

One Year Later: A Different Mix

by Timothy Sharpe

Soon after the events of September 11 last year, America's nonprofit community began hearing mixed messages. On the plus side, it was estimated that over two-thirds of U.S. households opened their wallets and gave more than \$2.2 billion to relief efforts. Millions of donors were connecting with nonprofits—some for the first time. Some observers speculated that out of profound tragedy might emerge a new appreciation of the nonprofit sector.

But many organizations not directly involved in aiding victims and their families faced uncertainty. Would their regular solicitations for ongoing worthy activities be well received? Additionally, in some regions incoming mail, with much-needed gift revenue, was held up for months due to the anthrax crisis. Some organizations decided to cancel fall solicitations, sacrificing revenue and ultimately leading to financial strain that continues for some.

Despite these obstacles, many assumed that the temporary disruptions of fundraising would fade. The diversion of even \$2 billion surely would not cut too deeply into the unprecedented total of over \$210 billion given in the previous year, so diversion of funds was not seen as a long-term problem. Barring further attacks, most believed America's nonprofits would bounce back and perhaps end up even stronger due to the renewed appreciation of the role of nonprofits on the heels of 9/11.

What a difference a year makes

As we observe the first anniversary of September 11, quite a different picture may be emerging. Alleged mishandling of 9/11 donations by some charities continues to be featured in the press, fueling distrust and displeasure in the American public. Some of this concern may be well placed, but much appears to be

a result of popular misunderstanding of legitimate overhead expenses and direct costs associated with raising and responsibly distributing funds. Unfortunately, perception can too often become reality.

Add to the mix a number of scandals involving charities that have received prominent press attention and the declining stock market's impact on capital fund development, and the "big picture" can be quite distressing to nonprofit professionals and donors alike. Indeed, a *Chronicle of Philanthropy*/Harris Interactive poll reported in *The Chronicle's* September 5 issue reveals that 29% of Americans say they are less likely to give to any charity today than they were before 9/11. For planned giving professionals working with older donors, other news may be relevant. According to the same survey, only 8% of Americans age 65 and over had more confidence in major charities after September 11. This compares to 34% of 18-24 year olds who reported having increased confidence.¹

Mixed performance

We are hearing from organizations that have frozen or cut budgets, instituted hiring freezes, or have laid off employees and cancelled various initiatives. But we are also hearing from many organizations of all types that their results are keeping pace with or exceeding those of prior years. What are these organizations doing differently?

First and foremost, nonprofits that have "stayed the course" appear to have generally been rewarded. Even in bad times, the core supporters of virtually any well-managed, vital, and necessary cause or institution will remain reliable contributors. Strong roots hold, and history tells us that these organizations can not only survive—they can even grow in adverse conditions.

Successful organizations that have faith in their missions continue to be vital and believe that their donors will agree. Ironically, while those with "non-emergency" causes at first felt that their mission could be a hindrance to success after 9/11, in the end their deeply rooted and permanent objectives proved to be a reliable base. Donors who believed strongly in

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¹The *Chronicle of Philanthropy*, Vol XIV, No. 22, September 5, 2002, Pages 4 and 12.

Planning Matters



How low can
you go?

As interest rates have fallen, many persons have enjoyed the benefits of lower mortgage, automobile financing, and other loan rates. Meanwhile, others have watched with dismay as their income from bank accounts, bonds, and other interest-sensitive investments continues to fall. This Catch-22 has affected many popular planned gifts as well. As the IRS discount rate used in the gift calculation process has fallen, charitable lead trusts and life estate agreements have become more attractive, while gift annuities and charitable remainder annuity trusts offer less and less appeal.

Based on the October IRS discount rate of 4.2%, the charitable deduction for both gift annuities and charitable remainder annuity trusts is lower than ever. This in turn can create problems in cases where the IRS-mandated gift calculation results in less than a 10% charitable deduction, or in cases in which there is a greater than 5% probability that the annuity trust's assets will be depleted. For example, a 64-year-old couple can no longer establish a 5.5% annuity trust based on the October discount rate. A gift annuity established using the ACGA recommended rates would also fail. If the IRS discount rate continues to fall, increasing numbers of prospective donors will become affected by this problem.

Meanwhile, charitable lead trusts and life estate agreements may have never been more attractive from a tax-planning standpoint. Estate tax uncertainty and increasing real estate prices add to the appeal of these gift options. Individuals that had planned to leave substantial bequests to charity may find welcome income tax savings by instead deeding the remainder interest in a personal residence or farm to their favorite charity. Persons in the 70-75 age range might expect a current income tax deduction of between one-half and two-thirds of the current value of the property. The size of the deduction and the carry-forward provisions mean that donors may enjoy as many as six years of income tax savings from their gift!

Follow the leader

Wealthier individuals may wish to convert their bequest to a lead trust

that will provide benefits for charity in the near term while ultimately providing a tax-favored inheritance for their loved ones.

Veteran gift planners will recall the excitement and interest caused by provisions in Jackie Onassis's estate plan for the establishment of a charitable lead trust. The trust was designed to last for 24 years, with 8% annual payments to charity, before being returned to the family. The IRS discount rate in effect at the time of her death in 1994 resulted in a gift and estate tax deduction of over 99%, virtually eliminating those transfer taxes. This outcome was made possible by the low discount rate, the trust term, and the payout.

Today, a lead trust like the Onassis trust is even more attractive because a similar outcome can be achieved over a shorter period of time with a lower payout. This will allow even greater flexibility in determining when the assets will be returned to the family. For wealthy families, this option may now be more attractive than the traditional approach of establishing a family foundation.

If established today, a lead trust that pays just 7% for 22 years will result in no tax being due. If a longer time period is desired to ensure heirs are more mature, a similar outcome could be achieved by reducing the payout to 6.5% for 25 years, thereby achieving a deduction of 100%.

Utilizing gift and estate tax exemptions

Another powerful planning technique involves the use of the newly increased expansion equivalent to shelter any portion of the transfer left exposed. The gift and estate tax exemption equivalent was increased from \$675,000 to \$1,000,000 effective January 1, 2002. Even persons that had previously expended their available exemption equivalent now have an extra \$325,000 available (\$650,000 in the case of couples). This means that both the payout and trust term may be lowered, while still effecting a "zero tax transfer." For example, a \$1 million charitable lead trust could pay 6.1% per year for 15 years and result in no gift or estate tax liability.

Depending on an individual's planning objectives, these gift planning options may be more attractive than ever for a growing number of prospects. Meanwhile, charitable remainder trusts and charitable gift annuities remain attractive for the 65+ age segment, which consti-

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Give & Take:

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Starting From Scratch

In this month's "Gift Planner Profile," Give & Take talks with Anthony Martignetti, Esq., of St. John's University in New York. A graduate of Carnegie Mellon University, Mr. Martignetti earned his law degree from Temple University in Philadelphia. After practicing law in New York for several years, he served as the first Director of Planned Giving at Iona College before taking on the role of implementing this important element of the development efforts at St. John's University.

Give & Take: How did you become interested in development?

Martignetti: I've always been personally supportive of my own group of nonprofits, and I felt that helping to secure funds for institutions I believe in was a way to make a contribution while encouraging other people to discover the rewards of making their charitable gifts more effectively. I love the academic environment, so the idea of working on a university campus really appealed to me.

Give & Take: What led you to St. John's?

Martignetti: I found myself strongly attracted by the mission of St. John's. The University has a strong commitment to diversity and to the education of a largely immigrant student body, three-quarters of whom are among the first generation in their families to attend college. The University has had that mission since it opened in 1870. The faces and the nationalities

of the student body have changed, but the mission has remained constant.

The campus of St. John's is also unusual in that it is divided among several campuses that span the boroughs of New York. The main campus is in Queens, but there are also campuses in Manhattan, Staten Island, Long Island, and even in Rome, Italy, where an MBA program is housed. The various locations and individual atmospheres of the campuses add to the broad appeal of the university and help to keep our student body diverse.



Anthony Martignetti, Esq.

Give & Take: I understand that you were the first Director of Planned Giving at Iona College and then again at St. John's. How did you go about developing strong planned giving programs from scratch?

Martignetti: A university has a built-in constituency among its graduates, so I had a natural place to start. I initiated contact with a group of alumni by sending a series of brochures on the subject of wills and bequests prepared with the assistance of the Sharpe creative services staff. We sent the materials to everyone in our files age 55 and older, based on the year of graduation. The material was accompanied by a reply card that could be used to request more information, express interest in a seminar, or indicate that they had already included St. John's in their estate plan, or would consider doing so. Every response was recorded, and, over time, I saw that some had responded more often than others. Those alumni became planned giving prospects. I then started sending that select group a planned giving newsletter, which contains more in-depth gift planning ideas.

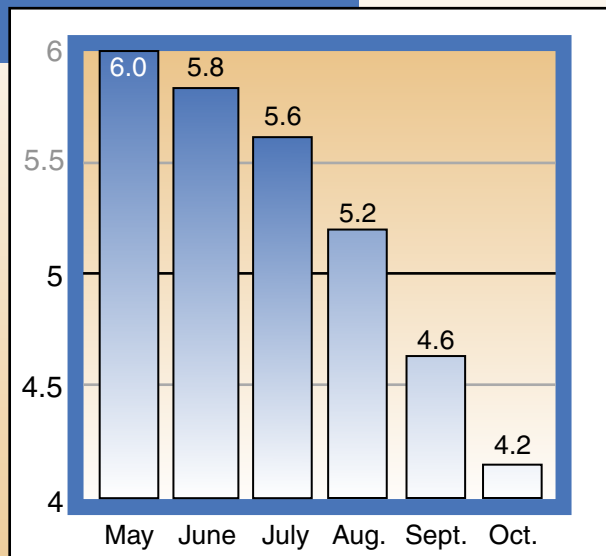
Give & Take: So you used brochures to sweep the file and to narrow your pool to a smaller, more focused group, who then received a newsletter.

Martignetti: That's correct. In addition, I sent the newsletter to people who fit certain age criteria and had made a gift to St. John's University in recent years, regardless of the size of the gift.

Give & Take: How has your response been to these mailings?

Martignetti: The response rate has increased considerably during the four years since I

Discount Rates



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

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education, healthcare research, conservation, famine relief, easing of human suffering, and a host of other causes and institutions before 9/11 have continued to believe afterwards. But this seemed neither a certainty nor a well-understood conclusion in the early days last fall.

Moving ahead and back to basics

We should all be proud of the way that many millions of Americans stepped forward to contribute to 9/11 relief efforts, but we should not be surprised if this groundswell proves to be relatively fleeting. The most loyal, most connected, most generous contributors have always been the distinct minority among any group of supporters. This will continue to be the case even as efforts are made to incorporate a portion of first-time donors into a lifelong pattern of giving. In short, it is possible that the 29% of Americans in *The Chronicle's* poll who are less likely to give are among the post-9/11 surge of donors who were not giving before last fall in any event. Perhaps this statistic merely signals a return to more normal times.

The task at hand for those charged with stewarding relationships with older, long-term members and donors—and with educating this small, vital minority about gift planning—remains largely unchanged. The job involves saying “Thank you!” over and over again; communicating the news of good work done by the organization; listening to the concerns of this small but important group; giving ample opportunities for people to plan gifts in ways that make sense for themselves; and waiting patiently for results.

A case in point

One client recently e-mailed her report of a four-fold increase in the number of people notifying the organization that they have included it in their estate plans. Clearly, this organization is not suffering from the rampant lack of confidence among donors that is now being so widely reported in the press. The mission of this organization is obviously one that remains vital in the minds of core supporters. Some clearly believe that this mission may even be more important after 9/11.

But, why so many new bequest expectancy notifications in the summer of 2002? The answer may be related to the increase in

overall estate planning activity after the 2001 tax act and September 11. We know that millions of middle-class to more affluent Americans have made appointments with estate planning attorneys since May 2001 to have their plans updated to take into account the phased-in repeal of the estate tax. We also saw reports that will-making software was sold out at many office-supply chains soon after September 11. So, another silver lining may be that dramatically increased estate planning activity may well help many organizations in the longer run.

Consistency is key

Will your organization or institution benefit from increased estate planning activity among your constituents? The answer depends on whether or not you have gotten the message out to them regularly and consistently that you encourage and welcome this kind of special support. It also depends on whether or not your case for support is strong, if your organization is well managed and responsible, and if it has a good record of success coupled with a strong plan for the future—perhaps looking 5 to 10 years ahead. Further, those who offer charitable gift annuities and similar gift opportunities should be prepared to assure their donors that they are prudent in their financial affairs and do not take undue risks in managing the underlying funds that ensure payments.

None of these prerequisites for success can be manufactured quickly, but none need be beyond the reach of organizations willing to invest time and effort in thinking about a brighter future and then consistently presenting those thoughts to the ones who care the most. The last year has left many understandably shaken and confused, but those who survive and thrive in today's environment are rising to the challenge as they realize that the ground underneath is still steady and the work to be done remains vital and appreciated, perhaps as never before. G&T



Timothy Sharpe, based in the Washington, D.C., area office, is executive vice president of the Sharpe company.

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started the mailings. We now typically receive 1.5%-2% response, which I understand is very high for this type of communication.

Give & Take: What type of further contact do you have with people who have responded to your mailings?

Martignetti: Unlike some, I don't necessarily call respondents right away. I like people to know that they can comfortably, and without obligation, request more information without being bombarded by phone calls.

Before initiating contact, I generally wait until someone has responded more than once. I find that in this way, the most interested people naturally sift to the top of the pile, and initiating contact with them then becomes a natural extension of the relationship that began with the interest they expressed via our direct mail efforts. As a result, I am able to deal with a manageable number of interested prospects in the most professional manner possible.

Give & Take: Do you have a special group to recognize your planned giving donors?

Martignetti: We do. The McCallen Society is the recognition society that I created. I think it's important to recognize planned giving donors just the way you recognize major current donors, annual fund donors, and donors to your athletic programs. I don't ask for any substantiation. Their word is enough. If my grandmother told me that she had put me in her will, I wouldn't ask for a copy of the bequest paragraph, nor would I ask her how much. I think when people include St. John's in their estate plans, they have elevated St. John's to the level of family. I try to treat them like family and do not ask for substantiation.

We also have a recognition society called the Sister Helen Flynn Legacy Society for alumnae of Notre Dame College, which was merged with St. John's University in the mid-1970s.

Give & Take: How do you create a sense of loyalty and commitment to St. John's among the graduates of Notre Dame College?

Martignetti: I created a newsletter specifically for the Notre Dame College alumnae called *The Legacy Letter*. It is a Sharpe newsletter with different artwork and a different masthead designed specifically for Notre Dame alumnae. I learned about this group's needs and interests by spending time with them and

listening. They have a separate identity in their minds, so I believe it is important to follow their lead and continue to recognize them as a separate entity.

Give & Take: The past decade has been a boom time for fundraising. In the current economic environment, have you seen a change in the types or the number of gifts that you are receiving?


Martignetti: I'm seeing more interest in charitable gift annuities because they are simple and provide a predictable, fixed income for life. They also offer a generous payment rate, especially when compared to current interest rates. And alumni are comforted knowing their payments are guaranteed by all of the assets of the University.

Give & Take: Are you foreseeing having to change your marketing strategies if the economy fails to rally?

Martignetti: Not really. I have always emphasized bequests and life income gifts, and there are variations of these types of gifts that are to a large extent immune to market volatility. Because one never knows the direction the economy may take, gifts that generate reliable forms of income are always popular.

I also find the pooled income fund to be a good entry-level gift for discussion purposes. We had a small pooled income fund program when I started here, and I kept it because I thought it might be a way for a donor to make a small, initial gift that would later lead to a larger gift in the form of a trust or a gift annuity. That has proven to be the case, as some donors are initially interested in the minimum pooled income gift of just \$2,500 (versus \$25,000 for a gift annuity). However, when I mention that the pooled income fund payments are variable, donors then often show more interest in establishing a charitable gift annuity to get a fixed, reliable income. Some gift annuitants were initially going to put \$5,000 or \$10,000 into a pooled income fund but instead made a \$25,000 gift to establish a gift annuity.

Give & Take: What is the most enjoyable aspect of your job?

Martignetti: Working with people. This is a great people profession. It's a pleasure to go to work every day and a privilege to raise money for a mission that I believe in. 

Footnotes

Booklet of the Month



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

"A Guide to Year-End Giving 2002"

With the end of the year rapidly approaching, your donors may find themselves at a loss how best to make their gifts before 2002 comes to a close. Given the hectic pace of the season, some would-be donors may decide that it's easier to do nothing at all than to try to maneuver the maze that gift planning can sometimes appear to be.

Don't let potential gifts pass you by. Consider sending your major gift prospects our helpful booklet, "A Guide to Year-End Giving 2002." After reading the booklet's creative gift planning ideas, your donors may be surprised at how well their desire to give and the needs of your organization can coincide.

In addition to a helpful checklist of gift planning considerations, this booklet contains a number of realistic examples that allow your donors to envision the advantages various planning strategies may provide. Special emphasis is placed on maximizing the benefits of gifts of securities and other non-cash properties in times of fluctuating market values.

Take advantage of the time remaining in 2002 to share with your donors the benefits both you and they can enjoy from strategic gift planning this fall.



A GUIDE TO
YEAR-END
GIVING
2002

"Has Congress Changed Your Will?"

In May 2001, Congress initiated substantial changes to the nation's tax code. The first major changes in estate and gift tax provisions took effect on January 1, 2002. As a result, many Americans now have estate plans in place that no longer meet their needs—and many are not aware of that fact. Economic fluctuations and other events over the past year have also made many Americans feel the need to rethink their estate plans while they may be uncertain how to proceed.

In response to this need, Sharpe is pleased to offer "Has Congress Changed Your Will?" Available in two attractive designs, this brochure details what your donors need to know about how the recent tax act affects them: the estate tax phase-out schedule; the continuation of the unlimited marital deduction; the benefits of a well-designed will or trust; and the often-overlooked opportunities afforded by retirement plans, life



insurance, and other planning tools.

Consider making this brochure the centerpiece of a mailing to your donors this fall. Now is an excellent time to motivate planning and discover the persons who have taken action to benefit charitable interests over the past year. Many of them may be better served by other plans that feature current tax and financial benefits. This strategy affords you the opportunity to discover them. Gain the satisfaction of providing your constituents with helpful information as they rethink their plans at year-end, while at the same time keeping their commitment to charitable interests at the top of their minds.

A sample of "Has Congress Changed Your Will?" is included with this issue of *Give & Take*. For more information or to place an order, fax or mail the enclosed order form, visit www.rfsc.com/congress, or call 1-800-238-3253 to speak with a customer service representative.

G&T

Planning Matters

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tutes the overwhelming majority of donors that have selected these options in the past.

As always, it is important to find the most effective strategies in any economic environment. Rather than focusing on the handicap low discount rates may create for some plans, capture this opportunity to generate interest in life-estate agreements and lead trusts among your donors. You and your donors may be very glad you did. G&T

Training Update

An Introduction to Planned Giving

For a comprehensive, in-depth training experience, consider attending Sharpe's 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 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," this one and one-half day session follows that seminar in selected cities. Special tuition rates are available for concurrent attendance or for prior attendees of "An Introduction to Planned Giving." 

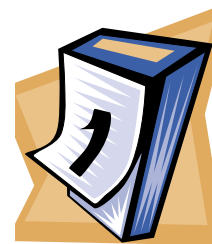
Multiple registration discounts are available. For more information or to register, please contact the Sharpe company.

Phone 1-800-238-3253, ext. 5360

Fax 901-761-4268

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E-mail: seminars@rfscoco.com



Seminar Training Dates

An Introduction to Planned Giving

Washington, D.C.

December 9-11

Seattle

January 27-28

Chicago

February 10-11

Managing Planned Giving Relationships

Washington, D.C.

December 11-12

Seattle

January 29-30

Chicago

February 12-13

Major Gift Planning I

St. Petersburg, FL

October 21-22

Memphis

December 9-10

Major Gift Planning II

Memphis

January 16-17

Boston

June 23-24

The Missing Piece

Looking for the perfect way to complete your gift planning efforts? Whether you're just starting out in development or simply feel that the time has come for a refresher course, there is a Sharpe seminar designed to fit your needs.

Sharpe seminars offer innovative ideas to help you make the most of your fundraising opportunities. See page 7 for a detailed explanation of each seminar. For more information or to reserve your place, visit www.rfSCO.com or call 1-800-238-3253 to speak with a customer service representative.

An Introduction to Planned Giving

Washington, D.C.
December 9-11

Seattle
January 27-28

Chicago/O'Hare
February 10-11

Boston
March 10-11

Cleveland
May 19-20

Managing Planned Giving Relationships

Washington, D.C.
December 11-12

Seattle
January 29-30

Chicago/O'Hare
February 12-13

Boston
March 12-13

Cleveland
May 21-22

Major Gift Planning I

Memphis
December 9-10

Washington, D.C.
March 3-4

Chicago/Oak Brook
April 23-24

Boston
May 15-16

Major Gift Planning II

Memphis
January 16-17

Boston
June 23-24



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