current donor education efforts, please return the enclosed card or call 1-800-238-3253. Or to place your order, call or fax (901) 761-4268. G&T

## Planning Pyramid...Continued from page 5

Planning charitable gifts is a process. The "planned gift" is the outcome from the institutional perspective. "Gift planning" describes the process from the perspective of the donor.

In the March 1988 issue of *Give & Take*, we put forth the following definition of "planned giving":

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

We stand by this definition today. Planned giving is not the sale of products. Planned giving is not promotion of tax gimmicks. Planned gifts are not financial "special events" with only tangential charitable benefits. Planned giving is simply the process of transferring income and/or assets from motivated donors to worthy charitable recipients in the most expeditious and cost-effective ways possible in light of a donor's circumstances. We trust the planning pyramid will serve as a helpful road map to assist donors and their advisors as they thoughtfully consider their gifts.

Editor's note: This article is based on Session 3 of the popular Sharpe seminar *Major Gift Planning I*. See page 7 for upcoming dates and locations.

An 8<sup>1</sup>/<sub>2</sub> x 11 depiction of the planning pyramid may be downloaded from [www.rfSCO.com/pyramid](http://www.rfSCO.com/pyramid). 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.

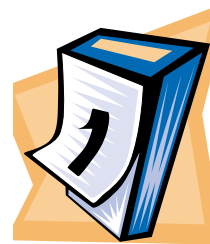
Also included is an exploration of various ways to work most effectively with donors' advisors to help complete planned gifts.

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.rfsc.com](http://www.rfsc.com)  
E-mail: [seminars@rfsc.com](mailto:seminars@rfsc.com)



## Seminar Training Dates

An Introduction to Planned Giving  
Chicago  
April 22-24  
Memphis  
May 20-22  
Washington, D.C.  
June 17-19

Major Gift Planning I  
Chicago  
March 11-12  
Boston  
April 18-19  
Washington, D.C.  
May 30-31

Major Gift Planning II  
Chicago  
June 24-25

Managing Planned Giving Relationships  
Memphis  
May 22-23

# Back to Basics in 2002

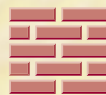
**Have you shared information with your donors recently about how to make their gift of a lifetime?**

**Over the years, many thoughtful persons have utilized charitable bequests to make their gift of a lifetime. This has especially been true in times of economic uncertainty.**

**Robert F. Sharpe and Company's latest series of brochures is designed to inform and motivate your constituents about the giving potential in their wills and living trusts. Readers will learn about the value of having an up-to-date estate plan for themselves, their families, and their favorite charitable interests.**



**Call 1-800-238-3253 or visit [www.rfSCO.com/willseries](http://www.rfSCO.com/willseries) to learn more about the newest series of wills and bequests brochures from Robert F. Sharpe and Company.**



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