

Give & Take

News and Ideas for Development Executives of Nonprofit Organizations

Philanthropy and the Next Four Years

Before the November 2 elections, national polls were too close to accurately predict who our next President would be. All Americans—individuals, corporations, and nonprofits alike—had to contemplate both possibilities and consider how a Bush or Kerry presidency would affect their particular interests.

From a nonprofit's point of view, either outcome might have presented new fund-raising opportunities. A Kerry presidency may have led to a rollback of various tax cuts on the wealthy, which would, in turn, have reduced the cost of charitable gifts. A second Bush Administration is now promising additional tax cuts and tax code simplifications, which could increase the after-tax cost of making charitable gifts but would, according to some, provide a stimulus to giving by increasing the disposable income and asset base of wealthy Americans.

In any event, many Americans, including those who make significant charitable gifts, felt that their personal financial future was in the balance prior to the election and may have been hesitant to make substantial gifts this year until November 2 was behind them.

Now that the election is over, charitable organizations and those who represent them need to regroup and refocus their efforts as well. The guesswork is over, and nonprofits must now determine how a second Bush term may affect their fund-raising efforts in coming years.

What to do now

The first step many fundraisers will want to take now is to rethink plans for the remaining weeks of 2004. Review the following "to do" list to see what might apply to your programs:

- If early fall appeals have not met your goals, consider a post-election reminder to donors who have given in previous years but not yet this year.

- Review all pending major and planned gift proposals and determine if additional follow-up may be in order now that the uncertainty surrounding the election is behind us.

- Consider contacting prior gift annuity, pooled income fund, and charitable unitrust donors to see if they would like to make an additional gift before the end-of-the-year tax deadline.

- If stock market values remain at or near their highs for the year, consider reminding those donors who have given stock in the past about the advantages of giving appreciated securities.

- Consider making special arrangements to make sure that knowledgeable staff is available to assist donors during the holiday season.

These and other steps can help assure the best possible results for your charitable giving efforts this year-end.

Looking to the future

Next, review your overall plans for the next four years. What is the fund-raising environment likely to be? Will the economic recovery continue or falter? Will tax cuts be repealed or further increased? What are the prospects for the CARE Act and other legislation that is favorable for charitable giving?

President Bush has pledged that in his second term the war on terrorism and America's overseas military commitments will remain top priorities. The President has also indicated that other initiatives such as taking steps to place social security on a sound footing will also be high on his agenda.

Meanwhile, the federal deficit is growing while the economy continues to show signs of a relatively weak recovery. Slow-to-moderate economic growth is predicted for the next four years. As a result, coming years may present special challenges for capital campaigns and other major gift development efforts.

There is also good economic news for fundraisers, however. A new release by the Joint Economic Committee reports that the net household wealth has climbed to \$45.9 trillion, an all-time record. But low interest rates and relatively low returns on stock market investments may leave many prospective donors "asset rich" but "income poor."

Inside:

- What you should know about gift annuities p. 2
- Gift planner profile: Morgan Dodd of National Parks Conservation Association p.4



Questions and answers about gift annuities

Planning Matters

In recent years, a growing number of charities have begun to offer charitable gift annuities to their donors. According to a survey conducted by the American Council on Gift Annuities, over one-half of the charities issuing gift annuities in 1999 had been doing so for fewer than 10 years and nearly one-third had started their program within the past five years. Most planned giving experts would agree that charitable gift annuities are one of the most popular planned giving techniques. In fact, they are no doubt second only to charitable bequests in the number of individual planned gift transactions. This month's "Planning Matters" is devoted to some common questions about charitable gift annuities.

Give & Take:

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Question: How does a gift annuity work?

Answer: A donor transfers cash or other appropriate property, such as marketable securities, to a charity in exchange for fixed payments for one or two lives.

Question: How is the payment rate determined?

Answer: The payment rate is generally based upon the donor's age. It is set with the goal in mind of providing the charity with 50% of the gift amount at the death of the person or persons receiving payments.

Question: Is there an income tax deduction when the gift annuity is funded?

Answer: Yes. Because the donor receives payments for life, the amount used to fund a gift annuity is not fully deductible. The donor is typically entitled to a charitable income tax deduction equal to 40% to 50% of the amount transferred.

Question: How are the payments of a gift annuity treated for tax purposes?

Answer: The answer depends upon whether the contract is funded with cash or with appreciated property. In the case of cash, the payment is divided between ordinary income and a tax-free return of the original investment in the

contract that continues for the life expectancy of the person(s) receiving payment. When the donor uses appreciated assets such as stock to fund a gift annuity, there is no tax on the capital gain allocated to the gift component of the transaction, and the remainder of the gain is reported by the donor as capital gain until the entire non-charitable portion of the gain has been accounted for.

Question: Is the amount used to fund a gift annuity removed from the donor's taxable estate?

Answer: In most cases the amount of the gift annuity will not be included so long as the payment recipient is the donor and/or the donor's spouse. A portion of the gift annuity will be included in the donor's estate if another person other than a spouse receives payments from the annuity following the donor's death.

Question: Can you give an example?

Answer: Suppose Jane, age 73, uses \$25,000 in cash to fund a gift annuity. Her annual payment of \$1,700 (6.8% of the amount transferred) would be divided between a taxable and non-taxable portion for a number of years, after which the payments would be fully taxable. If the gift annuity were funded with stock purchased for \$5,000 but that is currently worth \$25,000, her payments would be treated as follows:

Tax Free	\$213.17
Capital Gain	\$852.73
Ordinary Income	\$634.10

If the annuity were funded with cash, the tax-free component would be increased. After 13.8 years, the payments would be viewed as all ordinary income. In either case, she would also receive a current income tax deduction of over \$10,000. This favorable capital gains treatment is only applicable to individuals or married couples. If someone else is to receive payments, a portion of the capital gains tax must be paid in the year the annuity is established. Because Jane is the only recipient of annuity payments, the amount used to fund her gift annuity would not be part of her estate.

Question: Do all charities pay the same rate?

Answer: According to the American Council on Gift Annuities (ACGA), some 97% usually or

Sharpe Seminar Series

Featured Seminar: *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?

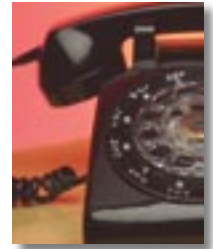
These and other topics are explored in a seminar devoted to the process of developing and managing effective planned gift relationships. Beginning with how to handle initial requests for information, this seminar also focuses on what to do before, during, and after a personal visit.

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

Special attention is also 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 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 session follows that seminar in selected cities. Special tuition rates are available for concurrent or previous attendees of "An Introduction to Planned Giving."



Upcoming Seminar Training Dates

An Introduction to Planned Giving

Memphis
December 2-3
New York
January 24-25

Managing Planned Giving Relationships

New York
January 26-27

Major Gift Planning

Cleveland
February 17-18

Strategic Gift Planning

Memphis
February 7-8

On the Agenda for 'Managing Planned Giving Relationships'

Day One

- The Nature of Planned Giving Relationships
- Preparing for Donor Contact: Getting to Know Your Donors
- Effective Use of Written Communication
- Effective Use of the Telephone
- Evaluation of Donor Contacts

Day Two

- The Personal Visit
- Ongoing Cultivation and Stewardship
- Managing Important Relationships AFTER the Gift

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

What Attendees Are Saying About 'Managing Planned Giving Relationships'

"The Sharpe seminars are the best I've been to—in several professional areas. I rearrange my schedule to facilitate attendance and I recommend them to my colleagues. Thank you for excellent and professional work. It is a joy to see people who are passionate about what they do!"

—Ann N. Sitrick, CFRE, Beloit Memorial Hospital Foundation, Beloit, WI

"Even though I am in my 28th year of planned giving, I received many great ideas that I plan

to implement right away. The faculty did a great job!"

—J. Michael Touhey, Maryville University, St. Louis, MO

"This seminar is a wonderful way to combine the 'nuts and bolts' of planned giving with the reality of actually visiting with the donor about their goals."

—Sandi Tuttle, Mercy Foundation, Des Moines, IA

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@sharpenet.com

Planning for the Future

This month's gift planner profile features Morgan Dodd, Director of Planned Giving at National Parks Conservation Association (NPCA). NPCA recently made a commitment to make planned giving one of its top fund-raising priorities. Here Mr. Dodd shares with Give & Take how NPCA is using planned giving to build an endowment for the future.

Give & Take: Have you always worked with organizations that have environmental missions?

Morgan Dodd: I actually started my career at my alma mater in the Georgetown University Alumni Association office. It was a great introduction to fund raising. After seven years at Georgetown, I worked for eight years at two arts organizations and for seven years with an environmental agency. But, as often happens in large institutions, my job there became very narrowly specialized, and I found that I wasn't fully using all of my skills.

When an opportunity came open at NPCA as Director of Donor Relations, I took the job and shortly thereafter transitioned to the planned giving office. Planned giving has always been an interest of mine. I realized early on that to work with individual donors over the long haul I needed to learn as much as I could about planned gifts.

In my opinion, planned giving's ability to enable donors to make a "gift of a lifetime" makes it the capstone of fund raising. Luckily, the leadership at NPCA understands the importance of gift planning to the overall health of the institution, and they are committed to developing that component of our fund-raising efforts.

Give & Take: How did NPCA's planned giving department develop?

Dodd: In the early 1990s, NPCA decided to build its membership through more aggressive direct mail and telemarketing. We transitioned into planned giving by first creating a bequest recognition society, which we promoted both in our magazine and with individual donors. Next, after some market research and guidance from a national consulting firm, NPCA made the commitment to launch a gift annuity program.

In the late 1990s, consultants from The Sharpe Group conducted a planned giving feasibility study to determine the best way to build NPCA's endowment. After reviewing bequest income from the previous five years, Sharpe recommended increasing the planned giving staff to two full-time positions and expanding direct marketing to five mailings totaling 250,000 pieces per year. The goal was to create a substantial endowment in only a five-year period.

Unfortunately, building the endowment wouldn't be so easy. Following 9/11/2001, due to the challenges

of declining revenues that so many nonprofits suffered, NPCA was forced to make repeated cuts in its marketing budgets for planned giving. But the problem was also impacted by the way our budget was structured. In the past, NPCA had allocated the majority of our planned giving income for current operations. This year NPCA has developed a plan to gradually reduce NPCA's dependence on bequest income for operations and to increase the portion of bequests designated to our endowment over the next five years. Costs of planned giving operations will be funded directly from bequest income, and the surplus will go into endowment.

Give & Take: Many of those in planned giving become frustrated with board members who don't see the importance of having a healthy planned giving program. How did you gain your board's support?

Dodd: In addition to the studies our consultants completed, we also confirmed through a membership survey that half of our members are 65 and older. This is an excellent age group to market planned gifts. Armed with this data, we adopted a more strategic approach, recognizing the need to invest in planned giving now. We convinced our board that if we pass up these critical years of increased opportunity based on our demographics, other organizations will receive the large gifts that will result from the distribution of our members' accumulated wealth.

Another thing that helped to focus our board members on our vision for the future is the upcoming centennial of the National Parks System. By the centennial in 2016, NPCA's goal is to be the catalyst, leader, and advocate of a national movement to protect our national parks—to ensure the parks have a stable funding base for both operations and to address the maintenance backlog. Adequate federal funding is critical to protect the natural, cultural, and historical resources of the National Parks.

Planned giving is one very important way to accomplish NPCA's strategic program goals. By building an endowment, NPCA seeks to achieve greater financial stability by providing an alternative source of reliable income to fund our advocacy programs during those unpredictable leaner fund-raising years that may lie ahead.

Give & Take: How do you maintain meaningful and close relationships with your donors?

Dodd: We rely heavily on the mail. We also visit in person with major donors, but that's a small part of how we build primary relationships.

We feel that it's important for the planned giving program to have visibility in every publication,

Next Four Years...Continued from page 1

Fundraisers may thus find that gifts that allow donors to increase income for life or another period of time may increasingly appeal to an aging donor population looking to make gifts in today's environment. In fact, history shows that charitable remainder trusts, bequests, and other planned gifts tend to increase in importance during difficult economic times. (For more on this topic, read Robert Sharpe's 2002 article "Fund Raising in Uncertain Times," available at www.sharpenet.com/resources.)

Factoring in tax changes

In the wake of President Bush's re-election, the defeat of Senator Daschle, and the increase in Republican majorities in Congress, many wealthy persons may now believe more strongly that the federal estate tax will, in fact, be permanently repealed in 2010 as scheduled. The next increase in estate tax relief is scheduled to take effect in 2006, raising the exemption level to \$2 million and reducing the maximum tax rate to 46%. This has the effect of exempting a married couple with \$4 million in assets from the estate tax. The Congressional Budget Office has predicted minimal reductions in gifts to charity at that level, but has projected significant reductions if the process of estate tax repeal continues and exempts larger estates over time.

For donors who are interested in leveraging tax benefits, the possible repeal of the estate tax may serve to increase interest in the income and capital gains tax benefits associated with gift annuities, charitable trusts, and other gifts completed during lifetime in which the charity benefits at the end of a predetermined period of time or at the death of the donor. As a result, it may be wise to increase planned gift marketing efforts aimed at encouraging such gifts with the "Silent" and "Boomer" generations, who are rapidly approaching the age at which these gifts are especially appealing.

Also on the Bush agenda is a simplification of the federal income tax code. Vice President Cheney and others are proponents of a flat income tax with no deductions, perhaps coupled with some sort of national sales tax. The President, Treasury Secretary Snow, and others appear to support a more moderate approach including taking steps to eliminate many tax "loopholes" for individuals and corporations while preserving time-honored deductions for charitable gifts and mortgage interest. In the past, this approach has been dubbed the "McTax."

Whatever the outcome, this topic is likely to be the subject of lively debate over the next few years and may serve to render irrelevant discussions of the CARE Act or other previously proposed charitable legislation. The American Jobs Creation Act of 2004 took steps to restrict certain types of charitable gifts, resulting in savings to offset other tax incentives in that bill. As a consequence the CARE Act may be more difficult to pass, as the sav-

ings that would have helped pay for it may now have been used elsewhere. In any event, if the Administration is committed to more extensive tax reform, it would appear unlikely that it will lend support to any bill that only serves to further modify the current system that it wishes to fundamentally change or replace.

At the very least, the Bush administration is expected to push to make previously scheduled tax cuts permanent and possibly even accelerate the phase-in. Regardless of the outcome of current efforts to modify the tax code, keep in mind that Americans generously funded charities long before income, gift, and estate taxes were introduced in the early years of the twentieth century. The key is to focus on areas where tax benefits continue to exist while the debate about the future is played out.

Continued demographic shifts

In addition to monitoring economic conditions and legislative trends, gift planners will also want to keep an eye on the country's demographics. The World War II generation will become less of a factor during a second Bush administration, as this age group continues to pass away in record numbers. Meanwhile, 10,000 baby boomers are turning 50 every day; the oldest will celebrate their sixtieth birthdays in just two years. Fund-raising plans should be designed to encourage planned gifts from the "Greatest Generation," especially bequests, while also beginning to capture the opportunities presented by the Silent Generation (born 1930 to 1944) and the Baby Boomers (born 1945 to 1964).

Despite shrinking numbers, the Greatest Generation will continue to be the largest source of planned gifts in the near term; proposed tax changes for the future are less likely to affect their plans. At the same time, those born between 1930 and 1944, the Silent Generation, have reached the ages of 60 to 74. They are now at a critical time in their donor lifecycle and can be divided between planned and major gift prospect pools. Keep in mind that the oldest among this group have a 13-year life expectancy and the youngest some 25 years, so it is important to emphasize gifts that will come to fruition in the near term—prior to the death of the donor when possible. Remember too that this generation is smaller than the one that preceded it, or the one that follows, so it is especially important to seek out and serve as many as possible in this group.

While Baby Boomers are now entering their prime earning years and will be inheriting significant sums from their parents in some cases, many have serious concerns about the economy, health care costs, and saving for retirement. It is likely that they will develop their own approaches to planned and major giving in coming years, and they may respond very differently than their parents or grandparents. The oldest of the

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Planning Matters...Continued from page 2

always follow the rates suggested by that organization. The ACGA meets periodically and sets recommended rates based on current investment returns and other factors.

Question: Doesn't that violate antitrust law or regulations?

Answer: In 1995, Congress acted to exempt gift annuities from antitrust regulation on the basis that gift annuities were primarily gift transactions and the recommended rates served to protect the interests of both charities and their donors.

Question: Are there other laws or regulations that I should be aware of before offering charitable gift annuities?

Answer: In addition to the 1995 antitrust legislation, Congress also passed the Philanthropy Protection Act (PPA) that year. The PPA exempted gift annuities and certain other planned gifts from securities registration requirements but set out certain other guidelines. These included a prohibition against payment of commissions in connection with marketing gift annuities, requirements that donors be given a written disclosure statement prior to completing a gift annuity, and provisions that made it clear that antifraud regulations applied to the marketing of gift annuities. A growing number of states also regulate and monitor the issuance of gift annuities to the residents of their states. See

www.acga-web.org for a full listing of these states and other information.

Question: Does the 10% minimum charitable remainder rule promulgated in the 1997 Tax Act for charitable remainder trusts apply to gift annuities?

Answer: No. That rule only applies to charitable remainder trusts. However, a separate 10% minimum rule applies to charitable gift annuities.

Question: Is there more than one type of charitable gift annuity?

Answer: Actually, there are a variety of different types of gift annuities. The vast majority are of the immediate-payment type, but payments may also be deferred for a number of years, or even commuted at a later date.

Question: Why have gift annuities become more popular in recent years?

Answer: The increase in the number of charities offering these contracts, the growth of the older population that receives "higher" payout rates, and a low interest rate environment have all contributed to their popularity. Gift annuities are particularly attractive to the growing number of healthy, active individuals that are 70 or older. Some 70 million persons are expected to enter this age range over the next two decades, another reason for the increased popularity of this plan among charities. [G&T](#)

Editor's note: Many of the concepts and scenarios discussed in this article are drawn from Sharpe seminar presentations and publications such as "Questions & Answers About Gift Annuities."

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whether it's aimed at a planned giving audience or not. Also, we include gift planning information with our general membership acknowledgments and gift receipts.

All of this is designed to supplement the effectiveness of our quarterly gift planning newsletter that Sharpe helps us develop.

Give & Take: Bequests make up a large portion of your planned giving income each year. How do you go about encouraging and discovering additional bequests?

Dodd: We place ads in our magazines and send out promotional mailings that Sharpe produces. These newsletters and brochures include reply cards that give donors the chance to tell us if they have included or would consider including us in their wills. When donors tell us that they have already included us, we call them right away to thank them and to invite them to join our national legacy society.

When donors indicate that they would consider including us in their wills, we send them an informational booklet provided by Sharpe. A couple of weeks later we follow up with a phone call to see if they have any questions or want to share any information. We see their response as an invitation to pursue a more meaningful relationship since they are considering placing NPCA at the level of a family member or close loved one.

We find that most bequest donors prefer anonymity during their lifetime, so many of the bequests we receive are surprises. The challenge is to try to give as many of our members as possible who *do* want us to know about their plans the opportunity to inform us. This gives us a chance to say thank you and to help cement very special relationships. [G&T](#)

Footnotes

Sharpe offers new Questions & Answers brochures

The Sharpe Group is pleased to introduce a new brochure series featuring questions and answers about the most popular charitable giving plans. Designed to be used as an educational tool for use in encouraging gifts of retirement plans, wills, gift annuities, and life income plans, these brochures are an easy way to provide prospective donors with answers to questions they may have as they decide which plan best fits their needs.

Experienced fund raisers know that by the time donors reach a certain age, many have already been exposed by one or more charitable interests to the basics of the most popular gift planning tools. These persons often need information to help round out their knowledge and motivate them to make a gift.

Sharpe's new Questions & Answers series is designed with these donors in mind. By framing information as a series of questions and answers and moving beyond the basics, these brochures are designed to appeal to a broad range of donors.

Consider sending Questions & Answers brochures to all those who meet the basic profile for a particular type of gift. Be sure to include those who have inquired about a gift planning opportunity in the past. This series can offer a cost-effective solution to those who wish to reach beyond the more targeted group of persons who are receiving a more in-

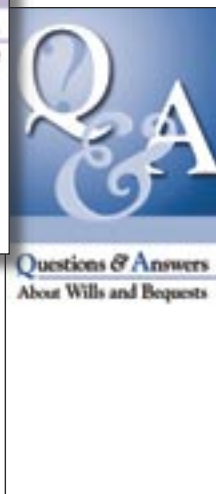
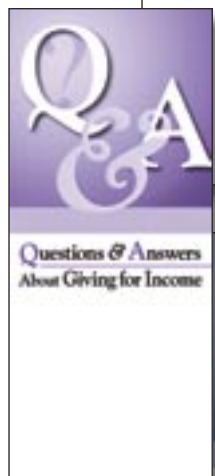
depth planned giving newsletter. Consider accompanying the brochure with a cover letter from a donor who has recently completed a gift to your organization. Include a response card for easy access to additional information.

As an alternative, you may wish to include Questions & Answers brochures in gift acknowledgment letters with a PS, suggesting that donors may wish to consider the subject matter of the brochure as they contemplate their future giving plans. This can be an especially cost-effective way to supply current donors with information about other giving alternatives in an ongoing, systematic way.

Look for samples of Questions & Answers brochures included with this issue of *Give & Take*. Alternative cover designs are available and may be viewed at www.sharpenet.com/qa/. For more information or to place an order, call 1-800-238-3253 to speak with a customer service representative or visit www.sharpenet.com/pubs. **G&T**



News and ideas about The Sharpe Group's services.



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Baby Boomers now enjoy a 25-year life expectancy and may still be burdened with educational expenses, care for their parents, and other needs that would interfere with the desire to make a significant gift. For these reasons, it is even more important to help them make gifts that are delayed for as short a time as possible while they temporarily direct funds to meet these needs.

Looking ahead

The bottom line may well be that charities that are performing essential work efficiently and communicate this fact well to their constituencies will do better over the next four years than those who do not. Those assigned to promote planned and major gifts should continue to focus marketing efforts on the appropriate segments of their market as determined by age, wealth, giving history, and other factors.

Changes in national leadership come and go. History tells us, however, that Americans are a very generous people and continue to make charitable gifts regardless of the political party in power or fluctuations in the economy. That being said, in times of uncertainty and change, it is more important than ever to help donors make gifts of the right property at the right time in ways that help them satisfy what could otherwise appear to be insurmountable challenges to making those gifts. **G&T**

Questions & Answers Series

The Sharpe Group is proud to present its new Questions & Answers series. Written in a straightforward, accessible style, these six-panel brochures address common questions donors may have about different methods of charitable giving.

Each publication focuses on a specific gift planning topic, such as giving for income, wills and bequests, and giving through retirement plans. Your logo and other information may be printed on the front and/or back cover(s). Inquire about other personalization options. See page 7 or visit www.sharpenet.com/pubs for more information.

Call 1-800-238-3253 for more information about using Questions & Answers brochures to enhance your fund-raising efforts.



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