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Give&Take

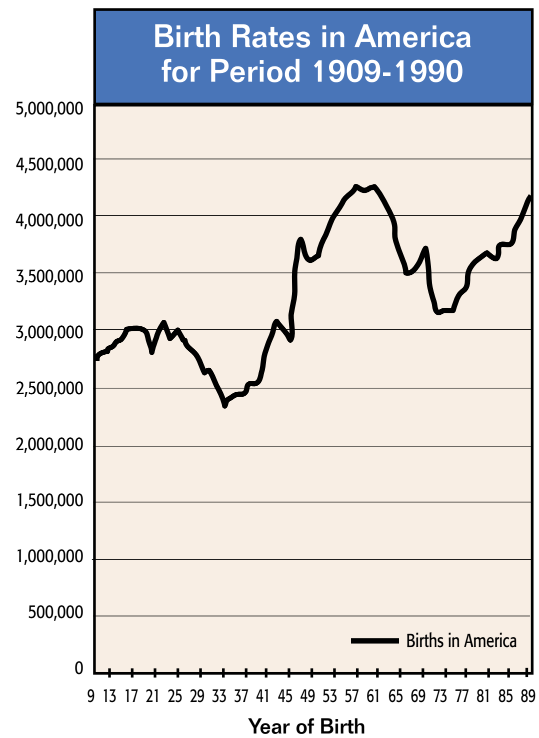
News and Ideas for Development Executives of Nonprofit Organizations

The Changing Face of America's Donors

Over the past few years, much has been written about the gradual aging of the U.S. population and the inevitable impact on housing, health care, travel and leisure, and many other industries.

The most forward-looking nonprofits in America have also become increasingly aware that changes in the age distribution of donors will increasingly affect the ways in which they seek funding.

Note the distribution of births in America during the period from 1909 to 1990 in the chart below.

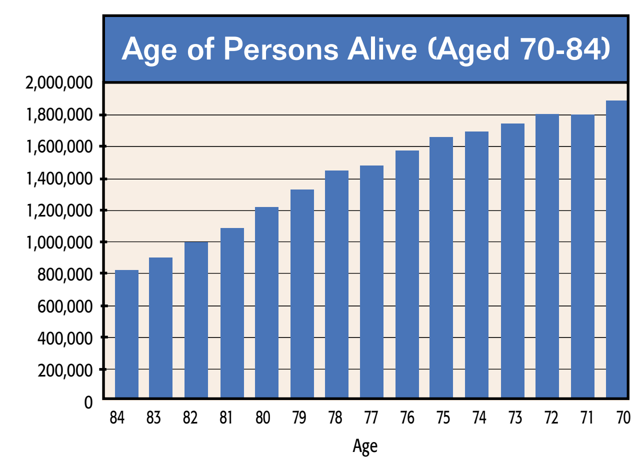


As the chart indicates, approximately three million persons were born in America each year prior to 1925, when birth rates began a 25% decline that ended nine years later during the depths of the Great Depression. Between 1935 and 1955, some 70 million persons were born. While the term "baby boomer" generally refers to the persons born between 1946 and 1964, a lengthier upturn in births occurred between 1935 and 1955.

Impact on fund development

For those planning their fund development efforts for the future, this means that the number of persons now aged 70 and older can be expected to grow relatively slowly as those born before the Depression begin to pass away with fewer persons to replace them. According to census reports, approximately 30 million Americans are currently aged 70 and older. Of this group, some 60% are female and 40% male. Among those in the 80-and-older age range, there are approximately 17 million persons still living. Notably, some 63% of those persons are female and 37% male.

According to Sharpe Group studies and IRS data, the average age at death of persons who leave funds to charity through their wills and similar planning tools is approximately 84 years of age. There are now about 27 million persons between the ages of 70 and 84, the majority of whom can be expected to pass away during the next 20 years. The passing of this generation will comprise the first phase of the unprecedented transfer of wealth that has been predicted to occur in coming years. The following chart illustrates the gradual increase in the numbers of persons at or approaching the age at which charitable bequests are typically received.



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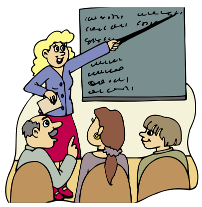

Refresher course on living trusts

Trusts are among the most popular estate planning tools. Charitable remainder trusts, charitable lead trusts, and living trusts give donors much-wanted flexibility as they determine how best to fulfill their desires to give to their favorite nonprofits.

Too often, however, both donors and development officers use the word "trust" as a catch-all term without having any specific knowledge of how a trust is constructed and executed. A thorough understanding of how and why trusts are established can help fundraisers determine if a charitable trust is the best choice for their potential donors.

What is a trust?

A trust is created when the owner of an asset (the grantor) transfers legal title to an asset to a trustee. The trustee then has all of the duties and responsibilities associated with property ownership and must manage the property according to state law and the grantor's directions. The trustee, acting in that capacity, receives none of the benefits of ownership. Instead, the trustee holds the property for the benefit of one or more other persons or entities, the trust beneficiary(ies). The trustee makes payments from the trust to or for the benefit of the beneficiary(ies) according to the grantor's instructions. When the property is exhausted or at the end of a specified time period, the trust ends and the remaining trust property is distributed to the individuals or organizations that the grantor specifies, the remainder person(s).

A grantor may structure a trust to become effective after his or her death (a testamentary trust) or during lifetime (an *inter vivos* trust). A person can create a testamentary trust by including trust provisions as part of his or her will, in which case the trust property is subject to the probate system. Testamentary trusts are often used in federal estate and gift tax planning, and in special needs trust planning for a disabled beneficiary.

Using trusts to avoid probate

Another option, and one that is particularly useful from a gift planning perspective, is a revocable living trust. This is an *inter vivos* trust, which is created during the lifetime of a grantor. Property in a revocable living trust does not become part of the grantor's probate estate. Instead, any property remaining in the trust upon the grantor's death is administered and/or distributed according to the terms of the trust. It does not pass under the grantor's will or by intestate succession.

There are many advantages to avoiding probate, including:

1. **Faster distribution of assets**. By avoiding the probate process, beneficiaries receive the property much more quickly than with a will alone, especially if the will is contested.

2. **Enhanced privacy.** While probate estate proceedings are generally matters of public record, financial affairs and information about beneficiaries are private in the case of revocable living trusts.

3. **Reduced estate administration expenses.** Assets in a revocable trust avoid the costs typically associated with probate, including attorney's fees, personal representative fees, and court costs. Although those fees vary from state to state, probate costs can average as much as five percent in a probate estate versus an average of one to two percent in non-probate estates—a potentially significant savings.

4. **Minimized taxes.** The IRS considers the person establishing a revocable living trust to be the owner of the trust's assets for federal income tax purposes. If a revocable living trust is properly structured, however, the trust property will not be included in the grantor's taxable estate. It is important to note, however, that by avoiding probate one does not automatically avoid estate tax. Probate governs the transfer of assets, not whether they are considered to be the property of the deceased for tax purposes.

To preserve flexibility, those who establish revocable living trusts retain the power to revoke or change their trusts. However, there are occasions when one may want to establish irrevocable living trusts for tax or personal reasons, such as to make a gift to a favorite charity or to pass assets to heirs over time making use of annual gift tax exclusion amounts. Others will sometimes establish irrevocable trusts for the purpose of owning life insurance that will not be included in the estate of the grantor at death.

No matter how they are originally structured, however, trusts typically become irrevocable upon the death or incapacity of the person

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SHARPE GROUP

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Sharpe Seminar Series

Featured Seminar: An Introduction to Planned Giving

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

Presenters combine their experience to guide participants through the basics of charitable gift planning, from 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 planning to specialize in planned giving or have multiple responsibilities that include incorporating gift planning capabilities into other development efforts. G&T

On the Agenda for 'An Introduction to Planned Giving'

Day One

- Introduction to the Planned Giving Process
- Understanding the Life Cycle of Donors
- Basic Planning Considerations
- The Charitable Tool Box—Part One
- The Charitable Tool Box—Part Two
- The Gift Planning Matrix

Day Two

- Introduction to Property Gifts
- What Is the Gift Worth?
- Gift Acceptance Policies
- Marketing Planned Gifts
- Cost-Effective Planned Giving
- Putting It All Together

See www.sharpenet.com/seminars for a complete agenda and dates for this and other Sharpe seminars.

What Attendees Are Saying About 'An Introduction to Planned Giving'

"RFSCO and their professionals have opened my eyes to the complete 'big picture' of how to, what to do, and what to expect in planned giving."
–H.C. "Buzz" Dixon, Family Connection, Inc.
Anderson, IN

"The speakers knew their subjects and had good examples based on their experiences; content material was well integrated and reinforced from speaker to speaker."
–Karen Crenshaw, University of Pittsburgh, School of Dental Medicine, Pittsburgh, PA

"This is the most worthwhile professional conference I can remember attending."
–Mr. Chandler Battaile, Assoc. for the Preservation of Virginia Antiquities
Richmond, VA

"The personal experience of the presenters is invaluable. Their ease and confidence make it very easy to pay attention."
–Kate Hoffman, Foundation for LSU Health Sciences, New Orleans, LA

Upcoming Seminar Training Dates

Managing Planned Giving Relationships
Chicago
April 15-16
New York
August 4-5

An Introduction to Planned Giving
Chicago
April 13-14
Philadelphia
June 24-25
New York
August 2-3

Major Gift Planning
Washington, D.C.
April 1-2
Chicago
May 17-18
New York
September 9-10

Strategic Gift Planning
Memphis
December 13-14

Multiple registration discounts are available. For more information or to register, please contact The Sharpe Group.
Phone 1-800-238-3253, ext. 5360
Fax 901-761-4268
Web site: www.sharpenet.com
E-mail: seminars@rfsco.com

Getting Personal About Wealth

According to a 2003 study by the Internal Revenue Service, there were more than 6.5 million "top wealth holders" in the United States in 1998. To qualify for this select group an individual needed to have gross assets of at least $625,000, the threshold at which federal estate and gift taxes applied in that year. Despite representing only 3.4% of the total population, this group held more than $11.1 trillion in assets, approximately one-third of total U.S. personal asset holdings.

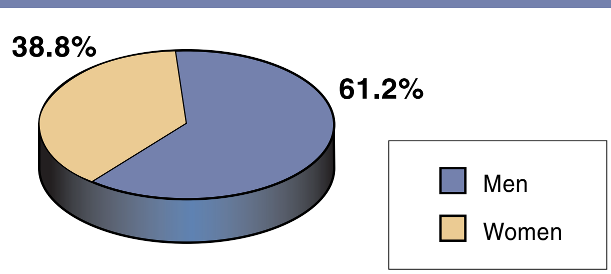
It can be helpful for those involved with planned gift development activities to learn as much as possible about these "top wealth holders." While there are limited sources of information about the personal wealth holdings of the general population, the IRS consistently provides accurate and timely information on these topics. One recent IRS study, "Personal Wealth, 1998" by Barry W. Johnson and Lisa M. Schreiber, offers valuable insights into the age, sex, marital status, asset holdings, and income of these "top wealth holders."

A closer look

The group of 6.5 million adults that made up the top wealth holders in 1998 represented about 3.4% of the total adult population of the United States. The majority of this group, 61.2%, were men (see chart below). Of the estimated 4 million men in this group, 1.7 million had a net worth of at least $1 million. Almost 70% were married, and 15% had never been married. Just 6.6% were widowers.

The 2.5 million women in this group had a total net worth of $4.2 trillion. Some 1.1 million of these women had a net worth of $1 million or more. About half of this group were married, and just under 30% were widowed. Almost 14% had never been married. It is important for gift planners to note that in the older age ranges where bequests and gift annuities are more likely to be planned, the ratio reverses to 61% women (see chart at right and the page 1 article of this issue of *Give & Take).*

Gender of Top USA Wealth Holders



Wealth holdings

Among those with a net worth of less than $1 million, personal residences represented a larger percentage of overall holdings. There were also differences between the investment holdings of men and women. Men were more likely to own closely held stock and women publicly traded stock, for example. Among men with assets greater than $10 million, the majority of wealth was fairly evenly divided between closely held and publicly traded stock. Among women in this wealth range there was a much greater concentration of publicly traded stock.

Age and assets

Age plays a large role in determining an individual's investment patterns (see chart below). The oldest wealth holders were not only more likely to be female, but they also tended to have a higher percentage of bonds, presumably because of retired persons' greater need for income from investments. Younger wealth holders had a greater weighting in real estate and closely held businesses. Publicly traded stock was the dominant asset holding across all age groups and genders. Net worth also increases with age. The average net worth of male wealth holders under age 50 was $1.2 million, while the 85-and-over age group averaged nearly $2.5 million.

Ages of Top USA Wealth Holders*

	Total	Men	%	Women	%
Total	6,530	3,997	61%	2,533	39%
Under 50	2,318	1,582	68%	736	32%
50-64	2,132	1,408	66%	724	34%
65-75	1,143	638	56%	505	44%
75-84	666	262	39%	404	61%
85+	271	107	39%	164	61%

*All numbers in thousands

Importance of location

Geography also plays a role in wealth distribution. States with large populations like California, New York, Florida, and Texas had the greatest number of higher net worth individuals, but a higher percentage of the populations of New Jersey, Connecticut, Colorado, and the District of Columbia fell into this category. Over 50% of the group resided in only seven states—California, New York, Florida, Texas, Illinois, Pennsylvania, and New Jersey.

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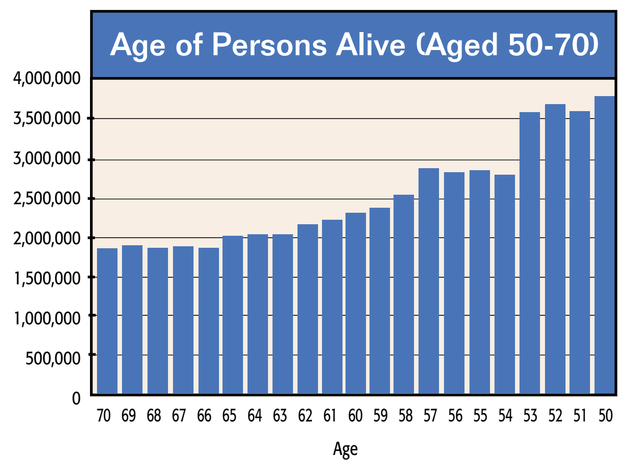
Face of America's Donors*...Continued from page 1*

Despite the demographic trends that will form the basis for increased funding from estates in coming years, charitable organizations and institutions that wish to participate in the ongoing wealth transfer should make certain that their donors know that they welcome bequests, gift annuities, and other gifts that come to fruition only at the death of one or more persons.

The challenge for some will be communicating the benefits of bequests and various other planned gift options to the appropriate persons at the most opportune time. Studies have shown that many long-term donors tend to lapse in their late 70s and early 80s, about the same time that they are making their final estate plans.

It is therefore important to take steps where possible to delay the point at which older persons discontinue their current giving to increase the probability of being in touch with them when they are making final plans.

It is also vital to keep in mind that the majority of people in this age range are women. In many cases their husbands have predeceased them and left to them the ultimate decisions concerning the division of what may be substantial sums accumulated during marriage. Not surprisingly, then, some 70% of bequests typically come from women.



Men, on the other hand, do not leave as much property through their wills to charitable recipients and others because they often own their homes, securities, and other assets jointly with a spouse. In addition, other assets such as insurance proceeds and retirement plan assets are transferred via contract or beneficiary designations. For that reason, the bulk of their estates usually passes outside probate to their wives automatically at the time of their death.

Women, however, tend to own property outright at the time of death and distribute their property under the terms of a will. This is one of the reasons it is important when communicating planned gift concepts to older donors to continue to concentrate on bequests via wills.

The younger group

As noted above, the group of those who will leave bequests in the near term is now passing from the scene and will be "replaced" by a much larger total group of persons now in the 50-to-70 age range (see chart above). The oldest of this group, however, enjoy a life expectancy of 15 years or more. The youngest may live an additional 35 or 40 years or even longer, depending on future medical advances.

For that reason, with the "young old" group it is less important to emphasize gifts that will take place at their deaths in 15 to 35 years, and more important to emphasize gift planning options that will result in gifts in a relatively short period of time. Term of years charitable remainder trusts, lead trusts, and life income gifts for the benefit of parents and other loved ones of advanced years are examples.

Keep in mind also that this younger group will be made up of a higher proportion of men and married couples. The percentage of the 70-and-older population with one or more years of higher education will also be increasing as a result of the G.I. Bill and other factors that made higher education more widespread among this group. In addition, these persons have spent much of their careers contributing to IRAs and other tax-favored savings plans. They may thus be considerably more "financially literate" than the preceding generation.

First things first

While it is important to communicate deferred gift concepts to the coming generation of seniors, don't forget that many of them will continue to be current donors for a decade or longer. One of the best ways to discover those among this emerging segment of donors who may have the inclination to make major gifts is to periodically sweep the group in search of those who will say they have already considered or would consider leaving a bequest. This can be one of the best indicators that a younger person of means may have donative intent that is not fully revealed by his or her current level of giving. Careful attention to these persons could yield welcome increases in current giving.

These are just a few of the implications of the changing demographic makeup of the U.S. donor population. Many organizations have found that time dedicated to analysis of the age distribution of their constituency will result in newfound opportunities that are unique to them. Now is the time to reach out and encourage donors of all ages to consider how they can more effectively plan their gifts for the benefit of themselves, their loved ones, and their charitable interests.

This article is excerpted from Session One of the popular Sharpe seminar "Major Gift Planning." Join the over 4,000 representatives of charitable entities who have attended this seminar in recent years. See page 3 for details on upcoming sessions. G&T

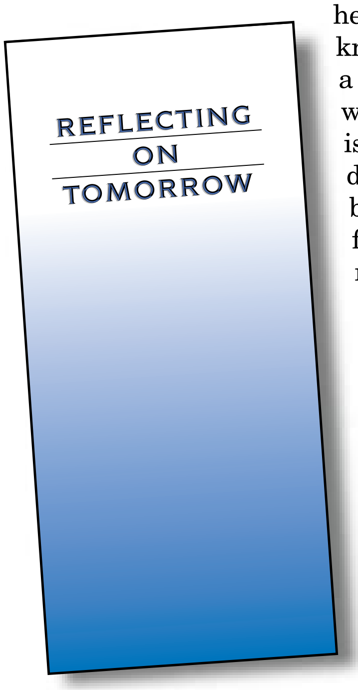
Footnotes

News and ideas about The Sharpe Group's services.

"Reflecting on Tomorrow"

Have you ever wished that just one booklet could cover the most popular gift plans? Sharpe's "Reflecting on Tomorrow" fits the bill. This 16-page booklet offers brief introductions to the most common gift plans and accompanies each with a brief example so your donors can envision their gifts in action.

Designed to provide an overview of nine gift plans, "Reflecting on Tomorrow" can be a helpful resource for those donors who know that they would like to make a gift but don't yet know which plan would work best for them. Since it is appropriate for the majority of donors, "Reflecting on Tomorrow" can be a good booklet to keep on hand for a variety of uses at the development office. For example, it makes an ideal leave-behind piece after donor visits so donors can review the giving options discussed during the visit at their own leisure.



Consider sending "Reflecting on Tomorrow" in a special mailing to donors who meet the criteria for planned gifts. Because it includes information about gifts as varied as bequests, charitable remainder trusts, charitable lead trusts, gift annuities, and gifts of cash and securities, "Reflecting on Tomorrow" may inspire someone to request more information about a gift plan that piques his or her interest.

The Sharpe Group is happy to provide more information about "Reflecting on Tomorrow" or any of Sharpe's publications and services. Simply call 1-800-238-3253 to speak with a customer service representative or visit www.sharpenet.com/donor.

A time to remember

Spring is traditionally the most popular time of year for honorary and tribute gifts. A number of commemorative holidays may remind donors of special family and friends who influenced their lives in a positive way. Donors may feel inspired to pay tribute to their memories by making a gift in their honor.

Schedule communications to donors this spring to remind them of the special place your organization may have played in a loved one's life. This year, Sharpe is offering a line of memorial giving brochures featuring attractive cover designs that may be personalized with your organization's name and logo. Also included is a detachable response card so that your donors can easily request more information.

Don't let this opportunity pass you by. For more information or to place an order please visit www.sharpenet.com/donor, fax the enclosed order form, or call 1-800-238-3253. G&T

Getting Personal

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Over the years the level of concentration of wealth has also increased. The most recent study revealed the top 1% of the U.S. population held approximately 23.5% of total individual U.S. wealth, up from 21.3% 10 years earlier.

What this may mean

American top wealth holders are a diverse group and may be found in virtually every community but tend to be concentrated in certain areas of the U.S. They tend to be middle aged or older, with wealth and the likelihood of being female increasing with age. Men are more likely to possess wealth in the form of a closely held business, are more likely to be married, and are less likely to be widowed. On the other hand, over 25% of the women are widows and just under half are married. Women tend to own more publicly traded securities than men. These figures may help explain why more charitable bequests come from women (see page 1 for more on this subject).

Of the 6.5 million persons studied, only 2.7 million had assets in excess of $1 million. The majority, nearly 4 million individuals, fell into the $625,000-$999,999 net worth range and would no longer be subject to federal estate tax. These "near millionaires" probably do not consider themselves wealthy and are more likely to make gifts from income than from accumulated assets. Later in life they may be in a position to consider arrangements such as charitable gift annuities to enhance their income stream from accumulated assets. A greater number among this group must necessarily defer the ultimate expression of their charitable intent until the time of their death. The same may be true of many of the 2.7 million remaining who have assets that do not greatly exceed $1 million.

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Planning Matters

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who established the trust, and the trustee must administer and distribute the trust in accordance with stated provisions. It is also important to note that trustees of both revocable and irrevocable trusts are accountable under state law. There are legal remedies available to those who believe a trust established for their benefit has been mismanaged.

Other benefits of living trusts

Living trusts offer donors many benefits in addition to those listed above. As in the case of a will, a property owner may establish a trust when he or she wants to eventually benefit a loved one or a charitable interest without making an outright, unrestricted gift. A trust enables an individual to protect and provide for a loved one or a favorite charity while still having some control over the way the property is used. The grantor can determine how the trustee manages and invests the property and direct how the trustee distributes the property and its income. Another reason to establish a living trust is that, if a grantor is deemed incompetent for any reason before death, the trustee or successor trustee has the authority to manage the trust's assets. This can avoid potentially expensive and embarrassing legal proceedings.

Not a cure all

Despite these many benefits, donors should always be advised that a living trust is rarely if ever a complete substitute for a will. A will is an essential back-up device for property that isn't transferred under the terms of the trust. For example, if a person acquires property after establishing a trust, he or she may not think to transfer ownership of it to the trust—which means that it won't pass under the terms of the trust document. But a will can include a clause that either directs that property to the trust (a "pour-over" will) or names those who should receive any property that remains in the probate estate. Furthermore, in most states a will is the only mechanism whereby a person can recommend a guardian for minor children.

Living trusts may provide tremendous benefits, including the ability to preserve property for loved ones, provide for favorite charitable interests, avoid probate, and reduce tax burdens. Despite the potential benefits, however, the creation of a trust should be carefully considered, as they are not always the best tool to accomplish a person's wishes and intent. In recent years, some have heavily promoted living trusts as an estate planning panacea, and as a result, several states have taken steps to further regulate trust services in order to protect the public from exaggerated claims of the benefits of trusts. Anyone who is thinking about establishing a living trust should speak to an appropriate professional advisor.

Sharpe offers a number of estate planning materials that explain the benefits of various giving options to potential donors. Special booklets devoted to trusts, including living trusts, charitable remainder trusts, and lead trusts, are available, as well as several booklets that touch on all of these plans, "Charted Giving Plans," "Better Estate Planning," and "Reflecting on Tomorrow" (see page 6). G&T

Getting Personal

...*Continued from page 6*

It is only among the "top wealth holders" that one is likely to find persons who are more receptive to six and seven figure deferred gifts. Some tend to make these gifts during their lifetimes, while others remain in an "accumulation phase" throughout their lifetimes and will only make gifts of this magnitude at death. Even among this group there seems to be a split of opinion as to when is the best time to make the "ultimate" gift.

Gift planners should be aware of this data as they plan their strategies for the future. Knowledge of wealth trends can also be helpful in determining how to proceed on a case-by-case basis. Carefully planning donor relations in light of overall trends can dramatically increase the number of people who agree to share their good fortune. G&T

For more information, see the Winter 2003 issue of the IRS's *Statistics of Income Bulletin* [Publication 1136 (Rev. 4-2003)].

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 fund-raising opportunities. For more information or to reserve your place, visit www.sharpenet.com or call 1-800-238-3253 to speak with a customer service representative.

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